

NEVADA LEGISLATIVE COUNSEL BUREAU
OFFICE OF RESEARCH BACKGROUND PAPER

1977 No. 2

ZERO-BASE BUDGETING

I

Over the last few decades, there has been increased interest in improving budget analysis techniques at both the federal and state levels. In a December 1966 Public Administration Review article, Allen Schick says that governmental budgeting reform has evolved through three distinct stages which have been sequentially concerned with (1) the control of spending to guard against administrative abuses, (2) the efficient performance of work and prescribed activities, and (3) planning, popularly known as Planning-Programing-Budgeting System (PPBS).¹ According to Mr. Schick, the emphasis of budgeting is shifting from mere justification to more in-depth analysis of spending priorities based on the careful weighing of the costs and benefits of spending alternatives.² Many believe that so-called zero-base budgeting is a form of the third stage of budgeting noted by Mr. Schick, planning type budgeting.

In simple form, zero-base budgeting* is a technique whereby each agency's budget is reviewed from "scratch," or zero, for each existing and newly requested program. This is in contrast to the "incremental" approach which merely considers adding or subtracting from an agency's existing budgetary allocation and staffing pattern. Most families have to use some form of zero-base budgeting: "We have \$800 to spend next

*As with modern budgeting technique, the specific aspects of zero-base budgeting are technical and too detailed to describe sufficiently in a background paper, which is supposed to provide a brief and general overview of a topic. Anyone interested in an in-depth review of zero-base budgeting should contact the Office of Research or Office of Fiscal Analysis which have comprehensive materials, shown as "Suggested Readings" at the end of this paper, on this subject.

month; how should we spend it based on our household needs and priorities?" In other words, they start from zero and build their budget based on a plan for their monthly spending priorities.

II

Zero-base budgeting, which appears to have first been used by business, is currently being used by both business and government.³ According to Peter A. Pyhrr, who has been involved in developing zero-base budgeting at both Texas Instruments and the State of Georgia, "Zero-base budgeting can be used on any activities, functions or operations where a cost/benefit relationship can be identified even if this evaluation is highly subjective."⁴ Pyhrr says that zero-base budgeting is a general system that can be successfully adapted to fit the needs of dissimilar activities and organizations and notes that "The zero-base budgeting process, as used by both Texas Instruments and the State of Georgia, is identical in philosophy and general procedures, although the specific mechanism of implementation differ slightly to fit the particular needs of each organization."⁵ Pyhrr says that the two basic steps to effective zero-base budgeting are:

1. Developing "decision packages." This step involves analyzing and describing each discrete activity--current as well as new, in one or more decision packages.
2. Ranking "decision packages." This step involves evaluating and ranking these packages in order of importance through cost/benefit analysis or subjective evaluation.⁶

After this has been done:

Management can allocate resources accordingly--funding the most important activities (or decision packages), whether they are current or new. The final budget is produced by taking packages that are approved for funding, sorting them into their appropriate budget units, and adding up the costs identified on each package to produce the budget for each unit.⁷

Pyhrr believes the three general requirements for successful implementation of zero-base budgeting are: "(1) support from top management, (2) effective design of the system to meet the needs of the user organizations, and (3) effective management of the system."⁸

Zero-base budgeting has been adopted or considered as a budget tool in many states and by the federal government. Six states (Georgia, New Jersey, Rhode Island, Louisiana, Texas and Tennessee) are currently using, or have recently adopted, a comprehensive zero-base budgeting system.^{9*} Six additional states (Arkansas, California, Idaho, Illinois, Missouri and Montana) are pilot testing the budget technique or are selectively using it on certain agencies and programs.¹⁰

Howard Barrett, Director of Nevada's Department of Administration, advises that his department analyzes both the existing and newly requested positions in the budget requests of agencies and programs which use a formula approach (i.e., welfare and parole and probation) to determine their staffing pattern requirements. He adds, however, that zero-base budgeting is not formally used as a budget review technique in Nevada state government.

Zero-base budgeting is also an aspect of certain bills pertaining to the so-called sunset mechanism (see Office of Research Background paper 1977-1) being considered in various states and Congress. Louisiana's Sunset Law, passed during the 1976 legislative session, requires a zero-base budget analysis as part of that state's sunset review process. On the federal level, the Government Economy and Spending Act (S. 2925) would, if enacted, provide the mechanism for a zero-based budget review of specified agencies by congressional committees.

*Implemented by governor's directive in New Jersey, Rhode Island, Texas, Tennessee and Georgia and by legislation in Louisiana.

III

There are differences of opinion concerning the usefulness of zero-base budgeting as a budget review tool for government agencies. Some have expressed concern that this budgeting procedure may be too difficult to achieve, partly because it will add heavily to the burdens of budgetmaking and partly because it will be resisted by those who fear that their pet programs will be jeopardized by a system that subjects every activity to annual scrutiny of its costs and results.

A July 9, 1976, article in The Wall Street Journal entitled "Are Sunset Laws the Answer?" gives the following example of this concern:

During the Kennedy administration the Agriculture Department experimented with zero-base budgeting, but abandoned it after a year. "It was just too much," recalls William Carlson, now retired, who helped plan the effort. Mr. Carlson says the exercise "is probably a good idea" for a new Cabinet officer wanting to learn just what his department does, but that "it's impossible to do every year." Zero-base budgeting can indeed spot programs having little value, he says, "but what you discover is that the lowest priority things are there for political reasons."¹¹

George Bell, Executive Director of the National Association of State Budget Officers, also has certain caveats for new budgetary techniques, including zero-base budgeting. In the 1976-77 Book of the States, he says:

In the development of program budget systems by whatever title used, it is now widely recognized that such systems cannot quickly be made effective in decisionmaking. Expertise must be developed; more important, the presumed beneficiaries--governors, legislators, and administrators--must become familiar with this approach. This takes years, and most efforts now are spread over time.¹²

Pyhrr, noted above, describes some potential problems with the implementation of zero-base budgeting but disagrees that it is unworkable in a governmental setting. He says:

As experience in Texas Instruments, Inc. and the State of Georgia has indicated, this kind of budgeting need not add heavily to the burdens of budgetmaking. In fact, effectively planned and properly managed, zero-base budgeting can actually reduce the burdens of budgetmaking while significantly improving management decisionmaking and the allocation of resources.¹³

In any event, an important consideration involved in the adoption of zero-base budgeting is the potential increase in the workload of the legislature and its staff and the implication that this could have on future legislative staffing patterns and budget requirements. Of course, this increase might be offset by increased budget reviewing efficiency and by the potential reduction in the costs of other aspects of state government.

DAR/jd

FOOTNOTES

- ¹Schick, Allen, "The Road to PPBS: The Stages of Budget Reform," Public Administration Review, (December 1966), pp. 243-258.
- ²Ibid, p. 258.
- ³Phyrr, Peter A., Zero Base Budgeting. New York, John Wiley & Sons, 1973, p. 2.
- ⁴Ibid, p. 18.
- ⁵Ibid, p. 1.
- ⁶Ibid, p. 5.
- ⁷Ibid.
- ⁸Ibid, p. 25.
- ⁹"Zero-Base Budgeting," memorandum from The National Conference of State Legislatures to State Legislative Service Personnel, May 5, 1976.
- ¹⁰"ZBB Systems In States," attachment to August 1976 letter to Office of Research.
- ¹¹"Are Sunset Laws the Answer?" The Wall Street Journal, July 9, 1976.
- ¹²Bell, George A., "State Administrative Organization Activities," The Book of the States 1976-77; The Council of State Governments, 1976, p. 111.
- ¹³Phyrr, op. cit., p. 1.

SUGGESTED READING

(Available in the Research Library)

Schick, Allen, "The Road to PPBS: The Stages of Budget Reform," Public Administration Review (December 1966), pp. 243-258.

Pyhrr, Peter A., Zero Base Budgeting; New York: John Wiley & Sons, 1973.

"Wildarsky, Aaron, "Some Butterflies Were Caught, No Elephants Stopped: The Zero-Base Budget, A Precursor of PPBS," Budgeting, A Comparative Theory of Budgetary Process. Boston: Little, Brown and Company, 1975, p. 296.

Pyhrr, Peter A., "Zero-base Budgeting," Harvard Business Review, November, December 1970, pp. 111-121.

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General Budget Preparation Procedures--Fiscal Year 1978 Budget Development, State of Georgia, Office of Planning and Budget.

LaFaver, John D., "Zero-Base Budgeting in New Mexico," State Government, Spring 1974, pp. 108-112.

Carter, Jimmy, "Planning a Budget From Zero," Innovations in State Government (National Governor's Conference), June 1974.

Bills In Congress, S. 2925.

Legislation in other states--Act No. 146, Louisiana.