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AN ANALYSIS OF THE IMPLEMENTATION OF PROGRAM BUDGETING IN GEORGIA

This brief examines the challenges faced by Georgia in its implementation of a Prioritized Program Budgeting system, with a particular focus on the development of the state's budgetary program structure. While there is voluminous information about the development and use of performance measures, e.g.,(Hatry 1999; Poister & Streib 1999; Kittredge & Kissler 1998; Joyce 1999, 2003), there are few resources to help guide states through the process of building the initial programmatic "platform." This initial step, which was first comprehensively implemented in the fiscal year (FY) 2006 budget year, has proved more challenging for Georgia than was perhaps anticipated. This report is meant to help the various state budget and program officers in Georgia reflect on their current transition from line item to program budgets as well as to provide a resource for other states considering a similar transition.

History in Brief

Although Georgia has developed program structures at other times—most recently after the adoption of the 1993 Budget and Accountability Act—the 2006 transition was the most dramatic because for the first time the legislature changed its system of budgeting. The legislative transition was important because legal accountability for budgeting shifted from object class to program, and legislative attention shifted from a focus on inputs to a focus on agency purposes. Previously agencies had been responsible for ensuring that they did not transfer more than 2 percent into any one object class appropriation (associated with personal services, travel, regular operating expenses, etc.) without legislative approval. With the switch to program budgeting, the legislature imposed transfer controls of 2 percent or $250,000 whichever was less on programs in the budget.

Why a Program Based Performance Oriented Budget?

States have been transitioning to performance based budgets in an effort to focus resource allocation decisions on outcomes or results rather than on control over inputs. The theory behind performance based budgeting is that in return for greater accountability for results, agency managers will be given increased flexibility to manage inputs as necessary in order to produce the desired results. "Programs" often provide the platform for a performance based system because of the intuitive idea that that a program is the appropriate budgetary unit for assigning managerial flexibility and responsibility for results. In this formulation

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programs are the level at which agencies enter into a "contract" to produce results.

Programs are also often linked to result measures and overall agency goals through a strategic planning process. In this model, programs can be conceptualized as the "strategies" that an agency uses to achieve a set of outcomes and ultimately overall agency and statewide goals. The problem is that such definitions and guidelines are rarely sufficient—program definitions and the associated transfer controls interact with existing organizational arrangements, accounting structures, demands for evaluation and transparency as well as the institutional tug-of-war between the legislature, executive, and agencies for strategic control of agency priority-setting. In Georgia, these criteria actually played a far greater role in shaping a program structure than strategic planning or the idea of a managerial performance contract.

Difficulties in Implementation

By all accounts, the state has struggled with implementation of its program structure. The problems include:

- A lack of clarity about program definitions and the process through which the state would transition to program budgeting. Fundamentally, almost no agency derived its program as part of a strategic planning process.
- Some of the programs, as defined, may "lack integrity"—or it is not entirely clear how different activities (and associated expenditures and revenues) are assigned to programs. Although, this report did not audit agency programs and thus does not purport to verify this problem, there are a number of indications from interviews with staff at all levels of government that this is likely to be a serious issue.
- Reduced flexibility for agencies because of a combination of stringent transfer controls in the appropriations bill, highly differentiated programs, and continued restrictions on object class transfers. From an agency perspective, program budgeting just added another level of control on top of the previous level of control.
- Conflict between the legislative and executive branches over strategic control of agency priorities as well as control over federal and other funds.

Conflicting Demands on the Program Structure

In part, the problem of program budgeting requires a careful assessment of *how* programs are going to be used within the larger system of resource allocation, managerial decision-making, and oversight and evaluation. In this context, the state needs to assess when a program should be constrained through the transfer controls that enforce legal accountability and when a program (or other budget unit) can be simply reported, monitored, and/or evaluated. The state could also be more creative about types of transfer controls and systems of oversight and evaluation.

Evaluation Models, Oversight, and Transparency

Based on the theory of performance based management and budgeting, programs should be associated with result measures and then evaluated for cost-effective attainment of these results. Informally, staff throughout government can often evaluate performance by looking at trends over time, or assessing performance measures in relation to performance targets or benchmarks. These sorts of evaluations, however, suggest program structure that has clear lines of association between activities, funding, and sets of results that can be measured in a reasonable time frame.

However, often truly answering underlying questions about program performance requires more formal evaluation. Formal evaluations might examine questions of 1) why a program has not achieved desired outcomes; 2) program efficiency or cost-effectiveness in achieving outcomes; 3) comparisons between programs, activities, or sub-programs; 4) appropriateness or effectiveness of internal processes, activities, or sub-programs; 5) comparisons of regional or institutional effectiveness, etc. For both formal and information evaluations, the appropriate units of evaluation are likely to be far more disaggregated than exists in Georgia's current program structure and would likely encompass subprograms, activities, and object class level information in the current program structure.

Systems of transparency are likely to be similar. A transparent budget system suggests the availability of information about agency performance and priorities to those external to government. Being able to see agency allocation of resources at a subprogram or even activity level in the current system is likely to improve transparency.

Managerial Considerations

Running directly counter to an evaluation-oriented program structure, a key purpose of program-based performance-oriented systems is to provide managerial flexibility and discretion. Further, correctly allocating expenditures (and at times non-state fund revenues) to programs presents serious organizational and technical challenges. Programs may cut across organizational lines requiring cost-allocation procedures to sort through costs. Budget directors and program managers have to appropriately project demand for services for a particular program as well as potential revenues that might be associated with a program. At times, federal funding systems or even state laws and existing state policies have to be harmonized with a program budgeting structure (for instance, formula grant programs may not align appropriately with a program budgeting structure). Accounting systems have to be aligned to accommodate a program structure, and administrators throughout the organization have to be trained to appropriately allocate funds. Failure to appropriately implement these systems can lead to a loss of "program integrity." For these reasons, a number of agencies would like to see a program structure with much larger programs than currently exists in Georgia.

Legislative versus Executive and Agency Control

Although discussions of budget reforms often try to pretend that "politics" does not exist – many reforms have failed because they do not recognize and accommodate the natural institutional tension between the legislative and executive branches of government. In Georgia, the executive branch through the Office of Planning and Budget has a certain amount of operational oversight of an agency's budget—e.g., it oversees transfers between object classes, programs and subprograms, amendment of federal and other funds and so forth. Thus, the executive does not require the budget document to be structured a particular way in order to retain power or control over agency activities.

In Georgia's current system, the legislature, however, relies on the budget document and supporting materials, such as the tracking documents, to prioritize and communicate legislative intent. As a result, the legislature will tend to prefer a more disaggregated program structure with stricter transfer controls, while the executive and agencies tend to prefer larger programs with looser transfer controls. (This dilemma is not unique to Georgia.) As a result, the transition to program budgeting has become a tug-of-war between the legislature that wants to use control over the program structure as an extension of its ability to convey legislative intent and the executive and agencies that have to struggle with the managerial and technical problems associated with defining program structures. The executive and agencies, however, also express concern about the loss of strategic control (or power) to the legislature as a result of program budgeting.

Analysis and Considerations

A number of tensions have been brought to bear on the program structure in Georgia's budget. At the most basic level, the programs need to be reviewed to clarify how activities and associated expenditures and revenues are assigned to different programs and to align programs with a strategic plan. However, Georgia also needs to consider the larger framework in which the program structure is being implemented: this includes an assessment of *how* programs are going to be used as well as an effort to better reconcile the competing political, managerial, evaluation oriented, and technical pressures.

Some Alternatives:

Adjust the transfer controls: Much of the current tension associated with program budgeting is result of the transfer controls. Transfer controls in the appropriations bill typically have the benefit of ensuring accuracy in accounting for expenditures at the program level; and are a source of legislative control over funding. Transfer controls over object classes are used by the executive to monitor agency operations and are a source of executive control over agency activities.

These controls, however, are not fixed, nor are the processes through which transfers are monitored. The legislature could adjust transfer controls associated with programs to focus on programs where there is a particular concern about control and relax the controls where the legislature trusts the agency to manage the funds in accordance with legislative intent. The legislature could move between different groupings of programs based on these concerns. Such shifts though would have to be tempered by agency ability to accurately account for funds at different program levels.

Adjust the process of oversight: Rather than adjusting the transfer controls, the legislature and executive could streamline the process of oversight for transfers. For instance, the legislature could allow legislative staff to sign off on transfers rather than referring decisions to the full Fiscal Affairs Committee. Alternatively, the Fiscal Affairs Committee could meet more regularly. Or the state could develop systems where the legislature is notified and transfers are considered approved unless the legislative staff or selected legislators request additional information or protest the transfer within a certain period of time. There are a number of variations.

Similarly, OPB could adjust the monitoring of transfer controls over object classes to ensure that some transfers are only monitored while others require explicit approval.

Switch from ex ante control to ex post control: Currently, Georgia is relying heavily on ex ante (or up front) control over agency spending rather than ex post (or after the fact) control. Ex post systems, which are the premise of performance based budgeting, rely more heavily on evaluation and remedial action for poor performance rather than controls over spending up front, particularly by the legislature. Virginia provides a good example of such a system.

In an ex post system of control, Georgia might have a well defined and disaggregated program structure in the appropriations bill, but the executive branch and agencies would be given extensive authority to transfer funds as long as it was in keeping with legislative e intent. Programs would also be associated with key performance measures that were important to legislators, the executive, and the public at large. At the end of the fiscal year, the legislature would commission evaluations to assess a host of implementation questions, including whether agency decisions are in keeping with legislative intent. In such a system, expectations would be set beforehand through the budget process; however, agencies would have significant flexibility to adapt. Control would be exerted through evaluation and potential legislative remedial action if performance was poor or legislative intent was ignored. Georgia has elements of such a system in place; however, the state would likely have to invest in a greater *legislative* capacity to evaluate and would have to develop performance measures with legislative input.

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