

# A Comparison of Local Government Budget Models

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## Introduction

One of the most important responsibilities of local governments is developing a budget, typically done each fiscal year. A **government budget** is a plan that estimates how much money the government will receive in taxes, fees, grants, and other sources of revenue and establishes how those funds will be spent on programs, services, and staff. A government budget translates policy priorities and goals into specific dollar amounts. Because this planning happens on a recurring basis, local governments rely on structured **budget models** that guide how budgets are prepared, reviewed, and adopted. By “budget models,” this report means the following:

- the formal rules and practices that shape the budget process (“decision rules”); and
- the standards used to evaluate how well the budget performs (“evaluation rules”).<sup>1</sup>

The Council is interested in understanding local government budgeting models and how Montgomery County’s current approach compares with these other budget models. This Office of Legislative Oversight (OLO) report examines five local government budget models—line-item, performance, zero-based, biennial, and participatory budgeting—and assesses their operational mechanics, strengths, and limitations.

**Report Organization.** The remaining parts of this report are organized as follows:

- Part A, *Methodology*, describes the scope of analysis, analytic framework, and key source materials used in this report.
- Parts B-F describe the definitions, operational mechanics, advantages, and limitations of line-item budgeting (B), performance budgeting (C), zero-based budgeting (D), biennial budgeting (E), and participatory budgeting (F).
- Part G, *RESJ and Community Engagement Consideration*, analyzes each budget model for its implications for RESJ and community engagement.
- Part H, *Findings and Discussion Items*, presents the main findings from the analysis and discussion items for Council consideration.

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<sup>1</sup> This analysis draws on the distinction between decision rules and evaluation rules as discussed in Morgan, Douglass et al. (2015). [\*Budgeting for Local Governments and Communities\*](#). New York, NY: Routledge). See pages 299 to 302 for a discussion of these concepts as they relate to budget models..

## A. Methodology

### 1. Scope of Analysis

This analysis examines the following five local government budget models and how they operate in practice by focusing on how budgetary choices are made and how budget quality is judged:

- Line-item budgeting;
- Performance budgeting;
- Zero-based budgeting;
- Biennial budgeting; and
- Participatory budgeting;

### 2. Analytic Framework

To support consistent comparisons across budget models, each model was analyzed using the following set of guiding questions:

- **Definition and Description:** What does this budget model mean in the context of local government budgeting?
- **Operational Mechanics:** What are the key features of this budget model? How does it work in practice?
- **Decision Rules and Evaluation Rules:** Under this budget model, how are spending allocations made, and what counts as good evidence when assessing whether those allocations are appropriate and effective?
- **Pros & Cons:** What are the main advantages and disadvantages of this budget model for local governments?

To answer these questions, this analysis draws on several key budget concepts:

- **Inputs** – resources funded through the budget, such as dollars, staff time, and equipment;
- **Outputs** – direct services produced with those resources; and
- **Outcomes** – results or changes those services aim to achieve for constituents.

Furthermore, this report also identifies the primary “decision rules” and “evaluation rules” associated with each model. As described by Morgan et al. (2015), these rules:

“should be viewed as a way of structuring the conversations during the budget-making process to encourage participants to address the ‘right questions’.”

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These elements were inferred from the description of each model’s operational mechanics and summarized to clarify how spending allocations are made and what counts as good evidence when assessing whether those allocations are appropriate and effective.

In this report, OLO uses simplified, generic program examples—modeled on [Montgomery Cares](#) and the [Community Food Assistance Grant Program](#)—to illustrate how different budget models operate in practice. These generic programs mirror key features of the County’s health and food assistance efforts, such as providing primary care to uninsured adults and funding nonprofit organizations that distribute food at no cost to residents. By relying on these examples, this report illustrates how each budget model shapes decisions about what resources are funded (inputs), what services are delivered (outputs), and what changes are sought for County residents (outcomes).

The table below illustrates how the concepts of inputs, outputs, and outcomes apply in practice to these generic programs:

<b>Program</b>	<b>Inputs (resources funded)</b>	<b>Outputs (services delivered)</b>	<b>Outcomes (results achieved)</b>
Medical Care for Uninsured Adults Program	County funding for clinic contracts, medical staff, medicines, lab tests, and outreach to uninsured adults.	Number of uninsured adults enrolled in program and number of primary care visits, prescriptions, and tests provided.	Improved access to basic health care for low-income uninsured adults and better health indicators (e.g., more health conditions managed in primary care rather than emergency rooms).
Community Food Assistance Grant Program	County grant dollars awarded to nonprofit food providers and County staff time to manage the grant program.	Number of food assistance providers funded, food distribution events held, and households receiving food or meals.	Reduced food insecurity among participating households and more stable access to nutritious food in communities with high need.

Additional concepts this report uses to describe and distinguish the models from each other include:

- **Budget timeline** – the period during which policymakers develop, negotiate, and finalize the budget;
- **Budget baseline** – the default starting level of funding used to build a new budget, which serves as the reference point for proposing increases or decreases; and
- **Budgetary decision-making authority** – the formal power to decide how public funds are allocated in the budget. In other words, it refers to which actors (e.g., elected officials, staff, or residents) can make formal decisions about spending priorities and appropriations.

### 3. Source Materials

Multiple sources informed the analysis of each budget process.

For line-item budgeting, performance budgeting, and zero-based budgeting, the primary source was the following textbook:

- Morgan et al. (2015), [\*Budgeting for Local Governments and Communities\*](#), Routledge.

This text was selected because its authors have extensive scholarly expertise in public budgeting and local governance, and it was the only textbook identified that focuses specifically on budgeting in local governments rather than at the state or federal level.

In the course of this research, additional models—biennial budgeting and participatory budgeting—were identified and included within this report’s scope of analysis to provide a more thorough review of local government budget processes.

Articles on biennial budgeting were identified by searching Google Scholar for “two-year” and “biennial budgeting.” This report relied on the following policy reports to inform the analysis of key features and main advantages and drawbacks of biennial budgeting:

- Kogan et al. (2012), “[Biennial Budgeting: Do the Drawbacks Outweigh the Advantages?](#),” Center on Budget and Policy Priorities.
- Tollestrup (2015), “[Biennial Budgeting: Options, Issues, and Previous Congressional Action](#),” Congressional Research Service.

Sources on participatory budgeting were also identified through online searches. These sources describe core design features of participatory budgeting, its implementation in local governments, and its capacity to foster resident participation and equity goals. This report relied on the following sources:

- Shaw (2007), [\*Participatory Budgeting\*](#), World Bank.
- Participatory Budgeting Project, “[Learn About PB](#).”
- Equitable Adaptation Legal & Policy Toolkit, “[Participatory Budgeting](#),” Georgetown Climate Center.

<b>Budget model(s)</b>	<b>Main source(s)</b>	<b>Source type</b>
<ol style="list-style-type: none"> <li>1. Line-item</li> <li>2. Performance</li> <li>3. Zero-based</li> </ol>	<ul style="list-style-type: none"> <li>• Morgan et al. (2015), <i>Budgeting for Local Governments and Communities</i></li> </ul>	Textbook focused on local government budgeting
<ol style="list-style-type: none"> <li>4. Biennial budgeting</li> </ol>	<ul style="list-style-type: none"> <li>• Kogan et al. (2012), “Biennial Budgeting: Do the Drawbacks Outweigh the Advantages?”</li> <li>• Tollestrup (2015), “Biennial Budgeting: Options, Issues, and Previous Congressional Action”</li> </ul>	Policy reports (think-tank, Congressional Research Service)
<ol style="list-style-type: none"> <li>5. Participatory budgeting</li> </ol>	<ul style="list-style-type: none"> <li>• Shaw (2007), <i>Participatory Budgeting</i> (World Bank);</li> <li>• Participatory Budgeting Project, “Learn About PB”;</li> <li>• Georgetown Climate Center, “Participatory Budgeting” (Equitable Adaptation Toolkit)</li> </ul>	International organization report; practitioner resource; legal/policy toolkit

## **6. RESJ and Community Engagement Approach**

In 2019, the County Council established the Racial Equity and Social Justice Act. This law directs County departments and offices to apply a racial equity and social justice (RESJ) lens to their work. RESJ is a process that focuses on centering the needs, leadership, and power of Black, Indigenous, and other people of color (BIPOC). RESJ is also a goal of eliminating racial and social inequities. To apply a RESJ lens, OLO pays attention to race, ethnicity, and other social constructs when analyzing problems, looking for solutions, and defining success. We recognize this is necessary to fulfill our mission and advance RESJ in the County.<sup>2</sup>

The analysis of each budget process in later sections proceeds in two stages.

- First, an overview of each budget model is presented using the analytic framework above. This section focuses on definition, key features, operational mechanics, and pros and cons.
- Second, after each model is presented, they are assessed for their RESJ implications by focusing on how each model might affect who participates, whose needs are prioritized, and how resources are distributed.

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<sup>2</sup> [OLO Racial Equity and Social Justice \(RESJ\) Action Plan](#) (Office of Legislative Oversight, Montgomery County Council, 2023).

Direct literature linking most budget processes to RESJ and community engagement was limited. Participatory budgeting was the main exception. As a result, OLO’s assessment relied on the mechanics of each process to infer potential equity and engagement implications.

To aid in this portion of the analysis, the report draws on the following report published by the Office of Legislative Oversight:

- Peña and Kalyandurg (2024), “[Community Engagement for Racial Equity and Social Justice](#)”

This report clarifies broader definitions of RESJ and community engagement and identifies principles such as inclusion, access, and power-sharing that are relevant to budgeting decisions.

## **B. Line-Item Budgeting**

### **1. Definition and Description**

Line-item budgeting emerged in the late 19<sup>th</sup> century as part of early public-sector budget reforms that emphasized tighter control of expenditures and clearer accounting for public money. It became widely adopted in the early-to-mid 20<sup>th</sup> century and is now the most common budget model used by local governments. Its primary aim is to support expenditure control and financial accountability by itemizing expenditures into standardized categories, i.e., “line items.” In this format, appropriations are typically presented by fund and department (or function) and then broken down further by object (e.g., personnel costs, office supplies, utilities), which allows decision-makers and the public to see what is being purchased and at what cost.

### **2. Operational Mechanics**

Line-item budgeting focuses on inputs—the dollars allocated to specific types of resources such as salaries and benefits, office supplies, equipment, and utilities—rather than on outputs or outcomes. In this model, the budget tells departments how much they may spend on particular categories of resources, not how many services they must deliver or what results they must achieve.

Inputs are organized as expenditures that are grouped into broad categories, such as personal services or operating supplies. Within each category, items are further broken into **object codes**, which are numeric codes that describe the specific type of expense. For example:

- Object code 1101 might be used for regular salaries within personal services
- Object code 2101 might be used for office supplies within operating supplies

This structure emphasizes what is being purchased and how much is authorized for each type of expenditure.

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Each organizational unit in the government is assigned a **department number**. For example:

- A County Health Department might be assigned department number 20.

That department then develops its own line-item budget using the same set of object codes to describe expenditures as other departments in the government. A **line-item identifier** is created by combining the department number with an object code. For example:

- If the object code for regular salaries is 1101, the Health Department's regular salaries would appear as 20-1101.
- Similarly, if the object code for office supplies is 2101, the Department's office supplies line would appear as 20-2101.

Using the same object codes across all departments means that every office's supplies line, regardless of department, is classified as 2101, while the department number distinguishes where the spending occurs.

In practice, this format works at several different levels:

- **Department-level view (Health Department):** In a line-item budget, the Health Department's appropriations are first presented at the department level, showing how much is authorized for major input categories such as salaries, contracts, and supplies. A simplified excerpt might look like this:

Line Item ID	Department	Category	Description	FY 2026 Budget
20-1101	Health (20)	Personal services	Regular salaries	\$2,450,000
20-1102	Health (20)	Personal services	Overtime salaries	\$180,000
20-1201	Health (20)	Contracts	Clinic contracts	\$1,000,000
20-2101	Health (20)	Operating supplies	Medical supplies	\$300,000
20-2102	Health (20)	Operating costs	Lab tests	\$250,000

- **Program-level view (Medical Care for Uninsured Adults Program):** Within the Health Department, a portion of these same line items is assigned to a specific program, such as the Medical Care for Uninsured Adults Program. The budget still appears in terms of inputs, not visits or health outcomes. A simplified program-level slice might look like this:

Program	Line Item ID	Description	FY 2026 Budget
Medical Care for Uninsured Adults	20-1101	Regular salaries	\$1,200,000
Medical Care for Uninsured Adults	20-1201	Clinic contracts	\$900,000
Medical Care for Uninsured Adults	20-2101	Medical supplies	\$250,000
Medical Care for Uninsured Adults	20-2102	Lab tests	\$200,000

Even at the program level, the line-item format expresses the budget in terms of inputs—dollars for salaries, contracts, and supplies—rather than in terms of how many uninsured adults will be served (outputs) or what improvements in health indicators are expected to occur as result of the program (outcomes).

A similar structure would apply to a Community Food Assistance Grant Program in the department that manages community grants: its line-item budget would list inputs such as grant awards to nonprofit food providers and staff time to administer the grant program, rather than specifying how many households will be served (outputs) or how much food insecurity will be reduced (outcomes).

- **Cross-department view (single input type):** Because the same object codes are used across departments, staff and policymakers can also step back from individual departments and programs to see total spending on a given type of input across the entire government. For example, a cross-department summary of selected object codes might look like this:

Object Code	Description	Health (20)	Parks (30)	Finance (40)	Government Total
1101	Regular salaries	\$2,450,000	\$1,200,000	\$850,000	\$4,500,000
1102	Overtime salaries	\$180,000	\$95,000	\$40,000	\$315,000
2101	Office supplies	\$75,000	\$30,000	\$45,000	\$150,000

Together, these views illustrate the core logic of line-item budgeting: the budget is organized around what the government buys and how much it is authorized to spend on each category of inputs, rather than the level of services delivered or the outcomes achieved.

### 3. Decision Rules and Evaluation Rules

**Primary decision rules:** Under line-item budgeting, allocation decisions are primarily made by assigning dollars to **input** categories (such as salaries, benefits, supplies, and equipment) within each department. In this model, the typical formal authorities include executive and legislative policymakers, with agency heads and budget staff responsible for proposing and managing allocations.

**Primary evaluation rules:** In this model, “good” budgeting is judged mainly by compliance with spending limits and accounting controls, adherence to appropriation authority, proper use of object codes, and accurate recording of expenditures.

### 4. Advantages of Line-Item Budgeting

There are several commonly cited advantages to line-item budgeting:

- **Internal financial management:** Because line-item budgeting tracks inputs as dollars allocated to specific categories (such as salaries, benefits, supplies), it provides clear spending limits and a straightforward way to monitor whether actual

spending aligns with budgets. This level of detail supports day-to-day financial control and documentation of how public funds were spent.

- **Simplicity:** Another advantage of line-item budgeting is its simple structure. Because it concentrates on categories of spending rather than measuring outputs or outcomes, staff can develop a budget without assigning and analyzing performance measures. As a result, it requires less analytical or managerial expertise to administer than other models like performance budgeting.
- **De-politicize budget negotiations:** Line-item budgeting can help lower the temperature of budget negotiations. It centers budget discussions on specific financial categories (e.g., salaries or supplies) rather than on broader debates over service levels, policy objective, effectiveness, etc. As a result, it can curtail overt political bargaining over how funds are spent.
- **Compatibility with other budget models:** Line-item budgeting is adaptable and can be used alongside other budgeting models without requiring extensive structural changes. To illustrate, jurisdictions often use a line-item structure to track inputs while also including performance measures at the program or department level to assess outputs.

## 5. Limitations and Criticisms

Some of the main limitations of line-item budgeting are the following:

- **Status quo bias:** Line-item budgeting often relies on making incremental adjustments to the prior year's allocations, which tends to reinforce existing spending patterns rather than prompting a reassessment of whether those patterns still align with current needs or policy goals. As a result, long-standing priorities and programs may be maintained without clear justification, while new or emerging public needs struggle to gain visibility in the budget process.
- **Weak responsiveness to evolving community needs:** The incremental nature of line-item budgeting makes it difficult to reallocate funds in response to major shifts in community conditions, policy priorities, or emerging issues. When most changes take the form of small percentage increases or decreases within existing categories, substantial policy changes may be slow, and the budget can lag behind the community's evolving needs.
- **Limited attention to efficiency, effectiveness, and equity:** Because line-item budgeting focuses on inputs rather than outputs or outcomes, it does not, on its own, assess how efficiently resources are being used. Evaluating efficiency requires comparing inputs to outputs (e.g., units of service per dollar), which the line-item format does not systematically provide. Similarly, it does not assess effectiveness, which requires examining the causal relationship between inputs and outcomes (e.g., whether changes in spending are associated with better results for

residents) or whether allocations advance objectives such as RESJ. As a result, this format does not inherently require decision-makers to evaluate the results of spending, which can lead to under-examination of whether resources are being used in ways that maximize the common good.

- **Low visibility and accountability for policy choices:** Because a line-item budget presents dollar amounts by object code with line-item identifiers, it can be difficult to see how much is being invested in specific populations or towards specific policy goals. The same total for a line item or department can mask significant shifts in how funds are allocated within that category—for example, between different programs or neighborhoods. This can make it difficult for residents and even policymakers to ascertain the real-world implications of budget decisions and to hold the government accountable for how resources are distributed.

## C. Performance Budgeting

### 1. Definition and Description

In contrast to line-item budgeting, performance budgeting shifts the focus from solely on inputs (how much is spent) toward also considering outputs (services delivered). In some cases, this model incorporates outcomes (changes in community conditions). Performance budgeting uses these concepts—inputs, outputs, and, where feasible, outcomes—to assess how public resources are converted into services and results. **Performance measures** are the main tools for establishing the relationships between these concepts. They are indicators—typically quantitative indicators—that provide evidence of the efficiency and effectiveness of programs. This approach encourages policymakers and agencies to assess how dollars are spent and whether programs are producing desired results for constituents.

### 2. Operational Mechanics

In performance budgeting, concepts like benchmarks, efficiency, productivity, and effectiveness are crucial in assessing whether local government resources are being converted into services and results for constituencies.

A core feature of performance budgeting is the use of **benchmarks** to evaluate programs. Benchmarks are predetermined standards, reference points, or outcome goals that allow comparison over time, across departments, or with other jurisdictions. They help identify gaps in program performance and opportunities for improvement to aid the budgeting process. For example:

- For the Medical Care for Uninsured Adults Program, benchmarks may be: (a) enrolling 5,000 uninsured adults; and (b) providing 15,000 primary care visits per year.
- For the Community Food Assistance Grant Program, benchmarks might be: (a) serving 8,000 households per year; or (b) reducing food insecurity among participating households by a specified percentage.

In this way, benchmarks provide clear and measurable standards for judging the performance of programs.

**Efficiency** focuses on the relationship between inputs, like money, staff, equipment and outputs like services delivered.<sup>3</sup> Greater efficiency, which is typically the objective of policymakers, is defined as obtaining the same level of output with fewer resources or generating more output with the same level of resources.

- As an example, suppose the County wants to ensure that 8,000 households receive monthly food assistance through the Community Food Assistance Grant Program. The County is considering two strategies:

Under Strategy A, the County awards \$2 million in grants to nonprofit food providers, and grantees serve 8,000 households over the year.

Under Strategy B, the County maintains the same \$2 million in grant funding but coordinates delivery routes and distribution schedules so grantees are able to serve 9,000 households.

In this example, Strategy B is more efficient because it produces more output (households served) with the same level of resources.

**Productivity** is closely related to efficiency but is often expressed as a ratio of outputs to inputs, such as “units of service per dollar” or “cases handled per staff member.” This concept provides a concrete way to quantify how much service is produced for each unit of resource.

- As an example, suppose the County spends \$4 million for the Medical Care for Uninsured Adults Program on clinic contracts, staff, medicines, and lab tests, and provides 16,000 primary care visits in a year. In this case, the program’s productivity could be expressed as 4 visits per \$1,000 of spending. If the same \$4 million supports 18,000 visits the following year, productivity has improved because more output (visits) is being produced with the same level of resources.

<b>Program</b>	<b>Annual spending</b>	<b>Primary care visits</b>	<b>Productivity (visits per \$1,000)</b>
Medical Care for Uninsured Adults – Year 1	\$4,000,000	16,000	4
Medical Care for Uninsured Adults – Year 2	\$4,000,000	18,000	4.5

**Effectiveness** is a result-oriented concept that can be understood in two ways. A basic notion of effectiveness is output-oriented: a program may be considered effective if it meets agreed-upon benchmarks for service delivery (e.g., number of clients served or visits provided

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<sup>3</sup> The definition of “efficiency” used in the context of budgeting is distinct from, though related to, the traditional economic concept of efficiency as the maximization of social welfare given scarce resources and minimal waste. Ackerman, Frank and Lisa Heinzerling (2004). *Priceless: On Knowing the Price of Everything and the Value of Nothing*. New York, NY: The New Press.

per month). A more robust notion of effectiveness is outcome-oriented: it asks whether the program's activities cause meaningful changes in community conditions or participant well-being.

- As an example, consider the Medical Care for Uninsured Adults Program:

**Inputs:** The County funds clinic contracts, medical staff, medicines, lab tests, and outreach to uninsured adults.

**Outputs:** The program enrolls 5,000 uninsured adults and provides 15,000 primary care visits in a year.

**Outcomes:** A growing share of participants have their chronic conditions managed in primary care rather than in emergency rooms, and avoidable emergency room visits among program participants decline, compared with prior years.

In this example, efficiency and productivity can be measured in terms of visits per dollar or per staff member, but effectiveness is judged by whether the program achieves its outcome goals—such as reducing avoidable emergency room use and improving health for low-income uninsured adults.

Evaluating effectiveness in this outcome-oriented sense requires more than tracking performance measures over time. It typically involves applying robust research designs to specific programs—for example, piloting a new initiative or conducting an in-depth evaluation of an existing program—and then using the findings to inform future budget decisions.

Importantly, it is not feasible or necessary to conduct rigorous outcome evaluations for every government program. Instead, local governments often focus these studies on high-priority, innovative, or high-cost initiatives where the potential learning is greatest.

The table below illustrates how inputs, outputs, and outcomes interact for the Medical Care for Uninsured Adults Program and can help identify where more rigorous evaluation might be most useful.

### Evaluating Outcome-Level Effectiveness

Effectiveness in terms of outcomes generally cannot be established by simply observing changes in performance measures over time. Determining whether a government program *actually causes* improvements in a specific outcome(s) requires conducting an **impact evaluation**. As a core tool of evidence-based policymaking, impact evaluations strive to answer cause-and-effect questions regarding the real-world impact of a policy or program on a specific outcome(s) using rigorous empirical methods.

One approach to conducting an impact evaluation, widely considered the “gold standard,” is to use experimental designs, namely **randomized controlled trials (RCTs)**. In an RCT, eligible participants or locations are randomly assigned to receive a new program (“treatment”) and researchers compare changes in outcomes between the treatment and participants/locations that have not received the new program (“control”). To illustrate:

- The County could partner with an academic institution to evaluate the effectiveness of Medical Care for Uninsured Adults Program by randomly assigning eligible neighborhoods to receive a County-funded clinic (the treatment group) or to continue without a new clinic for a defined period (the control group). Researchers could then compare changes in outcomes—such as avoidable emergency room visits, rates of chronic disease control, or access to basic care—between treatment and control neighborhoods to estimate the program’s impact. If the study demonstrates that the program improves outcomes, this evidence would provide a strong empirical basis to justify expanding the program to all eligible neighborhoods.

When random assignment is not feasible, evaluators can use **quasi-experimental methods** to approximate a comparison group. Quasi-experimental designs use observational data to construct “as-if random” treatment and comparison groups—for example, by exploiting eligibility rules, timing, or other features of program implementation—without true random assignment. Two common methods are regression discontinuity and matching. For example:

- A regression discontinuity design may compare outcomes for neighborhoods just above and just below an eligibility cutoff for receiving a new Medical Care for Uninsured Adults clinic (i.e., based on a threshold for the share of uninsured adults). Because neighborhoods close to the cutoff are likely to be similar on most characteristics, differences in outcomes (e.g., avoidable emergency room visits) can be attributed to the presence or absence of the clinic.
- Matching methods may pair neighborhoods that have a clinic with similar neighborhoods that do not, based on observable characteristics such as baseline health indicators, demographic composition, uninsured rates, and existing provider capacity. By comparing changes in outcomes between these matched neighborhood pairs, evaluators aim to isolate the effect of the clinic from other differences between neighborhoods.

**Source:** Paul J. Gertler et al. (2016), [\*Impact Evaluation in Practice, Second Edition\*](#), Washington, DC: Inter-American Development Bank and World Bank.

### 3. Decision Rules and Evaluation Rules

**Primary decision rules:** Under performance budgeting, spending allocations are primarily made by linking dollars to programs and performance measures. Executive and legislative policymakers rely on agency proposals that connect requested funding levels to specific output targets and, in some cases, outcome targets. Agency heads and budget staff typically play a central role in defining measures, setting targets, and proposing how resources should be distributed across programs to advance adopted goals.

**Primary evaluation rules:** In this model, “good” budgeting is judged mainly by documented performance results. The results focus on whether there is evidence that programs are meeting efficiency, productivity, or outcome benchmarks and that spending is aligned with strategic priorities. Performance reports, trend data, and comparisons across time or jurisdictions serve as key forms of evidence when assessing whether allocations are appropriate and whether adjustments are warranted. Additionally, as described in the above table, impact evaluations for targeted programs may serve as evidence to justify changes to their funding levels.

### 4. Advantages of Performance Budgeting

Performance budgeting offers several advantages for local governments:

- **Stronger justification for funding decisions:** Performance budgeting can temper political pressures by grounding budget discussions in performance information rather than special interests, ideology, or received wisdom. When clear measures show whether goals are being met, it becomes easier to identify where adjustments are needed and to explain why certain programs are expanded or reduced.
- **Improved accountability and transparency:** By linking dollars to measurable outputs and outcomes, performance budgeting makes it clearer what residents receive in return for public spending. This provides an evidence-based framework for resource allocation, helping elected officials and the public see how funding choices relate to results.
- **Better alignment with goals and priorities:** Because performance budgeting emphasizes results, it can help align spending with adopted goals and strategic priorities. When well designed, performance measures can encourage departments to focus on outcomes that matter to residents rather than simply maintaining historical spending patterns.
- **Support for continuous improvement:** Regular tracking and comparison of performance measures over time can highlight opportunities to improve efficiency or effectiveness. Decision-makers can use data to refine service designs, adopt more efficient practices, or reallocate resources toward approaches that show stronger results.

- **Compatibility with other budget models:** Performance budgeting is compatible with traditional line-item, program, or biennial budgeting structures because performance information can be layered onto these models.

### 5. Limitations and Criticisms

Performance budgeting has several limitations:

- **Measurement burden and time demands:** Developing reliable performance measures can be very time consuming, often taking years to design, test, and refine. This long timeline can make it difficult to sustain political support, especially as elected officials change over election cycles.
- **Perceived threats to staff and programs:** Because performance data can be used to justify budget cuts, program reductions, or staff downsizing, the system can create a work environment where employees feel threatened. This may discourage honest reporting or innovation if staff worry that negative results will be punished.
- **Reduced budget flexibility:** Once performance targets and measures are built into the budget, they can limit flexibility to reallocate funds quickly in response to emerging needs or new priorities. Meeting established performance commitments may constrain the ability to shift resources midyear.
- **Misalignment with community values and priorities:** Performance measures do not always capture what matters most to residents or reflect the community's values and priorities. When measures emphasize what is easy to count rather than what is most important, they can unintentionally limit progress on broader community goals and equity concerns.

## D. Zero-Based Budgeting

### 1. Definition and Description

Zero-based budgeting is an alternative model that aims to incentivize innovation and promote more efficient allocation of scarce public resources. This model differs from the others examined in this report that treat last year's budget as a starting point and adjust it incrementally. Instead, zero-based budgeting begins from a conceptual "zero" and requires government programs and services to be justified from the ground up on a regular basis, rather than relying on prior-year allocations. By doing so, it prompts budget participants to examine critically whether existing resources should continue to support current activities or be reallocated to other programs or services.

### 2. Operational Mechanics

Zero-based budgeting typically builds on a line-item budget format and involves five key elements:

First, organizational leadership **identifies decision units**—the parts of the organization responsible for preparing and defending budget proposals. It then assigns decision unit managers to lead the process. For example:

- Let's suppose County leadership identifies the Health Department as the decision unit responsible for two programs: the Medical Care for Uninsured Adults Program and the Community Food Assistance Grant Program. Rather than automatically beginning with last year's budgets for these programs, the department must treat each program as if it is starting from a conceptual zero and build up funding requests by defining and justifying service levels and approaches.

Second, organizational leadership **specifies the budget levels** each decision unit must prepare. For example:

- The Health Department may be instructed to submit proposals at:
  - (1) Current service levels – approximately 100 percent of last year's funding;
  - (2) Reduced level – i.e., 90 percent of last year's funding; and
  - (3) Enhanced level – i.e., 105 percent.

The department must justify each dollar requested up to the specified levels, rather than assuming that existing activities automatically continue.

Third, decision unit managers **develop innovative decision packages** for each program that link dollars to service levels and consequences. For example:

- For the Medical Care for Uninsured Adults Program, the Health Department might prepare three packages:
  - (1) Current services package maintains existing funding, enrollment, and visit targets;
  - (2) Reduced level package reduces funding and scales back enrollment, clinic sites, and outreach;
  - (3) Enhanced level package modestly increases funding to extend evening clinic hours or add capacity in high-need neighborhoods.

Each package specifies the expected inputs (e.g., total funding, contracted clinic capacity, and staff positions), the outputs (e.g., as number of adults enrolled and number of visits provided), and the anticipated outcomes or tradeoffs (e.g., changes in avoidable emergency room use or access in underserved areas).

Fourth, decision unit managers **rank their decision packages** in line with organizational goals and guidelines. For example:

- The Health Department ranks the above decision packages in line with County goals and guidance. Managers first rank packages within each program (e.g., placing the package that maintains essential medical care above a package that reduces services). Then they prepare an overall ranked list across programs that reflect organizational priorities and statutory requirements.

Finally, during budget development, **central decision-makers use this ranked list to arrive at the final budget**. Under tight fiscal conditions, they may only be able to fund the highest-priority packages. If additional resources become available, they can move further down the list to add enhancement or innovation packages.

In this way, the operational mechanics of zero-based budgeting require departments to make explicit choices about which combinations of inputs, service levels, and outcomes they are prepared to recommend.

### 3. Decision Rules and Evaluation Rules

**Primary decision rules:** Under zero-based budgeting, spending allocations are primarily made by developing and ranking decision packages for each program or decision unit, starting from a conceptual zero rather than last year's funding levels. Executive and legislative policymakers decide which packages to fund using the ranked lists prepared by agency heads and budget staff, who are responsible for specifying alternative funding levels, associated service changes, and tradeoffs, and for recommending which combinations of packages best align with organizational goals and statutory requirements.

**Primary evaluation rules:** In this model, "good" budgeting is judged mainly by the strength and clarity of the justification for each decision package, including how well requested funding levels are linked to specific inputs, outputs (service levels), and expected outcomes or consequences. Evidence that a package uses resources more efficiently than lower-ranked options plays a central role in determining which packages are funded and which are reduced, redesigned, or discontinued.

### 4. Advantages of Zero-Based Budgeting

Zero-based budgeting offers several advantages:

- **Structured cutback management:** This model is useful during periods of fiscal stress because it provides a systematic framework for making thoughtful and strategic reductions in spending. By requiring justification for all expenditures, it helps organizations protect core capacity while eliminating, scaling back, or redesigning lower-priority programs, rather than relying on across-the-board cuts.
- **Stronger alignment with current priorities:** This model encourages decisionmakers to align spending with current strategic goals and community needs instead of simply carrying forward historical patterns. This can create more

space to redirect resources from lower-value activities to higher-priority programs or emerging issues.

- **Deeper understanding of costs and tradeoffs:** Preparing and ranking decision packages requires managers to articulate the purpose, cost structure, and expected results of their programs. This process can deepen organizational understanding of cost drivers, clarify the tradeoffs among alternative service levels, and support more informed budget deliberations by executive and legislative policymakers.
- **Enhanced transparency and accountability:** By documenting what each decision package would fund, this model can make the rationale for spending decisions more transparent to both internal stakeholders and the public. This documentation helps clarify why programs are maintained, expanded, reduced, or discontinued, which can enhance accountability surrounding the allocation of scarce resources.
- **Compatibility with other budget models:** Zero-based budgeting can be integrated with other models rather than used on its own. For example, jurisdictions can retain a line-item structure for tracking inputs while using performance metrics to compare the expected outputs and outcomes of different decision packages.

## 5. Limitations and Criticisms

Despite its strengths, zero-based budgeting has several limitations:

- **Legal and program rigidity:** Many government programs are governed by statute or regulation and cannot be significantly altered in the short term without legislative changes. This can limit how much zero-based budgeting can reshape spending.
- **Time and resource intensity:** Zero-based budgeting is typically more time-consuming, complex, and costly than other models because it requires detailed analysis and documentation for many programs and activities.
- **Administrative burden and internal conflict:** The need to involve more people in preparing and defending decision packages can increase administrative workload and create internal tensions as programs compete for limited resources.
- **Vulnerability to political override:** Zero-based budgeting can lose credibility when programs identified as inefficient or low priority still receive funding due to strong political support.

## E. Biennial Budgeting

### 1. Definition and Description

Biennial budgeting, also known as two-year budgeting, is an approach in which a local government adopts a budget framework covering two fiscal years instead of the more common one-year cycle. Thus, instead of reviewing and passing a new budget each year, a biennial process typically involves adopting either a single measure that funds two full fiscal years or two one-year budgets considered and approved together.

### 2. Operational Mechanics

A core concept in biennial budgeting is the **budget timeline**, which refers to the period during which decisionmakers develop, negotiate, and finalize the budget. Biennial budgeting extends that timeline across two fiscal years. There are two primary approaches to implementing this model, each structuring how the two-year cycle works in practice:

The “**stretch**” **approach** extends the budgeting process across a full two-year cycle to provide legislators and staff with more months to negotiate, refine, and adopt appropriations than in a one-year process. The longer timetable aims to support more careful consideration of tradeoffs and program impacts during the budgeting process.

The “**split sessions**” **approach** breaks the budgeting process into two periods. The first year is devoted to major budgetary actions, including adoption of the budget resolution and regular appropriations. The second year focuses on oversight and non-budgetary legislation. Although the second year is not meant for a full new budget cycle, the model allows for mid-biennium budget adjustments, such as supplemental or emergency appropriations, when changing circumstances make them necessary.

Within biennial budgeting, two key structural elements shape how the two-year cycle operates:

- **Two-year budget resolutions** provide a fiscal blueprint that sets overall spending and revenue levels for both years of the biennium.
- **Two-year appropriations** provide budget authority for two years at once, either by enacting a single measure that covers a continuous two-year period or by passing one bill that specifies separate one-year amounts for each of the two fiscal years.

To illustrate how a biennial structure operates in practice, consider a County Health Department that manages the Medical Care for Uninsured Adults Program:

- Under a biennial process, the Council adopts a two-year budget resolution that sets overall Health Department spending targets for two fiscal years, along with two-year revenue assumptions. The Council then approves two-year appropriations for the department, either through a single measure that sets funding over the full biennium or through one bill that sets separate amounts for each fiscal year.

- In a “stretch” biennial process, the Health Department uses the two-year cycle to plan its programs across both years. The two-year appropriation sets overall funding for the Medical Care for Uninsured Adults Program, with service changes phased in over the biennium. In the first year, the department could focus on stabilizing clinic capacity for uninsured adults. In the second year, it could roll out planned enhancements (i.e., evening clinic hours) without going through a full annual budget process.
- In a “split sessions” approach, most of the major decisions affecting the program are made in the first year of the biennium, when the Council adopts the two-year budget resolution and appropriations. During that first year, the Health Department works within the approved amounts to set enrollment targets for uninsured adults and clinic contract levels. In the second year, attention shifts to oversight and monitoring: staff and elected officials review whether the Medical Care for Uninsured Adults Program is meeting enrollment and visit targets. If economic conditions change, the Council can use mid-biennium adjustments or supplemental appropriations to modify the second-year funding for the program.

### 3. Advantages of Two-Year Budgeting

There are several commonly cited advantages to two-year budgeting:

- **Reduced workload:** The model can reduce legislative workload by eliminating the need to pass a full, new budget every year, allowing lawmakers to devote less time to the procedures of annual budget adoption.
- **Stronger oversight:** It can enhance agency oversight by devoting “off years” in a biennium to monitoring implementation, reviewing performance, and evaluating program outcomes.
- **Long-term planning:** It can improve long-term planning and encourage more thoughtful policy development by giving policymakers and agencies a longer time horizon to analyze fiscal impacts, policy tradeoffs, and alternatives.
- **Fiscal discipline:** It may foster stronger fiscal discipline, as committing to a two-year plan can encourage adherence to multi-year goals while still allowing targeted mid-biennium adjustments when conditions change.
- **Compatibility with other budget models:** It can be integrated with other models. For example, jurisdictions can use a line-item structure, performance metrics, and a zero-based approach for certain programs within a biennial budgeting process.

#### 4. Limitations and Criticisms

Two-year budgeting has several commonly cited limitations and criticisms.

- **Forecasting risk:** Longer planning horizons make it harder to produce accurate revenue and expenditure estimates. This challenge increases the risk of basing budgets on assumptions that become outdated or incorrect over the biennium.
- **Reduced annual oversight and flexibility:** Moving away from a full annual budget cycle can weaken routine oversight and make it harder to adjust to new economic, social, environmental, or other conditions, potentially reducing legislative responsiveness even if mid-biennium adjustments are possible.
- **Political and transition constraints:** Incoming administrations may be constrained by a biennial budget adopted under their predecessors, limiting their ability to realign spending quickly with new policy priorities.

#### F. Participatory Budgeting

##### 1. Definition and Description

Participatory budgeting is a democratic process in which community members directly decide how to allocate a defined portion of a public budget. It differs from traditional budgeting processes in terms of **budgetary decision-making authority**. Traditional processes give elected officials formal authority over budget decisions, whereas participatory budgeting gives residents real decision-making power over public funds. This shifts at least part of the budgeting models from closed-door negotiations to open, community-based decision forums.

Participatory budgeting began in 1989 in Porto Alegre, Brazil, as an anti-poverty initiative designed to redirect resources toward underserved neighborhoods. Since then, the model has spread globally to thousands of jurisdictions and institutions—including cities, counties, school systems, public housing authorities, and universities. In many places, participatory budgeting is framed as a tool for democratic innovation and civic empowerment, especially for communities that have been historically excluded from formal budget decision-making processes.

##### 2. Operational Mechanics

Participatory budgeting processes typically follow a recurring cycle with several common steps that can be adapted to different jurisdictions and institutions.

**Process design and outreach:** Public officials and community partners define the share of the budget involved, eligibility rules, timeline, and basic ground rules for resident participation. Outreach efforts aim to inform and recruit residents, often with extra attention to communities underrepresented in traditional budget processes. For example:

- Public officials decide that \$500,000 of the Community Food Assistance Grant budget will be allocated through participatory budgeting and set the eligibility rules,

timeline, and basic ground rules for resident participation. They then conduct outreach to inform and recruit residents—especially those in neighborhoods with high food insecurity or who are underrepresented in traditional budget processes—to take part in proposing and deciding how the money will be used.

**Idea collection and neighborhood assemblies:** Residents identify local needs, propose project ideas, and discuss priorities in public meetings, assemblies, or online forums organized by geographic area (such as districts, neighborhoods, or service areas) or by specific populations. Staff or community facilitators help translate broad concerns into concrete, fundable ideas that fit within the available participatory budgeting funds. For example:

- Residents who are eligible to participate in the Community Food Assistance Grant process identify local needs and suggest how the \$500,000 should be targeted. In appropriate forums, they discuss which areas have the highest food insecurity, what types of providers or distribution models are most needed (e.g., mobile pantries or evening hours), etc.

**Proposal development and technical review:** Resident delegates or committees work with government staff to refine ideas into detailed proposals, including cost estimates, feasibility assessments, and alignment with legal or policy constraints. This phase often involves narrowing the list of ideas to a ballot of viable projects that can realistically be implemented within the budget. For example:

- Resident delegates or committees work with County staff to turn the community's priorities into detailed grant proposals. County budget, procurement, and program staff provide technical expertise (i.e., guidance on staffing needs, facility requirements, and legal constraints) to ensure proposals are feasible and compliant with law.

**Voting and decision-making:** Eligible residents vote on the proposals, typically using in-person, online, or mobile voting methods designed to be as accessible as possible. Projects are funded in order of votes received until the budget is exhausted, giving residents direct authority over which projects move forward. For example:

- Eligible residents vote—using in-person, online, or mobile methods—on the set of viable Community Food Assistance Grant proposals that fit within the 500,000-dollar budget. Projects are then funded in order of votes received until the 500,000 dollars is exhausted. This gives residents direct authority over which food assistance projects and providers receive funding.

**Implementation and monitoring:** Government agencies implement the winning projects within their regular capital or operating processes, while residents and community organizations monitor progress and raise concerns if implementation lags or deviates from approved plans. Many participatory budgeting processes require officials to publish regular updates and a final report on the status and outcomes of funded projects to support transparency and learning.

In addition to these common steps, some participatory budgeting models incorporate further design features to promote fairness and local ownership. For example, certain jurisdictions use formulas or indices—such as “quality of life” or need-based indices—to guide how participatory budgeting funds are distributed across neighborhoods, while others establish neighborhood or regional councils with ongoing roles in monitoring implementation and advising on future cycles. Some models also include continuous public forums, thematic committees (such as youth or housing councils), or mandated year-end evaluations that assess how well the process met its goals and inform adjustments in subsequent cycles. For example:

- For the Community Food Assistance Grant Program, County staff award grants to the organizations behind the winning projects and integrate them into the regular grant management process. Residents and community groups who participated in the process receive periodic updates and can raise concerns if implementation falls behind or diverges from what was approved.

### 3. Decision Rules and Evaluation Rules

**Primary decision rules:** Under participatory budgeting, spending allocations within the designated budget are primarily made through resident-driven processes in which community members propose, deliberate on, and vote for projects, rather than through internal negotiations among public officials. Executive and legislative policymakers retain ultimate legal authority over the overall budget framework, but within this model, residents, resident delegates, and community organizations play a central role in identifying priorities and deciding which eligible projects receive funding.

**Primary evaluation rules:** In this model, “good” budgeting is judged mainly by the extent to which funded projects reflect resident-supported priorities, address community-identified needs, and are implemented as promised. Valid evidence includes the level and diversity of resident participation, the clarity and fairness of the process, and documentation that funds are reaching the neighborhoods, populations, and issue areas that participants prioritized, as well as information on how the projects affect local conditions.

### 4. Advantages of Participatory Budgeting

Participatory budgeting offers several advantages for local governments when processes are well designed and implemented:

- **Deepens democratic participation:** The model gives residents a direct, binding role in deciding how public funds are used, rather than limiting them to consultation or advocacy outside formal budget decisions.
- **Builds social cohesion and civic capacity:** Because residents meet, deliberate, and collaborate on shared priorities, the model can strengthen community networks and trust in public institutions.

- **Improves transparency and accountability:** Because discussions, proposals, and voting occur in public forums, the model clarifies how decisions are made and encourages public monitoring of whether funded projects are implemented.
- **More responsive to local needs:** The model channels resources toward projects identified and prioritized by residents, especially when outreach efforts successfully engage communities often underrepresented in traditional budget processes.
- **Enhances understanding of government operations:** By participating in the formal budget process, residents learn about budget constraints, project feasibility, and administrative processes, which can support more informed participation in other policy arenas.
- **Compatibility with other budget models:** It can be integrated into existing budget structures rather than replacing them. For example, policymakers can designate a portion of funds within a line-item or program budget for participatory budgeting, use performance measures to monitor the outputs and outcomes of these projects, while relying on traditional processes for the rest of the budget.

## 5. Limitations and Criticisms

Some of the major limitations of participatory budgeting that have been cited include the following:

- **Interest-group capture and elite manipulation:** Participatory budgeting can be captured by organized interests, creating an illusion of broad participation while allowing powerful actors to steer outcomes toward their own agendas.
- **Tyranny of decision-making and control:** The process may sideline existing representative institutions and still overrule marginalized groups, reinforcing power imbalances even as it claims to democratize decision-making.
- **Tyranny of group dynamics:** Unequal facilitation and group dynamics can let dominant participants control discussions, leaving residents from marginalized communities effectively voiceless in participatory budgeting forums.

## G. RESJ and Community Engagement Considerations

In this section, OLO analyzes each budget model for its implications for RESJ and community engagement, including who participates and whose needs are prioritized. It then briefly outlines how each model can be adapted to better advance these goals.

### 1. Line-Item Budgeting

Line-item budgeting is a model designed for internal financial control and accountability that does not require explicit attention to RESJ or strong community engagement. By stressing

internal financial management and compliance with accounting rules, it can leave equity goals outside its core budget structure.

To advance RESJ within a line-item framework, jurisdictions generally must add separate tools or processes for equity considerations to influence how dollars are allocated. These tools may include equity impact assessments, targeted outreach, or RESJ-focused budget guidelines.

Another approach is to integrate elements from other budget models that center equity more directly—for example, incorporating performance measures that track outcomes for specific racial/ethnic groups or dedicating a portion of funds to participatory budgeting processes that prioritize input from communities most affected by inequities.

### **2. Performance Budgeting**

Performance budgeting is largely an internal, data-driven model that does not necessarily require explicit attention to RESJ or strong community engagement. It focuses on measurable results. However, those measures may or may not reflect the experiences, priorities, or disparities in outputs/outcomes affecting BIPOC residents.

To advance RESJ within a performance budgeting framework, jurisdictions generally must design performance measures and targets that explicitly incorporate equity goals and community perspectives. BIPOC communities can help define what “success” means, identify which outcomes matter most, and interpret performance results in light of lived experience. When BIPOC residents participate in setting performance goals and indicators, jurisdictions are better positioned to align budgets with shared values and needs.

Another approach is to integrate elements from other budget models that center equity more directly—for example, including performance measures disaggregated by race/ethnicity or dedicating funds to participatory budgeting processes that give residents most affected by inequities a direct role in shaping priorities and projects.

### **3. Zero-Based Budgeting**

Zero-based budgeting is a model that stresses internal justification and data to guide resource allocation and does not necessarily require explicit attention to RESJ or strong community engagement. It emphasizes program managers constructing and ranking decision packages rather than incorporating the experiences, priorities, or disparities in outputs/outcomes affecting BIPOC residents.

To advance RESJ within a zero-based budgeting framework, jurisdictions generally must build equity and community perspectives directly into how decision packages are developed and evaluated. This can include incorporating resident feedback on needs and impacts, requiring packages to describe how proposed funding levels and service changes will affect BIPOC communities, and assessing whether rankings may widen or narrow existing inequities.

Another approach is to integrate elements from other budget models that center equity more directly—for example, using performance measures disaggregated by race/ethnicity to inform how decision packages are ranked, or reserving a portion of funds for participatory budgeting processes that give residents a direct role in shaping which packages move forward.

#### **4. Biennial Budgeting**

Two-year budgeting is a model that centers the budget timeline and does not necessarily require explicit attention to RESJ or strong community engagement. It extends the timeline to two years in a way that does not automatically incorporate the experiences, priorities, or disparities in outputs/outcomes affecting BIPOC residents.

To advance RESJ within a two-year budgeting framework, jurisdictions can use the longer planning horizon—and especially the off-year periods—to deepen engagement with BIPOC communities, co-develop multi-year priorities, and embed RESJ impact assessments into mid-biennium reviews and oversight activities.

Another approach is to integrate elements from other budget models that center equity more directly—for example, tracking performance measures disaggregated by race/ethnicity over the two-year period, or dedicating a portion of funds within the biennial plan to participatory budgeting processes that give residents most affected by inequities a direct role in shaping priorities and mid-biennium adjustments.

#### **5. Participatory Budgeting**

Compared to the other models, participatory budgeting has historically given explicit attention to RESJ and institutionalizes stronger community engagement. By providing structured opportunities to identify priorities, develop proposals, and vote on projects, the model can support RESJ by bringing BIPOC communities into budget decision-making spaces where they have historically had little power.

However, RESJ outcomes are not guaranteed and depend heavily on process design. Risks such as interest-group capture, sidelining of marginalized voices, and unequal group dynamics can allow more powerful actors to dominate participatory budgeting, which can reproduce or even deepen inequities under the appearance of participation.

Equitable participatory budgeting therefore requires intentional design choices, targeted outreach, and facilitation strategies that lower barriers to participation and ensure that BIPOC can participate meaningfully and shape outcomes, rather than being overruled or tokenized.

## H. Findings and Discussion Items

### 1. Findings

The first three findings synthesize how the five budget models differ in what they are designed to achieve, how they operate in practice, and how they define and assess a “good” budget. **Table 1** summarizes each model’s primary objective, core operational mechanics, and decision rules and evaluation rules.

**Finding # 1. Each local government budget model advances a distinct primary objective, which shapes its operational mechanics and its decision rules and evaluation rules.**

- **Line-item budgeting** aims to achieve financial control and clear accounting.
- **Performance budgeting** seeks to improve efficiency and effectiveness.
- **Zero-based budgeting** aims to realign spending with current priorities and promote more efficient use of scarce resources.
- **Biennial budgeting** seeks to strengthen long-term fiscal planning and stability.
- **Participatory budgeting** aims to foster community participation and power in budget decisions.

**Finding # 2. Each local government budget model differs in its operational mechanics, particularly how it emphasizes inputs, outputs, and outcomes, uses baselines and timelines, and assigns budgetary decision-making authority.**

- To achieve financial control and clear accounting, **line-item budgeting** organizes the budget by inputs and standardized object codes at department and program levels, typically building on a prior-year baseline with incremental changes and concentrating formal authority with executive and legislative decision-makers.
- To improve efficiency and effectiveness, **performance budgeting** links inputs to outputs and, where feasible, outcomes through benchmarks and performance measures, using efficiency, productivity, and effectiveness metrics to guide allocation decisions and track progress toward adopted goals.
- To realign spending with current priorities and promote efficient use of scarce resources, **zero-based budgeting** starts from a conceptual “zero” rather than prior-year baselines and requires managers to develop and rank decision packages at different funding levels that link dollars to service levels and tradeoffs for central decision-makers.

- With the goal of strengthening long-term fiscal planning and stability, **biennial budgeting** adopts a two-year budget timeline—either a full two-year cycle or a first year focused on adoption and a second year on oversight and mid-biennium adjustments—while typically retaining an underlying line-item or performance structure.
- To expand community participation and power in budget decisions, **participatory budgeting** shifts a defined share of budgetary decision-making authority from officials to residents by dedicating funds to a structured public process in which residents identify needs, develop proposals, and vote on projects to be funded.

**Finding # 3. Each local government budget model relies on a distinct set of decision rules and evaluation rules that translate its primary objective and operational mechanics into concrete allocation choices.**

- **Line-item budgeting** uses input categories and departmental appropriations as the main decision rules. It judges a “good” budget primarily by compliance with spending limits, correct use of object codes, and clear accounting control.
- **Performance budgeting** allocates resources using performance targets and measures as key decision rules. It evaluates budgets based on an analysis of inputs, outputs, and, when feasible, outcomes to measure progress/regression toward policy goals.
- **Zero-based budgeting** structures choices around ranked packages of services at different funding levels. It treats strong, transparent justification of each package’s costs, service levels, and impacts as the primary evidence of good budgeting.
- **Biennial budgeting** makes allocation decisions within a two-year planning framework. It assesses budget quality by adherence to multi-year fiscal targets and plans that maintain balance and predictability over the biennium.
- **Participatory budgeting** uses resident proposal development and voting as core decision rules for a defined share of funds. It considers alignment with resident-identified priorities and the successful implementation of approved projects as key evidence of a good budget.

**Table 1: Overview of Budget Models – Objectives, Operational Mechanics, and Standards for Judging Budget Quality**

<b>Budget model</b>	<b>Primary objective</b>	<b>Core operational mechanics</b>	<b>Decision rules and evaluation rules</b>
<b>Line-item budgeting</b>	Achieve financial control and clear accounting for public funds.	Organizes the budget by inputs and object codes at department and program levels; typically builds on a prior-year baseline with incremental changes.	Decisions made by allocating dollars to input categories and departmental appropriations; “good” budgeting is evidenced by compliance with spending limits, correct use of object codes, and clear accounting control.
<b>Performance budgeting</b>	Improve efficiency and effectiveness by linking resources to measurable results.	Links inputs to outputs and, where feasible, outcomes via benchmarks and performance measures; uses efficiency, productivity, and effectiveness metrics to inform allocations.	Decisions guided by performance targets and measures; a “good” budget shows documented progress (or regression) on outputs and outcomes relative to goals.
<b>Zero-based budgeting</b>	Realign spending with current priorities and promote efficient use of scarce resources.	Starts from a conceptual zero rather than prior-year baselines; managers develop and rank decision packages at different funding levels tied to service levels and tradeoffs.	Choices structured around ranked decision packages; strong, transparent justification of each package’s costs, service levels, and impacts is the main evidence of good budgeting.
<b>Biennial budgeting</b>	Strengthen long-term fiscal planning and stability.	Adopts a two-year budget timeline (full two-year cycle, or year one adoption/year two oversight and mid-biennium adjustments), usually on top of a line-item or performance structure.	Decisions made within a two-year planning framework; budget quality is judged by adherence to multi-year fiscal targets and plans that maintain balance and predictability over the biennium.
<b>Participatory budgeting</b>	Expand community participation and power in budget decisions.	Shifts a defined share of budgetary authority from officials to residents through a structured, deliberative, and participatory public process.	Uses resident proposal development and voting as core decision rules for a defined share of funds; “good” budgeting is reflected in alignment with resident-identified priorities and implementation of approved projects.

Findings 4 and 5 synthesize how each budget model's core advantages and limitations intersect with its baseline RESJ and community engagement implications; Table 2 summarizes these relationships for all five models.

**Finding # 4. Each of the budget models presents local governments with distinct advantages and limitations when adopted as the primary budget framework.**

- **Line-item budgeting** provides strong fiscal control and a clear audit trail and is relatively simple to administer; however, it can reinforce status quo patterns, weaken the link between spending and results, obscure who benefits, and respond slowly to changing needs and equity priorities.
- **Performance budgeting** encourages evidence-informed decisions, accountability, and alignment with strategic goals; however, it imposes a high measurement burden, can penalize programs serving higher-need populations, narrows attention to what is easiest to measure, and may reduce flexibility when targets become rigid.
- **Zero-based budgeting** promotes scrutiny of existing programs, strategic cutback management, and innovation; however, it is time- and labor-intensive, difficult to apply where programs are legally constrained, can heighten internal conflict, and may be overridden by political considerations.
- **Biennial budgeting** reduces the frequency of full budget cycles, frees time for oversight, and supports longer-term, multi-year planning and discipline; however, it increases forecasting risk, can reduce annual oversight and responsiveness, may constrain new leadership, and can lock in inequitable allocations for longer.
- **Participatory budgeting** broadens and deepens democratic participation, redirects funds toward underserved areas, and increases transparency and community ownership; however, it is resource intensive to run well, requires strong outreach to avoid capture by advantaged groups, and usually covers only a small share of the total budget.

**Finding # 5. Budget models vary in their attention to RESJ and community engagement strengths, but each can be adapted to better support equity.**

The five budget models differ in how strongly they support RESJ and community engagement. Participatory budgeting provides the most direct pathway to enhance these values.

**Table 2. Advantages, Limitations, and RESJ/Community Engagement Implications of Budget Models**

<b>Budget model</b>	<b>Advantages</b>	<b>Limitations</b>	<b>RESJ and community engagement implications</b>
<b>Line-item budgeting</b>	Strong fiscal control and clear audit trail; simple to administer and understand; adaptable as a base layer under other formats.	Reinforces status quo spending patterns; weak link between spending and services/results; limited visibility into who benefits; slow to respond to changing needs and equity priorities.	Offers limited inherent support for RESJ because it centers inputs rather than impacts; without additional coding and analysis, it can obscure distributional effects across neighborhoods and populations.
<b>Performance budgeting</b>	Supports evidence-informed decisions; strengthens accountability and transparency; better aligns resources with strategic goals; encourages continuous improvement and more efficient service delivery.	High measurement and data burden; risk of penalizing programs serving higher-need populations; may narrow focus to what is easiest to measure; can reduce flexibility if targets become rigid.	Has strong potential to support RESJ if measures are co-developed with affected communities and disaggregated by race and other factors, but can work against equity if metrics ignore differing levels of need or context.
<b>Zero-based budgeting</b>	Encourages scrutiny of existing programs; supports strategic cutback management; can redirect resources toward higher priorities; promotes innovation in service design.	Time- and labor-intensive; difficult where programs are legally or contractually rigid; can heighten internal conflict; may be overridden by political considerations.	Can be a powerful tool for reallocating resources toward equity priorities if equity criteria shape how decision packages are developed and ranked; without explicit RESJ criteria, it may simply reshuffle resources without addressing disparities.
<b>Biennial budgeting</b>	Reduces frequency of full budget cycles; frees time for oversight and evaluation; supports longer-term planning; may strengthen fiscal discipline and multi-year thinking.	Increases forecasting risk; can reduce routine annual oversight and responsiveness; may constrain new leadership; can lock in inequitable allocations for longer if not revisited.	Creates space in “off” years for structured RESJ reviews, evaluation, and engagement, but if those practices are not built in, the longer cycle can entrench inequities by making course-corrections less frequent.
<b>Participatory budgeting</b>	Deepens democratic participation and civic trust; elevates lived experience; can redirect funds to underserved areas; increases transparency and community ownership.	Resource- and staff-intensive to design and facilitate; requires strong outreach to avoid capture by advantaged groups; typically covers only a small share of the total budget.	Offers the strongest direct pathway for resident voice and shared power, especially for BIPOC and other marginalized communities, if the process is intentionally designed to reduce participation barriers and center equity.

**Finding # 6. Because of these tradeoffs, no single budget model is likely to meet the County’s fiscal management, policy, equity, and community engagement objectives on its own. Instead, models can play complementary roles within an integrated budget framework.**

**Table 3. Integration Strategies to Address Limitations and Advance RESJ**

<b>Budget model</b>	<b>Integration potential to address disadvantages</b>	<b>Integration ideas to improve RESJ and community engagement</b>
<b>Line-item budgeting</b>	Use as the core appropriations and accounting framework, while layering other models on top to compensate for weak links to results and slow responsiveness.	Add equity-relevant coding (e.g., populations, neighborhoods, program types), disaggregate line-item data, and pair with performance and participatory elements so distributional impacts and benefits to marginalized communities are visible.
<b>Performance budgeting</b>	Apply selectively to high-priority programs, where added measurement burden is justified, while relying on simpler approaches elsewhere to preserve flexibility.	Co-develop measures and targets with affected communities, disaggregate indicators by race and other factors, and incorporate equity-focused metrics (access, burden, outcomes) alongside efficiency metrics.
<b>Zero-based budgeting</b>	Use periodically and in targeted areas (e.g., high-cost, underperforming, or redesign candidates) to avoid systemwide administrative overload and internal conflict.	Build explicit equity criteria into decision packages and ranking (e.g., impact on underserved communities, reduction of disparities); invite community input when defining what counts as “priority” investments.
<b>Biennial budgeting</b>	Combine a two-year planning horizon with retained annual appropriation and mid-course adjustment mechanisms to reduce forecasting and rigidity risks.	Dedicate “off” years to structured RESJ reviews, performance and equity evaluations, and deeper community engagement that can inform mid-biennium adjustments and the next planning cycle.
<b>Participatory budgeting</b>	Allocate a defined share of funds (e.g., capital, discretionary, neighborhood allocations) through PB, while managing the overall budget through line-item and performance structures to address scale and capacity limits.	Design participatory budgeting processes that intentionally center BIPOC and other marginalized residents (targeted outreach, accessible formats, support for participation), and ensure decisions inform broader budget priorities over time, not just a small funding pot.

## 2. Discussion Items

Montgomery County’s budget process combines a line-item backbone, selected performance measures, and formal RESJ tools and review. The operating budget is organized by departments, funds, and standardized object codes, and uses “priority outcomes as a focal point for budgeting.” Additionally, under the RESJ Act, departments must complete an Operating Budget Equity Tool (OBET) explaining how their requests affect racial disparities, which the Office of Racial Equity and Social Justice reviews and shares with budget decisionmakers so equity impacts are explicitly considered during development of recommended and adopted budgets.<sup>4</sup>

### **Discussion Item #1. Targeted application of zero-based and participatory budgeting within the existing framework.**

The Council could consider whether and how to apply zero-based budgeting and participatory budgeting in a targeted manner within the current budget structure. In practice, this could include: identifying a small set of strategically important programs (e.g., major health, housing, or safety-net initiatives) for periodic zero-based review, requiring managers to build and rank decision packages that explicitly address certain impacts. It could also include piloting participatory budgeting for a defined share of capital, discretionary, or neighborhood-level funds. A key discussion question is which programs or funding streams are most appropriate for these targeted applications, given administrative capacity, legal constraints, and the County’s RESJ priorities.

### **Discussion Item #2. Feasibility and desirability of incorporating biennial budgeting elements.**

The Council may also wish to explore whether introducing biennial budgeting elements is feasible and desirable in the County’s context, given its existing annual cycle and statutory requirements. Options range from a full two-year budget resolution and appropriations to a more minimalist approach that retains annual appropriations but uses a two-year planning horizon and “off” years for enhanced oversight, performance review, and structured RESJ-focused engagement. Key questions include whether a longer planning horizon would meaningfully improve long-term fiscal discipline and policy planning, how forecasting risk and reduced annual flexibility would be managed, and how off-year periods could be intentionally used to deepen equity analysis and community engagement.

### **Discussion Item #3. Identifying priority programs for rigorous impact evaluation.**

Earlier sections of this report noted that assessing **effectiveness in terms of outcomes** generally cannot be done by tracking performance measures alone and instead requires rigorous impact evaluation methods, such as randomized controlled trials (RCTs) or strong quasi-experimental designs. These approaches are resource intensive and not appropriate for

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<sup>4</sup> Montgomery County, Maryland, “[Operating Budget Process](#),” Montgomery County Operating Budget, accessed February 10, 2026; Montgomery County Office of Racial Equity and Social Justice, [FY27 Operating Budget Equity Tool Guidance Manual](#), accessed February 10, 2026.

every program, but when used selectively they can provide robust evidence on whether a given initiative is actually improving outcomes for residents and reducing disparities. Montgomery County's MoCo BOOST Guaranteed Income Pilot provides a recent example of this type of partnership. The pilot provides 300 households with 800 dollars per month for 24 months. It was evaluated by external research partners using mixed methods to assess its impact on participants' financial well-being and related outcomes.<sup>5</sup>

A key question for the Council is whether there are specific policies/programs that would be especially valuable to know whether the intervention causes measurable improvements in specific outcomes. If so, the Council could consider directing the executive branch to identify those priority areas and to explore partnerships with external research institutions to design and implement impact evaluations.

## **I. Acknowledgements**

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<sup>5</sup> Bogle, Mary et al. (2025), "[Evaluation of Montgomery County's Two-Year Guaranteed Income Pilot](#)," Urban Institute.