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States' Use of Cost-Benefit Analysis

Improving Results for Taxpayers

Overview & Key Findings

The Pew-MacArthur Results First Initiative, a project of The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, works with states to implement an innovative cost-benefit analysis approach that helps them invest in policies and programs that are proven to work.

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For additional information, visit www.pewstates.org.

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Overview

In this age of fiscal stress for state governments, it is more important than ever that policy leaders direct public resources to the most cost-effective programs and policies while curbing spending on those programs that have proved ineffective. But to do this well, policymakers need reliable approaches that can help them assess budget choices and identify the best investments for taxpayers. Results First, a joint initiative of The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, conducted a first-of-its-kind study to measure states' use of one proven method to achieving this goal. Cost-benefit analysis is an approach that compares the expense of public programs to the returns they deliver, enabling policymakers to direct public funds to activities that deliver high returns and to eliminate or restructure programs found wanting.

While states are increasingly using cost-benefit analysis, this report found that they vary greatly in how often they conduct them, the breadth of those assessments, and how they use the results to improve

government performance. The bottom line is that there is strong growth in the application of cost-benefit analyses, yet states could be making wider and better use of them.

Results First's research answers three critical questions: Are states conducting cost-benefit analyses? Do they use the results when making policy and budget decisions? And what challenges do states face in conducting and using these studies? The analysis includes a systematic search and assessment of state cost-benefit studies released between January 2008 and December 2011. Results First's researchers also conducted interviews with legislative and program evaluation staff, executive officials, report authors, and agency personnel to better understand the use and influence of cost-benefit analysis in the states.

To derive this report's findings, researchers evaluated states on three criteria:

1. **Production:** the number of cost-benefit studies released per year during the four-year study period.
2. **Scope:** whether these studies assessed multiple program alternatives—that is, different service models intended to achieve the same outcomes—to compare policy solutions.
3. **Use:** whether and the extent to which study findings influenced budget and policy decisions.

The research did not include a comprehensive examination of the quality of the cost-benefit analyses, which varies substantially. A minimum standard, particularly the inclusion of specific cost and outcome data, was applied, however, for determining whether to include each analysis in the overall count of studies conducted. But the three criteria did yield a baseline assessment of states' commitment to conducting and using cost-benefit analyses. For each criterion, as well as the overall aggregate of all three, states were ranked as leading the way, having mixed results, or trailing behind.

The Results First study finds:

- **Overall:** Ten states were leading the way when aggregating their performance on all three criteria. These states reliably conducted cost-benefit analyses to generate answers about the return on investment of programs and to drive policy decisions, particularly in their largest budget areas. Twenty-nine states and the District of Columbia had mixed results, using cost-benefit analyses but less effectively or consistently than those leading the way. Eleven states were trailing behind. Nationally, the production, scope, and use of cost-benefit analyses are inconsistent across both states and policy areas.
- **Production:** All states and the district produced at least one cost-benefit study between 2008 and 2011, but their level of activity varied widely.
- **Scope:** Twenty-nine states and the district conducted at least some studies that evaluated multiple program or policy options for making smarter investments of public dollars.
- **Use:** Thirty-six states reported that at least one of their cost-benefit analyses influenced policy decisions or debate. This included either having a direct impact on budget and policy actions—such as increasing funding for effective programs and cutting or eliminating low-return ones—or

more generally initiating and informing public and political discourse about issues—specifically if it received media attention or was presented to and/or discussed by key executive or legislative officials. In general, states are not yet utilizing cost-benefit analyses regularly or reliably enough to broadly inform their policy and funding choices.

- Many states face significant challenges both to undertaking studies and to ensuring the appropriate effect on policy and budget choices, but

strategies are available to help them use cost-benefit analysis to better ensure that taxpayer funds are used wisely.

This report examines the findings in depth, documents the contributions that cost-benefit analyses provide to effective state policymaking, and identifies both the barriers states face in using these results and strategies to overcome those obstacles. It is intended to serve as a resource for policy leaders seeking to expand their use of cost-benefit analysis and as a baseline for future studies of states' progress in using rigorous evidence to better inform tough budget and policy choices.

THE PEW-MACARTHUR RESULTS FIRST INITIATIVE

The Pew-MacArthur Results First Initiative, a joint project of The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, works with states to implement an innovative cost-benefit analysis approach that helps them invest in policies and programs that are proved to work. Launched in 2010, the initiative offers tailored cost-benefit analyses to states and helps them use the findings to inform policy decisions.

The Results First cost-benefit model is based upon a widely recognized analytical approach developed by the Washington State Institute for Public Policy that evaluates a broad range of programs and policies using the latest research to predict costs and benefits as completely and accurately as possible.

Currently, a good deal of work that is called cost-benefit analysis is informal and “ragged around the edges,” in the words of Lynn Muchmore, retired director of the Fiscal Research Division in North Carolina. “I think there is a lot to be done in terms of formalizing and refining the [analytical] process so that it can be consistently applied and so that it produces outcomes one can have faith in.”ⁱ

To address these challenges, Results First provides, in addition to the model itself, a range of services to help participating states develop a strong capacity to conduct cost-benefit analysis using customized versions of the model:

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THE PEW-MACARTHUR RESULTS FIRST INITIATIVE

continued

- **Training and assistance.** Results First provides ongoing technical assistance to states as they develop their own cost-benefit analysis model based on the Washington state model. This help is provided through a series of site visits as well as remote assistance via webinars and conference calls.
- **Information sharing.** Results First creates opportunities for participating states to share information and lessons learned. This includes hosting several meetings each year that bring together staff and policymakers from participating states as well as developing listservs and Web resources that enable states to quickly access reports and other products developed throughout the Results First community of practice.
- **Standardized approach for valuing benefits and costs.** The Results First model uses a well-established process for estimating the costs and benefits of a wide range of programs that enables states to compare results across programs and to incorporate in-state research to further customize the results. National panels of experts have validated this approach, providing greater assurance that the results will be reliable.
- **Quality assurance.** Results First conducts in-depth reviews of the cost-benefit analysis models developed by participating states to ensure that they have appropriately customized Washington state's model, have correctly entered state-specific data, and have produced results that meet best practices.

These services can help make cost-benefit analysis even more useful to policymakers as they strive to provide the most effective public services for the least cost.

With the support of the Pew-MacArthur Results First Initiative, 14 states are implementing and customizing the model to analyze their own policies and programs and applying those findings to policymaking.

Pew and MacArthur are committed to advancing the use of this vital approach and to transforming the way that states budget for results through the broader adoption of evidence-based policymaking.

To learn more, visit www.pewstates.org/resultsfirst.

i Pew-MacArthur Results First Initiative interview with Lynn Muchmore, former director, Fiscal Research Division of North Carolina, March 13, 2012.

Key findings

Results First researchers evaluated states on their use of cost-benefit analyses using three criteria: the number of studies they conducted, the breadth of these studies in terms of assessing program options, and how states used the results to inform their budget and policy decisions. For each criterion, the states were rated using three categories: leading the way, having mixed results, and trailing behind. The ratings from each category were then combined to give each state an overall rating on their use of cost-benefit analyses.

Overall: Ten states led the way nationally in the production, scope, and use of cost-benefit analysis to support data-driven policymaking.

These states were among the leaders in at least two of the three study criteria and trailed in none.

The top states—Florida, Kansas, Minnesota, Missouri, New York, North Carolina, Utah, Virginia, Washington,

and Wisconsin—each generally released more studies than mixed or trailing states, systematically assessed the costs and benefits of multiple program alternatives, and used results to inform policy or budget decisions. Two of these states, New York and Washington, were leaders on all three criteria.

Twenty-nine states and the district had mixed results—each generally releasing fewer studies than the leaders and making less effort than leading states to assess program alternatives and/or embed the results in decision-making.

Eleven states trailed behind—each releasing very few studies over the four-year period and making little or no effort to assess program alternatives or use the results in policy and budget debates.

Production: All states and the district conducted at least one cost-benefit study over the four-year period.

The 50 states and the district conducted at least 348 cost-benefit analyses between 2008 and 2011, with the majority concentrated in just 12 states and nearly all focused on major budget priorities. The number of states conducting cost-benefit analyses and the number of studies themselves increased significantly between 2008 and 2011:

- 11 states—California, Florida, Kansas, Minnesota, Missouri, New York, North Carolina, Ohio, Utah, Virginia, and Washington—led the way in the production of cost-benefit analyses, releasing at least 11 studies each, or an average of three or more per year.
- 27 states and the district had mixed results, releasing between three and 10 studies over the four-year study period.
- 12 states trailed behind, releasing fewer than three studies over the four years. Four states—Alabama, Arizona, Kentucky, and North Dakota—released only one cost-benefit report during the study period.
- The number of states that produced reports increased 48 percent over the four-year study period.
- The number of reports nationwide increased 79 percent over the four-year study period.

Scope: Twenty-nine states and the district used cost-benefit analyses to assess multiple program or policy options for making smarter investments of taxpayer dollars.

Overall, however, only 18 percent of cost-benefit studies assessed at least two program alternatives.

- 5 states—Alaska, New York, Pennsylvania, Washington, and Wisconsin—led the way in systematically assessing the combined costs and benefits of a portfolio of policy options.
- 24 states and the district had mixed results, releasing reports that assessed program alternatives separately rather than combined as a packaged investment.
- 21 states trailed behind, conducting studies that assessed only one program.

Use: Twenty-nine states reported that cost-benefit studies had directly influenced legislative or executive action, including decisions to fund or eliminate programs.

Overall, 52 percent—or 99 of 190—of the cost-benefit reports assessed through interviews had some recognized effect on policymaking:

- 29 states led the way in using cost-benefit analysis to drive specific budget and policy action.



- 7 states had mixed results—reporting their studies did not directly influence policy, but provided critical information for legislatures, executive offices, and the public to consider in discussions and deliberations.
- 14 states and the district trailed behind, reporting that their cost-benefit studies did not have any effect on discourse or decision-making.

State officials reported political and practical obstacles in conducting cost-benefit analysis and applying it to policymaking. Comprehensive cost-benefit analyses require technical skill, solid data, time, money, and staff. A lack of some or all of the needed expertise and resources can prevent a state from undertaking an analysis, lower a study's quality, or reduce the effect on policy. Further, examining the long-term costs and benefits of programs can conflict with the political

process, which often focuses on short-term outcomes. Policymakers may overlook proven programs that do not provide an immediate return on investment.

Extensive interviews showed that strategies are available to improve the feasibility and quality of state cost-benefit studies as well as their effect on policymaking. To ensure that cost-benefit analyses are reliable and influential, researchers should:

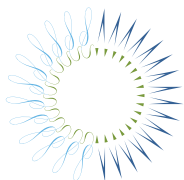
- Engage with policymakers to help them better understand cost-benefit analysis.
- Ensure transparency in the analytic process to build trust and avoid the appearance of bias.
- Communicate results in clear, accessible, and readily understandable ways.

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

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