

ALABAMA'S SMART BUDGETING INITIATIVE: A CASE STUDY ON IMPLEMENTING A PERFORMANCE BASED BUDGET

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ABSTRACT

The last thirty years has witnessed a renewed interest in government performance through the adoption of performance budgets that emphasize economy, effectiveness and efficiency measures of operations. The state of Alabama has adopted and implemented a comprehensive performance budgeting system within all state agencies (departments, boards, authorities, commissions, and institutions of higher education) known as **SMART** Budgeting. The **S**mart, **M** measurable, **A**ccountable, **R**esponsive and **T**ransparent Governing initiative case study provides a recent history of performance budgeting in Alabama within a conceptual framework of government accountability by functional levels and the implementation of SMART, a performance based budget, within Alabama state government.

INTRODUCTION

Implementation of performance budgeting in state governments is a daunting task. Significant effort and assuage is necessary to change an established basic line-item budgeting procedures and reporting to new budgeting procedures and documents containing: long and short-range statewide and agency plans (goals and objectives), necessary funds to accomplish those plans, and finally, performance measurements of efficiency, economies and effectiveness so as the CEO and the legislature can objectively review the results of their administrative and political decisions. And most importantly, these performance budgets provide information by which the citizens can assess the planned achievement or failure as a result of their elected officials' administrative performance.

Purpose of the Paper

The purpose of this paper is twofold. First, the authors will discuss government accountability and the role that a performance budget fulfills in demonstrating that accountability. Second, the authors will present the state of Alabama's performance budgeting initiative, SMART, in a case study format that will highlight the successful implementation methodology used by Alabama SMART program officials. The authors believe that this case study, regarding the Alabama experience with implementing a comprehensive performance budgeting system can be fully or partially adopted by other state and local governments that are currently in the initial stages of planning and implementing a performance budgeting system within their respective governments.

ACCOUNTABILITY IN STATE AND LOCAL GOVERNMENT

The rights of the people relative to budgeting and accountability of the chief executive officer (the king) appear to have been politically established in 1215 with the signing of The Magna Carta.[1] It was that document which initially called for a proposed annual spending plan to be set out by the King subject to approval by the ruling nobility. If the King's budget was approved, then the proper feudal nobility would collect the taxes for delivery to the crown. The accountability rights (proposal and approval of annual expenditures) established in the Magna Carta continued to evolve. Governmental accountability today is an all-encompassing term which, according to Stewart, consists of five functional levels: Policy Accountability (highest), Program Accountability, Performance Accountability, Process Accountability, and Probity and Legality Accountability (lowest).[2]

Probity and Legality Accountability requires the government to be in compliance with laws, regulations, and resource provider requirements in the managing of public resources. State and local governments have traditionally provided accountability at the lowest level - probity and legality. For example, state and local governments begin their operating and spending cycle after the appropriation act has been passed. At the end of the fiscal year, the government entity issues a comprehensive annual financial report which includes a Budgetary Comparison Schedule to demonstrate its compliance with the legal requirements placed on the current fiscal year spending. Even if a government does not issue a Comprehensive Annual Financial Report, it must include a budget to actual comparison schedule as required supplementary information with its' basic financial statements.

Policy Accountability identifies the broad based, all encompassing community values system. It requires the consensus of the citizenry to select or reject a value that will be recognized in a policy statement. In spite of all the improvements in government operations and the increasing accountability that is provided by government, the citizenry is still dissatisfied and concerned over the increasing problems in their communities, their state and their nation. What, then, will the twenty-first century provide? Evidence already indicates that the level of accountability appears to be rising and, yes, shifting to policy accountability. Policy accountability requires the identification of community goals and values. Performance reporting must explain the operating results in terms of accomplishments of goals or progress toward achieving desired community goals. As Epstein stated, "there are three main uses of public service performance measurement: to improve decisions, to improve accountability, and to improve the performance of public services." [3] If performance budgeting and reporting is to provide transparency and credibility regarding the elected officials' stewardship, then it must be the financial management tool that will establish a documented consensus between elected Officials and the citizenry of the value system desired for this governmental entity.

Performance Budgeting has several elements that measure the effectiveness with which agencies achieved their established goals. These reported elements should answer the constituents' questions regarding an agency's accomplishment reporting or goal achievement. In addition to question regarding goal achievement, constituents' also need to know if the achievements were accomplished with efficiencies and economy. Answers to questions such as how long should it take to achieve a desired outcome as well as, was the cost to taxpayers reasonable and anticipated.

Economy measures identify the cost of services on a per unit basis or in total (budgeted) and thus demonstrate probity and legality accountability. Economy measures become even more meaningful for comparative purposes when compared to a “benchmark. The benchmark serves as a predetermined standard to questions such as, what should it cost, how long should it take, what do citizens expect regarding crime reduction, student scores, reduction of highway deaths.

Effectiveness measures demonstrate policy accountability with the establishment of desired outcomes from government activities. Effectiveness is assessed when the benchmarks are directed to measurement of goal achievement. What was the percentage reduction of crime from the program activities (resources expended)? What was the student overall score improvement from the expenditures and resources used to achieve a measured improvement in student academic scores or grades? All desired outcomes begin with a plan to achieve policy decisions that are driving the budget allocation of the organizations resources.

Efficiency measures and economy measures demonstrate both program and performance accountability. Efficiency and economy measures are assessed with benchmarks based on the organization’s strategic plan. The strategic plan begins with the government’s mission statement followed by the government departments’ or agency’s mission statements. All must compliment the overall government’s stated mission.

ALABAMA’S RECENT PERFORMANCE BUDGETING HISTORY

Over the past twenty-five years, several initiatives along with new performance budgeting systems have been designed to establish accountability and improve administrative processes within Alabama government agencies. All failed except for the most recent SMART initiative. The current budget processes have become more specific and institutionalized in the last 25 years with the passage of the Budget Management Act of 1976, amended in 1992 and 1995.[4] This act delineated the responsibilities of the Governor and the Legislature with respect to establishing a comprehensive budgeting and financial management system which “shall include procedures for all the orderly establishment, continuing review, and periodic revision of the program including the reporting of program performance.”[5] It took another ten years after the Budget Management Act of 1976 was passed to actually begin performance based budgeting. That effort was started by Governor Guy Hunt who initiated the **Alabama Management Improvement Program** (AMIP).

AMIP was a private-public partnership funded by the Alabama business community. AMIP began in 1988 and, when completed in 1990, delivered approximately one thousand documented recommendations for operational improvements most of which were implemented within three years. [6] In early 1993, Governor Hunt was ejected from office. The former sitting Lieutenant Governor became governor and began a strategic planning and performance budgeting initiative. Governor James Folsom Jr.’s **Alabama 2000-Blueprint for the Future** included additional performance measures to guide agencies with the linking of performance goals and objectives to the budget and the establishment of performance measures required by the 1992 legislation.[7]

However, in November of 1994, Governor Folsom loss the election and the process of implementing “Alabama 2000-Blueprint for the Future” came to an abrupt halt. The new administration under Governor Fob James prepared a Strategic Plan consisting of the Governor’s vision and mission statement for the seven largest state but did not include performance based

reporting requirements. To comply with legislative demands, the governor’s staff began and completed, within the last two months of the term, the report, **Focus on Results**, which was sent to the Alabama Legislature. Shortly after distribution of the document, Governor James lost his re-election bid and Focus on Results, like Blueprint for the Future, would soon be filed with the other unused reports from previous administrations.

Recent Performance Budgeting Initiatives in the State of Alabama									
Year	1976	1987	1992	1993	1995	1996	1998	1999	2003
Legislation	Budget Management Act (BMA)		Amended BMA Section 41-19-1 through 41-19-12		Amended BMA Section 41-19-3.1				
Executive Branch Initiatives		Alabama Management Improvement Plan (AMIP)		Alabama 2000 – Blueprint for the Future		Strategic Plan	Focus on Results	Balanced Scorecard (BS)	SMART Budgeting/ Governing
Governor	Wallace	Hunt		Folsom	James			Siegelman	Riley

Governor Don Siegelman took office in 1999 and made began to implement a performance based reporting system in his second year in office, thereby complying with the Budget Management Act. The new system was named the **Balanced Scorecard** (BS) and was funded by the state agencies based on their budgeted expenditures to the total state budgeted expenditures. The “BS” program was never organizationally established within Alabama government and its success, if any, went unrecorded. Another November election resulted in Governor Don Seigelman losing his bid for a second term. Governor Bob Riley took office in January 2003 and established an initiative to develop an improved budgeting and reporting process for Alabama government agencies by 2004. The office and initiative was known as SMART Budgeting (SB)

SMART BUDGETING ELEMENTS

SB requires that all Alabama agencies develop and prepare strategic plans. These require long-range goals (4 years in the case of Alabama) setting along with an annual (budget) and long term resource allocation to fund the necessary actions to successfully achieve the agency mission and attain its goals and objectives (expected outcomes) stated in the strategic plan.

SB requires two broad areas of measurement for agency goal achievement: (1) to compare, quality, efficiency and effectiveness of outputs (number of documents processed, meals delivered, miles of highway, people serviced) and (2) to then compare the results or outcomes of the efforts expended. Outcomes are the broad policy goals that the individual outputs are collectively expected to achieve. For example, the reduction of highway accidents or deaths would be an outcome measure. This outcome would be impacted by various activities or expected outcomes including but not limited to, improved highway markings or signing, number of state troopers on patrol, reduction of speed limits in congested traffic areas or driver education programs. All of these activities can be measured as to effectiveness and efficiency of implementation and effectiveness as contributing to the over-all goal outcome of reducing highway traffic deaths.

The Alabama Department of Examiners of Public Accounts is responsible for conducting performance audits of all state agencies and institutions of higher education. The Examiners are independent auditors and follow the promulgated performance audit standards issued by the U.S. Government Accountability Office. Thus the independent auditor's report of findings in the agency performance report provides assurance that the performance report prepared by management is transparent. Transparency exists when the representations (management's reports) of administrative stewardship are understandable, objective, complete and truly creditable. The Examiners of Public Accounts can perform performance audits covering any defined period of time – a quarter, a fiscal year, a single spending cycle, or any time other period that is requested.

ELEMENTS OF SUCCESSFUL IMPLEMENTATION

After 25 years, attempting to implement a performance based budgeting system within the state of Alabama administrative framework, success was finally achieved with the SMART program. The factors that contributed to a successful SMART implementation include: political timing, institutionalization of the program office, a robust staff training program, organizational placement and status, and a continuous improvements of the program.

Political Timing

As is often said, “timing is everything” in both love and in politics. Timing could bring about the successful culmination of a difficult project or task as in SMART or it could lead to a disaster, as in the political love story, Romeo and Juliet. So let's begin with timing as an element for successful implementation to PB. Alabama began its initiative to institute a Performance based budget in 1976. The best it could produce for the next 25 years were activity measures. Politics and entrenchment on the part of many appointed and professional administrators were both part of the causes of non-implementation for many years. If professionals within government pushed for implementation for performance based budgets they would have been implemented in the latter part of the 20th century rather than in the 21st century. So, first overcome the internal professional administrative personnel that stand in the way of opportunity and change. Politics, as history has shown, will always be with us as long as there are governments and organizations. Good politics may not always be good government. However, as it has been said, “good government is always good politics”.

Institutionalize and SMART Training

A program that will survive the coming and going of agency personnel caused by political elections must be institutionalized. In other words, it must have a champion(s) and a permanent organizational structure. It must be placed at an authority level commensurate with its operational expectations. In Alabama, this was under the Director of Finance. The SMART office was given all of the authority needed for its role and the prestige associated with the Finance Director and the Director's Office. The SMART office developed training materials regarding comprehensive performance budgeting implementation. These materials included, strategic planning, goal development and operational objectives, performance measures and measurement, and necessary reporting. SMART personnel were available to act as consultants

to state agencies in the development of individual budget and performance measures. Individual agency training was available upon request.

SUMMARY

Accountability has been defined in various ways. The GASB clarified the government's responsibility to provide accountability as: (1) Governments must explain their action to the citizenry; (2) The citizenry has a right to know; (3) Governments must justify the raising of public resources and the purposes for which they are to be used; and (4) Government must provide information that will facilitate public debate by the citizens and their elected representatives. The current Alabama administration under Governor Riley seriously addressed the accountability of Alabama government to its citizens with the effective implementation of SMART Budgeting now known within formal Alabama process as SMART Governing (SG), a comprehensive performance budgeting system within Alabama's organizational administrative structure. Alabama's SMART has now become the current budgeting process under the Budget Management Act of 1976 initiated by the state legislature.

Agency directors, professional staff, of course, the Governor and various other constituencies have succeeded in providing agency information through a strategic planning document that includes a clear mission statement, annual and long-range plans, goals and objectives. In addition to a strategic plan, SMART provides linkages to operational and capital budget information. Because SMART was designed to improve the delivery of State services, the SG process enables agency managers and staff to evaluate their performance in terms of quality and efficiency measures and to provide input regarding the state priorities. The SG Office encourages all agencies to engage in strategic planning and to collaborate with other agencies to deliver program services. The individual agencies and the SMART Office track program and agency progress to meet the respective strategic plans. This continuous monitoring and analysis allows for an improved budgeting and performance product and achievement of the agency's goals and objectives.

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