



**Procedures for
Zero Based Budget Analysis
Fiscal Year 2014**

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I. INTRODUCTION

Budget Law

The Official Code of Georgia establishes the zero-based budgetary process as passed during the 2012 legislative session. O.C.G.A. 45-12-75.1 requires state departments, agencies, boards and authorities to submit a zero-based budget (ZBB) for programs identified by OPB in consultation with the House Budget Office and Senate Budget Office each year. The House Budget Office and Senate Budget Office in consultation with OPB shall balance the number of agencies and programs submitting zero-based budgets with staff available for preparing a budget and staff available for conducting review and analysis of the budget submission.

This procedure manual contains instructions and timelines designed to assist managers in meeting submission requirements of the Zero Based Budgeting process. Detailed ZBB evaluations will be completed on select programs and agencies to help in the budget decision process. Your OPB Analyst will work with your agency in gathering data for which ZBB evaluations will be performed.

The ZBB analysis is due to OPB on or before **August 1, 2012**.

Approach to Zero Based Budgeting

ZBB is a method of budgeting in which all expenses must be justified and every function within an organization is analyzed for its needs and costs. The purpose of the ZBB analysis is to assess a particular program's activities against its statutory responsibilities, purpose, cost to provide services, and desired performance outcomes. The results of the ZBB analysis and the agency budgets will be presented to the Governor during the fall budget development process. A final report of all ZBB analysis will be published in conjunction with the Governor's budget report and posted to the OPB website.

II. ZBB ANALYSIS PROCESS

The ZBB review and analysis is a collaborative process between OPB, agency, and agency program staff. OPB analysts will meet with the agency staff as needed to conduct a survey of activities, collect revenue and expenditure data, discuss statutory authority, and obtain any relevant information to perform a thorough analysis. The ZBB analysis process includes five main components:

Identify and evaluate key activities

OPB analysts will initiate the ZBB analysis process by gathering information from the agency and compiling their research on the program and the key activities.

OPB analysts will work collaboratively with the agency to ensure an adequate understanding of the program and its activities. OPB analysts will meet with the agency to complete a process improvement survey about the program and its key activities. Agencies will be asked to discuss the program's key activities and explain why the program and its activities are critical and necessary. Agencies will also be asked to provide information to OPB on the programs' intended outcomes, statutory authority, customers, budget, and consider alternative methods for delivering program services. See appendix A for the survey questions.

Some questions to consider when evaluating the key activities and related information include:

Key Activities

- Who is the primary constituency for the activity?
- Is the activity concentrated in one particular part of the state, or is it implemented consistently statewide?
- Is there any historical context for the activity that is important for decision makers to know?
- What is the policy objective for the activity and program?
- What are some alternative ways of delivering the services of the program? What are the trade-offs of the alternative methods?
- How do the key activities relate to the appropriated purpose of the program?

Statutory Authority

- Is the agency statutorily required to perform the activity?
- Is the statutory authority specific to that activity or is the activity being performed within the broader general powers and authority of the Department?
- What are the legal consequences to not performing the activity? Include any state, federal, or rule/regulation authority or requirements.

Personnel

- Are personnel wholly or partially dedicated to this activity? If partially, what percentage of the time is the employee working on this activity?

Expenditures

- What is the current budget/cost to carry out the activity?
- What are the major cost centers for the activity?
- What are the overhead costs to operating the program?

Develop and evaluate the performance measures

After the key activities are identified, the next step is to identify the appropriate performance measures for the program and its activities. As part of the ZBB analysis process the three budget offices will conduct a thorough review of the measures and come to an agreement on the measures the agency should report going forward. OPB will facilitate the review and

identification of program measures with the agency, OPB, and the House and Senate budget offices.

Measures Process Overview:

1. Review existing and historical measures for the program
2. Develop and evaluate measures for each key activity
 - a. At least one measure per activity should be identified, with emphasis on outcome measures
3. OPB internal review of the identified measures
4. Budget office's review measures
5. Budget office's discuss the measures with the agency (as needed)

OPB will work with agencies to develop quality metrics for the program and its activities. Performance metrics are an integral part of a ZBB analysis and should describe the workload, efficiency, and effectiveness of the activity or program. Further, for improved accountability, OPB recommends having at least one measure associated with each activity referenced on the key activities page.

A measures worksheet is provided in appendix B to help identify and select meaningful measures for the program. Completing this worksheet will help ensure that all three measure types (i.e., output, efficiency and outcome measures) are represented and that the measures selected say something of central importance about the program. OPB analysts will work with the agency to compile the current and potential measures.

The following are the instructions for completing the performance measure worksheet provided in appendix B.

Program Name: Enter the program name.

Program Purpose: Enter the appropriations act purpose statement.

Program Goals: Briefly list the goals of the program. The goals for the program are concise statements of what the agency is striving to achieve with the program and its activities. OPB will work closely with the agency in developing the goal statements for the program.

Activity: List the key activity or group like activities in the program

Target Population/Clients: List the customer or target population of the program or activity.

In what do we invest?

Inputs: What is funded in the budget? Staff, contracts, equipment, materials

Candidate Measures: List the types of measures that relate to the inputs (e.g. Number of full-time equivalent employees)

What do we do? How much do we do?

Outputs: Identify the type of work performed. You may refer to the appropriations act program purpose statement as you develop this list.

Candidate Measures: List candidate measures for the work performed. This may include existing measures as well as new measures.

How well do we do it?

Efficiencies intended: How does the program know when it is doing the work well? What are the program expectations for performance? Consider efficiency, cost effectiveness, timeliness, responsiveness, quality of service delivered, etc.

Candidate Measures: List possible measures for efficiencies, such as unit cost, average workload per FTE, average processing or response time, return on investment, etc.

What is the impact on the target population?

Outcomes desired: Considering the program purpose and target population, why does this program exist? What are the desired results of the services rendered or work performed?

Candidate Measures: List possible outcome measures. Good outcome measures help the program demonstrate that it is accomplishing its statutory purpose. You may consider outcomes at the activity, program and even agency level.

State Indicators or Federal Benchmarks

Benchmarks: Benchmarks are important for comparing program performance to that of others in the field. Are there any state indicators or federal benchmarks related to this activity? Are there any national measures that states use to gauge performance related to this activity? Are there industry standards or federal benchmarks to which the program should compare its performance?

Candidate Measures: List benchmark measure and targets if known for the activity/program.

While the ZBB process focuses on performance at the activity and program levels, one should not lose sight of the agency and state performance metrics to which the program contributes. When identifying candidate measures, programs should identify relevant state indicators and federal benchmarks and include them with the other ZBB performance measures.

After completing the worksheet, select the most appropriate measures for the program/activity and transfer to the program measures ZBB template. Measures are selected based on overall value for providing meaningful information to management and decision makers. Quality performance measures are clear (understandable to general audience), valid (data can be measured); and relevant to the core purpose of the activity, program or agency.

As part of the ZBB review process, OPB, the House Budget Office and the Senate Budget and Evaluation Office will jointly review measures for the program. The coordinated review helps develop a common understanding of the program's purpose and ensure that the measures reported satisfy the expectations of all three budget offices. OPB's Planning Unit will facilitate the review of the measures by the three budget offices. Agencies will review the recommendations and offer alternative metrics if appropriate. Additionally, each agency will have the opportunity to meet with the budget offices and discuss and finalize the measures collaboratively. At the end of this process, the ZBB template should reflect the best possible measures for the program and its activities. Vetted by the three state budget offices, the final measures will provide state and agency leadership the information needed to assess program performance and improve operations.

Ideally, measures will include four years of actual data and the agency should be able to explain trends over time in outcomes as well as how those outcomes reflect a program's overall effectiveness. Where historical data are available, analysts will review performance trends and consider factors contributing to program performance. In instances where the ZBB process results in a new measure that the agency does not currently track, analysts will work with the agency to develop a plan for tracking the measure in FY 2014.

Finally, OPB will be working with the agency to assess the reliability of the measures as part of the ZBB process. Once the candidate measures have been selected, programs will be asked to complete a data validation template for each candidate measure. The data validation template will help agencies ensure that each measure is properly defined, procedures documented and data validated. Programs will submit the templates for OPB review, with the goal of addressing any issues by the end of the calendar year.

Questions for analysis/consideration:

- Based on the measures identified, how are the program and its activities performing?
- What factors may be causing a program to be less effective than desired and what would need to change to increase effectiveness? This could include law changes, funding changes, etc.
- Is the data provided for the measure reliable and accurate? Is the agency able to document the sources used for the data?
- What are the limitations of the data available for the measures, if any?

Analyze the program budget and expenditures

The third component of the review is a financial review of the program. The financial analysis of a program will examine historical expenditures by object class for a program. The goal of the analysis is to show the cost effectiveness or return on investment of the program when compared to the outcomes established in the performance metric analysis. OPB analysts will use available expenditure and budget information in evaluating the prior year expenditures and financial information for the program.

Agencies should be able to explain in detail the expenditures that comprise each object class and identify the major cost centers for each program. The following are some questions to consider when reviewing prior year expenditures and current budget by object class.

Personal Services

- What percentage of program expenditures is dedicated to personnel?
- Are personnel expenditures primarily for full-time staff or for temporary/part-time staff?
- Could more functions of the program be performed by part-time rather than full-time staff? Why?
- Does the agency use contractors to fulfill activities that could be done with staff or the converse?
- How have budget reductions over the last few budget cycles affected personnel as compared to other object classes in the program?

Regular Operating Expenses

Motor Vehicle Expenses and Repairs

- Is the agency spending an increasing and/or substantial amount on motor vehicle expenses and repairs? If so, be able to show the size and age of fleet, average operating cost per vehicle, anticipated mileage for the upcoming year, etc. Would vehicle expenses be reduced by replacing part of the fleet rather than continuing to repair older vehicles?

Publications and Printing

- Are there publications that could be reduced or eliminated by making them available electronically to consumers?
- Could forms be consolidated to reduce the number or types of forms that the agency prints?

Supplies and Materials

- Are there unusual items that this program requires or are there cyclical buying cycles for supplies? How has supply expenditures changed over the last two years?

Repairs and Maintenance

- Are there major repairs funded through this object class that could be funded through bonds rather than cash?
- Does the agency perform repairs and maintenance in house or are these functions contracted out? Could savings be achieved by outsourcing (or insourcing) these items?

Equipment

- As with motor vehicles, is this a large cost center for the program? What is the age of inventory? Is an inordinate amount spent to repair older equipment? Would it be more cost effective to repair existing equipment or purchase new?

Energy

- How have utility costs changed over the last several budget cycles? Have increases in utility costs forced the agency to reduce spending other places?

- Has the agency found ways to reduce utility costs to offset increases in rates?

Travel

- Have travel expenditures decreased with the statewide travel restriction policies?
- How do travel expenditures correspond with motor vehicle expenses? Are employees who travel primarily relying on their vehicles or state vehicles?

Real Estate Rentals

You should have a thorough inventory of real estate space including the square footage, price per square foot, geographic locations, and details of the rental agreement. Are there penalties to relocating certain offices or consolidating office space with other divisions or departments?

Telecommunications

Does the agency have a staff member who reviews GTA billings each month? Has the agency thoroughly evaluated the inventory for which it is billed to determine if there are terminals/phone lines that are unused that should be disconnected? Has the agency worked with GTA to find ways to lower its overall billings? Are there other telecommunication or computer charges that are critical to the delivery of program services?

Contractual Services

- What services are contracted?
- Are any of these services that could be provided using existing staff?
- Are there services currently performed by full-time staff that could be provided more efficiently through a contract?
- Are funds for contracts spent in a timely manner or are there contracts that act as a “parking lot” for funds between years and may take multiple fiscal years to spend down?
- Are contractors working on specific time-limited projects or ongoing routine work?

As with real estate, the agency may be asked to provide a list of all contracts associated with the program, their cost, and any specifics associated with the contract (options for renewing, penalties for early termination, etc.)

Unique Object Classes

- Why was a unique object class created for expenditures?
- What account codes are charged for expenditures related to the unique object class?
- How are the funds in the unique object class used?

Other questions for consideration:

- Has an agency targeted one area of spending in a program for reductions over the last several budget cycles, or have they made cuts across the board?
- Has this program sustained greater budget cuts compared to other programs within the agency, or has the agency sought to limit cuts on this program?
- Has an agency’s effectiveness in implementing the program diminished due to cost cutting?
- How have effective programs found ways to run more efficiently with reduced budgets?

Summarize the results of analysis

When summarizing the results of the analysis, keep in mind the questions below. Analysts and agency should highlight positive results as well as areas that need improvement. Questions to consider when summarizing the ZBB analysis include:

- Is the program currently performing any activities that are not statutorily authorized? What would be the impact of halting those activities? Conversely, are there activities the program is not performing that it is statutorily required to do?
- What have the staffing trends been for the program since 2008?
- Does the performance measure data the agency currently collects provide an accurate depiction of the efficiency and outcomes of the program and its activities?
- How have changes in funding affected the cost to provide services? What are the revenue and expense trends for the program over the last few years? How has it affected program services?
- Can a program or activity be implemented more efficiently?
- Are there alternative ways or less costly ways the program could be implemented to deliver the same services?
- Does this program or activity have to be provided by state government? Could the non-profit or private sector or another level of government provide the service?
- Is this program or any of its services duplicative or similar to other programs or services the state or another entity outside of state government already offers?
- Given the cost vs. outcomes, is it a program the state should continue to fund?
- Would any laws need to change to end an activity or alter it to make it more efficient?
- If a program is successful, what best practices could they offer for other programs or agencies?
- What trends and outcomes are you seeing in performance measures?

Alternative approaches to deliver services and submit alternative budgets

More information on submitting the ZBB budget and alternative funding levels will be included in the FY 2014 budget instructions.

III. LOGISTICAL TIMELINE

The following timeline summarizes the tasks for the ZBB process:

Month	Responsible Party	Task
April	OPB, HBO, SBEO	Review and finalize program list
May	OPB	Issue ZBB budget instructions
	OPB, Agency	Schedule kick-off meeting
	OPB, Agency	Define program activities
	OPB, Agency	Collect and research data on program activities
	Agency	Complete process improvement survey
	Agency	Complete performance measure analysis
June	OPB, Agency	Compile financial, personnel, and performance data
	OPB, HBO, SBEO	Review and discuss agency performance measures
July	OPB, Agency	Compile financial, personnel, and performance data, continued
	OPB, HBO, SBEO	Review and discuss agency performance measures
	OPB, HBO, SBEO	Finalize performance measures
August	OPB	Refine analysis based on agency input

Month	Responsible Party	Task
September	Agency	Submit budget and alternative funding levels based on ZBB analysis
October/November	OPB	Review ZBB analysis with leadership
	OPB, Agency	Validate performance measure data
December	OPB	Share ZBB analysis with agency
January	OPB	Publish ZBB report

APPENDIX A – PROCESS IMPROVEMENT SURVEY

ZBB Agency Process Improvement Survey

1. Describe why the program is necessary and who benefits from its services?
2. What are the major activities or services of the program? Is the program currently performing any activities that are not statutorily required? What would be the impact of halting those activities?
3. Who are the customers of the program's services?
4. If applicable, what improvements have been made in recent years to service delivery and program outcomes?
5. What are your program's biggest opportunities for improvement in the future? What are the major obstacles to success?
6. What are the significant cost drivers in the program?
7. List at least three alternative ways of delivering program services that would still achieve the intended outcome. Indicate whether each alternative would cost more, less or the same as the current service delivery model.
 - a.
 - b.
 - c.
8. Describe any fees or fines currently collected and their impact on program operations and services to your customers.
9. Identify any other program or entity in the state (Federal, state, local government or non-profit or private sector) that provides similar services or functions. How are you coordinating functions to avoid duplication of effort?
10. Are any of the program services contracted out? What controls and oversight are in place to ensure the effectiveness and efficiency of the outsourced services?
11. Does this program or any of its services have to be provided by state government? Could the non-profit or private sector or another level of government provide the service?

APPENDIX B – PERFORMANCE MEASURE WORKSHEET

Program Name:		
Program Purpose:		
Program Goals:		
Activity:		
Target Population/ Clients:		
In what do we invest?	Inputs:	Candidate Measures:
What do we do? How much do we do?	Outputs:	Candidate Measures:
How well we do it? (e.g. unit cost, avg performance, how much, how fast, processing time, return on investment)	Efficiencies:	Candidate Measures:
Is the "Target Population" better off? Impact on target population/clients? What does success look like?	Outcomes:	Candidate Measures:
Are there any state indicators or federal benchmarks related to this activity?	Benchmarks:	Candidate Measures:

After completing the worksheet, select the most appropriate measures for the program/activity. Measures are selected based on overall value for providing meaningful information to management and decision makers. Quality performance measures are clear (understandable to general audience), valid (data can be measured); and most importantly relevant to the core purpose of the activity, program or agency.

APPENDIX C – FY 2014 PROGRAM LIST

OPB Division	Policy Area	Agency	FY 2014 ZBB Programs
ED	Education	DOE	Agricultural Education
ED	Education	DOE	Central Office
ED	Education	DOE	Charter Schools
ED	Education	DOE	Communities in Schools
ED	Education	DOE	Curriculum Development
ED	Education	DOE	Federal Programs
ED	Education	DOE	Georgia Learning Resources System (GLRS)
ED	Education	DOE	Georgia Virtual School
ED	Education	DOE	Georgia Youth Science and Technology
ED	Education	DOE	Governor's Honors Program
ED	Education	DOE	Information Technology Services
ED	Education	DOE	Non Quality Basic Education Formula Grants
ED	Education	DOE	Nutrition
ED	Education	DOE	Preschool Handicapped
ED	Education	DOE	Pupil Transportation (\$ in QBE Now)
ED	Education	DOE	Quality Basic Education Equalization
ED	Education	DOE	Quality Basic Education Local Five Mill Share
ED	Education	DOE	Quality Basic Education Program
ED	Education	DOE	Regional Education Service Agencies (RESAs)
ED	Education	DOE	School Improvement (Completed in FY13)
ED	Education	DOE	School Nurses
ED	Education	DOE	Severely Emotional Disturbed (SED)
ED	Education	DOE	State Interagency Transfers
ED	Education	DOE	State Schools
ED	Education	DOE	Technology/Career Education (Completed in FY 13)
ED	Education	DOE	Testing
ED	Education	DOE	Tuition for Multi-handicapped

OPB Division	Policy Area	Agency	FY 2014 ZBB Programs
GG	Govt	Banking and Finance	Financial Institution Supervision
GG	Govt	Comm of Insurance	Fire Safety
GG	Public Safety	Corrections	Food and Farm
GG	Govt	Driver Services	License Issuance
GG	Public Safety	GBI	Regional Investigative Services
GG	Public Safety	Parole	Field Services
GG	Public Safety	Public Safety	POST - attached agency
GG	Public Safety	Public Safety	Field Offices and Services
GG	Govt	Revenue	Tax Compliance
GG	Govt	Revenue	Fraud Detection
GG	Govt	Revenue	Motor Vehicles
HHS	HHS	DBHDD	Adult Addictive Diseases
HHS	HHS	DPH	BSITFC
HHS	HHS	DCH	GBPW - UME to include Mercer and Morehouse
HHS	HHS	DHS	Out of Home Care
HHS	Public Safety	DJJ	Community Services
HHS	HHS	DPH	Vital Records
HHS	HHS	DPH	Infectious Disease Control
HHS	HHS	DVS	Administration
PED	Govt	Agriculture	Consumer Protection
PED	Govt	Agriculture	Georgia Agricultural Exposition Authority
PED	Econ Devlp	DCA	Coordinated Planning
PED	Econ Devlp	DCA	Georgia Environmental Finance Authority
PED	Econ Devlp	DCA	Georgia Regional Transportation Authority
PED	Econ Devlp	DEcD	Payments to Georgia Medical Center Authority
PED	Econ Devlp	DEcD	Film, Music, & Video
PED	Econ Devlp	DNR	Coastal Resources
PED	Govt	DOAS	Fleet Management
PED	Econ Devlp	DOT	Transit
PED	Econ Devlp	Labor	Workforce Solutions
PED	Govt	Public Service Commission	Utilities Regulation

OPB Division	Policy Area	Agency	FY 2014 ZBB Programs
PED	Govt	Soil and Water	Water Resources and Land Use Planning