

## **Zero-Base Budgeting in the States**

*By Ron Snell*

Zero-base budgeting (ZBB), in its original form, is a system of budgeting that begins every budget cycle at zero, rejecting any assumption that the activities that were funded in the last budget will continue in the coming one. It requires a rationale for each activity that will be funded for the new budget. It is intended to foster analysis of every activity, prioritization of budget activities, cost-effectiveness and economy.

ZBB appeared in the private sector in the early 1970s. Its first prominent advocate in the public sector was Jimmy Carter when he was governor of Georgia. As governor and then as president, Jimmy Carter applied it first in Georgia and then to the U.S. government in the mid- and late-1970s. The federal Office of Management and Budget developed ZBB in detail as a federal budget method by 1978.

Proponents say zero-base budgeting has these advantages:

- ▀ It forces an end to thinking that current activities and funding will continue with minor (or incremental) changes, and requires a reconsideration of every activity and demand for resources.
- ▀ It emphasizes analysis and comparison of programs, and encourages the termination of low-priority programs.
- ▀ It encourages the reallocation of existing resources from lower priority programs or activities to those with higher priorities.
- ▀ Participation by all agency managers improves management development, communications with policymakers, and discussion of key issues and problems at all levels.<sup>4</sup>

Before looking at the 1970s federal model of ZBB, it's important to note that two additional forms of ZBB have developed in the public sector. These have seen widespread use in many states, through not continual use in any state. The two other variants are:

- ▀ Alternative budgeting, in which agencies are required to make budget requests at various levels below and above their current level along with comparisons of the consequences of budgeting at the different levels; and
- ▀ A periodic review from the ground up of the budgets, responsibilities, strategies and performance of state agencies. "Periodic" could mean once in anywhere from five to eight years.

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## 1. The Original Form of ZBB

Zero-base budgeting was designed as a tool to control expenditures through identifying the purpose and measuring the effectiveness and efficiency of activities. The form created for the federal government in the late 1970s went like this:<sup>2</sup>

- ZBB began with identifying a decision unit: a program, activity or organizational entity. These should be small enough for good analysis, but not so small and numerous that they overwhelm the budget process.
- For each decision unit, managers identified a decision package built on four funding levels:
  - a) The minimum essential to program viability;
  - b) The current or maintenance level;
  - c) An intermediate amount, between the minimum and current levels; and
  - d) An enhancement level—additional funding for increased services.
- Decision packages included statements of intended agency results, preferably quantified; measures of workload, efficiency and effectiveness; and budget requests.
- Managers ranked decision packages by order of priority within their area of control, guided by policy directives from their supervisors.
- Decision packages moved up the administrative chain for renewed review, prioritization, revision, consolidation or deletion.
- Eventually they formed the basis for budget requests.

The process as used in the federal government turned out to be very heavy on paper (in those pre-computer days of the late 1970s) and relatively light on critical analysis. In 1979, the U.S. Government Accounting Office could find little evidence that ZBB had improved the federal budget process. It recommended less paperwork, fewer decision packages and more analysis, fewer funding options and less rigidity. The Reagan administration preserved some elements of ZBB in the form of alternative funding options<sup>3</sup> from agencies, with a focus on how agencies would prioritize activities when budgets were reduced.

The original form of ZBB has been widely attacked as unworkable. Even the advantages which President Carter claimed it had brought to Georgia when he was governor have since appeared to be exaggerated. It was not possible to assimilate the ZBB focus or decision packages into the state budget process and the techniquet were not found useful in allocating resources. Federal efforts have been termed "an exercise in futility."<sup>4</sup> Some of the disadvantages laid to this form of ZBB are:

- It is difficult to apply usefully to entitlement programs and to programs like education that are seen as central, continuing functions of government.

- ▀ The process can create extreme competition and conflict over resource allocation.
  - ▀ The process can be time-consuming and expensive.<sup>5</sup>
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## **2. ZBB as Alternative Budgeting**

At the end of the 1970s and in the early 1980s, states developed a form of ZBB as a way of cutting budgets that helped address the fiscal difficulties of the time. This form did not include the full array of decision units, decision packages and multiple rankings as decision making rose through agency ranks.

States turned ZBB into alternative budgeting (also called "target budgeting"), which means that agencies making budget requests are instructed to do so at various percentages of their base budget—for example, at 90 percent, 100 percent and 110 percent—and to analyze the effect of those levels on agency responsibilities.

This highly simplified version of ZBB was widespread in state budgeting at the time. It fitted well within traditional state budget processes, and was a useful tool when budgets had to be cut or resources reallocated from agency to agency. It gained a sense of prestige and novelty from its nominal link to ZBB, but it did not involve radical change in established procedures, or greatly increase bureaucratic work. This form tended to avoid the priority rankings that had been a major feature of the original federal form of ZBB, and was used in practice mainly to evaluate the ways agencies and programs would adapt to reduced resources.

This meant in practice that the zero-base evaluation of state agencies had fallen away and that what had started out as a state model of ZBB had evolved into a form of budgeting probably as old as budgeting itself—the consideration of alternatives. Whatever it may be called (not ZBB these days), this is the central practice of executive and legislative budgeting—the consideration of the impact of alternative levels of funding. For a time it was formalized with specific levels of alternative proposals and given the name of ZBB; the very useful practice continues without the name.<sup>6</sup>

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## **3. ZBB as a Periodic Agency Review**

It is probably true that state government cannot adapt to a budgeting process that calls for justification of every activity and program annually or biennially: at least, no state has been able to do so. State governments are not in a position where they can reconsider whether to support subsidies to school districts or Medicaid support annually. The apparatus of ZBB involves multiple layers of activity description, analysis and recommendations which would be unwieldy in the smallest state government, let alone a state whose annual spending reaches \$50 billion, \$60 billion or \$70 billion a year. The required analysis is time-consuming for agencies, legislative staff and legislators.

For those reasons, most recent efforts to adopt ZBB in state governments call for a periodic ZBB analysis of state agencies. They suggest a cycle that would cover from four to eight years, after which it would be repeated.

- Florida enacted an eight-year cycle of ZBB agency reviews in 2000 and began the reviews in 2001.
- The Oklahoma legislation of 2003 that mandated ZBB called for a four-year cycle of legislative ZBB reviews of state budgets.
- Governor Butch Otter began ZBB in Idaho in 2009 by executive order, laying out a six-year rotation of agency budget reviews and justifications.

The Florida legislation designed a joint legislative-executive process for agency review which would occur in the months the legislature was not in session. Legislators and teams of analysts from the House, Senate, the Legislature's program analysis agency and the executive budget agency worked on a fundamental examination of the scheduled agencies.

The Oklahoma process was legislatively driven, in keeping with the strong legislature/weak governor approach to budgeting in that state. A joint interim committee was directed to conduct the ZBB reviews assisted by fiscal staff from both chambers.

Governor Otter's plan for Idaho is executive focused. It calls for reviewing and justifying each agency's budget on a six-year schedule. The Idaho plan is just getting underway and it is too soon for any evaluation of the process.

Although both the Florida and the Oklahoma projects have been abandoned, periodic ZBB agency reviews would seem to hold great potential value. Both those states' periodic reviews foundered in part because of the complexity of the reviews and the great amount of material the reviewers had to assimilate. A periodic review of agency purposes, procedures and productivity, in more depth than the annual appropriation process allows, could be valuable for the executive branch and the legislature. It would not have to be in the form of the original federal version of ZBB with all the complexity of decision packages and multiple reviews. Probably the chief limits on legislatures' ability to carry out such reviews are the demands they would make on legislators' time, and legislative staff resources.

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#### **4. The Appeal of ZBB Continues**

Legislation calling for ZBB was introduced in 15 states in 2009. In addition to Illinois, those included some other large states—California, Georgia and Ohio. Seventeen states have reported its use in some form, and as already noted, a number of states have made serious efforts to put ZBB into effect in

recent years. In addition, in 2006, Governor John Lynch of New Hampshire ordered all state agencies to use a ZBB approach in building budget requests for fiscal years 2008 and 2009.

On the other side of the coin, none of the 2009 legislation passed. As the Illinois Legislative Research Unit has pointed out, it is hard to find evidence of ZBB in most of the 17 states that report its use.<sup>7</sup> Aside from the recent executive orders to use ZBB in Idaho and New Hampshire, it is not clear that any state uses ZBB as its primary budgeting technique.

An Iowa ZBB program at the beginning of this century and the Oklahoma ZBB plan have been substantially reshaped into performance budgeting. Idaho's ZBB efforts are too new to be evaluated. Florida abandoned zero-based reviews within three years of having begun them in 2001. The Florida ZBB work produced reports of great thoroughness and usefulness. It was also expensive and time-consuming, and as legislative priorities shifted, it was discontinued after the third round of ZBB reviews.

Oklahoma's experience is instructive as another Legislature that made a serious effort to use ZBB as a budgeting tool. After the legislation was adopted six years ago, a joint committee was established and began meeting to conduct ground-up reviews of state agencies (planned for a four-year cycle). The Department of Education, which distributes and oversees aid to school districts, was one of the initial agencies. The time it took to explain all the services it provides exhausted the committee. The process was valuable to legislators for all they learned, but it was so time-consuming they never reached the point of considering money. Since that time the Legislature has voted three times to repeal ZBB, by bipartisan majorities. In practice, it is not used by either the Legislature or the executive branch.

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## 5. Lessons Learned

ZBB responds to a serious and widespread desire to look at public budgeting in a fresh way, free of old assumptions, and make a new beginning. Past experience does not control the future. What can be learned from the kinds of experience related here?

- ZBB has more than one form and a proposal to adopt it should be clear on whether it is expected to be an analysis of all government, a tool to respond to a fiscal crisis, or a periodic, revolving review of state agency operations and budgets.
- In any of its forms, ZBB is likely to be an elaborate and time-consuming process, and will add at least a level—or many levels—of complexity to the current budget process.
- It will take continued commitment from leadership and a commitment of time from legislators immediately involved to make it useful to a legislature.

## 2009 State Legislation to Implement Zero-base Budgeting

Alabama. Senate Bill 257  
California. Assembly Bill 1460; Assembly Bill 1558  
Illinois. Senate Bill 1679; Senate Bill 2133  
Georgia. Senate Bill 1; House Bill 44  
Iowa. Senate Bill 149; House Bill 322  
Kansas. House Bill 2273  
Massachusetts. Senate Bill 1389  
Mississippi. House Bill 143  
North Carolina. House Bill 45  
New Jersey. Senate Bill 2228; Assembly Bill 3484  
Ohio. House Bill 65  
Pennsylvania. House Bill 558  
South Carolina. Senate Bill 658; House Bill 3640  
Texas. House Bill 3396; House Bill 3750  
Virginia. House Bill 2356

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1. NCSL, "What is Zero-base Budgeting?" at <http://www.ncsl.org/default.aspx?tabid=12578>; Irene Rubin, *The Politics of Public Budgeting*, 6<sup>th</sup> edn. (Washington, D.C.: CQ Press: 2010), 82-83.
  2. This discussion is based on Donald Axelrod, *Budgeting for Modern Government*, 2<sup>nd</sup> edn. (New York: St Martin's Press, 1995), 305-320.
  3. Thomas P. Lauth, "Georgia: Shared Power and Fiscal Conservatism," in Edward J. Clynch and Thomas P. Lauth, *Budgeting in the States: Institutions, Processes, and Politics* (Westport, Conn.: Praeger Publishers, 2006), 47-48.
  4. George S. Minnier. *An Evaluation of the Zero-base Budgeting Systems in Governmental Institutions* (Atlanta, Ga., School of Business Administration, University of Georgia: 1975), 131, 157, cited in Axelrod, 311.
  5. NCSL; Rubin.
  6. Axelrod, 312-313.
  7. Illinois General Assembly, Legislative Research Unit, *Zero-Based Budgeting in Other States* (November 20 2008). <http://www.ilga.gov/commission/lru/34.ZeroBasedBudgets.pdf>