



Budgeting for Outcomes: The Process

The Vision: Governor Jennifer M. Granholm came to office in 2003 committed to developing a better government: a cost effective government that delivers the results that people demand – without wasting precious taxpayer dollars. A government that ensures that Michigan is a place where businesses want to invest, people want to live, and families want to raise their children.

Two months after she took office, Governor Granholm said: *“The financial position of the state is bleak. . . . We can choose to see it as a chance to look anew at the way government does business and ask some tough questions. With limited resources, what do we value most? What services do we agree are the core functions of government, and which can be categorized as “wants,” but not “needs”? I have asked these questions of citizens across the state, and this budget reflects my best judgment based on their input.”*

Initial Actions: Facing a projected budget shortfall of approximately \$1.7 billion, Governor Granholm invited Peter Hutchinson, co-author of *The Price of Government*,² to meet with her Cabinet in January 2003 and discuss results-based budgeting. Although *The Price of Government* had not yet been published, Mr. Hutchinson shared many of the principles that later formed the foundation of his book. As a result of that meeting, and in consultation with her advisors, the Governor initiated a planning process to focus on the priorities that matter most to Michigan’s citizens.

First, internal cross-agency planning groups were formed to focus on six priority areas: the Economy; Education; the Environment; Health and Human Services; Hometown Security; and Better Government. These work groups developed action plans to improve services in each of these six priority areas. These action plans have been modified over time, but still form the basis for major activities within the Executive Branch (see www.michigan.gov/cabinetplan/).

Citizen Input: Second, and more importantly, the Governor immediately implemented a process to gather input from Michigan citizens about the budget. On two separate occasions (in February and October 2003), Governor Granholm traveled across the state to multiple “town-hall” meetings to talk directly with the people about our budget challenges. The Governor thoroughly explained the budget process and the fiscal difficulties facing the state. She solicited input from people throughout the state about their priorities for state government. In addition, in 2004, the Lt. Governor conducted hearings across the state and received citizens’ input about the vital link between higher education and economic growth.

Citizens told Governor Granholm to protect education, help families in need, and protect jobs, health care, and public safety. She used that vital information to help shape her budget decisions in 2003 and every year since then.

¹ State of Michigan Executive Budget, Fiscal Year 2004, March 6, 2003.

² David Osborn and Peter Hutchinson, *The Price of Government – Getting the Results We Need in an Age of Permanent Fiscal Crisis*, Basic Books, New York, 2004.

Governor Granholm Begins to Change the Budget Process: In March 2003, Governor Granholm presented her first budget to the Legislature and implemented several changes in the budget process. She built the budget based on the input she received on her budget tour of the state, focusing on preserving and protecting those services that citizens told her were most important to them. Then, to provide feedback to the citizens, she used the budget to clearly identify the top priorities for each department, so that citizens could understand her spending recommendations. In addition, the Governor’s budget clearly showed what services were being purchased with taxpayer money.

Continuing Actions to Reform the Budget Process: Early in 2004, Governor Granholm readied for the next steps in her efforts to improve the budget process. She wanted to strengthen Michigan’s budget process in three key areas.

- (1) She wanted to further break down department silos and concentrate on government-wide efforts to improve services to citizens.
- (2) She wanted to convert department-specific priorities into government-wide goals directly focused on the results that matter to the public.
- (3) She wanted to more closely link spending decisions to the desired results.

In 2004, she instructed all members of her Cabinet to read *The Price of Government* and told them to prepare to change the way the state budget is developed in Michigan. During a series of Cabinet-action planning sessions, the Governor and her key staff implemented additional reforms.

Delivering Results for Citizens: Building on the citizen input received in prior years, six cross-disciplinary work groups identified goals to reflect what citizens most want from state government. Ultimately, Governor Granholm adopted six goals as her commitment to the people of Michigan.

STATE OF MICHIGAN GOALS	
Education:	<i>Improve Student Achievement</i>
The Economy:	<i>Sustain and Create Business Investment and Jobs in Michigan</i>
Health And Human Services:	<i>Make Michigan’s People Healthier and Our Families Stronger</i>
Hometown Security:	<i>Protect Our Citizens and Make Michigan’s Communities Safer</i>
The Environment:	<i>Enhance the Quality of Michigan’s Natural Environment</i>
Better Government:	<i>Make Government in Michigan More Cost Effective and Efficient</i>

For each goal, the work groups identified specific strategies to guide the state's actions and to focus efforts on activities that deliver results for citizens. Performance indicators were identified to measure progress in each area.

All current agency budgets were divided into activities, with dollar values assigned to each activity. Each activity was analyzed to determine which goal it supported, and was then assigned to the appropriate work group for prioritization. When this exercise was finished, it was apparent that each Michigan goal is supported by activities in multiple departments. The converse is also true – the activities in each department serve multiple goals. This assignment of activities to goals made it immediately apparent that changes in the traditional thought process were necessary. State leaders needed to think broadly about government-wide results, rather than thinking in departmental “silos.”

Once all activities were assigned to the appropriate goal, each work group ranked – in order of importance to Michigan citizens – all of the activities supporting their assigned goal. To facilitate this prioritization process, each department ranked its own activities and provided recommendations to the work group on the relative priority of its activities. However, the work groups

were not bound by the department recommendations and were encouraged to rank activities across department lines. Consensus was reached within each work group about which activities were high priority, which were medium priority, and which were low priority.

“Michigan’s recent movement to integrate statewide and agency strategic planning through the Cabinet Action Plan is indeed impressive. The goals and objectives outlined in the plan are inherently results-focused and include targets for future performance. Governor Granholm’s administration instills a common set of values and a common vision for employees.”

Governing Performance Project, Grading the States 2005, January 31, 2005

Determining the “Price of Government”: While the work groups were completing their preliminary work, the State Budget Office and the Department of Treasury developed an initial estimate of the “price of government.”³ This estimate assumed that the current revenues represent the amount that taxpayers are currently willing to spend on government.

The State Budget Office analyzed current spending for each goal, and estimated spending for fiscal year 2006 if the traditional budget process were followed. To the degree possible, the State Budget Office also reconstructed prior year spending patterns by goal, to examine goal-directed spending trends. Lastly, an analysis of current performance in each goal area was completed in order to assess the degree to which Michigan was currently achieving the desired results. Using this information, in consultation with the Governor, each work group was assigned a general fund budget cap and an overall budget cap, which were to govern all decision-making within the work group.

Deciding What to “Buy”: Each work group used their activity rankings to determine what activities could be funded within the assigned budget cap. It became evident that there were not enough resources to “buy” all of

³ The January 2005 Revenue Estimating Conference developed the final “price of government” estimate used by the Governor in finalizing her fiscal year 2006 budget recommendation.

the high priority activities. Numerous high priority activities fell below the funding line. Each work group faced difficult decisions and, in many cases, decided to reduce or eliminate funding for lower priority – but still important – programs, in order to stretch taxpayer dollars further and to protect critical high priority programs. In addition, work groups identified ways to reduce administrative spending in order to gain further efficiencies in the delivery of state services. Work group members were encouraged to challenge traditional thinking and focus on those activities that delivered the highest value to Michigan citizens. They were encouraged to look at current performance measures and focus on activities that could improve results for the public.

“Most strategic reviews focus on government programs. But government does its work through many other mechanisms, including tax breaks and subsidies. These are rarely examined, but they provide rich opportunities for savings.”

**David Osborne and Peter Hutchinson,
The Price of Government, 2004**

Once this work group process had been completed, each group presented their recommendations to Governor Granholm and her guidance team⁴ for consideration. The Governor engaged in dialogue with the workgroups -- asking questions, challenging assumptions, debating values. In some instances she asked the work groups to “go back to the drawing board” and reconsider their recommendations.

Considering Tax Expenditures: As recommended in *The Price of Government*, a thorough analysis of the government’s tax expenditure budget should also be part of the budgeting for outcomes process.

Therefore, the Department of Treasury reviewed Michigan’s tax expenditure budget, and assigned each tax expenditure to the appropriate goal. Key members of the guidance team then ranked these tax expenditures as part of the overall prioritization process. Those tax expenditures, or subsidies, that ranked lower than direct budget expenditures fell below the funding line and were recommended for elimination.

Final decisions: Ultimately, based on input from the work groups, from her guidance team, and from her interactions with Michigan citizens, Governor Granholm made the final decisions about what to buy with the available dollars. She used the people’s priorities to guide her final decisions. This fiscal year 2006 Executive Budget represents Governor Granholm’s recommendations for achieving maximum results for Michigan citizens.

⁴ The guidance team consisted of the Governor, key policy staff, the State Budget Director and the State Treasurer.