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The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay

by David Osborne

Project Director: Adrian T. Moore, Ph.D.



Reason Foundation



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Part 1

Introduction

California often leads the nation, and the current fiscal crisis is no exception. Jaws dropped from coast to coast at the size of its \$26.3 billion shortfall, a quarter of the general fund. Even more astounding was state leaders' difficulty in reaching a budget deal—not just this year, but year after year. With its repeated use of borrowing and IOUs, the Golden State has become the poster child for fiscal irresponsibility.

Regardless of how Californians feel about the latest budget, most would agree that somehow, some way, the state's leaders must do it differently next year. Californians are tired of watching their leaders debate 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. Taxpayers are not unwilling to fund state government, but they want their tax dollars to produce genuine value. They want their leaders to fund programs that work, and to kill—or fix—those that don't.

One factor contributing to the paralysis has been the constitutional two-thirds requirement, in both houses of the legislature, to approve a budget. There are many perspectives on the wisdom of this constitutional amendment, but most would agree that it is a blunt instrument. Without some other form of fiscal accountability on the legislature's part, however, citizens are not likely to consider repeal. This paper argues for an alternate form of fiscal discipline, known as Budgeting for Outcomes (BFO). It would help the governor and/or legislature build the budget in a way that delivers the results citizens want at a price they are willing to pay.

Budgeting for Outcomes has already proven its value in Washington State, Iowa and more than a dozen other states, cities, counties and school districts.¹ It combines strategic planning, zero-based budgeting and performance budgeting in a workable, common-sense package. Since it debuted with Washington Governor Gary Locke seven years ago, it has spread rapidly, as the box below demonstrates.

<i>Jurisdictions That Have Used Budgeting for Outcomes</i>	
States	Counties
<ul style="list-style-type: none"> ▪ Washington ▪ Iowa ▪ South Carolina ▪ Michigan ▪ Louisiana Dept. of Culture, Recreation and Tourism 	<ul style="list-style-type: none"> ▪ Snohomish, WA ▪ Multnomah, OR ▪ Mesa County, CO ▪ Polk County, FL ▪ Larimer County, CO ▪ Coconino County, AZ
Cities	School Districts
<ul style="list-style-type: none"> ▪ Azusa, CA ▪ Spokane, WA ▪ Dallas, TX ▪ Ft. Collins, CO ▪ Northglenn, CO ▪ Redmond, WA ▪ Eugene, OR ▪ Savannah, GA ▪ Baltimore, MD ▪ Tacoma Metro Parks, WA 	<ul style="list-style-type: none"> ▪ Jefferson County, CO ▪ Billings, MT

Budgeting for Outcomes has not been equally successful in all these jurisdictions; it is no magic wand. As with other reforms, its success depends on whether political leaders are willing to use it to make the hard choices necessary. Nor does BFO guarantee that there will be no future budget shortfalls. The natural hills and valleys of the business cycle will assure shortfalls in times of recession. And until this country manages to control health care spending—which has gone up an average of 10 percent a year for the last 50 years²—many states will face structural deficits even in good times. But Budgeting for Outcomes can help elected leaders manage these challenges—deciding what is worth funding and what must be jettisoned—in a more rational, effective and transparent way. Most jurisdictions that have tried it, including Washington, have been pleased enough to continue using it.³

BFO starts where most budget processes end: elected leaders make a decision about how much money they want to spend next year. They decide up front whether to raise or cut taxes or fees. Then they work with citizens to define the 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.

For each finite pot of money, they assign a team of strategic thinkers who understand the policy arena but don't have an axe to grind or a 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" as an outcome does not necessarily mean more money for the Highway Patrol or the Department of Transportation, for instance; it may mean congestion pricing on toll roads and more fiber optic cable.

Results teams start by doing the research necessary to figure out what factors most affect their desired outcome. Given that analysis, they recommend what strategies the state should pursue. Once they define these purchasing strategies, the results teams ask government program managers—the sellers in this marketplace—to make their best offers. These offers lay out what programs they can deliver to contribute to these strategies, at what costs, with what results. (All tax expenditures—i.e., tax breaks for particular groups or activities—should also be treated as offers, just like other spending programs.) The results teams then rank these 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, when managers see their programs ranked low, they wake up and start scouring the globe for new ways to produce better results for less money.

When the second round of offers comes 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 realities, the governor and legislative leaders might be wise to work together on the process.) Adjustments to reality are always necessary: some low-ranked programs are mandated by the courts, for instance, or by a higher level of government. Others, particularly in California, are mandated by voter initiative. But most of the rankings hold, and the budget thus proposes to fund what works and eliminate what doesn't.

Every citizen can understand the resulting budget, because it reflects common sense and taxpayers' priorities. 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.

Part 2

The Traditional Budget Game

To understand why this common-sense approach has such value, it helps to understand how the current budget game is played. It begins when the governor's budget office sends out its annual budget instructions. Every department responds by proposing to spend what it spent last year—or more. Invariably departments propose additions to cover inflation, any caseload increase they expect, or any new mandates they have received. The new total is called the “base,” and any cuts come from this inflated number.

In times like these, most managers know that their budget requests will be cut, so the smart ones build in enough padding to ensure that their programs can perform, even after the trimming. In a huge game of hide and seek, a small army of budget analysts combs through their submissions, looking for the padding. The process absorbs enormous energy, under the reigning assumption that no one is telling the truth.

Sometimes budget offices try to eliminate the incentive to pad budget requests by asking managers to specify what they would do with only 80 or 90 percent of the money they got last year. Inevitably, the smart ones offer up cuts they know are political suicide and will thus be declined. (In government, this is known as proposing to close the Washington Monument.) In frustration, unable to tell fat from fundamentals, politicians often resort to across-the-board cuts that penalize any manager who filed an honest budget—driving home the point that such foolish honesty should never be repeated.

When the budget reaches the legislature, every interest group that cares about a program descends on the state capitol. In the ensuing scramble, the only people who care about making sense of the budget as a whole are usually the governor, his budget staff and the legislative leadership. Most others are out to protect their piece of the pie, not to worry about the condition of the pie itself. Most legislators seek to avoid inflicting pain on their own constituents—and if pain becomes inevitable, to avoid the blame for it.

In this scramble, politicians often fall back on seven deadly deceptions. California's leaders have been no exception in recent years.

1. They rob Peter to pay Paul. They dip into non-general fund reserves, mine “off budget” funds, or raid local governments. California’s budget will take or borrow billions of dollars from local governments this year, a practice that has already triggered a series of lawsuits. Such deals make the budget look better this year, but the same hole reappears next year, when Peter and Paul are both worse off.

2. They use accounting tricks to lie about spending or revenue. As the Enron debacle showed, accounting presents many temptations. Quick-fix accounting gimmicks include requiring that money you expect early next fiscal year actually comes in late this year—or that spending planned for late this year be pushed into next year. California’s leaders did exactly this last July, when they pushed a payday for state employees into the next fiscal year.

3. They sell off assets at fire-sale prices. When states are desperate, they sometimes sell surplus buildings, land or other assets at low prices, then use the proceeds to plug a hole in the operating budget by treating the real estate money as though it were “normal” revenue. Unfortunately, such one-time money only plugs the hole one time, and the same hole shows up again next year. Sometimes it makes sense to sell off government-owned assets—think of San Quentin prison and the Los Angeles Memorial Coliseum. Indeed, when used with foresight and skill, this strategy can yield important financial returns. But when sales are made in a panic and the funds are used to balance one-year budgets, citizens rarely get a good return on their money.

4. They nickel-and-dime employees. When they get really desperate, leaders order coffee pots unplugged, travel budgets slashed, consultants banned, thermostats set higher in summer and lower in winter. In 2003, Missouri’s governor had every other light bulb in government buildings unscrewed. California’s leaders recently ordered their employees to take three unpaid furlough days a month—a 14 percent pay cut. Such actions don’t save much money, but they do kill employee morale—thus undermining productivity. Meanwhile they avoid the real problems with employee compensation, such as defined-benefit pension systems the states can no longer afford.

5. They delay maintenance and replacement of assets. When our own household budgets get tight, we sometimes skip regular oil changes for our cars, or we don’t fix the crack in the driveway. Governments do the same thing; they stop repairing highways, bridges, even elevators. It works until a bridge collapses. In California’s case, so much maintenance has been deferred in recent decades that much of the infrastructure is crumbling.

6. They make something up. Every budget is based on assumptions, and you can make it look better or worse simply by changing the assumptions. When the Assembly recently approved only \$24 billion in cuts, fees, gimmicks and borrowing, Governor Arnold Schwarzenegger decided to assume that revenues would come in higher than projected. In 1981, to justify big federal tax cuts, Ronald Reagan’s budget director, David Stockman, forecast 5 percent growth and a \$28 billion surplus by 1986. As it turned out, the gross domestic product (GDP) *fell* by 2 percent the next year—and the largest deficits since World War II soon followed. In his memoirs, Stockman admitted that the entire effort was a fraud.⁴

7. They borrow. When all else fails, politicians borrow to cover operating costs—even when the Constitution prohibits such irresponsibility. California is the reigning champion here. In 2003 it balanced the budget by borrowing \$10.7 billion; the next year it borrowed \$15 billion. The recent budget deal authorizes billions more in borrowing, most of which violates the intent of the state Constitution. Worse, it guarantees future budget shortfalls, because it solves the problem for only one year, while increasing future debt service costs.

As a last resort, elected leaders often pass across-the-board cuts, weakening every program equally, regardless of their relative value. This is a little like a family that needs to tighten its belt but can't give up any of its priorities. Instead, it spends 10 percent less on its mortgage, utilities, cars, insurance and groceries. As everyone knows, that family loses its home.

In 2002, when Gary Locke unveiled his plans to use Budgeting for Outcomes, the *Seattle Times* captured California's current challenge perfectly: "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."⁵

Part 3

The New Budget Game

Budgeting for Outcomes is a very different process. It has no concept of “base.” Last year’s number is not an entitlement, and there is no argument about adding to or subtracting from it. Playing Washington Monument games gets managers nowhere.

Perhaps the best way to describe Budgeting for Outcomes is to tell the story of Washington, another west coast state whose many initiatives and referenda have created difficult fiscal straitjackets. In fiscal 2002 and 2003, after the last recession, Washington was not in as bad a fiscal hole as California is today, but it was getting there. Halfway through the biennium, Democratic Governor Gary Locke and the legislature had to trim \$1.5 billion and eliminate 1,340 jobs. The governor and his staff were extremely frustrated by the process. They faced an estimated 10 percent deficit in the general fund in the next biennium, plus another \$600 million in the health services account. Meanwhile health care and other costs were rising rapidly, and tax increases were politically impossible because the voters turned down a gas tax increase to fund highway and transit investments by a 70-30 margin.

The governor hated across-the-board cuts. “Every step we took, we asked ourselves, why aren’t we asking the right questions, why are we so focused on the cuts and not on the keeps?” said Marty Brown, director of the Office of Financial Management (OFM). “We were missing something—we knew it in our guts.”⁶

Governor Locke, a Democrat nearing the end of his second term, wanted to focus on the big question: What should state government do and what should it stop doing? “Closing the \$2 billion gap we face in the next biennium would require an across-the-board cut of 15 percent—if that’s all we did,” he 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.”⁷

In August 2002, Locke’s chief of staff asked the Public Strategies Group (PSG) for help. Peter Hutchinson, a former Minnesota commissioner of finance, proposed to start with the results citizens wanted, not the programs the agencies funded. 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. Governor Locke decided this approach was the only reasonable thing to do.

PSG helped the governor’s budget staff design a process to answer five simple questions that every state government should ask:

- How much of the problem is short term and how much is long term?
- How much are citizens willing to spend on state government?
- What results do citizens want for their money?
- How much will the state spend to produce each of these results?
- How can money be best spent to achieve each of these results?

These five questions led to a series of steps:

1. Get a grip on the problem.

How you define a problem dictates how you approach its solution. Washington’s fiscal staff defined the problem as the convergence of three forces: a deep economic recession that slashed revenues, permanent limits on revenue and spending growth imposed by antitax activists through statewide initiatives, and rising costs for the core activities of the state—“education, medication, and incarceration,” as Marty Brown described them. Of these three forces, only the recession’s impact on revenue was cyclical, that is, likely to turn around some day. The other two were more or less permanent. Hence most of the solutions needed to be permanent.

Some governments project spending and revenues for ten years. As a minimum, we suggest a simple 5 by 5 chart to help public leaders get a grip on their own fiscal situation.

	2010	2011	2012	2013	2014
Reserves at Beginning					
Revenues					
Expenses					
Balance or Deficit					
Ending Reserves					

By projecting for five (or more) years, leaders can see what will happen when the current economic situation changes. They can see the impact of long-term trends, not just today’s recession. Projections like these—though they are only estimates—help everyone see what is around the corner. The most popular budget games make everything up to that corner look good, while just around it, hidden from view, the bottom drops out.

2. Set the price of government.

In a traditional budget process, the executive decides on a total budget number only after all departments have submitted their requests and the budget office has spent thousands of hours scrubbing them, searching for the padding. The first requests always add up to far more than last year's budget, and the budget office's surgery always leaves people unhappy.

Budgeting for Outcomes starts at the other end: the executive—or legislature, or both—decide how much they want to spend, as a first step. They take the latest revenue projection and decide whether they want to raise taxes or fees, cut them, or leave them where they are. They make a policy decision about how much of their constituents' money they will spend on state government.

In Washington, this decision was made by the governor and a "guidance team" he put together made of up senior policy people, including his chief of staff and several leaders from business and private think tanks. (Organized labor was invited to participate but chose not to.) This team decided to build the budget based on expected revenues under existing law, without new taxes.

Most other jurisdictions have done roughly the same thing: taken the latest revenue projection and said, "That's how much we'll spend." But a few have used a tool we call the "price of government:" the percentage of total personal income consumed by all state taxes, fees and charges. In California, the price of state and local government was about 15 percent during the 1970s, until Proposition 13 dropped it below the national average. As the first graph below demonstrates, it stayed low for about five years. But when the quality of roads, schools, public safety and other public services declined, voters elected different people and legislators made different decisions. By 1990 the price was back to 15 percent. Since 1999 it has gradually edged up, driven largely by the rising cost of health care, which makes up more than a third of the average state's budget. By 2006 it was 16.37 percent, slightly higher than the national average. As the second graph shows, the state government's portion of this price has been close to the nationwide average all along.

Voters have been giving elected officials feedback on these numbers all along, of course. Hence they are a good way to gauge the price and service levels at which voters are most comfortable.

Some conservatives like to use tax revenue per capita to support their arguments that California is a high tax state. But the price of government is a fairer measure with which to compare states, for three reasons: it includes all taxes, fees and charges; it includes all levels of state and local government, including public schools; and it measures revenues against *personal income*, not just the number of citizens. When personal income goes up, personal spending goes up. And like it or not, increased personal spending creates increased demands on government. The more residents drive, the more they demand good roads in good repair. The more they travel by air, the more they need bigger and better airports. And the more affluent they become, the more they demand better schools, safer streets, and cleaner water and air. Hence, rising personal income drives rising service expectations. This is why the price of government rarely falls as states prosper.

Figure 1: The Price of State and Local Government in California⁸

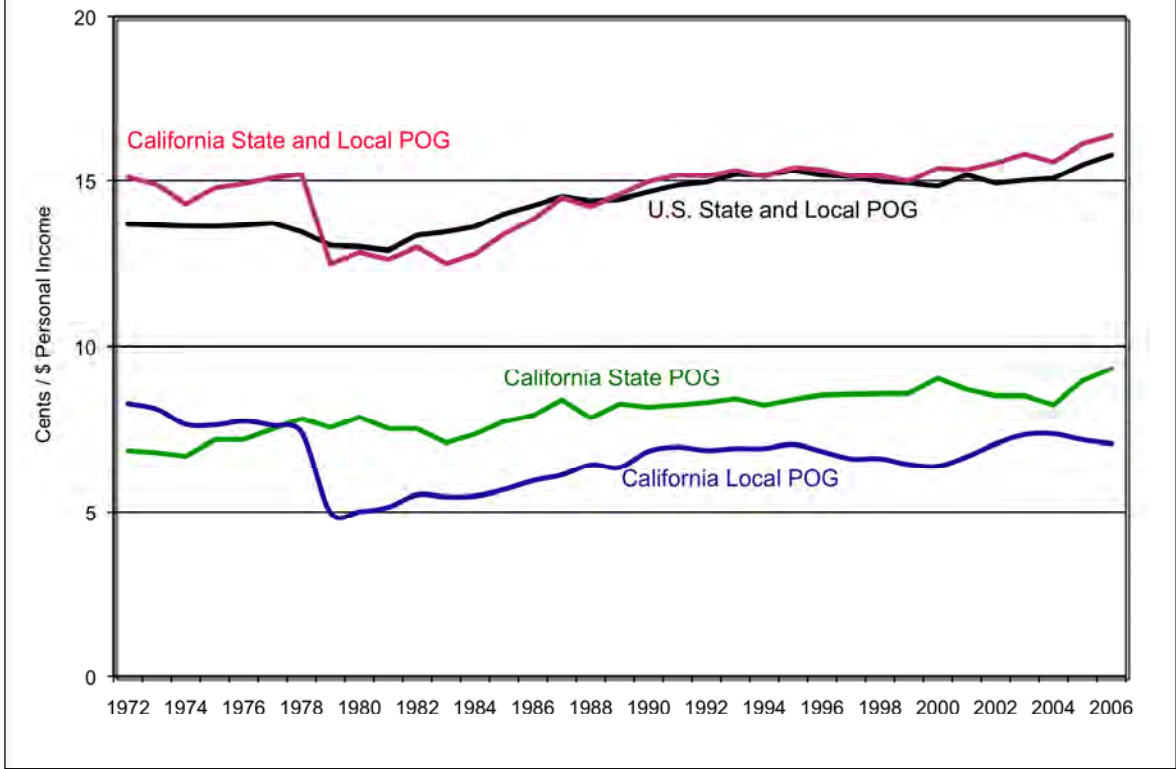
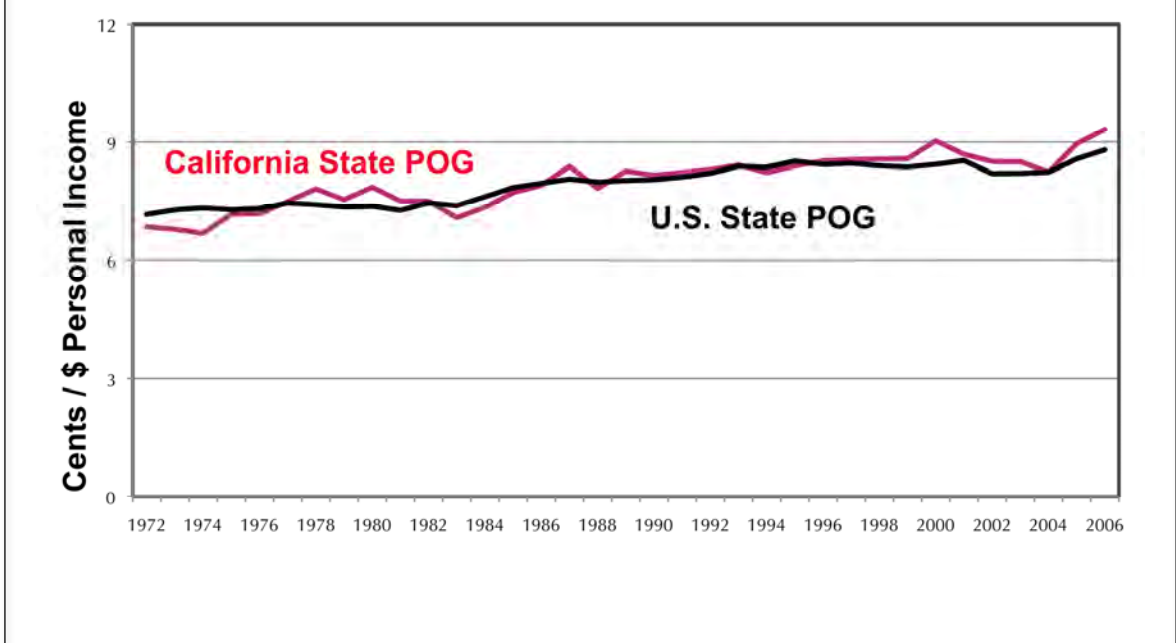


Figure 2: The Price of State Government in California and the U.S.⁹



This is even true if governments use private contractors. Reason Foundation has done much good work over the years demonstrating that governments can get more bang for the buck in delivering good roads, better airports, cleaner water and the like by using the power of competition to lower costs. But governments still have to pay for these services, even if private companies deliver them.

There is no one “right” price of government. The people of Texas, a low price state, have different priorities than those of California or New York. But in choosing next year’s price, it is useful to know how it compares to past prices in your state, and how voters have reacted to those prices. It is also helpful to look at how your state compares to neighboring states. Finally, it helps to understand why the price of government may have changed. If health care costs have doubled in the past decade—as they have—a rise in the price of government may have actually coincided with cuts in other state spending and a decline in services.

If California’s leaders decided to use the price of government as a guide, they would set a goal that represented a level residents had accepted in the past, such as 9 percent for state government. They would translate that figure into a total dollar amount for state revenues and decide if that required a tax increase or decrease.

Most elected leaders who use Budgeting for Outcomes don’t use the “price of government” tool. They simply know that they don’t want to raise taxes—and because they are in fiscal crisis, they don’t want to cut taxes either. So they use the revenue projection as the amount they will spend in the following year, sometimes increasing fees to help with the fiscal squeeze. Iowa’s former Governor Tom Vilsack invented a new wrinkle: he showed citizens, on the state’s website, what they could afford to buy with current tax levels, then showed what they could buy with slightly higher taxes, and asked for their feedback.

However leaders reach a decision, getting early political agreement on how much to spend is a useful step. It sets a fiscal ceiling for the more important work: buying the best possible results with the taxpayers’ dollars. Even when an executive does not seek legislative agreement with his decision until he submits a budget (and few do), having a ceiling during his own budget development process is critical, as we will see below.

3. Set the priorities of government: the outcomes citizens care most about.

The next step is to define five to 10 long-term outcomes that are most important to citizens. When Washington State did this, Gov. Locke did not have time to consult with citizens. But most jurisdictions use surveys and focus groups to get an accurate reading of what results citizens want from their state or local governments.

In Washington, a staff team, made up of senior people from the Office of Financial Management, helped the guidance team and the governor do this. They came up with 10 desired outcomes, which the governor called his “Priorities of Government.” They included improvements in:

- Student achievement in elementary, middle and high schools;
- The quality and productivity of the workforce;
- Public higher education;
- The health of Washington’s citizens;
- The security of Washington’s vulnerable children and adults;
- The vitality of businesses and individuals;
- Mobility of people, goods, information and energy;
- The safety of people and property;
- The quality of Washington’s priceless natural resources; and
- Cultural and recreational opportunities.

4. Allocate money to each outcome goal.

The next step is to divide the state’s entire budget—the general fund plus all other funds—between the outcome goals. In Washington the two teams set aside 10 percent for overhead functions, such as pension contributions and internal services. Gov. Locke and his team then parceled the rest of the money out among the 10 results based on what they thought citizens cared most about—not on past budgets. In some areas their choices reinforced past patterns, but in a few they made changes—allocating more money to student achievement, for example, and less to public safety.

In subsequent years, Washington added an outcome on better government: “Strengthen government’s ability to achieve results efficiently and effectively.” Experience has taught us that it is useful to define such an outcome, so that government overhead and administration can be subject to the same competitive pressures as other policy areas.

It is wise to ask for citizen input at this stage as well. Some jurisdictions have put their outcome goals on their websites and asked citizens to divide up a dollar between them. Every time someone “votes,” the average is recomputed and displayed. This input is useful, but should not be determinative. Many citizens have little idea what level of government provides what service, so their input reflects their sense of priorities for all governments, not just for state government. But their feedback is still useful to those making the final decisions.

It is important to note that these allocations can—and often are—changed later in the process. Leaders are making value judgments without accurate information about how much the state spent on each outcome in previous years. Sometimes, after the work of ranking programs has been done, they realize that they need more money in one policy arena and less in another. In Washington, for example, it became clear that the state needed more public safety money when the results team recommended letting 6,000 felons out of prison early, due to the fiscal squeeze. Other teams

realized that this would hurt their outcome, so they contributed money to get that number down to 2,000 of the lowest risk felons, who were released months, not years, early.

5. Figure out what really matters and develop a purchasing plan for each outcome goal.

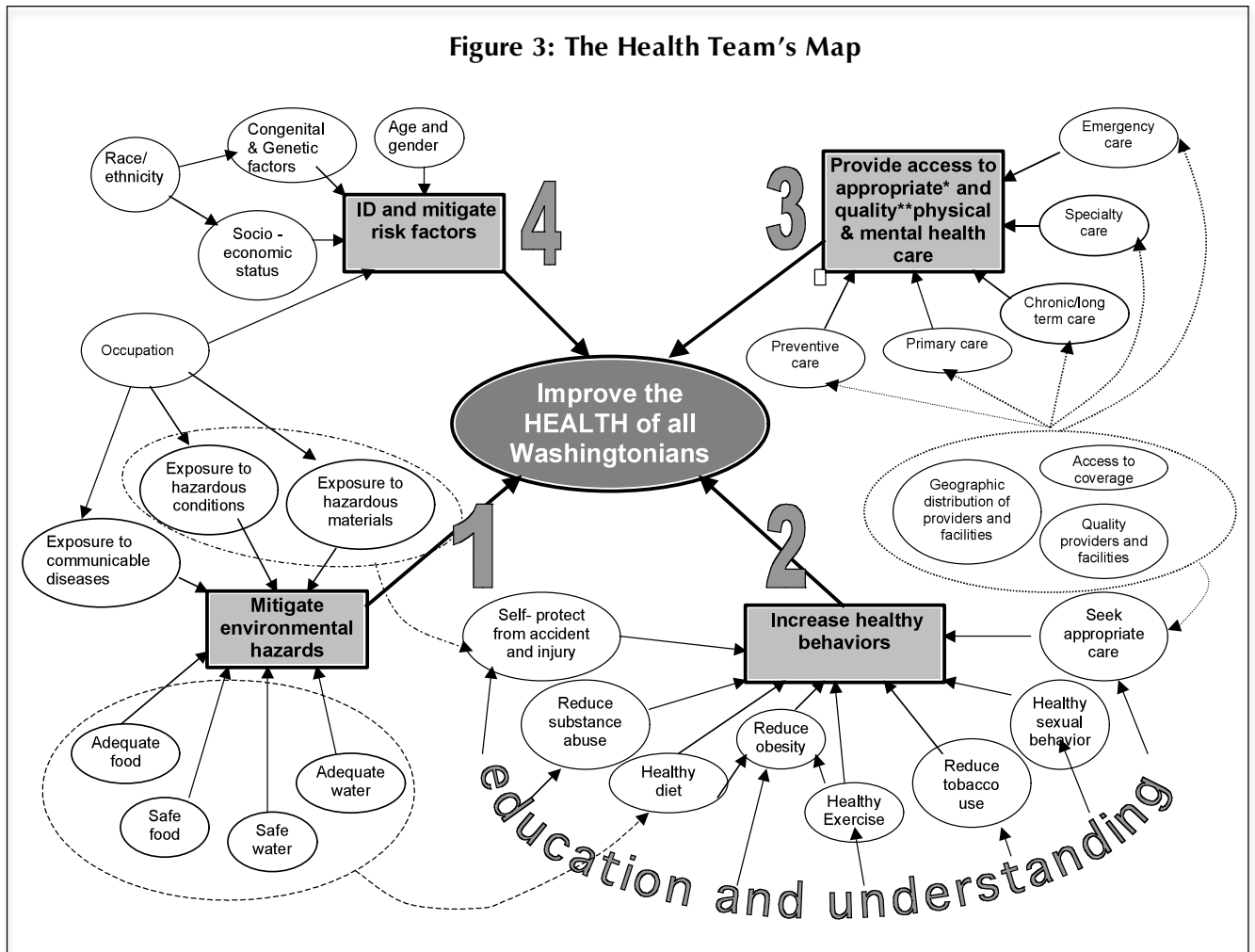
Washington then put together 10 results teams—one for each outcome goal—made up of knowledgeable people from agencies involved in that policy area. “We asked them to forget the loyalties they have to the agencies they represent,” said Gov. Locke. “‘Be like citizens,’ we said. ‘Tell us where to put the 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.’”¹⁰

These results teams should include strategic thinkers from the departments and agencies, budget staffs and the governor’s policy staff—people who know the policy arena well but can wear citizens’ hats rather than defend an agency’s turf. It is also useful to include a few people from outside state government—experts from academia, think tanks or the consulting world. These outsiders help the insiders think outside the box of current state practices.

Each team started by choosing three indicators it would use to measure progress toward its outcome. This gave the state a kind of report card: 30 indicators that spelled the difference between success and failure, from a citizen’s perspective. Then they developed a “cause-and-effect map,” which used available evidence to create a diagram showing the factors that affected their desired outcome. This step forced them to articulate their “theory of what matters most”—how different activities contributed to produce the outcome.

The mobility team had the hardest time with its map. Its assigned result was to improve the mobility of people, goods, information and energy, but its members were highway and public works people, so they were accustomed to focusing on roads and cement. As they wrestled with the causal factors, they realized that there were potential tradeoffs between moving someone to an office and moving information to and from that person over the Worldwide Web. Both types of mobility involved corridors, infrastructure and possible congestion, but each demanded different resources. Ultimately, the team came to understand the fundamental distinction between moving people, ideas, goods and energy efficiently and pouring concrete for roads.

There is no one right way to create cause-and-effect maps, but here is a sample, the health team’s map:



On this map, every bubble is a factor that affects the health of a population. The arrows describe the relationships between different factors. They indicate what the research shows: that all these factors add up to four big ones—environmental hazards, personal behavior, access to health care, and genetic and socio-economic risk factors. Creating such a map subjects every theory of what matters most to a challenge from every competing theory—exactly the kind of debate the budgetary process should stimulate.

With its cause-and-effect theory in hand, the results teams then developed a purchasing plan: the key strategies they thought the state should use to produce the outcome. Relying on its map, the health team identified four big strategies: increasing healthy behaviors among citizens (getting them to eat better, drive more safely, quit smoking, get more exercise, etc.); mitigating environmental hazards (ensuring cleaner water, air and food); identifying and mitigating risk factors related to gender, socio-economic hardships and genetic predispositions; and providing access to appropriate, high-quality physical and mental health treatment.

When the team ranked these strategies, it decided that mitigating environmental hazards was most important, increasing healthy behaviors was second, providing access to health care was third, and mitigating risk factors was fourth. With limited resources, it decided to increase the state’s emphasis on the first two. Research data convinced team members that this was the way to get the most bang for their buck, even though it meant reducing spending on more traditional—and highly expensive—patient care. In fact, their analysis showed that these two strategies would yield a 16 to 1 return on investment.

The old budget game would have led the health team to focus on the programs with the greatest costs, looking for savings. The new approach asked them to ignore last year’s numbers and figure out where the best results could be obtained for the money available. An “ah ha” moment came when a consultant asked why they weren’t emphasizing personal choice and behavior by focusing on drugs, alcohol and obesity. “Oh, we could never say that out loud,” the leader responded. But the consultant pushed them to go ahead; if they thought investments in prevention would produce more health for Washingtonians than comparable investments in treatment, they should say it.

6. Ask programs and agencies to submit their best offers.

With a set of strategies in hand, the results teams draft “requests for results” (RFRs), which take the place of the old budget instructions. These documents define the desired outcome, present three indicators used to measure it, and then define the strategies to be pursued and roughly how much money will be available to fund each one. In addition to the strategies chosen earlier, they can also define more generic criteria, such as: “We would like to see collaborative initiatives between different programs and offices.” This encourages program managers to get out of their silos and look for partners who could help make their programs more effective. Some governments also encourage their agencies to partner with nonprofit organizations and businesses that can help them deliver better results for less.

The requests for results go out to all managers in state government. For even more powerful competition, California could let local governments, unions, for-profits and nonprofits submit offers. The RFRs ask each of these potential suppliers to identify how it would help deliver the expected results and at what price. The offers must describe the program, its price, the results it would produce, and the performance data that support this contention.

In Washington, during the first year of Budgeting for Outcomes, there was no time for this process. Instead, each result team was given a subset of the 1,300 state activities funded by the traditional budget. “Their mission,” the governor explained, “was to get more yield on less acreage.”¹¹ They were to rank all their activities, from most cost-effective to least. In subsequent years, Washington improved its process by asking for offers.

In developing their responses, bidders cannot take anything for granted. They must assume that for each result there will be many proposals from many potential sellers. If they expect to get funded, they have to offer up proposals that deliver the needed results at a competitive price. Since one organization will submit multiple proposals (for its various programs and activities), it is in a sense competing against itself. This too forces it to challenge its own practices, to examine whether they are the most cost-effective means to the end.

While the process is challenging to bidders, it also liberates them, encouraging them to come up with new approaches and creative twists. Some forge partnerships with other departments or agencies, with other governments, or with nongovernmental organizations. All have incentives to use the many tools that help squeeze more value out of every dollar, such as consolidation, competition, information technology, customer choice, Total Quality Management and Business Process Reengineering.

In Los Angeles's one round of Budgeting for Outcomes, during Mayor Jim Hahn's last year in office, the director of the Bureau of Street Services realized that the city's fiscal crisis meant his unit would be unlikely to get enough money to keep to its schedule for street repaving. The result would be deteriorating roads throughout the city. So he asked his staff to search for ways to deliver the same results with less money. They did some research and came up with a road-paving technology called "cold slurry seal," in which the asphalt is laid down cold rather than hot, and cost roughly half what hot asphalt did.

Sometimes the innovations are so simple that one wonders why they were never tried before. The reason is that the budget process never before pressured people to rethink the way simple things were done. For instance, Ft. Collins, Colorado has a "Dial-a-Ride" program that allows people who need transportation, particularly the elderly and disabled, to call for a ride. When the Dial-a-Ride offer came in, the transportation results team asked those who submitted it to split the costs between daytime and nighttime Dial-a-Ride. When the offer came back in, it said the average nighttime ride cost the city \$90. The results team decided that was beyond what the city could afford and ranked nighttime Dial-a-Ride below the line. The city manager agreed, but when the city council held budget

hearings, Dial-a-Ride users showed up in strength. City council members reacted predictably: they turned to City Manager Darin Atteberry and asked if there wasn't some way to save the evening service. His office called taxi companies and found one willing to do it for \$18 a ride—and evening Dial-a-Ride survived, at a fraction of its former cost.

7. Results teams rank the offers from most cost-effective to least, seeking to buy the best results for the money, then send out the rankings and ask for better offers.

After the offers are in, the results teams rank them in terms of results delivered per dollar, then move down the list of desirable offers, buying until the money runs out. Here they draw a line. They now have a list of keeps and cuts: positive choices for spending the citizens' resources to buy the citizens' results.

Unfortunately, most program managers don't take the process very seriously the first time around. They submit what they did last year, written up on the new form. As noted earlier, we have learned to send the first rankings out to all the departments and ask for better offers. When they see some of their offers ranked near or below the line, the challenge is clear: Improve your offer or you might lose your funding.

This is when creativity really flows. During the second year of Budgeting for Outcomes in Washington, Health Department staffers looked at research that said alcohol and drug addiction treatment programs lowered emergency room costs, because fewer people showed up in the ER following overdoses, drunk driving accidents, and the like. They proposed to shift \$85 million in Medicaid money from emergency room spending to drug and alcohol treatment, and the legislature agreed to \$45 million.

Iowa did a particularly good job of stimulating creative offers. When six different departments submitted offers related to early childhood development, the results team called all six in and announced, "We don't want six pieces. We want one comprehensive and integrated system, which Iowa has not had and now needs."¹² So six departments collaborated on a unified vision and a shared budget for the first year. Because early childhood was a priority of Governor Tom Vilsack's, he was delighted when the team ranked this offer high. Rather than trying to squeeze important innovations into an overcrowded budget, he was able to fund them with first dollars.

Another set of creative offers came from the Corrections Department—an area where California obviously needs innovation. When Corrections' Director Gary Maynard came in to discuss his department's offers, results team Chair Cynthia Eisenhauer, who ran the Iowa Department of Management, asked him, "If you were creating a correctional system for Iowa from scratch, is this what you'd propose?" This was hardly the question Maynard had expected. "No," he said.

The two had an animated discussion of what an ideal system for Iowa might look like. Then Eisenhauer told him, "Scrap these offers. Work with your people to put the first year of that vision in your offers."

Maynard and his staff decided Corrections' most important goal should be to lower recidivism rates—the numbers of inmates who committed new crimes after leaving prison. To do so, he and his employees began to reinvent almost everything about the department. They created an

individualized development plan for each inmate, dramatically boosted the percentage of inmates placed in private sector jobs or community service, moved more inmates to lower-cost community corrections and supervised parole, boosted substance abuse treatment, and saved money in behind-the-scenes business functions. Their offers promised to deliver a 4 percent reduction in recidivism and a 10 percent increase in the use of inmate labor on community service projects.

In the competition for funding, Corrections turned into a big winner. Within two years, the percentage of inmates failing their probation periods fell by 17 percent. And while results improved, the department reduced its budget request by \$750,000 the following year.

8. Results teams do their final rankings and consult with one another to make necessary adjustments.

When the final offers come in, the results teams make their final ranking decisions. At this point, their chairs meet together to talk about what they need to purchase from one another. In Washington, as mentioned earlier, two teams decided to move some of their money into public safety, to reduce the number of prisoners who would have to be released early. The higher education team decided to use some of its funds to pay for better K-12 education, to better prepare its incoming students. And two teams jointly bought increased efforts to protect water quality, to improve both health and natural resources. This cross-team buying is often necessary for two reasons: first, the initial allocations are based on informed guesswork; and second, the work of state government is so interconnected that spending in one area contributes to outcomes in others. Without the initial allocations of money, however, the process would not work nearly as well. The allocation provides finite pots of money for which agencies and programs have to compete. And it is that competition for scarce resources that drives creativity.

When offers are first ranked, all the money is the same color: green. But when the time comes for the final ranking, the results teams must consider other factors: mandates, matching funds and dedicated funds.

Some activities that are ranked below the line are mandated by law, regulation or courts. Mandates may include prescriptions about the existence of an activity, the level of the activity, the means of conducting the activity, or the level of spending. These mandates must be respected (although when mandated programs fall below the line, decision makers often begin to think about changing the mandates—another benefit of the process). Results teams should investigate exactly what the mandate requires and decide how much of the offer has to be moved above the line. Often a mandate requires less than people had assumed. Finding flexibility within mandates is a key challenge in ensuring that the budget produces results that citizens value, not just compliance with legal requirements.

A first cousin of the mandate is the federal matching program. Often these activities are not required, but if the state wants federal matching money it has to comply with the associated rules

and regulations. Rankings of such programs should be based on their contribution to the results, not their contribution to the treasury. Once the programs are ranked, however, the results teams must be clear about the fiscal implications of buying or not buying. A no-buy decision releases state dollars for higher priorities and may release the state from certain federal benchmarks, but sacrifices the receipt of federal revenues. The ranking process is designed to force the question: Will we accept this low-ranking activity just because it comes with money attached? The same applies to programs and activities that generate revenue: If such a program is ranked low, should it continue just because it pays for itself?

California voters have passed initiatives that dedicate numerous funding streams to particular purposes, and these dedicated funds present an even greater challenge. By definition, the general fund has the most flexibility in how it can be used. Other funds are typically designated for specific purposes. Before the ranking process starts, it is critical to understand the limits of each fund. Results teams usually begin buying with designated fund money, leaving the general fund to purchase the high-priority proposals that cannot be purchased by any other means.

As with mandates, some low-ranking offers may have to be moved up, because designated funding is available. In this case, since these activities are not mandated, state leaders will have to decide whether to keep the funding and the low-priority activity or eliminate both. Again, such decisions often start them thinking about reducing the number of designated funding streams.

9. Leaders make the final decisions and submit the budget to the legislature.

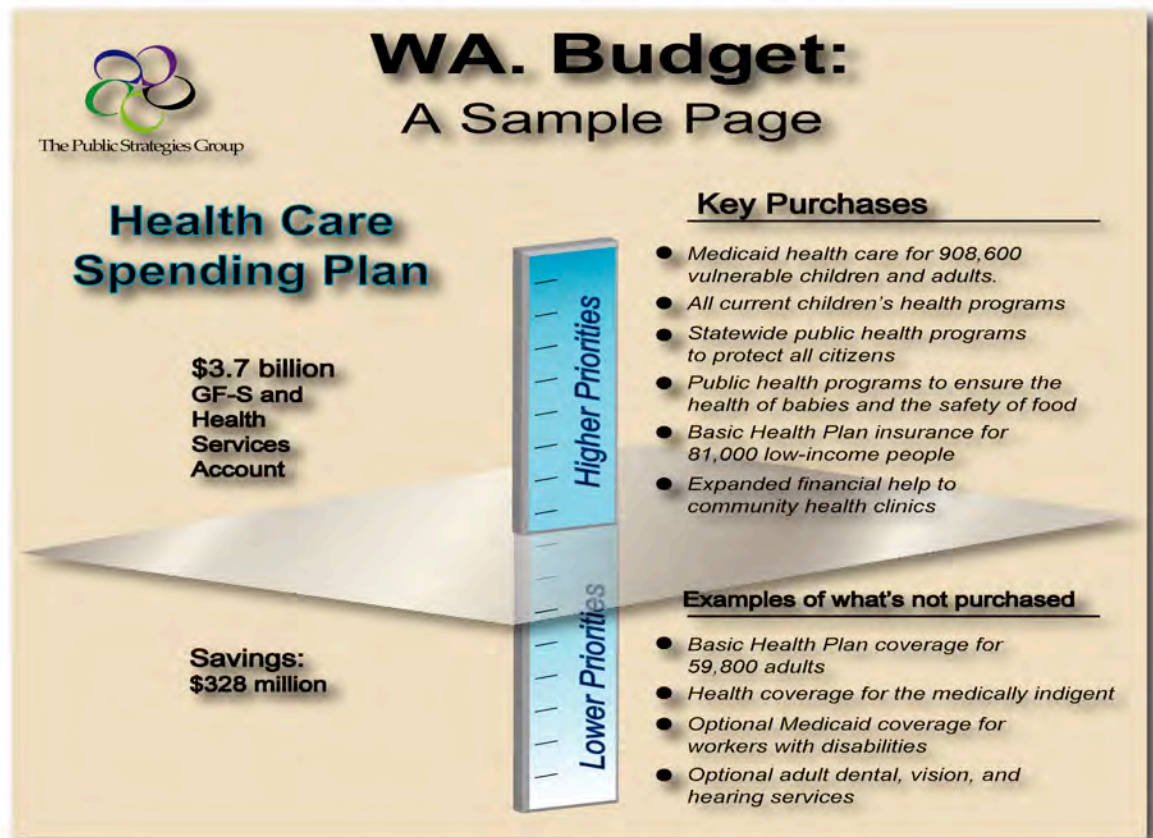
The results teams' rankings are recommendations, not decisions. Elected officials—whether executives, legislators or both—make the final decisions about what goes into the budget. Adjustments are always necessary, whether to deal with political realities, mandates or other legal restrictions. But in most jurisdictions, the executive has embraced the results teams' work and followed most of their rankings.

Fort Collins, Colorado faced a \$5-6 million structural deficit. In preparing offers for the 2006-2007 budget, staff were asked to identify activities they considered obsolete, because they didn't directly address the city's chosen outcome goals.¹³ These were put on a "Stop Doing" list, which precipitated 42 layoffs and the elimination of another 60-odd jobs that were vacant. After solving the structural deficit, City Manager Darin Atteberry convinced the Council to devote more than \$4 million in additional savings to a pay increase for staff, because he felt that a three-year pay freeze had threatened the city's ability to attract and retain high performers. This is a good example of how BFO helps not only plug deficits, but shift resources from old to new priorities.

Most of these budgets are completely transparent: Under each of the outcome goals, they show those activities that will be purchased and those that won't. In Iowa, Governor Vilsack even launched a website designed to explain the new budget process and allow visitors to try their own hand at balancing the budget. The interactive website gave citizens access to the same information

used by his office: citizens could read the requests for results, the offers submitted by state agencies, performance indicators, even the cause-and-effect maps.

In Washington, a reader could understand Gov. Locke's new budget by reading only 10 summary pages, one of which is reproduced below. (Subsequent pages listed all offers above and below the line and provided more detail on them).



Governor Locke had warned that the budget would be painful, and it was. It proposed to eliminate 2,500 state jobs, health insurance for nearly 60,000 of the working poor, a series of smaller programs, cost-of-living increases for state employees, and dental, hearing and optometric coverage for poor adults on Medicaid. It recommended suspending teacher pay increases and a \$221 million class-size-reduction effort, both mandated by citizen initiatives. And it suggested raising university tuition by 9 percent a year for two years and letting 1,200 low-risk felons out of prison a few months early.

Yet the response from the state's newspapers was overwhelmingly positive. "Never has such bad news been received so well," commented Joe Dear, Locke's former chief of staff.¹⁴

"Gov. Gary Locke's budget is a big step forward for Washington," declared the *Seattle Times*.¹⁵

“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.”¹⁶

After six years in office, Locke had been seen by most as a status-quo manager, a liberal technocrat. 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 core message was that Locke had failed to show any leadership. Soon after the budget was released, Carlson called Locke’s budget “a work of bold, impressive statecraft.”¹⁷ 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.”¹⁸

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.¹⁹

The Republican Senate also liked the new budget format. “It was astounding,” said Finance 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.”²⁰ 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 documents very clear.

One committee chair asked what would happen if a proposed revenue change in health were not approved, Deputy Director Wolfgang Opitz recalls. “I said: ‘Just move the line up \$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 our choice was probably better than cutting deeper into the Medicaid program.”²¹

The Democrats struggled mightily over some of the budget cuts, particularly those affecting health care and education. But despite deep differences between the parties, the legislature ultimately passed a budget that was remarkably close to Governor Locke’s proposal.

Other legislatures are not always so cooperative. But most leaders have found political benefits in using Budgeting for Outcomes, particularly when they publicize the process. It helps them do exactly what citizens think they should be doing in tough times: make the difficult choices between those things it would be nice to have and those that are absolutely necessary. American families have been doing this for years, and when they have seen elected leaders doing likewise, they—and their mouthpieces in the media—have been quite positive.

10. After the budget passes, the executive branch can use offers to negotiate performance agreements with the sellers.

Because offers spell out promised results, department heads can use them to negotiate performance agreements with program managers. Such agreements are most effective if they focus not only on the results expected but also on the management flexibilities the managers need to produce better results. Red tape is the greatest barrier to improved performance in most governments; bureaucratic personnel and procurement systems require public managers to manage with two hands tied behind their backs. Governors and department heads can use the carrot of increased flexibility to get the results they want at a price they are willing to pay.²²

Governor Vilsack did this with his department heads, then went a step further, adopting a model pioneered by Britain's Margaret Thatcher 20 years ago. He called his experiment "Charter Agencies," since it was built on the same principle as charter schools: more flexibility in return for more accountability. The deal was relatively simple. Six agencies volunteered to produce measurable results and help close the state's budget gap by taking budget cuts. In exchange their directors got significant ability to waive rules that stood in the way of improved performance. Any rule the state budget, personnel or procurement chief could waive, charter agency directors could waive. They also got protection from further across-the-board cuts and access to an Innovation Fund, to finance investments in technology and other ways to improve results.

In their first three years the six charter agencies saved the taxpayers more than \$90 million while producing substantially better results, a feat so impressive that they won a prestigious Innovations in American Government award from Harvard's Kennedy School of Government.

Part 4

A California Model

There is no one perfect way to do Budgeting for Outcomes; each jurisdiction tailors the process to its own needs. In California, there have been so many years of stalemate between the governor and the legislature—enabled by the requirement that budgets pass with two-thirds majorities—that it makes sense to involve both branches from the beginning. The governor could do BFO on his own and present the product to the legislature, as Gov. Locke and Gov. Vilsack did, but this is no guarantee of passage. Indeed, when Gov. Mark Sanford of South Carolina did this five years ago, the legislature took one look and said, “No thank you, we’ll start over.”

Similarly, the legislature could develop an outcome-based budget on its own. The Republican House in Michigan did this several years ago. But the Democratic governor, who also used BFO, came to very different conclusions. The final product was a compromise between three different budgets—those of the House, the Senate and the governor.

The ideal approach would be collaboration from the start. This may be impossible in California, given past relations between the governor and the legislature. But just for fun, imagine a scenario in which the governor and the leader of each house act as joint decision-makers: a three-member leadership team that makes the final decisions.

No matter who leads it, public support for the process would be critical, since it would no doubt eliminate or cut more than a few programs. There are at least two ways to heighten such support. First, the process could begin with surveys and focus groups to provide input about the outcome goals and the allocation of money between them. Focus groups are far more valuable than open meetings or hearings, because the latter draw activists who do not necessarily reflect the views of the broader public. The more the public is assured that the outcome goals and allocations of money between the goals reflect its values and are developed with its input, the more credibility the entire process will have.

In addition, the governor and/or legislative leaders could invite a handful of key civic leaders—from the business community, labor, academia, community-based organizations and others—to act as a guidance team. This team would oversee the process, give the decision-makers input about how much to spend, determine the state’s outcome goals and the allocation of money between the goals, and ensure that decisions were above-board and transparent. Governor Locke used a

guidance team for this purpose, and the testimony of its members boosted the credibility of his budget with the media, the public and the legislature.

The governor and/or legislative leaders would appoint results teams, ideally made up of strategic thinkers from the executive branch, legislative staffs and from outside state government. When these teams complete their work, they would pass it on to the “leadership team”—whether that was the governor, the legislative leadership or both. This team would solicit input from the guidance team, make the final decisions, and put the budget together. If the governor and legislature were working together, a staff team from the governor’s budget office and the Legislative Analyst’s Office would support the process all along. If only the governor were conducting the process, his budget office would play this role. And if the legislative leaders decided to use BFO on their own, as in Michigan, their Legislative Analyst’s Office would provide support.

Budgeting for Outcomes, in 10 Steps

1. Get a grip on the problem.

- Use five-year revenue and spending projections to determine how much of your problem is short-term and how much is long-term.

2. Set the price of government: how much citizens are willing to spend.

- Using the revenue and spending forecasts, decide whether you want to decrease or increase revenues, and how.
- One method is to measure your “price of government” over time—the percentage of personal income devoted to government taxes, fees and charges—to see what has historically been acceptable to voters.

3. Set the priorities of government: the outcomes that matter most to citizens.

- Ask the citizens, through surveys and focus groups. Make sure you are getting a representative sample, not just the opinions of activists.
- Establish no more than 10 outcome goals.
- Define three indicators for each outcome goal; together, they create a scorecard, to see whether you are improving those things citizens care about, year to year.

4. Decide how much to spend on each outcome goal.

- This is a value judgment, not a scientific process; it offers the opportunity to shift your priorities.
- Get input from citizens, but elected leaders should make the final decisions.

5. Create results teams for each outcome goal, to develop a purchasing plan.

- Results team members should be strategic thinkers who can act as purchasing agents for the citizens, not protectors of turf.
- Have them develop “cause-and-effect” maps to figure out what really produces the desired outcome.

- Use that information to define the purchasing strategies that will deliver the best outcomes for the money.

- Explain them in a document called a “Request for Results.”

6. Ask programs and agencies to submit their best offers.

- Offers define what the program will do, how it will contribute to the desired outcome, data to support that contention, performance indicators that will be used to measure its impact, and how much it will cost.
- Any organization can submit an offer to any outcome goal.
- Encourage different organizations to collaborate on offers when they fund similar or overlapping programs.
- Offers will be more innovative if those writing them get training and help in researching best practices.

7. Have results teams rank the offers from most cost-effective to least, then send out the rankings and ask for better offers.

- After they rank the offers, have them “buy” from the top and draw a line where the money runs out.
- Programs below it are not recommended for funding.
- If results teams can give sellers specific feedback about ways to improve their offers, they will get better offers in the second round.

8. Results teams do their final rankings and consult with one another to make necessary adjustments.

- Looking at the entire picture, they often need to shift some money between outcome goals.
- Other adjustments are necessary when programs ranked below the line are mandated by the courts, the federal government or the voters.
- Federal matching money can also change the calculus about some offers.

9. Leaders make the final decisions and submit the budget to the legislature.

- Leaders will make adjustments based on their own sense of priorities.
- These budgets can be summarized in one page per outcome goal.
- They should list all programs chosen for funding above the line, and all programs not chosen below the line. This makes the tradeoffs in budgeting crystal clear. It also shows what voters could buy with increased taxes or fees.

10. After the budget passes, use the offers to negotiate performance agreements with programs.

- Spell out the key outputs and outcomes to be produced, the indicators to be used to measure progress, the consequences for performance, and the flexibilities granted to help the organization

maximize performance.

Subsequent Steps:

11. Eliminate line items in your budget below the program level; appropriate lump sums for each program.

- If program managers are to be held accountable for results, they need flexibility to manage their money. Too many line items trap money in obsolete pots.

12. Develop full cost accounting, which attributes all direct and indirect costs to programs, so you know the real cost of each program.

- It helps if this is done before Budgeting for Outcomes begins, but it is not absolutely necessary.

13. Create a process to review performance against the targets, and use it to drive improvement in strategies, programs, output and work processes.

- Organize monthly or quarterly reviews, as Maryland does with StateStat and Washington does with GMAP.
- Reorganize your budget office around the outcome goals and turn your results teams into permanent steering organizations, so they become more intelligent buyers every year.
- Reorganize your legislative committees to focus on the same outcomes.

The Bottom Line

The most obvious benefit of Budgeting for Outcomes is a balanced budget without gimmicks. But the process has numerous other advantages over the old budget game:

- It pushes leaders to rethink—and be explicit about—their priorities.
- It focuses energy on what to keep, not what to cut. The cuts are simply those programs that fall below the line.
- It purchases results. Last year’s costs are no longer the starting point, and every manager now has a powerful incentive to drive his or her costs down, not to pad them.
- It forces low-value spending out of the budget every year.
- It helps leaders fund new investments that promise important results, rather than forcing them to compete for the scraps after existing programs are funded.
- It creates accountability for performance. If program managers cannot use data to demonstrate that their programs deliver significant bang for the buck, they risk going out of business.
- It stimulates continuous improvement, because managers have such powerful incentives to look for promising innovations and best practices.
- It strengthens the general interest at the expense of special interests, by making the trade-offs involved in any budget transparent. BFO does not eliminate pressure to spend more or cut

taxes from interest groups, but it does force them to justify their proposals in terms of the results they will produce. When legislators hold budget hearings, they ask interest groups that lobby for their favorite spending programs questions like, “What program should we move below the line to accommodate your program, and why would your program produce better results?” That is exactly the debate we want at budget time. Legislators can still ignore reason and change the rankings in order to please their favorite interest groups, but when they do so in a BFO budget their actions are far more transparent.

- Finally, BFO helps leaders talk about the budget in common-sense terms. Traditional budgets are impenetrable for most readers, but people understand these budgets. And, perhaps because they are the first budgets most reporters have ever been able to decipher, they often get good press.

Part 5

Conclusion

California is in an unprecedented fiscal crisis. Critical services have been cut deeply. Borrowing to cover operating costs—a practice that is not only illegal but also dangerous—has become a habit. And public disgust with elected leaders has become endemic.

There is a wise Native American saying: “When you’re riding a dead horse, the best strategy is to dismount.” Clearly, California’s current budget process is a dead horse. Budgeting for Outcomes offers state leaders an opportunity to dismount and find a new one.

Part 6

About the Author

David Osborne is a senior partner in the Public Strategies Group (www.psg.us), a consulting firm that helps public sector leaders improve their organizations' performance. He is the author of *Laboratories of Democracy* (1988) and the co-author of *Reinventing Government* (1992), *Banishing Bureaucracy* (1997), *The Reinventor's Fieldbook* (2000), and *The Price of Government* (2004). He can be reached at David@psg.us or (978)768-3244. He was an advisor to several of the budget reform efforts described in this paper.

Endnotes

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- ¹ For a more in-depth treatment of Budgeting for Outcomes, see David Osborne and Peter Hutchinson, *The Price of Government* (New York: Basic Books, 2004), from which some of the following material is drawn. Much of the information about Washington State’s use of Budgeting for Outcomes comes from the authors’ personal experience in helping the state craft its budget in 2002-2003.
 - ² “Table 1: National Health Expenditures Aggregate and per Capita Amounts, Percent Distribution, and Average Annual Percent Growth, by Source of Funds: Selected Calendar Years 1980-2002,” U.S. Centers for Medicare & Medicaid Services (formerly the Health Care Financing Administration), <http://www.cms.hhs.gov/statistics/nhe/historical/t1.asp>, January 2004. The exact average annual increase in total spending on health care from 1960-2002 was 10.19 percent.
 - ³ The exceptions come, as always, when one executive leaves and his successor wants nothing to do with his innovations. This has happened in both Los Angeles and Iowa.
 - ⁴ David Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* (New York: Harper and Row, 1986).
 - ⁵ “The First Steps Toward Living Within Our Means,” *Seattle Times*, November 17, 2002.
 - ⁶ Personal communication with the authors of *The Price of Government*.
 - ⁷ Governor Gary Locke, Budget Development Remarks delivered at “Priorities of Government” news conference, Nov. 14, 2002.
 - ⁸ Personal income data for the U.S. is from the U.S. Bureau of Economic Analysis web page on National Personal Income and Outlays, National Income and Produce Accounts (NIPA) Table 2.1: “Personal Income and Its Disposition,” available at <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=58&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Year&FirstYear=2007&LastYear=2009&3Place=N&AllYearsChk=YES&Update=Update&JavaBox=no#Mid>. Personal income data for California and other states is from the U.S. Bureau of Economic Analysis web pages on Regional Economic Accounts, “State Annual Personal Income,” available at <http://www.bea.gov/regional/spi/>. Data on California state and local revenue from all sources are from the U.S. Census Bureau, Table 1. State and Local Government Finances by Level of Government and by State: 2005-06, available at http://www.census.gov/govs/estimate/0605casl_1.html. Data on the U.S. average state and

local revenue are from the U.S. Census Bureau, “Federal, State, and Local Governments, State and Local Government Finances: 2005-06,” available at <http://www.census.gov/govs/www/estimate06.html>.

⁹ Ibid.

¹⁰ Governor Gary Locke, Budget Development Remarks.

¹¹ Ibid.

¹² This quote and the subsequent material on the Iowa Corrections Department are from *Transforming Iowa: The Iowa Reinvention Partnership, 1999-2006* (Des Moines: Iowa Department of Management, 2007), pp. 20-22. Available at http://www.psg.us/resources/pdfcontent/psg_iowa_final2.pdf.

¹³ <http://fcgov.com/budget0607/>

¹⁴ Personal communication with authors of *The Price of Government*.

¹⁵ “The Right Pieces to Locke’s Budget,” *Seattle Times*, Dec. 20, 2002.

¹⁶ “For Painful Times, Locke Offers a Painful, But Rational, Budget,” *Tacoma News Tribune*, Dec. 18, 2002.

¹⁷ John Carlson, “The Emerging Leadership of Gov. Gary Locke,” *Eastside Journal*, Dec. 29, 2002.

¹⁸ David Poston, “Locke’s Plan to Fix Budget Puts Legacy on the Line,” *Seattle Times*, Jan. 13, 2003.

¹⁹ *Washington Voters and Gary Locke*, Moore Information Public Opinion Research, Jan. 2003; and “Voters Support Locke Leadership On Budget,” press release from the Washington Roundtable, Feb. 11, 2003.

²⁰ Personal communication with the authors of *The Price of Government*.

²¹ Ibid.

²² For more on these “Flexible Performance Agreements,” see chapter 3 of David Osborne and Peter Plastrik, *The Reinventor’s Fieldbook* (San Francisco: Jossey-Bass, 2000).



Reason Foundation
3415 S. Sepulveda Blvd., Suite 400
Los Angeles, CA 90034
310/391-2245
310/391-4395 (fax)
www.reason.org