



Zero-Based Budgeting & COVID-19: A New Tool for Florida

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Federal and state government responses to the COVID-19 pandemic have been devastating to the economy, which means these responses have been devastating to *people*. People's livelihoods have been significantly damaged or, at best, been made uncertain. This is because many state governments have enacted orders

for individuals to stay at home and avoid “non-essential” activities, as well as orders for “non-essential” businesses to close or significantly adjust their operations during the pandemic.

State governments, such as Florida, are facing new budget constraints as a result of the economic downturn. Florida will likely

be unable to continue the status quo of budgeting in the face of a revenue decline of between \$3-6 billion (at the state level alone). This challenge will inevitably raise questions and debate about what portion of the budget needs to be cut or which services the state provides are the most essential. Initially, state government can and must identify wasteful spending. Doing so can stave off the levels to which we will need to tap into Florida's reserves. Failure to make necessary cuts will result in the eventual depletion of these funds. This is inevitable due to the impact the lockdowns have had on Florida's tax revenue. According to the revenue estimators, Florida's tax revenue is already more than \$2 billion below projected levels. However, there is a path to take that can help aid our fiscal path ahead. Florida can and should adopt a policy of practicing *zero-based budgeting* (ZBB), a process that leaves little alternative than to eliminate the unnecessary or wasteful spending that may lie in Florida's budget.

The budgetary theory ZBB, which gained popularity in the 1970s, is essentially the practice of creating a budget starting from zero, resulting only in components that have been rigorously justified. For an organization to practice ZBB, it must determine their *decision units*, or "the lowest level at which budget decisions are made," which is typically a division or department (GFOA 3). Then, the budget authority within some designated decision unit will submit *decision packages*, which are different proposals comprised of varying spending levels for services their unit provides and describe how such spending affects the level of service.

Decision packages are then ranked, and these rankings are the basis on which budgetary authorities make decisions on where to allocate spending. This process of budgeting is all-encompassing and provides a way for organizations to make better-informed budget decisions.

While ZBB is commonly practiced among private sector firms, the public sector can benefit from adopting it, especially during the COVID-19 pandemic. By adopting ZBB, state governments can minimize costs while maximizing utility of fiscal endeavors and avoid allocating funds to wasteful spending, thereby leading to state government better serving their constituents and promoting their general welfare. In a lean state like Florida, in which per-capita state expenditures are extremely low relative to other states, this approach would be of tremendous benefit. Additionally, ZBB can preserve a proper checks-and-balances system on state government power. Florida, a state where coronavirus deaths are far less than a state like New York (with comparable population), should adopt a ZBB approach to help focus their pandemic response, move away from the one-size-fits-all response model, and make as many Floridians better off as possible.

By adopting ZBB, Florida would have to reconsider onerous restrictions such as lockdowns, which could lead to less budgetary hardship handling unemployment insurance and Medicaid. An argument can be made that lockdowns have their place in a state like New York, where COVID-19 has been most prevalent. However, a state like Florida with a far lower death toll has

less justification for such a heavy-handed one-size-fits-all response. If Florida were to practice ZBB, economic hardship could be mitigated because such extreme measures would likely not be justified.

Even in the absence of a state-mandated lockdown, Florida businesses would still experience some economic hardship. Many people, regardless of orders from government officials, will practice some form of social distancing. This will impact Florida businesses because, for many of them, continuing to attract customers means adopting measures including restricting capacities, limiting number of staff, and additional investments in cleaning supplies and protective gear. Resulting price increases will have additional negative economic impacts, thus creating additional pressure on tax collections (at both the state and local levels). Florida can mitigate these adverse effects through a ZBB approach. By continually examining every facet of the budget from the first dollar forward and eliminating waste/fraud/abuse, state government can focus appropriations toward economic relief for those most in need. The process of ZBB can provide state budgeters with a method to examine all components of the budget, particularly those that possess little to no justification, especially during a pandemic. For example, the enforcement of the most burdensome regulations on commerce do not have much justification, as they impede an already crippled economic landscape and have massive potential to drain collectible revenue. Practicing ZBB introduces much-needed scrutiny into the justification of burdensome and costly government

activities.

The main “disadvantage” of ZBB is thought to be the costs borne from justifying any and every component of a budget. However, in the context of government, this significant cost of ZBB is precisely why it would make government more efficient. The practice itself can be a useful tool for preventing moral hazard (a result of government using other peoples’ money). The consensus of economists is that people tend to act less responsibly with other peoples’ property, unless there is a significant enough cost. A commonly cited example of this phenomenon is a banker thoroughly vetting and establishing a covenant with the loan applicant. The banker is not willing to give out money to someone who is not likely to pay the loan back. To prevent this, the banker imposes a thorough process to determine whether the loan applicant is likely or not to pay them back. If the banker lends money to the applicant, usually the banker will also initiate a covenant, or strict conditions on the loan, with the applicant. The banker is imposing a cost on the applicant, so they are less likely to act irresponsibly and fail to pay the loan back. Now replace the banker with the taxpayer and the loan applicant with the government. If the government practiced ZBB, this can be viewed as the cost imposed on them to keep appropriations in check. This cost is important because, as Milton Friedman in *Free to Choose* illustrated, government welfare programs are paid for with taxpayers’ money and spent on either the taxpayer or another taxpayer (117). Spending someone else’s money on someone else is widely acknowledged as the

method guaranteeing the most ineffective and inefficient outcome. Government is not all-benevolent, and we should not expect government to use taxpayers' money as an all-benevolent entity would. The cost imposed on governments by ZBB will protect against misuse of taxpayer money.

Nevertheless, one could argue that practicing ZBB may still prevent the government from acting efficiently and fulfilling even the most necessary functions. Private firms attempting to faithfully practice ZBB have often run into this challenge. However, many of the organizations that did not completely abandon ZBB adopted either *zero line-item budgeting* or *service level budgeting*. The former is focused on determining the right input to produce the intended output, while the latter is focused on choosing the level of output or services to produce (GFOA 7). While these may not be pure ZBB practices, they nonetheless borrow significantly enough from the theory to be considered close variations. These practices are the manifestations of ZBB that attempted to mitigate its disadvantages. So, it is not unheard of to put some form of ZBB into practice and avoid overbearing costs.

If Florida were to adopt zero line-item budgeting, we may see significant changes to the budget, especially amidst the ongoing pandemic. With many out of work, Medicaid and unemployment services revenues are expected to increase without an increase in revenue. For the state to respond effectively to the needs of those bearing the burden of the pandemic, Florida must reallocate revenue to essential services. Zero line-item budgeting may be a helpful framework for

Florida to adopt to make appropriate budget cuts and reallocations. Clearly, through this lens, budget components such as Medicaid and unemployment services would have more justification than less pressing line-items. The pandemic has imposed unusual conditions for the state of Florida, so its budget must not rely on those of previous, relatively typical, years.

Adoption of zero line-item budgeting by various local governments has resulted in positive, more effective conversation about costs. Different budgetary authorities and departments put cost in front view and learned more of where money was going (GFOA 14). These insights from governments that used zero line-item budgeting could potentially foster a culture of cost-effectiveness and financial transparency within the Florida government. This is more important than ever for Floridians, as they yearn for cohesion, effectiveness, and transparency in their government's response to COVID-19. Zero line-item budgeting is one way that Florida can address the concerns of its residents.

Similarly, service level budgeting can improve Florida's domestic response to the pandemic by setting budgetary and service benchmarks. As opposed to zero line-item budgeting, service level budgeting uses decision packages and shifts focus away from line-items. The decision packages can provide more concrete goals in responding to the pandemic as well as making budgetary authorities cognizant of the implications the varying spending levels may have on current service levels. This provides a framework for clear and precise thinking about the budget.

Zero-based budgeting has great potential to stave off fiscal hardship for the state of Florida. With scrupulous processes of justification for all components of Florida's budget, taxpayer dollars are more effectively spent in their best interest. This budgetary framework also can bring more focus and efficiency to Florida's response to the pandemic and differentiate it from other states who have been affected differently and necessitate different policy justifications.

Regardless of one's view of the proper level of public expenditures, we all want government to operate in the most efficient and effective manner possible when using our money. If COVID-19 has taught us anything, it is that we can see our state's financial picture change in a noticeably short period of time. Leveraging this reality to improve our budgeting process would serve all Floridians not just now, but for generations to come.

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