

# HOUSE BILL ANALYSIS

## HB 2494

---

---

**Title:** An act relating to greater fiscal responsibility in state budgeting through zero-based budget reviews.

**Brief Description:** Establishing budget review process.

**Sponsors:** Representatives Alexander, H. Sommers, Lambert, Huff, Doumit, Koster, Barlean, Mulliken, Cox, Scott, McMorris, Benson, McIntire, Morris, Conway, Ruderman, Linville, Kessler, McDonald, B. Chandler, O'Brien and Kagi.

---

**Background:** State budget development has historically used a method of budgeting known as "incremental budgeting." This method uses current funding levels as a base, and it then adjusts this base upward or downward based on a variety of factors, including policy changes, increased caseload, full-biennium funding of programs or policies funded for less than 24 months in the current biennium, and inflation.

Accordingly, incremental budgeting focuses on changes at the margin. This method relies on the assumption that expenditures for current activities are an accurate predictor of funding requirements for the same activities in the next fiscal period.

The Budget and Accounting Act establishes a framework for the budget development process. Each agency prepares a budget request for submission to the Office of Financial Management (OFM), the governor's budget agency. Agencies must link their budget requests to stated goals, missions, and objectives. The OFM reviews agency budget requests and makes adjustments, and the Governor then submits the budget to the legislature, which makes further changes and enacts the budget legislation.

Various state agencies may conduct budget-related reviews. On the executive side, the OFM scrutinizes agency budget requests and develops its own budget recommendations. After the legislature has enacted a budget, the OFM reviews agencies' expenditure plans (allotments). The OFM also maintains an accounting system and internal controls to ensure the accuracy of accounting and other data. The State Auditor conducts audits to determine whether public funds are spent in accordance with the law.

On the legislative side, the Joint Legislative Audit and Review Committee (JLARC) has the authority to conduct performance audits, as well as other studies of budget-related issues. Performance audits include efficiency audits, which determine whether

an agency is managing its resources efficiently, and program audits, which examine whether agency is achieving a desired outcome. Performance audits may also include cost-benefit analyses, identification of alternatives and corrective actions, and comparison with similar agencies in other states.

During the legislative interim, the House and Senate fiscal committees may also conduct studies of budget issues. For both the JLARC and the legislative fiscal committees, the study plans may either be established by the legislature in the budget bill, or the plans may be determined by the committees themselves.

**Summary of Bill:** Each year in the biennial or supplemental appropriations act, the legislature will designate the agencies or programs that will receive either a zero-base budget review or a modified zero-base budget review that year. The review will be conducted jointly by the House Appropriations Committee and the Senate Ways & Means Committee, but it may be contracted out to a public or private entity. Each state agency that receives appropriations in the operating budget act will be reviewed at least once every six years.

A modified zero-base budget review consists of a statement of the statutory basis of the agency's programs, along with a description, including cost and FTE data, of the activities in each program. The modified review will also include analyses of the major costs and benefits of the agency's programs, the rationale for expenditure and staffing levels, and an estimate of the agency's administrative costs and the benefits that reach recipients.

A zero-base budget review will include all of the analyses in a modified zero-base budget review, and it will focus on an analysis of the agency's objectives and indicators of those objectives. It will also include an analysis of the funding levels necessary to accomplish those objectives, without regard to past levels of incremental funding. The main difference between a zero-base budget review and a modified zero-base budget review is that the former must be conducted without regard to past incremental funding levels.

The OFM must cooperate with the legislative fiscal committees to determine how agency information will be provided to the committees, and the OFM and agencies must timely supply information requested by the committees for the review.

**Appropriation:** None.

**Effective Date of Bill:** July 1, 2001.

**Fiscal Note:** Requested on January 25, 2000.