Windows Into The Budget

Senator Andy Hill

The SMART Act: Measuring outputs, not just inputs

Citizens have a right to expect that their tax dollars are being spent effectively, and that when legislators create new spending programs, rather than continue them indefinitely without scrutiny, the programs are reviewed to determine if they are fulfilling the original intent. That is the purpose of SB 5944, the State Money Accountability, Review or Termination ("SMART") act.[1]

Background: The Forerunner to the SMART Act

One of the truly positive reforms of the last decade, spurred by Rep. (now State Treasurer) Jim McIntire, was a process to objectively review the effectiveness of tax preferences. Over time, the Legislature had passed hundreds of tax incentives and preferences, yet they largely remained on the books without any future scrutiny.

In 2006, the Legislature began to change this, charging the Joint Legislative Audit and Review Committee ("JLARC") with reviewing tax preferences and determining if they should be continued, terminated or clarified.[2] While well-intentioned, a problem soon became apparent: the audit and review committee's evaluation of most tax preferences was hampered by the fact that many preferences contained no clear statement of intent or any metrics by which to judge whether or not the preferences were working.

In 2013, the Legislature addressed this problem by passing legislation that put a 10 year sunset on any new tax exemption, ensuring that new tax preferences would be reviewed before renewal.[3] Coupled with this was a requirement to include a clear definition of intent with every new tax exemption and metrics to measure whether the exemption worked after ten years. These metrics could be in jobs created, revenue increased, investment secured or any clear measurable result that would hold the tax preference accountable. This is the type of accounting citizens expect when we offer these incentives that might reduce state revenue.

So what about the other side of the equation? Why don't we do this for spending?

A Similar Need for Sunsets & Metrics Exists for New Spending Programs

New state programs are created every year with all the best hopes and intentions. One needs look no further than at the length of Washington's official book of laws which every year grows in size.[4] But how do we know if these programs are working and who ever follows up to ensure they are achieving their goal?

The truth is that many state programs continue with no end and with no examination of what each has achieved. Rather than fix the programs already in place, lawmakers often create new programs on top of old defective ones to fix the problems either created by or not solved by the old one.

This creates a situation with spending programs just like we have with tax exemptions: we have hundreds of programs on the books without any clear statements of intent or any metrics to determine whether or not they are working.

As budget chair, I receive funding requests every day for both new and old programs that sound good and probably *are* good but don't come with the metrics to prove it. As we go through the budget line-by-line, we have to make judgments on whether programs are actually helping people or wasting valuable tax dollars. Having metrics to hold these programs accountable would revolutionize the budgeting process.

That's why I'm offering the State Money Accountability, Review, or Termination (SMART) Act to give the same treatment to our revenue sources as we give to our spending plans.

The SMART Act

The legislation largely sets up the same review process for new statutory state spending programs that is now in place for new tax preferences.

- Expiration Date for New State Spending Programs -- Every new state spending program that is established after Jan. 2016 would include an expiration date that is no more than 10 years from the effective date of the spending program.[5]

    - This applies to any new state program that costs more than $1 million in the program's first full fiscal biennium of implementation and establishes:
      a. a new state expenditure program,
      b. a new state agency or department,
      c. expands a state entitlement, or
      d. creates a new or expanded distribution of state revenues to local governments.

- "State Spending Performance Statement" -- Every new statutory state spending program must include a Performance Statement that defines the purpose for the program and specifies clear, relevant and measurable metrics that allow the Legislature and its audit committee to measure the effectiveness of the program in achieving its designated purpose.[6]

- Review & Recommendations of New State Spending Programs – Before the end of the ten years, the Joint Legislative Audit & Review Committee must review the program based on the provided Performance Statement and recommend continuing, modifying or terminating the program, just the way they do now with tax preferences.

    - If the Audit and Review committee determines the program did not achieve the metrics specified in the State Spending Performance Statement, then the committee shall recommend termination of the program. The Legislature can then make fully informed decisions when reviewing these budget decisions.[7]

Most new programs should not have any difficulty providing measurements for success and reaching them and the ones that will have trouble are likely the ones that need review the most. There is no reason why we should continue adding or funding programs without an answer to the question, "Have they done what they are supposed to do?"

Window's Reflection

Much of the public discussion and advocacy surrounding the budget writing process often tends to focus on *inputs*, or the amount of taxpayer dollars spent on a particular program. The Legislature has an equally important duty to study the *outputs,* or the actual results of the way they spend taxpayer dollars. Accountability and transparency are critical to gaining the respect and trust of the public.

Footnotes

1. SB 5944.
2. ESHB 1069 (McIntire, 2006) http://wsldocs/2005-06/Pdf/Bills/Session%20Laws/House/1069.SL.pdf
3. ESSB 5882 (Hill, 2013) Part XVII http://wsldocs/2013-14/Pdf/Bills/Session%20Laws/Senate/5882-S.SL.pdf
4. For instance, since 2006 the total pages in code have increased by 1,326. Per the Code Reviser.
5. Sec. 1 of SB 5944.
6. Sec. 2 of SB 5944.
7. Sec. 3 of SB 5944.