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## THE CURRENT SERVICES BASELINE: A Tool for Making Sensible Budget Choices

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### Introduction

The single most important document produced by a state government each year, and one that receives close public scrutiny, is the state budget. It is both a financial plan for the state and a description of the policies the state intends to pursue in the future.

Often the first question asked by budget decision-makers and budget watchers is whether the state is increasing or cutting back its commitment to a particular area of the budget, such as health care for poor children, property tax reductions for senior citizens, or economic development assistance to businesses. However, the answers to such questions cannot be determined simply by comparing the proposed funding for the coming year to the amount that is being spent in the current year. A host of factors affect the amount of funding that would be needed just to maintain a program at a constant level, without making any policy changes. Inflation increases the cost of buying everything from vehicles to medical tests, for example; public employee salaries increase, and economic and demographic changes affect the number of people eligible for particular programs.

Thus, it is important to know the cost of maintaining programs at their existing levels in the coming year (or biennium) — a cost known as a “current services baseline” — and to distinguish that cost from the cost of any proposed policy changes embedded in the budget.

Since the mid-seventies, the federal government has included information on the cost of maintaining current services in the President’s annual budget proposal, but most states do not follow this practice. This report explains why including a current services baseline would improve the state

#### KEY FINDINGS

- A current services budget is an estimate of the expenditures required to maintain the current level of state services and benefits in an upcoming year.
- Thirteen states plus the District of Columbia prepare some form of current services baseline.
- A state current services baseline estimate takes into account inflation, caseload and population changes and previously-enacted program expansions and eliminations.

### Separating Budget Rhetoric from Reality

Current services baselines make it more difficult for policymakers to cut programs in real terms while arguing that the programs have *not* been cut because their nominal funding has remained flat or even increased.

For example, in her 2006 State of the State Address, Governor Jodi Rell of Connecticut emphasized the importance of education and stated that “For our Education Cost Sharing grant [the state’s largest school aid program], I maintain our commitment from last year ...” The Current Services baseline included in Connecticut’s budget, however, showed that the proposed budget of \$1,594.4 million for Education Cost Sharing grants — the same amount of funding as the prior year — was \$71.6 million less than the amount that the state’s budget office projected would be needed to maintain current services, given inflation and a projected increase in students. Funding per student would have declined between FY2006 and FY2007 under the governor’s proposal before even taking inflation into account.

Similarly in his proposed FY2007 budget, the Mayor of the District of Columbia included a number of items that he identified as “Opportunity Enhancements”. These included \$3.3 million to “expand contractual bed space at the D.C. Jail” and \$5.1 million for child care. The enhancement for the D.C. jail was only enough funding to maintain space at the 2006 level. The child care funding was less than the amount needed to restore money slated to be cut from the program so fewer, rather than more, children would be served. The city’s current services baseline budget made it much easier for analysts to determine the real impact of these proposals.

budget process, summarizes states’ current practices in this area, and suggests ways that states without current services budgets could design them.

### What Is a Current Services Baseline?

A current services baseline projection (also called a “current services budget”) is an estimate of the expenditures required to maintain the current level of state services and benefits in an upcoming year. It generally incorporates assumptions about future inflation rates and changes in the number of people eligible for the benefit or service, as well as the effects of previously approved policy changes (for example, an expansion of eligibility for state-funded health benefits). A good current services budget will present information in a way that makes it easy to identify and evaluate the budgetary impact of any proposed changes in policy.

Current services baselines became a regular part of the federal budget process some 30 years ago. In 1974, as a result of concerns about the division of responsibilities for the federal budget between Congress and the President, Congress enacted The Congressional Budget and Impoundment Control Act. Among other things, it established the Congressional Budget Office (CBO) and required both CBO and the Office of Management and Budget to publish current services budgets as a regular part of the budget process. There have been debates over how to implement this requirement, such as how to treat provisions of law that are technically temporary but are almost

### Example 1: Connecticut

The Connecticut governor's proposed budget includes an estimate of the cost of continuing programs at current-law levels. The table below shows selected columns from the table for the Department of Public Health in the governor's FY 2005-07 budget proposal. (Connecticut has a biennial budget and prepares current services estimates for both years of the budget. We are only showing the first year here.)

Agency Programs by Total Funds (net of reimbursements)	2004-2005 Estimated	2005-2006 Current Services	2005-2006 Recommended
Community Health	122,808,580	125,879,267	124,271,594
Regulatory Services	15,450,597	16,407,141	16,063,152
Commissioner's Programs	19,011,915	19,810,912	19,568,520
Laboratory Services	12,263,106	13,416,433	12,440,438
Healthcare Systems	9,315,417	8,713,473	8,426,693
Agency Management Services	11,117,690	13,130,176	12,863,241
Total – Gross	189,967,305	197,357,402	193,633,638
Less turnover	0	-1,434,027	-1,434,027
Total - Net	189,967,305	195,923,375	192,199,611

Connecticut's practice of providing a program-level summary of significant changes to the current services level allows analysts to easily identify policy changes by noting the difference between the current services level and the recommended funding amounts. For example, this table shows that even though total funding for Public Health recommended for FY 2005-06 (\$192,199,611) is more than the amount spent in FY 2004-05 (\$189,967,305), it falls short of the amount required to maintain current-law service levels (\$195,923,375).

In Connecticut's case, these estimates are not as useful as they could be because the budget does not always explain the methodology used to estimate the current services level. Nevertheless, they provide a clear starting point for those concerned about the impact of the proposed budget on the state's ability to provide these services.

Source: FY2006-2007 Governor's Biennium Budget, Part 2, Budget-in-Detail, p. 334.

certain to be extended. In addition, CBO and the executive branch have sometimes disagreed over the number of years that the baseline should cover. Nevertheless, current services projections have become an established and valued part of the federal budget process.

Thirteen states plus the District of Columbia regularly prepare some form of current services baseline. Examples from two such states, Connecticut and Iowa, illustrate the kind of information such a baseline can provide.

**Example 2: Iowa**

Iowa’s method of providing a current services baseline differs from that of Connecticut and other states. At the beginning of the annual budget process, the state publishes a document that details each agency’s budget requests and the governor’s budget recommendations. An appendix to this document compares the governor’s budget recommendations to the amount that was appropriated for each agency for the current year. In this appendix funding increases or decreases that would be required to account for inflation or caseload changes are identified. The table below shows excerpts from the Human Services entry for the FY 2007 budget proposal.

FY 2007 ESTIMATED GENERAL FUND EXPENDITURES Built-In Increases and Decreases (Dollars in Millions)		
Programs/Appropriation	Factors	FY 07 vs. FY 06
<b>Human Services – Medical Assistance</b>  <i>Appropriation</i>	<ul style="list-style-type: none"> <li>• Adds \$37.5 million to adjust the FY 2007 budget for the estimated FY 2006 supplemental. (The built-in increase is compared to the FY 2006 appropriation, prior to the supplemental.)</li> <li>• Adds \$26.0 million for 4.0% caseload growth, \$7.7 million for 1.0% medical cost increases, and \$1.9 million for Medicare premium increases.</li> <li>• Adds \$16.7 million to offset shortfalls in the Senior Living Trust Fund. This assumes that the Department of Elder Affairs and Department of Inspections and Appeals are funded at FY 2006 levels and the Fund is fully expended in FY 2007.</li> <li>• Adds \$11.7 million for Medicare Part D woodwork effect.</li> <li>• Adds \$25.0 million for a Federal Medicaid Assistance Percentage (FMAP) decrease of 1.63%.</li> </ul>	\$ 126.5

This information is helpful. It shows, for example, that an additional \$126.5 million is needed simply to maintain services at current-law levels. The main body of the budget document shows that the governor is recommending an increase of only \$51.1 million, which falls \$75.4 million short of the amount needed to maintain current services. However, the somewhat obscure placement of this current services analysis in the published budget documents as well as the way the data are presented and labeled reduce its accessibility to the public.

Source: Summary of FY2007 Budget and Governor’s Recommendations (Appendix B, p. 374), Fiscal Services Division, Legislative Services Agency, January 2006.

## **Current Services Baselines Improve State Budgets in a Number of Ways**

### **Providing a Neutral Baseline for Evaluating Policy Changes**

A governor's budget typically (1) indicates how much was spent on each program in at least one past year, (2) estimates the amount that is being spent in the current year, and (3) recommends a level of spending for the next year (or biennium). But it can be difficult to understand how much of a particular service the proposed funding level would actually provide. In some states, there is little consistency among programs in the way budget information is presented, and frequently no indication of how much spending would be needed to continue current policies after accounting for changes in costs and demographics.

Current services estimates provide this baseline so policymakers and voters know the resources required to continue current policies and can assess proposed policy changes. A current services budget does not commit lawmakers to any particular action; rather, it provides a neutral benchmark against which to compare budget proposals.

### **Helping the Media and Voters — and Legislators — Understand the Proposed Budget**

For example, a governor's proposed budget could include more Medicaid funding than the funding in the current year, but if the budget does not indicate the amount of funding that would be needed simply to maintain the current program, the public will not be able to judge whether the proposed "increase" actually represents an expansion or contraction of the program. If a slowing economy is making more people eligible for Medicaid, if the population is aging and more people need nursing home care, or if drug companies are rapidly increasing the price of prescription drugs, the proposed increase could in reality be a budget *cut* — that is, the increase could be less than the increase needed simply to maintain the program. Thus, cuts in eligibility, medical services, or provider reimbursements might be needed even though the program's nominal funding went up.

### **Allowing an Honest Assessment of the Budget's Overall Health**

Policymakers need to know whether the overall budget is in deficit, balance, or surplus before deciding whether to expand or contract a particular program, or to increase or reduce taxes. When revenue is growing strongly, a current services budget provides a clear picture of how much surplus revenue exists after current spending needs are met. During an economic downturn, a current services budget allows an honest evaluation of the size of the budget shortfall. It can also provide warning of future problems, either for the budget as a whole or for a particular program.

## **Current Services Baselines Are Useful Throughout the Budget Process**

### **During Budget Preparation**

The state budget process begins months prior to the governor's formal submission of a recommended budget, when state agencies prepare their budget requests for the coming year. Agencies go through a process similar to developing a current services baseline as they prepare their budget requests. They determine the cost of continuing existing programs by factoring in increased

costs due to inflation for their particular program area, personnel, and other costs. If the population served by the program expands or contracts based on external factors such as people's income, agencies may also project changes in the size of their caseload for the coming year. This is generally the starting point for deciding whether there is room in the agency budget for new initiatives or, conversely, if services will need to be cut back.

The process described above may occur to different degrees in different agencies in a given state. In some states and/or some agencies, it may be done on an ad hoc basis without any guidelines about how it should be done.

By contrast, a formal requirement to prepare a current services baseline, accompanied by well-defined instructions about how to prepare the baseline, would help both agency and executive budget staff. For agency staff, it would provide the starting point for preparing a budget request and help them justify needed increases in years when costs particular to their specific agency (such as health care costs) are rising faster than the overall inflation rate. For executive budget staff, it would allow them to better evaluate which parts of an agency budget request are required to maintain services and which represent the cost of new initiatives. This can help the governor set priorities — i.e., balance competing demands for limited resources — as he or she puts the whole budget together.

Setting priorities is easier when dollar changes in agency budgets can easily be translated into changes in services. For example, a current services budget may show that if the nominal amount of school aid funding is frozen for the coming year, there will be fewer real dollars per student, given increases in costs and in the student population. This could result in service reductions, such as larger class sizes or failure to buy needed textbooks. Armed with this information, the governor may choose to avert a cut in real funding per student by shifting funds from another part of the budget.

### **As the Legislature Considers the Governor's Proposed Budget**

Various legislative committees must consider the impact of the proposed budget on the state's ability to deliver services. This includes a careful review of the policy changes being proposed by the governor. A current services budget can vastly simplify this process by allowing legislative analysts to quickly determine which funding changes result from economic and demographic changes and which result from decisions to provide more or fewer services.

Without a formal current services baseline, in contrast, the executive branch can (and sometimes does) provide misleading descriptions of its budget actions. For example, a governor or agency head may point to a funding increase in a particular area as proof of an increased commitment to this area, when this increase merely reflects increased costs, not an expansion of coverage or services.

### **During the Public Debate Over the Budget**

A current services baseline is of particular importance to citizens, reporters, and nonprofit organizations (such as budget and fiscal watchdog groups or advocates for particular services or benefits). These groups need to know what policy changes are included in a budget proposal, but

unlike legislative or agency staff, they often do not have the time or information to prepare their own estimates of the cost of continuing current services to serve as a point of comparison.

A current services baseline can also be helpful to other analysts, such as those at bond rating agencies or within federal agencies with oversight over state programs.

## **States Already Have the Ability to Produce Current Services Budgets**

States often can produce a current services baseline and include it in their budget document using information they already assemble as part of the regular budget process.

The first step in calculating the baseline is to determine the current full-year cost of each program. For most programs, this equals the amount of spending in the current year, but in some cases it will be more or less than that amount. For example, if a program expansion started in the middle of the current year, spending for this expansion must be adjusted to reflect its full-year cost. Similarly, if there were unusual costs in the current year, such as one-time costs relating to an emergency, the related costs should be removed. Finally, if a program is ending during the current year, the related costs also should be removed.

The next step is to factor in changes in the program's cost by determining the number of people or organizations served and the amount of assistance provided per recipient in the current year and then estimating the cost for the coming year by factoring in expected changes in the costs of those services and the number of recipients. In addition, if a previously approved expansion (such as the opening of a new prison or a phased-in expansion of Medicaid eligibility) is scheduled to start in the coming year, this must be taken into account.

When estimating program costs as part of preparing a budget, states often distinguish between "mandatory" and "discretionary" spending changes. Some programs are set up by law to provide a benefit to any entity (such as a person, local government, or nonprofit organization) that meets certain eligibility criteria. For example, individuals with incomes below a specific level are eligible for medical assistance, and school districts receive a specific amount of state aid depending on the number of students in the district and other criteria. If the number of people with incomes low enough to qualify for medical assistance increases, the state is required to provide that assistance. Spending changes like these, which are required by the program's statutory provisions, are considered "mandatory" or required unless law or policy is changed.

In contrast, other programs are considered "discretionary," which means their funding level is set each year as part of the budget process. Possible examples include a fixed amount of money set aside in the budget to be used for grants to local schools for staff training programs, or funds for a direct service such as running the Department of Motor Vehicles.

Most states that prepare a current services baseline factor in price increases and population or caseload changes for *mandatory* programs, but for *discretionary* programs they apply a standard inflation adjustment (such as the CPI or the price deflator for state and local government purchases) or simply assume that funding will remain at the same level as in the current budget. This is similar to the federal current services baseline, in which baseline funding estimates for discretionary

programs are adjusted only for the overall inflation rate while funding for mandatory programs takes expected changes in prices, number of recipients, and sometimes even utilization patterns into account.

The most accurate current services baselines reflect the fact that changes in the cost of providing services will differ based on the specific service being provided. (The costs of providing health care and education, for example, may grow at very different rates.) Similarly, changes in the number of recipients of services will often differ by program as well, so some states use an estimate of changes in the subpopulation served by the program, rather than an estimate of changes in total population, in preparing their baseline.

Since most states already prepare forecasts of future costs and changes in the state population and many subpopulations as a part of their budget process, they are well prepared to calculate a current services baseline. There may be disagreements about particular aspects of these forecasts, but as long as the projections on which the baseline is founded are stated explicitly and published along with the baseline, analysts can assess the impact of specific projections on the baseline.

A current services baseline is most useful to budget analysts if it is very detailed. For example, an estimate of the cost of continuing each of the elements of a state’s public health programs is more helpful than an estimate of the cost of continuing the state health agency as a whole.

Also, a current services budget is best for long-term planning if it covers more than just the coming year. Current services spending projections for two to five years, when paired with revenue projections for this same period, allow a state to assess its future fiscal health.

### Thirteen States Plus the District of Columbia Prepare Current Services Baselines

Thirteen states (Arizona, Connecticut, Iowa, Kansas, Louisiana, Nevada, New Hampshire, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, and Virginia) and the District of Columbia prepare current services baselines, according to our survey of state budget officers and fiscal analysts.<sup>1</sup>

Table 1 lists some of the similarities and differences in how these states produce

Table 1 Features of Current Services Baselines	
	Number of States
<b>Project beyond next budget:</b>	6
<b>Spending projections include:</b>	
Previously approved program changes	13
Inflation used for all programs	12
Population or caseload changes	13
<b>Level of Detail:</b>	
Summary level only	4
Detailed program level	10
<b>Availability:</b>	
Unpublished	3
In agency requests or other non-budget	1
Published in annual budget	10

*Source: CBPP Survey*

*Note: Counts include DC where applicable.*

<sup>1</sup> Additional states incorporate some elements of current services baselines for some programs but do not prepare comprehensive reports. For the purposes of this report, a state is classified as preparing a current services baseline if it estimates the current services cost of all major programs.

current services baselines and make them available to the public. More than half of the states (seven plus DC) prepare a current services baseline for only one budget period.<sup>2</sup> The remaining six states prepare a baseline for multiple years beyond the current budget. All but four states — Connecticut, Kansas, Rhode Island and Virginia — provide current services estimates at a detailed program level allowing observers to better identify policy changes included in the budget. Most states publish the current services baseline in the annual budget, but Nevada includes it only in published explanations of each agency’s annual funding request, and Oregon, Rhode Island, and the District of Columbia regularly prepare baselines but do not publish them. (See the Appendix for more detail.)

The methodologies used for calculating a current services baseline vary by state but contain many common elements. All the states except Arizona include in their current services estimates any previously approved program changes that have not yet taken effect during the base year.

Similarly, all 13 states (but not DC) include the effect of population or caseload changes on program costs. Most states go beyond projected changes in the general population and instead use projected changes in the population served by specific programs. For example, a number of states — including Connecticut, Kansas, New York, Oklahoma, Oregon, and Virginia — project the number of residents expected to be eligible for Medicaid in order to estimate the program’s future cost. In Kansas, twice a year the governor’s budget staff, legislative research staff, and agency staff project future caseloads for TANF, Nursing Facilities, and Medicaid. And many states — such as Connecticut, Kansas, New York, and Oklahoma — prepare projections of the number of school-age children in order to estimate the current services cost of school aid.

All but two of the states that prepare current services budgets factor in the effects of inflation throughout the budget. Several of these states use inflation rates tied to specific programs. For example, Connecticut, Iowa, and New York are among the states that use a medical inflation rate for Medicaid that incorporates cost increases that might not be reflected in the general inflation rate. Similarly, Arizona and Virginia — the two states that do not adjust for inflation throughout the budget — do use medical inflation to project Medicaid costs.<sup>3</sup> In a different vein, some Pennsylvania agencies use different inflation factors for commodities that represent a large portion of their budget. The Pennsylvania State Police separately estimates its fuel usage costs based on what it believes the cost of fuel will be, for example, while other agencies, such as the Departments of Corrections and Welfare, separately project their utility costs.

#### **Current Services Budget Checklist**

Ideally, a state current services baseline budget would include the following features:

- Prior year’s spending is adjusted for program-specific inflation, previously-enacted program expansions and eliminations, and caseload/population changes.
- Estimates are published as part of the regular budget document.
- Underlying assumptions are clear and published in the budget document.
- Estimates are shown at a detailed level not just for whole agencies.
- Projections extend beyond budget year for two to five years.

<sup>2</sup> One budget period means one year in a state that budgets annually and two years in a state with a biennial budget.

<sup>3</sup> In specific instances, such as medical inflation associated with Medicaid, Arizona does factor in inflation. Similarly, while Virginia does not factor in inflation for all programs, it does apply inflation for a number of major expenditure items, including Medicaid, school aid, and some state employee benefits.

State employee salaries make up a significant share of state budgets. A number of states estimate future costs by factoring in salary increases included in collective bargaining agreements where applicable. Others assume that salaries will increase by the amount of inflation. Some states estimate growth in state employee benefits using projections of health care costs that exceed general inflation.

Finally, some states include other factors in their current services baseline projection besides those already noted. For example, Connecticut adjusts the baseline projection to include costs mandated by statute or court order.

## **Conclusion**

Preparing a current services budget promotes the goal of improving government efficiency. A regular, thorough examination of each program's costs and caseload can help policymakers and the public identify inefficiencies and programs that are no longer needed. And it can help "right-size" programs, avoiding either over-funding or under-funding them.

States often already have the information available to calculate current services baselines, but fewer than half of the states do so on a regular basis. By preparing and publishing these baselines, states can help involve a broad segment of their residents in decisions about how their tax dollars are spent, as well as provide policymakers with important information to help them evaluate policy proposals.

## Appendix

State	Project Beyond Next Budget?	Spending Projections Include:			Level Of Detail		Availability		
	Multiple years	Program changes approved earlier	Inflation for all programs	Population or caseload changes	Summary level only	Detailed program level	Not published	In agency requests or other non-budget documents	Published in annual budget
Arizona				x		x			x
Connecticut		x	x	x	x				x
District of Columbia	x	x	x			x	x		
Iowa		x	x	x		x			x
Kansas	x	x	x	x	x				x
Louisiana	x	x	x	x		x			x
Nevada		x	x	x		x		x	x
New Hampshire	x	x	x	x		x			
New York		x	x	x		x			x
North Carolina		x	x	x		x			x
Oregon		x	x	x		x	x		
Pennsylvania	x	x	x	x		x			x
Rhode Island		x	x	x	x		x		
Virginia	x	x		x	x				x
<b>Number of states</b>	<b>6</b>	<b>13</b>	<b>12</b>	<b>13</b>	<b>4</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>10</b>