State Expenditure Controls:
An Evaluation

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Not many years ago some critics of the American scene were predicting the end of state government in the United States, as obsolete to the American political system. Not only have these predictions failed to materialize, but the states have vastly increased the scope of their services, their personnel and payrolls, their holdings of physical wealth, and their influence over local government activity. State expenditures since World War II have grown at the rate of 10 percent a year, well in excess of the rate of gain in the national economy, and now total more than $45 billion annually.

Both the present cost of state government and its projected further rise focus interest on the methodology in decision-making on state expenditures. Who makes spending decisions? What are the relative roles of the legislative and the executive branches? What control devices are applied to insure that spending is kept within prescribed limits and conforms to the purposes for which it is authorized?

This study examines the pattern of spending procedures in the 50 states at all phases of the budget cycle—from the time budgets are drafted through the expenditure authorization, budget execution, and final review or post-audit. The study describes procedures now in effect, points up major problems, and indicates how some states are attempting to improve their control methods. In many ways, it is a companion volume to a similar study, Controlling Federal

Expenditures, published by the Foundation in December 1963.

For those interested in more state-by-state detail, a separate volume of tables is available at $1.50.

Acknowledgement is due scores of individuals and groups who furnished basic information and assistance. Special thanks are due cooperating organizations in the 50 states. They supplied answers to the questionnaires forming the nucleus of this study, including factual information on procedures and their opinions as to the efficacy of existing methods of state expenditure control. These groups included state taxpayer organizations, administrative and legislative officials in the state governments, state chambers of commerce, and members of university faculties. Robert W. Schleck, Senior Research Analyst, was primarily responsible for the research and preparation of this study.

The Tax Foundation is a private, non-profit organization founded in 1937 to engage in non-partisan research and public education on the fiscal and management aspects of government. Its purpose, characterized by the motto “Towards Better Government through Citizen Understanding,” is to aid in the development of more efficient and economical government. It serves as a national information agency for individuals and organizations concerned with problems of government expenditures, taxation, and debt.

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I. Background and Summary

State governments are slated to spend approximately $45 billion in 1965, an amount larger than the Federal government spent in 1950. Annual increases in state spending have been averaging almost $3 billion a year. The rise since 1960 alone is nearly as large as total 1950 state expenditure. The volume of present spending, and the prospects for continuing increases, both create compelling reasons for concern about the wisdom with which spending decisions are made. The dollar amounts are themselves of a size to command attention.

In addition, public services financed through state expenditures — either directly or through state grants to local governments — profoundly affect the quality of American life. Thus, the public has a considerable interest in the effectiveness and efficiency with which states handle their financial resources.

This study examines the various procedures by which the 50 states determine the amounts they spend.

BACKGROUND

During much of the nation’s history, procedures for determining public expenditures at the state, as well as the Federal, level were cumbersome, un-systematic, and uncoordinated. As late as the beginning of the present century, interest in state budgetary methods was largely confined to academic circles. Public officials, legislators, and the general citizenry were almost entirely unaware of the value of a budget system for controlling government expenditures and coordinating the activities of public agencies.

The tardy development of the budget system in the United States — at all levels of government — is understandable. Until the second decade of the twentieth century, the financial operations of government were relatively small as compared with the transactions of the over-all economy. Moreover, the traditional American political doctrine of separation of powers among branches of government hampered adoption of effective methods for financial planning and management.

State governors were often little more than figureheads in regard to administration. Their authority over the workings of the various executive departments was often narrowly limited. Agencies usually applied directly to the legislature for funds, bypassing the governor, and there was little if any planning, coordination, or responsible financial direction for the state administration as a whole.

Agency requests were submitted separately and at random during the sessions. Legislators were seldom able to make a general review of the state’s overall expenditure outlook before approv-
An example of the disjointed methods employed in handling expenditure authorizations at the state level during the early years of the present century was provided by a former governor of California, some years later:

“When I first entered the legislature in 1909, there was little short of chaos as far as any orderly provisions for state expenditures were concerned. There had been no audit of the state finances for over twenty years. The finance committees of the two houses were scenes of a blind scramble on the part of the various institutions and departments of the state in an endeavor to secure as large a portion as possible of whatever money might happen to be in the treasury. Heads of institutions encamped night after night in the committee rooms, each alert for his own interest regardless of the interests of other institutions.”

Until the second decade of the twentieth century, state governments did not face serious financial pressure. In 1902 state spending totaled less than $200 million, under 1 percent of GNP, compared with nearly 7 percent today. Revenues were based largely on the property tax. Its yield was adjusted to each period’s needs so that financing was adequate. Suggestions for procedural changes in spending control received only a very limited response.

Shortly before World War I, however, some states began to encounter financial difficulties. In response to local government demands for additional revenue-raising capacity, the property tax declined in importance as a source of state revenue.

Meanwhile, however, powerful pressures were leading to large increases in spending. Financial difficulties grew, inspiring demands for increased economy and efficiency by state governments. Proponents of governmental reform emphasized that centralized budgeting and coordination of administrative activities under the supervision of the governor would be useful tools for helping achieve these goals. Activities of academicians, taxpayer groups, trade associations, and chambers of commerce were all important in stimulating demand for improvements in state budgetary practices.

In 1912 the commission on economy and efficiency, established by President William H. Taft, recommended Federal government adoption of the executive budget. While Congress did not accept this recommendation until 1921, the response at the state level was more immediate. In 1910 Ohio enacted the first state law authorizing the governor to draft a budget for submission to the legislature. In the following year California and Wisconsin passed laws with some budgetary provisions. Perhaps the most far-reaching suggestions for state budget reform were contained in a proposal submitted by the New York bureau of municipal research to the New York constitutional convention in 1915. The revised constitution containing these budgetary reforms was rejected by the New York electorate. However, the proposed plan served as a model for improvements adopted in other states, although often with considerable modification. By 1920, 44 states had acted to improve budgeting; 23 had provided for the executive budget.

In the following years many improvements were made in state expenditure procedures. After World War II, the rapid increase in spending placed added

strain on state finances, and reemphasized the need for efficiency in everything involving expenditure procedures. Efforts at administrative reorganization were given new impetus by the 1947 commission on organization of the executive branch of the government of the United States ("Hoover commission"). The majority of the states proceeded to set up "little Hoover" commissions. Although aimed primarily at administrative organization, the reports of these commissions devoted some attention to methods of expenditure control.

Despite noticeable improvements, important gaps remain in state expenditure procedures. Continued growth in state spending — on services provided directly by the states and for grants to local governments — has accentuated the need for the most efficient methods for allocating funds among competing program uses, and for assuring the most careful consideration of proposed increases. Thus, crucial importance attaches to the search for the optimum methods of handling the entire expenditure process, especially budgeting. It has been pointed out that:

"Budgeting is the principal tool of financial administration. As a tool it cannot insure good or responsible financial management, but a well conceived budget system can and should provide the opportunity for efficient and responsible management and equally important, the opportunity to determine if management is efficient and responsible."²

The Tax Foundation Study

This study by the Tax Foundation attempts to gain insight into existing state expenditure control procedures, to point up problem areas, and to show how individual states have tried to solve different problems. Decision-making procedures at all stages of the spending process are examined. Attention is focused on how and by whom spending decisions are made. The study does not deal with dollar amounts of spending. Nor is any attempt made to rank the states according to the efficacy of their procedures. While students of the budgetary process recommend some practices as preferable to others, there will be general agreement that no one set of principles can be best for all 50 states.

Effective expenditure control requires that the amount of spending, and the purposes for which money is spent, come about as a result of purposeful decisions based on informed judgments, and do not "just happen." If procedures in either the legislative or executive branch are lax or otherwise defective, however, decisions will not be based on the best possible judgments.

Methods for Obtaining Information

Material included in this study is derived largely from returns to questionnaires sent to executive and legislative officials in state governments, state taxpayer organizations, state chambers of commerce, and members of university faculties. Survey participants were asked to give not only factual information. The questionnaires, as well as follow-up letters and personal conversations, also asked for judgments, opinions, and impressions about the effectiveness of various procedures and the major problems remaining. The findings as presented in the study utilize this subjective material, but with indications where any observation or conclusion rests upon judgments of respondents.

A selected group commented upon a preliminary test questionnaire. Their criticisms and suggestions were taken into account in preparing the final questionnaire. Throughout all stages of the study, use was made of background material from state budget documents and standard sources on state budgeting and finance.

**Scope of Report.** The findings are presented in 6 major groupings: the preparation of the budget, the content and form of budget documents, the ways in which expenditures are authorized, fiscal services available for appropriations committees, budget execution and postaudit, and problems in spending from special funds and Federal grants.

**SUMMARY OF FINDINGS**

The survey findings show clearly that much has been done to improve upon the cumbersome, unsystematic, and uncoordinated procedures of the pre-World War I period as described by Governor Young, but that many problems remain.

**Changes Accomplished**

Some of the significant changes have occurred primarily in the **executive branch.** Among them are the following:

1. The shifting of major responsibility for budget preparation and execution from the legislatures to the governors;
2. The expansion of the role of central budget offices in the spending process;
3. The modification of budget documents to make them better instruments for control of program operations, as well as for financial control in a narrower sense; and
4. The use of separate budgets and planning procedures for long-range capital improvements as distinct from current operations.

In **legislatures,** also, many special expenditure control devices have been instituted. (1) Spending proposals are now generally referred to special appropriations committees rather than, as in the past, to individual legislators or the legislatures as a whole. (2) Special procedures have been developed to give simultaneous attention to available revenues when authorizing expenditures. (3) Omnibus appropriations bills—covering all or most expenditures—are in effect in 37 states. (4) Nearly half of the states provide for either joint appropriations-revenue committees or joint sessions of the two types of committees. (5) When authorizing substantive programs which will eventually call for funds, many states require the use of fiscal notes, with estimates of expenditure requirements for some years ahead. Only 5 states reported the non-existence of any formal means of coordinating substantive and appropriations legislation.

Some other controls are in widespread use. In the great majority of the states the governor has the item-veto, which is considered a deterrent to pork-barrel legislation. Most governors are required to submit balanced budgets. Moreover, restrictions on the amounts and purposes for which state debt may be incurred, and special requirements for approving debt, influence expenditure decisions in almost all states. Finally, the states do not experience the control problem associated with the carry-over of huge balances from appropriations for previous years.

A summary table (pages 16-17) provides state-by-state details on selected expenditure controls now in use.
Remaining Problems

The preceding summary of procedural changes already in effect is impressive. However, it is likely to be misleading for two reasons: (1) The various control devices have not been uniformly adopted and applied among the states; and (2) where they have been applied, their practical effects have often fallen short of the theoretical arguments on which they are based. The following are several examples.

(1) Most states have executive-type budgets. Use of the executive budget would seem to preclude the bypassing of the governor and the budget office by agency heads in requesting funds from legislative bodies. State legislatures typically receive not only the governor's budget recommendations, but also the original agency requests. In most states, executive agencies are permitted, during legislative budget hearings, to request more funds than were recommended for them in the governor's budget. In fact, it has been charged that in some cases the purpose of department heads testifying at appropriations committee hearings appears to be not to support the governor's budget, but to give information showing why his recommendations are too low.

(2) The fiscal note procedure, which has much to recommend it in principle, has been disappointing in practice in some states. Bills proposing new or expanded programs may go through many changes after they are introduced. Making estimates of future costs at each step in the adoption process requires more time and effort than are available. For this and other reasons, some states have not used "price-tagging" effectively.

(3) Balanced-budget requirements and debt limitations do not always accomplish the purpose for which they are intended. For a number of reasons total state expenditures can, and frequently do, exceed revenues. And ways have frequently been found to circumvent the constitutional and statutory limitations on incurrence of general obligation debt.

(4) State budget documents, although they have been improved greatly, are on the whole less effective as instruments for expenditure control or for management control than is desirable. There are many reasons for this:

(a) Large portions of state spending are often outside the scope of central budget office review, such as spending from earmarked funds, revolving funds, and grants-in-aid. In some states the portion not subject to budgetary review is as much as 60 percent of all expenditures. The majority of the states, in fact, do not even require legislative authorization (appropriations) for all expenditures from special funds. Respondents to the questionnaires reported that there is usually little or no executive or legislative control over non-appropriated expenditures from special funds.

(b) Few budget documents give estimates of revenues and expenditures beyond the forthcoming fiscal period. Thus they do not foretell developing problems in the state's finances. Moreover, budget documents often fail to distinguish between amounts requested for recurring or non-recurring items, between the amounts sought for (i) maintaining present services, (ii) improving them, and (iii) providing new services. And budget presentations often fail to state the assumptions about price levels, economic conditions, etc., on which revenue and expenditure estimates are based.

(c) State budget documents are be-
beginning to reflect goals — ends as opposed to means — as distinguished from financial control in a narrower sense. Students of expenditure control and budgeting have expected great benefits to result from use of program and performance budgeting — as opposed to the older methods based exclusively on line-item, or object of expenditure. The developments to date may well be important. However, achieving the desired results will require continuing educational effort on the part of legislatures, the public, and budget officers. An even greater limiting factor is the lack of standards for estimating needs or evaluating performance.

(5) On the legislative side, the survey has examined the usefulness of fiscal services provided for appropriations committees. A variety of such staff services is in use in the various states. Legislatures appear to be making slow but definite progress in this area. They are attempting to establish the appropriate balance between creating potential bureaucracies within the legislative branch — and thus duplicating functions already being carried on in the executive branch — and having almost no staff assistance for reviewing spending requests and voting appropriations.

(6) In the process of budget execution, an excessive amount of legislative intervention is reportedly exercised in some states. This generally occurs when the legislature influences administrative actions, or interposes independent checks on specific transactions. In addition, procedures used in many states for heading off threatening budget deficits have been criticized as overly arbitrary. They include across-the-board reductions in allotments, moratoria on hiring new personnel and purchasing new equipment, etc. More executive discretion in making reductions might help to promote more efficient fiscal management.

(7) Organization of the post-audit function in most states appears to be unsatisfactory. Since the post-audit examines the executive branch’s custodianship of public funds, the function, according to students of government, is properly a legislative responsibility. As such, it would be carried out under legislative aegis, by an auditor responsible directly to the legislature. Provisions for a legislative auditor among the states have been of fairly recent origin. Only a minority of the states have adopted such provisions. The majority provide for either an elected auditor independent of both the legislature and the executive, or one within the executive branch. The use of an executive auditor is subject to criticism on grounds that under this system the executive branch in effect is in the position of auditing itself.

**HOW FEDERAL AND STATE PROCEDURES COMPARE**

Variations in the size and complexity of spending programs, in political and social attitudes, and in other factors produce great differences from one state to another in patterns of expenditure control procedures. No single composite picture can be drawn for all states. When attempts to make comparisons are extended to the Federal government, problems of evaluation multiply sharply. Federal general expenditures are 20 times as big as those in even the largest of the states.

Despite such differences, there are underlying procedural elements com-