How Public Officials Can Use Data and Evidence to Make Strategic Budget Cuts

Targeted spending reductions can help state, county leaders respond to shifting priorities amid pandemic

Overview

As the impact of COVID-19 reaches communities across the country, elected officials have been forced to assess how to cut spending in the face of sharp reductions in revenue and the changing needs of the people they serve. While revenue is decreasing, the demand for services during a health and economic crisis is increasing. Relying on data and evidence to make spending decisions, which has proved useful in times of prosperity, is critical now during a recession.

Though state and county officials are facing unprecedented fiscal challenges, leaders should resist the temptation to make indiscriminate, across-the-board budget cuts. Instead, there are useful, proven tools that policymakers can use to inform their spending decisions that will lead to better outcomes during the downturn that began suddenly in February.

State officials say they learned during the Great Recession of 2007-09 that, in the face of declining revenue, the ability to effectively and accurately prioritize spending on programs and services that have beneficial outcomes is crucial. Out of that concern came Results First, an initiative of The Pew Charitable Trusts, to help state and local officials use evidence to make strategic investments in programs that work and to make tough budget decisions based on nonpartisan, objective data to deliver the best possible outcomes.

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For example, in Iowa—one of the first states to work with Results First—a shrinking budget because of that recession led the Department of Corrections to reassess its services so that it was spending its limited funding wisely on programs known through research to be effective and that provided a positive return on investment for the state. The department director at the time said that a focus on evidence challenged them to do better.

More broadly, in the long recovery from the Great Recession, budget officers, agency heads, and elected officials enacted reforms to quickly and efficiently access and use data and evidence, allowing them to be more resilient and responsive to changing needs. This issue brief provides a look at selected reforms officials made in the past, 10 years of revenue expansion that can be repurposed for more challenging fiscal conditions. The COVID-19 recession gives policymakers an opportunity to use these tools as they decide what services and programs to deliver and where to cut the budget in a more strategic way.

Background

After catching up from the past recession, state and local governments hit again

Until the pandemic recession struck, most state and local governments had begun the new decade in January in relatively solid fiscal shape. The 128-month economic expansion following the Great Recession was the longest in history.[1] Unemployment stood at a near-historic low rate of 3.5%.[2] Tax revenue was rising, allowing many states to build record levels of rainy day funds and increase the spending they cut during the Great Recession. According to The Pew Charitable Trusts' Fiscal 50 tool,[3] combined inflation-adjusted tax revenue was higher in 44 states toward the end of 2019 than it was at its peak level before the 2007-09 downturn. Some states still were plagued by high unfunded public pension liabilities, lagging infrastructure investments, and long-term structural budget issues, but most were better off at the end of 2019 than they had been a decade earlier.

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Then the COVID-19 virus plunged the world into a recession, sharply contracting the global economy. In the U.S., millions of people stayed home, patients overwhelmed hospitals and emergency workers, and unemployment insurance filings besieged states. In the first few months, nearly all sources of government tax revenue severely fell below expectations, leading to immediate budget shortfalls. And budget projections for the current fiscal year paint a bleak future as well: COVID-19-related state tax collections could exceed the 11.6% drop states experienced during the Great Recession, according to the National Association of State Budget Officers.[4] The National Association of Counties reports a similar impact on lost revenue.[5]

Budgets that had been balanced heading into 2020—many with surpluses—opened up huge deficits as spending also increased to fight the virus. Minnesota's $1.5 billion budget surplus turned into a two-year, $2.4 billion deficit.[6] New Mexico could lose up to $6 billion in revenue over two years. Alaska, stung by falling oil prices, projects a $527 million shortfall for the fiscal year that ended June 30. In Utah, the Office of the Legislative Fiscal Analyst revised its revenue projections, showing a decrease of almost 18% in fiscal year 2019-20, and potentially another 5% decrease in fiscal 2020-21.[7] And in Colorado, officials also revised general fund revenue downward from the December forecast, reporting to lawmakers that the state will have a $3.3 billion revenue shortfall, or 25.3% of the budget, in fiscal 2020-21.[8]

Although it remains uncertain just how big the economic fallout will be, some states have already begun to cut back in anticipation. In California, for example, the May Revision to the Governor's Budget includes the cancellation of $6.1 billion in program expansions and spending increases, as noted: The "May Revision proposes to cancel new initiatives proposed in the Governor's Budget, cancel and reduce spending included in the 2019 Budget Act, draw down reserves, borrow from special funds and temporarily increase revenues. It also reflects savings from the Administration's direction to agencies and departments to increase efficiency and streamline existing efforts."[9]

At the county level, new research from the National Association of Counties estimates an overall $144 billion budgetary impact across all U.S. counties through fiscal 2020-21—$114 billion in lost revenue and $30 billion in additional expenditures, with the median county spending around 8% of its total budget on COVID-19 response.[10] For scale, county revenues totaled $665 billion in 2017.[11] This two-part impact (declining revenue, increased spending) has led to the situation in which agency leaders and budget offices must consider not if, but *how* to cut.

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On the spending side, the increase is related to changing needs, including health care costs, anti-poverty programs, and unemployment assistance. In California, for example, unemployment claims surged in early spring, with more than 4 million new claims and a projected 2020 unemployment rate of 18%.[12] California's experience reflects the situation across the entire United States. As highlighted in a recent Robert Wood Johnson Foundation issue brief, the $15.8 billion in additional funding for the Supplemental Nutrition Assistance Program (SNAP)—a federal government program that provides nutrition benefits to supplement the food budgets of families in need—from the coronavirus relief bill is intended to help meet the anticipated dramatic rise in new caseloads among Americans because of losses of jobs and income.[13]

Rainy day funds will not cover all of the shortfalls, meaning policymakers will have to use a combination of spending cuts, tax and fee increases, federal aid, and, where possible, short-term borrowing to plug the gaps. To trim spending, state and county officials have the option of slashing expenditures across the board or targeting cuts. The latter—which necessitates the use of data and evidence to determine where and how to adjust spending—is a more strategic approach.

Evidence-based policymaking strategies since the Great Recession

The reforms that many budget officers, agency heads, and elected officials embraced after the Great Recession can put them in a better position to confront the challenges created by the COVID-19 recession. The following sections explore these strategies, which include:

- Updating budget guidelines.
- Assessing needs and analyzing program performance.
- Using national clearinghouses.
- Adapting program delivery.

These strategies could serve as ideas for states and counties looking to make strategic cuts to maximize dollars and outcomes during tough times.

Update budget guidelines

As states and counties anticipate and begin to experience revenue losses, leaders can send clear messages about spending priorities to help make strategic budget cuts. Budget officers routinely publish guidelines for state agencies, outlining elected officials' priorities for the upcoming budget cycle and highlighting suggested or required responses from agency staff in their budget requests. Budget officers could consider requiring or suggesting that state or county agencies use evidence to inform their budget proposals and document where evidence either supports or does not support agency requests.

In 2016, the Colorado Office of State Planning and Budgeting began requiring agency officials to include evidence in budget requests for new or expanded programs. The requests must include a program's expected effects on outcomes, its anticipated return on investment, and a plan to evaluate the program if its effectiveness cannot be determined. In the current fiscal 2020-21, the budget office strengthened the requirements by adding an evidence continuum to help agencies determine the rigor of the evidence supporting their requests and requiring more information on performance measurement and implementation.[14]

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Prior to COVID-19, these requirements primarily applied to requests for increased funding. Now, as Colorado faces a significant budget shortfall, officials are asking state agencies to use evidence to inform spending decisions, whether the requests are to increase or decrease funding.[15] According to the budget office and its updated instructions, when resources are scarce, it is that much more important to identify programs using evidence. The fiscal 2021-22 instructions emphasize the importance of using the evidence continuum, "particularly in a scenario requiring reductions," as a means of informing resource allocation decisions with data and evidence about program performance.

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In Tennessee, a state that has more recently embraced evidence-based policymaking reforms, officials had also taken steps to incorporate evidence into their budget requests before the pandemic. In 2019, Tennessee created the Office of Evidence and Impact to begin using evidence to make budget changes and to complete a statewide program inventory.[16] The evidence office created a new form for agencies to submit when they request increased funding. The form defines what the state considers to be "evidence-based" and asks agencies for information such as a summary of evidence that includes expected outcomes and measures, the source of the evidence, and plans for evaluating the program.[17] As the office responds to the fiscal impact of COVID-19, it has drafted an additional form for spending reductions, which will assist agencies in using evidence to inform the cuts officials make to achieve the recommended target of 12% in cuts.[18]

Assess short-term needs and program performance

Once budget officers have sent out guidelines to their agency partners, agencies can use existing data on the needs of populations they serve to prioritize limited funds for key areas. They can start by determining the areas of greatest short-term need, such as public health and remote education services. Other services may have a lower priority, such as transportation at a time when travel has been reduced.

In addition to reviewing broad service areas, policymakers can also assess which populations have the greatest needs. This needs assessment can then be compared to an inventory of programs with a focus on the interventions that have the strongest evidence of effectiveness. Budget priorities can then be focused on the programs that are both serving the populations with the greatest needs and are evidence-based.


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Kearns Township in Utah is a leader in connecting an assessment of needs with evidence-based programs. In 2015, Kearns—a diverse area within Salt Lake County with a population of about 35,000 people—reviewed how closely its spending on public services matched the needs of young people in the community.[19] Officials analyzed state survey data in which they found that Kearns youth had higher rates of alcohol and nicotine use, gang involvement, and depression than those in other places in Utah. Next, township officials assessed whether their existing offerings adequately addressed these problems. The assessment resulted in an inventory that detailed which programs were evidence-based according to data from several research clearinghouses. They then compared this list of effective services to the surveyed needs of Kearns' young people. With that data, Kearns officials worked with providers and national organizations to expand evidence-based programs that met the community's needs, such as Guiding Good Choices and Positive Family Support.[20] Because of the coronavirus, Kearns has had to adapt how it delivers these programs. With these logistical and economic challenges, the coalition sees the data it is collecting on community needs and program performance as all the more important.

At the state level, the Utah Office of the Legislative Fiscal Analyst worked with the University of Utah's Kem C. Gardner Policy Institute to analyze the availability of medications and behavior therapies for opioid use disorder to highlight gaps in services and offer recommendations for improvements. This inventory of program locations and opioid use disorder rates across the state found that many Utah residents lack access to treatment, especially Tooele County—a county of 58,000 people southwest of Salt Lake City—which has the second-highest need for treatment options but the lowest availability rates.[21] This data can be used to help ensure that funding is targeted to the areas and populations of greatest need.

In addition to using data to analyze needs and target resources, agency leaders can also use the information to analyze and improve program performance. Reviewing data on program performance goes hand in hand with collecting information on community needs and gaps in services. By knowing whether existing programs are meeting identified needs and achieving desired outcomes, public officials can make smarter choices about how to steward limited resources.

Boone County, Missouri—an 180,000-resident county just north of the state's capital—has created a system for using data to inform the county's strategy for funding services. The county tracks various indicators that reflect its priorities—such as hospitalizations related to substance use and the child poverty rate—and displays progress toward targets in the Boone Indicators Dashboard, which was established by the Boone Impact Group, the Missouri Institute of Public Policy, and the University of Missouri Office of Social and Economic Data Analysis.[22]

To procure services that address these indicators, the county's Community Services Department works with the county commissioners and the Boone County Children's Services Board to allocate funding from a 1/4-cent sales tax to nonprofit organizations that serve children and families, with a focus on mental health. The department has implemented several measures to ensure that programs are achieving positive outcomes for clients and that those outcomes are aligned with countywide goals in the dashboard.

One such measure has involved being more explicit about outcomes in service contracts. In its most recent request for proposal, the department asked providers offering similar services to collect "common outcomes," which the department adapted from frameworks developed by the Urban Institute and the United Way of Greater St. Louis.[23,24] Providers offering similar services—such as case management or family therapy—will now report on these common outcomes (in addition to other outcomes of their choosing) in interim and year-end reports to demonstrate the progress their programs have made. Programs that make progress toward these common outcomes are eligible for further funding; programs that do not may not be renewed.

These mechanisms for using data to inform programming have always been important and will be even more crucial as the effects of COVID-19 are felt in a community whose economy—and therefore the sales tax on which the funding for these services depends—is driven in large part by public events and activities. Using performance data to inform program funding will help the county ensure that the highest-performing programs are prioritized. Data is critical for agencies to understand if community needs are still met and programs are performing as efficiently and effectively as possible despite declining revenue.

Use clearinghouses to find missing evidence

Though agencies should work to increase their ability to assess data on population needs and collect performance data on state programs, this data may not be currently available for immediate use. When performance data is not available, agency leaders should consider using information from national clearinghouses to determine which programs have been proved effective.

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Clearinghouses provide readers with information on the characteristics of program models or practices, the populations and contexts these interventions can be applied in, and the amount of research evidence that supports these interventions. The Results First Clearinghouse Database compiles information from nine national clearinghouses—covering key policy areas such as public health, substance use treatment and prevention, and criminal justice—providing government officials with an easy way to access and understand evidence behind a variety of social programs.[25] Those charged with making difficult decisions about reducing spending—especially during a recession—can use this online resource to help them determine which programs have been proved to work.

Iowa's Department of Corrections conducted an inventory of its prison programs, collecting data on their design and capacity. Officials then turned to the evaluation summaries found in the Clearinghouse Database to categorize the programs based on the evidence that they would reduce recidivism. Their analysis revealed that nearly half of Iowa's programs were neither evidence-based nor essential to re-entry, and that the sheer number of them made it difficult to consistently implement them. As a result, department officials shifted resources to effective evidence-based programs and either discontinued or modified programs that did not support the department's goals of reducing recidivism and aiding successful re-entry.[26]

Since this initial overhaul of its programmatic activities, the department continues to use the Clearinghouse Database as a tool to determine whether to fund a particular program. When a treatment director from a regional prison applies for funding for a new program, he or she must document available evidence supporting the request by referencing the Clearinghouse Database.

In another example, the Minnesota Legislature directed the executive budget office to work with Results First in 2015 to assess the evidence base of state-funded programs. First, the Minnesota Management and Budget (MMB) office developed definitions of evidence.[27] Budget officials worked with state agencies to itemize programs and compare them to the research in the Results First Clearinghouse Database. Using their own definitions of evidence, budget officials tagged each program with an evidence rating so state leaders and practitioners could see which programs were supported by strong evidence. MMB summarized the results in the Minnesota Inventory, a repository containing more than 500 programs.[28] Where possible, budget officials also published reports on the cost-benefit ratios of a subset of programs in the Minnesota Inventory.[29] In their adult mental health report, MMB rated mobile crisis services as "proven effective" to help individuals experiencing mental health emergencies.[30] In part because of this strong backing of evidence, the state of Minnesota expanded its investment in regional mobile crisis response teams from $12.5 million in fiscal 2020-21 to $18.1 million in fiscal 2022-23.

When it is not possible to increase funding for effective programs, state and county leaders can use clearinghouses to justify sustained funding levels for programs proved to work, protecting them from budget cuts.

Adapt program delivery

As states grapple with their budget holes, agencies could also modify programs to be more cost-effective. One of the ways in which state agencies—particularly departments of public and mental health—are adapting to COVID-19 constraints is by converting their services to telehealth or telepsychology delivery models. Telemedicine is rated high in the Results First Clearinghouse Database for increasing access to care. Although the pandemic has made these adaptations necessary, some jurisdictions are considering keeping them even once it is safe to see clients in person to continue to save money and avoid program cuts.


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Because research is conducted on programs that are delivered in a particular way, substantive changes to programs can alter outcomes. Agencies and providers must take care to implement programs properly based on the best available research while tracking performance to make adjustments as needed. Organizations such as the National Implementation Research Network, which partners with governments and organizations to support effective implementation practices, can be a resource when adapting program delivery.[31]

Santa Clara County, California, has taken steps to continue delivering services that meet client needs while saving money. In response to COVID-19, Santa Clara's Behavioral Health Services Department converted several services from in-person to telehealth. One challenge for telehealth models is that many clients lack the technology needed for videoconferences with program staff such as therapists. Face-to-face therapy is generally needed, especially for new clients whom therapists assess in part by evaluating their body language or nonverbal communication. To continue to meet the needs of clients who lack access to videoconference technology, the behavioral health services staff installed telehealth equipment for clients at several offices and provided laptops to therapists so that those who are still working remotely could continue to work with their clients while in-person appointments remain unsafe.

Although this is a temporary solution until the pandemic subsides, Santa Clara officials are considering permanent telehealth services in certain places. By reducing funds allocated for staff vacancies, officials can add clients to the caseloads of existing staff. To prevent overburdening existing staff, the department is having clinicians color-code their caseloads—"red" clients need to be checked on weekly, while "green" clients connect every three to four weeks—based on client needs to help triage the most serious or intensive cases. This change will help prepare the department for potential budget cuts during the recession while allowing it to address an unmet need.

Conclusion

The health and economic crises created by the COVID-19 have led to a fiscal crunch for state and local governments. As policymakers slash spending to balance budgets, they can use an evidence lens to drive funding decisions and deploy key strategies to be more deliberate about targeted cuts. Using these tools, state and local officials can get the information they need to determine whether programs and services are effective. At a time of limited resources, taxpayer dollars need to be directed in a way that has the highest impact.

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