

Performance-Based Budgeting

Lessons for California

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1. Executive Summary

In 2011, the California legislature unanimously passed SB14, mandating that performance-based budgeting be implemented in all state agencies. Governor Brown, stalling the process, vetoed the bill but performance-based budgeting has continued to be a hot topic of discussion in Sacramento. The California Assembly Budget Committee contacted the Goldman School of Public Policy to task our team to provide an analysis of how performance-based budgeting has been implemented successfully in other states, and what opportunities and challenges would be significant if it is implemented in California.

Performance-based budgeting is an approach to budgeting in which the outcomes of agencies or programs are measured, reported, and factored into future budget allocations. The stated goals of performance-based budgeting differ between states, but frequently cited goals include cutting spending, promoting government transparency, increasing agencies' accountability, and informing budget decisions with data, with varying levels of emphasis on each goal depending on the state. All decisions about design elements that are discussed in this report should be made with the goals of the system and the details of the state budget process in mind.

There is some variation in how states' performance-based budgeting systems come about. The push for performance-based budgeting comes from either the governor or the state legislature. Furthermore, some states have used pilot programs to initially install performance-based budgeting in only a few agencies or programs, while other states have implemented it across all agencies at once. There are advantages and disadvantages to each of these design choices.

A major design factor for PBB systems is determining what metrics will be used. We have found variations between states in the number of metrics used and who has the power to determine and change what metrics are evaluated. A key finding is that a balance is needed between reporting too few or too many metrics: the value of more precise information must be weighed against information overload. There is no clear correct choice for who should control the system, other than the clear lesson that affected agencies should have a voice in the discussion.

Another key design element is how performance data is displayed, including its location, organization, interface, and functionality. We found that the organization of performance

information should mirror how budget decisions are made in the state, so that decision-makers can easily access relevant data for a particular meeting or budget hearing. We have also seen a wide variety of aesthetic differences in the way that data is displayed. States must confront the tradeoffs between cost and functionality to ensure that information is displayed in ways that make it useful for decision makers, while keeping the implementation and maintenance costs under control. When states fail to confront the maintenance costs of performance-based budgeting, there is risk that the systems will be deemed too costly and abandoned.

Finally, there is variation in how states use performance information in the budget process. A significant design decision is whether performance data will be informative or determinative. We have found that informative systems are much more common than determinative systems, as performance data can help inform budget decisions, but it rarely tells the full story. It is more useful for identifying problems and less useful for prescribing solutions. States also vary in how much the information is actually used: some states place a high value on the information, while others practically ignore it.

As we explore the various design elements of performance-based budgeting systems throughout this report, we've found that the most important lessons learned are that performance-based budgeting must be fit to a particular state's budget process rather than simply copied from another state, tradeoffs between cost and functionality must be openly confronted, performance information should be used to inform rather than dictate budget allocations, and that performance-based budgeting is not guaranteed to 'pay for itself,' as implementation and maintenance costs may exceed cost savings in the short term.

2. Introduction: What Is Performance-Based Budgeting?

Performance-based budgeting is an approach to appropriations that creates incentives for agencies to produce measurable results to justify spending. Performance-based budgeting has waxed and waned in popularity over the past several decades, and has made a resurgence over the past few years in light of shrinking economies and budgetary pressures that recent economic downturns have created.

No Child Left Behind is a well-known example of applying performance measurement principles to budgeting. Under NCLB the federal government wished to measure the effectiveness of schools and incentivize the education system to demonstrate measurable performance gains. Schools were expected to show that they were educating students more effectively by demonstrating improved standardized test scores. In theory the schools that showed improved performance would be rewarded through increased appropriations, and interventions could be made to target low-performing schools. The stated goal of NCLB as a form of performance-based budgeting was to increase the effectiveness in the way that government funds were allocated.

In sum, performance-based budgeting describes a budgetary system in which appropriations to agencies and programs are based in some meaningful way on reported or expected performance levels. How legislatures decide to reward or punish programs is irrelevant in this definition as the sole requisite (for the scope of this paper) for a performance-based budget system is that budget allocations are at least loosely predicated upon reported performance measures or objectives.

2.1. Setting Goals

States adopt performance-based budgeting for a wide variety of reasons and the goals they prioritize have a major effect on the way their systems are designed. Understanding these goals is essential to understanding the logic of the systems. For a state that seeks to adopt performance-based budgeting, it is important for decision-makers to understand the goals that they wish to accomplish.

One of the most frequently cited goals is holding agencies *accountable* for their spending. This means compelling agencies to justify their expenditures and to demonstrate measurable results. States also seek to *incentivize performance* for state agencies by rewarding programs for efficiency and effectiveness. For example, New Jersey Governor Chris Christie explains that the

goal of performance-based budgeting in his state is that “we’ll pay for performance, not failure, and performance-based budgeting is the foundation of making that goal a reality for all of us.”¹ Governor Christie’s program, like many others, seeks to use performance-based budgeting to connect budget allocations to the performance of programs. Budgeting should be based on “results, outcomes and impacts rather than processes.”² In New Mexico, one of the stated goals of the system is to ensure that agencies are “held accountable for the services and products they deliver in accordance with clearly defined missions, goals and objectives.”³ The goal of holding programs accountable is part of every performance-based budgeting system, although not all emphasize it as heavily as New Jersey.

Another common goal is *transparency*: to make budgeting and government operations accessible to the public. In New Mexico, one of the goals is to “strive to keep the citizens of this state informed of the public benefits derived from the delivery of agency services and products and of the progress agencies are making with regard to improving performance.”⁴ Similarly, the Indiana budget website, the Indiana Transparency Portal, is “designed to give you, the Indiana taxpayer, an inside look into Indiana State Government spending and operations.”⁵ Not all performance-based budgeting systems have this goal.

Many programs have the goal of making government spending more *efficient* by focusing resources on effective programs. This can include reducing wasteful spending or increasing resources for high-performing agencies. For example, Louisiana’s system is designed to point out “unnecessary programs, projects and functions; calling attention to inefficient and uneconomical practices.”⁶ While it is relatively rare for legislators or governors to explicitly cite budget cuts as a goal of performance-based budgeting, that goal is quite common among advocacy groups that support performance-based budgeting systems. The Nevada Policy Research Institute, for example, claimed that performance-based budgeting could save the state billions of dollars.⁷

¹ Gov. Christie quote from “Performance Measures and Reporting” video. <http://www.yourmoney.nj.gov/>

² Ibid.

³ Accountability in Government Act of 1978.

<http://www.nmdfa.state.nm.us/uploads/files/Budget%20Division/AGA.pdf>

⁴ Ibid.

⁵ Description from Indiana Transparency Portal, <http://www.in.gov/itp/>

⁶ House Bill 2476, 1997. http://doa.louisiana.gov/OPB/links/Act-1465_1997.pdf

⁷ Lawrence, Geoffrey. “Better Budgeting for Better Results.” Nevada Policy Research Institute. 2011. <http://www.npri.org/publications/better-budgeting-for-better-results>

One of the most important goals is to *inform the decision-making process*. By providing more accurate information to legislators and the governor, performance-based budgeting systems have the potential to ensure that budgeting is based on empirical data so that spending decisions are more soundly rationalized. One aspect of this is to ensure that decision-makers move beyond incrementalism (in which only changes to the baseline are examined) to consider the broader context of a particular budget decision. The effort for better, more accurate information is universal, but the degree to which it is emphasized varies from state to state.

2.2. Design Elements

This memo focuses in primarily on a few key considerations that would be of primary import to any state that is considering embracing a performance-based budget system. Key concerns are:

- Who will determine the measures of performance?
- How many performance measures need to be adopted?
- Who should be the driver behind implementing the system?
- How will the performance data be presented to lawmakers and the public?
- What role or power should the data have in the decision-making process?

3. Origin of Performance-Based Budgeting

Performance-based budgeting systems can originate with the governor, the legislature, or collaboration between the two. Governor-driven systems are rarely put into statute and often disappear when that governor leaves office, but they also can get off the ground quickly and generate results rapidly. Legislature-driven systems, in contrast, are usually put into statute and last longer, but are not always as effective. The systems are strongest and most effective when they attain buy in from both legislative and executive branch.

3.1. Governor-driven

Governors implementing performance-based budgeting have different challenges and opportunities than legislature-led performance-based budgeting. Governors generally face tighter term limits than legislators, meaning the effectiveness and longevity of their performance-based budgeting plans depend on a governor's successor. In Florida when Governor Charlie Crist took office, he demonstrated a strong commitment to open government and performance measurement through the creation of "FloridaPerforms.com" and the Office of Open Government. Since the initial launching of "FloridaPerforms" Crist has left office and his successor Rick Scott has clearly not demonstrated the same dedication to performance budgeting as "FloridaPerforms" no longer exists and there is scant evidence of any performance measurement.

Governors who implement performance-based budgeting can do so rapidly and do not necessarily need legislature support. Within a year of being elected, Governor Chris Christie of New Jersey ushered in performance-based budgeting when he created the "New Jersey Transparency Center" which displays performance information for state agencies and programs. Governor Christie said the center will "track the operations and performance of each department of state government, with a particular focus on effectiveness, efficiency, timeliness and service quality."⁸ The Governor's office said this program helps the state of New Jersey look at which programs are necessary and which are producing the greatest return on investment. New Jersey demonstrates that a governor led system can quickly produce results.

3.2. Legislature-Driven?

In contrast, we cannot find an example of a successful performance-based budgeting system that did not have some level of buy-in from the governor. Many of the most successful

⁸ Gov. Christie Quote from "Governor's Performance Center"
<http://nj.gov/transparency/performance/>

systems are created jointly between the legislature and governor; such systems do well because both sides buy-in and there is often a statutory basis for the program. However, when legislatures try to begin performance-based budgeting without buy-in from the governor, they risk vetoes or non-cooperation, which makes it difficult to derive value from the system.

Many of the most successful performance-based budgeting systems were created with support from both the governor and legislature. Prominent examples include New Mexico, Utah, and Nevada. In these systems, the governor and legislature worked together to build performance-based systems that both could use and benefit from. Many of these systems have survived multiple governors because they have stability and political support.

In states in which the governor does not share the legislature's commitment to performance-based budgeting, it is much more difficult to establish an effective system. In these cases, performance-based budgeting may be viewed as a political or partisan issue, making it more difficult to achieve buy-in from all sides. For example, in Alaska in the 1990s, the Republican-controlled legislature seized performance-based budgeting as a way to assert control over state agencies, under Democratic Governor Tony Knowles. The legislature twice passed legislation to implement performance-based budgeting, only to have it vetoed. It finally succeeded in passing legislation requiring performance measurement only after they watered down the bill significantly. Not until one of the legislators behind the original push became the governor were the measures taken more seriously. Similarly, the governor originally supported Connecticut's system. When a new governor who did not support the system took office, legislative leaders claimed that the statutory requirements were no longer followed. These issues highlight the importance of having buy-in from the governor for successful performance-based budgeting, even in a legislature driven system.

3.3. Pilot Programs

States tend to roll out performance-based budgeting in one of two ways. Either they start with a pilot program, or require all agencies to implement it at once. Starting with a pilot program allows a state to detect and correct any flaws in its initial implementation before it expands the scope of the system to all agencies. However, starting with a pilot program will limit the initial benefits of performance-based budgeting to the programs included in the pilot. Additionally, there is a risk that the political will that allowed the pilot program to move forward could be lost by the time a full roll out is planned. Conversely, a wholesale approach to implementing performance-based budgeting ensures rapid adoption by all agencies, but risks that

any mistakes that are made in implementation will be more far reaching and more difficult to correct.

Examples of pilot programs for performance-based budgeting could be seen in a state like Colorado. Colorado began their pilot program with the Department of Transportation and higher education. Colorado proposed four measures for their Department of Transportation to report on in 2007. These measures quantified the amount of traffic on the road, the number of cars going through certain roadways, and the amount of time that people spent on the road. Colorado's Department of Transportation thought this would allow them to better report travel time, delays, and traffic congestion more accurately. However, five years later, Colorado has not scaled up its performance-based budgeting to other departments. On the other hand, New Mexico spent six years doing pilot programs before expanding their system to all state agencies.

State Highlight: Virginia

Origin of PBB System: Virginia’s system was established by Governor Mark Warner and continued by Governors Tim Kaine and Bob McDonnell.

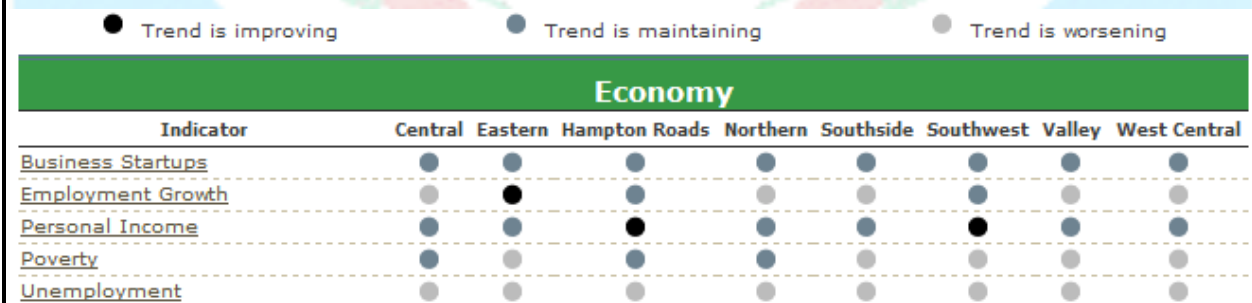
Stated Objectives: Determine agency goals, objectives and quantifiable measures of objectives and plan the best ways to achieve them.

Metric Generation: The Department of Planning and Budget has worked in a public-private partnership to create “The Virginia Enterprise Application Program” to advance the use of performance measures in spending decisions. Each department in tandem with the Governor set a small number of metrics, which then show the progress the department is making in meeting its “goal.”

Use of Metrics and Outputs in The Budget Process: The information is used for spending plans and strategic planning. Virginia’s Performance Based Budgeting system helps agency directors keep an eye on their goals as submitted to the Department of Planning and Budget. The measures also let lawmakers keep track of agency progress as they plan for future budget appropriations.

Realized Outcomes: Virginia just implemented the final phase of their performance-based budgeting process. The state started the process with three goals in mind: manage strategy, improve performance, and communicate results. Early findings are very positive for their performance-based budget model. The state has seen increased communication between agency heads and government officials. Most performance metrics are achieving targets, and the state reports using performance measures to decide which programs to cut.

State’s Output: Virginia has several ways of displaying data. One way is to break it down by region to show geographical differences. Below are economic trends by region.



4. Determining Metrics

Performance-based budgeting requires states to quantify the performance of programs. To do this, they must develop ways to measure the output of these programs. Using these metrics, each program's performance over time can then be compared to a target. For a system to be successful, these measures must fairly and accurately align with the goals of the program. Determining metrics is therefore one of the most important challenges in the design of a performance-based budgeting system.

4.1. How Many Metrics Are Used?

The total sum of metrics that a state report in the aggregate of all agencies affects whether or not the performance measures will be taken seriously by all stakeholders (executive, legislature, agencies, constituents, etc.). Reporting too few measures signals that the state lacks the commitment necessary to devote substantial resources to the system. Conversely, requiring too many measures has the potential to overwhelm legislators, auditing agencies and the reporting departments, rendering the measures useless. States must find a balance between too few and too many metrics. There must be enough metrics to demonstrate a genuine commitment to performance-based budgeting, and provide decision-makers with the requisite information.⁹

By collecting only twenty-one performance measures for the entire state, North Dakota runs the risk of collecting too few performance measures. Having too few measures signals that the state is not committed to performance measurement and is only using performance-based budgeting in namesake rather than substantively. This approach may help decision-makers adjust to performance-based budgeting over time but most likely does not suggest a strong enough commitment to performance budgeting for it to be embraced.

Other states have attempted to adopt performance-based budgeting in one all encompassing move. Minnesota attempted to implement performance-based budgeting across the board for all departments in the mid 1990's. The legislature later voted to repeal the mandate that all agencies submit a full performance report, as it was "too long to be assessed biennially"¹⁰. Since then the Minnesota legislature now considers a much more limited performance report from each agency in budget deliberations.

Oregon is another state that had problems in the generation of metrics. Initially the

⁹ Greg Hager, Ph.D. Alice Hobson, Ginny Wilson Ph.D. Performance-Based Budgeting: Concepts and Examples. <http://www.lrc.ky.gov/lrcpubs/RR302.pdf>

¹⁰ NCSL. "Legislative Performance Budgeting". Accessed 26 April 2012 <http://www.ncsl.org/issues-research/budget/legislative-performance-budgeting.aspx>

governor appointed a small committee, the Oregon Progress Board, to generate metrics that quantified progress towards the governor's long-term goals. In that process, the Board ran into problems with small interest groups urging them to create more metrics relevant to their objectives. Interest groups assumed that if their programs were important enough to measure, then it would be important enough to fund. Interest groups believed they would be able to lobby more effectively for funds if their programs were measured. Many politicians ultimately became disenchanted with Oregon Benchmarks when lobbyists accused them of believing in the goals in name only whenever funding was not adequate enough to appease the special interests.¹¹

Connecticut seemingly struck an appropriate balance in terms of the quantity of metrics that the legislature considers. Approximately 300 metrics are reported to the legislator as a part of the budget process, with each agency reporting 2-3 metrics per department/agency subdivision. In Connecticut there appears to be meaningful use of the performance measures as the legislators are invested in utilizing performance measures as a key consideration in the budget process.

4.2. How Are Metrics Selected?

Each state is unique with regard to how the metrics are adopted and which agency is primarily responsible for deciding the metrics. Essentially all states permit for the adoption of metrics by one of three broad political stakeholders: executive, legislature, and bureaucracy. Yet most states defy simple classification, as the process in most cases is iterative between many political actors.

4.3. Who Chooses Metrics?

4.3.1. Governor

Both Washington and New Jersey's executive branch exert a strong degree of influence over the formation of the metrics agencies will report. In both cases agencies are granted some degree of autonomy over metric definition and generation, yet the executive lays out strict guidelines that agencies must abide by.

In Washington, Governor Chris Gregoire was the driving force behind the implementation of what is coined "Priorities of Government Budget Process." Under the Priorities of Government system the Office of Financial Management issues instructions to agencies on how they should measure performance and submit budget requests. By the end of the budget process in Washington, all stakeholders have an opportunity to shape metrics, yet the

¹¹ Richard Young. "Oregon Shines II and Oregon Benchmarks". Accessed 26 April 2012. www.ispr.sc.edu.

governor has the first mover advantage and thus frames the future form of performance measures.¹²

New Jersey Governor Chris Christie took the lead role in implementing and shaping the metrics that state agencies report on. In New Jersey the governor mandates that the agencies will report measures that quantify “effectiveness, efficiency, timelines and service quality.”¹³ Each agency appears to have autonomy as to how they measure effectiveness, efficiency, timelines and service quality but the main driving force behind metric definition is the governor’s office of transparency.

4.3.2. Legislature

In Illinois the legislature has the sole power to determine and define the performance measures that agencies will report. Illinois passed HB 1503 which called on the University of Illinois to submit to the legislature specific performance measures. The legislature promulgated a rule that the University will measure the degree attainment rate and “student success.” The University does not have an active role in defining the performance measures.

Louisiana allows for agencies to provide input on the metrics that they report. Agencies must submit a formal request to the legislature to make any modifications to the performance measures they report. The process is clearly iterative, yet is legislature-centric.

4.3.3. Agencies

In some rare cases the metric definition and generation is determined by each agency. Colorado has issued a memorandum of understanding between the legislature and specific departments. The legislature has mandated that agencies develop measures, which can be audited by the state controller, yet the primary driver of performance measure development is the agency.

Some states have also created agencies whose sole purpose is to develop performance metrics. This was the case in Oregon, with the *Oregon Progress Board*. Appointees from the Governor’s office initially staffed the agency, yet the funding for the agency was approved by the legislature. Ultimately the *Oregon Progress Board* lost its charter when the legislature did not reauthorized funding for the agency.

States that permit individual departments more involvement in the metric generation process can expect to create more accurate and useful measures. This also helps avoid metrics

¹² Office of Financial Management, Budget Division. “Washington State Budget Process.” Feb 2012. Accessed 26 April 2012 <http://www.ofm.wa.gov/reports/budgetprocess.pdf>

¹³ Transparency Center. State of New Jersey. <http://nj.gov/transparency/performance/> Accessed 26 April 2012.

that do not accurately reflect the agency's mission. Allowing agencies the ability to define metrics should make each agency more invested in the system and process of performance-based budgeting. Agencies may also have the best understanding of the data that is available to measure progress towards particular goals.

The downside of requiring agencies to define the metrics that they report is that many may choose to game the system. If agencies perceive that metrics may be used in a punitive manner then they are likely to overestimate the effect they have or select measures such that success is guaranteed. There is a tradeoff that needs to be confronted when determining how much influence to permit agencies in the metric definition process.

4.4. Aligning Metrics with Goals

The design of a system varies not only to fit the state's budget process, but also to fit the goals that the state has for performance-based budgeting. For example, if a state wants to increase the public transparency of government spending, then it is important to have enough metrics to give a full picture of the output of each agency. If there are too few measures, then the public is not likely to trust that tax dollars are being spent appropriately as there is inadequate justification.

If the goal of implementing performance-based budgeting is to reduce spending, then many measures may prove more beneficial than too few, but this is not necessarily so. When many measures are in place the legislature will have more firepower to justify a reduction in spending because some metrics will likely show inadequate performance. However, other metrics may indicate that the program is performing an important purpose, which would hinder efforts to eliminate it.

When a state's goal is solely that the legislature will make more informed decisions, errors on the side of too few will be preferable. Surveys suggest that performance measures are given the most consideration when legislators are shown several performance measures per agency.¹⁴

Governor-run systems tend to emphasize the control aspects of budgeting in the sense that the governor tends to exert an even greater degree of influence over the budget system. Traditional budget theory suggests that the executive branch utilizes the budget system to exert control over the budgetary process and governor implemented performance-based budgeting

¹⁴ According to an NCSL study, New Mexico legislators prefer 12-15 metrics per agency, for example. <http://www.ncsl.org/issues-research/budget/legislative-performance-budgeting.aspx>

systems are not an exception to this idea.¹⁵ As seen in New Jersey and Washington, when the governor is the primary driver of performance metric definition, the end result is typically a reduction in funding to programs that the governor views unfavorably, regardless of the legislature's preferences.

When the legislators are the drivers behind performance measures, the results tend much more towards increased transparency and enhanced decision making without a bias toward spending increases or spending cuts. This is a result of the diversity of opinions within legislatures that prevent any one opinion from prevailing.

¹⁵Allen Schick. "The Road to PPB: The stages of Budget Reform" Public Administration Review. December 1996.

State Highlight: Oregon

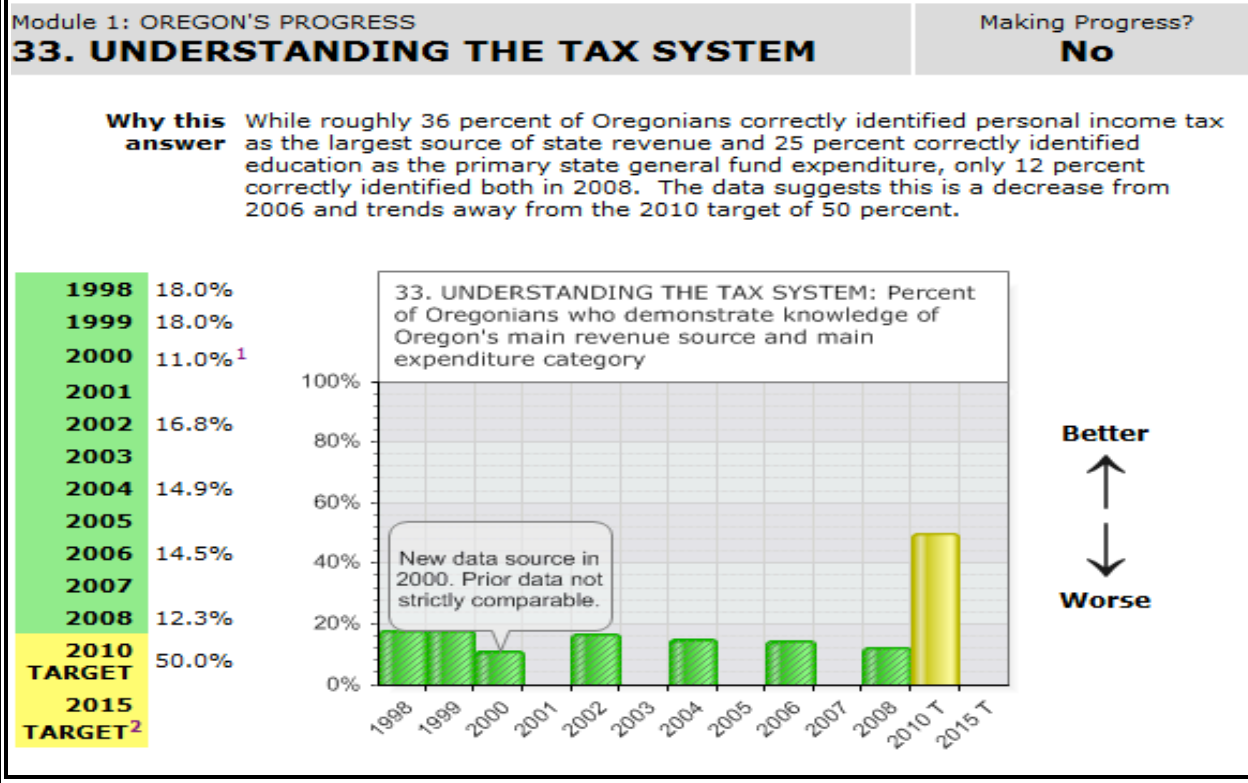
Origin of PBB System: Oregon first adopted a performance-based budget system, known as Oregon Shines, under the watch of Democratic Governor Neil Goldschmidt. The influence of the system, which was managed by the Oregon Performance Board (OPB), varied greatly over time.

Stated Objectives: Oregon Shines was a set of goals that served as a vision for Oregon’s future. Governor Goldschmidt claimed that the performance measures would make Oregon “the first state to hold itself accountable to its visions for the future.”¹⁶ The purpose of performance-based budgeting in Oregon has always been long term planning, public transparency and government accountability.

Metric Generation: OPB, a twelve person committee consisting of the governor, nine gubernatorial appointees, one Senate appointee and one House appointee, was responsible for generating the goals of Oregon Shines and the metrics that would gauge success. The governor exerted the greatest degree of influence over the metric generation and reporting.

Use of Metrics and Outputs in the Budget process: The metrics that the OPB reported on were used for informative purposes in the budget process. Many interest groups however utilized the metrics to rationalize pleas for increased funding.

State’s Output: Though Oregon has gone through many stages of presentation, most metrics are no longer current or presented on the state’s website. Below is a copy of a metric output from January of 2009.



¹⁶ Wilda Wahpepah. "GOLDSCHMIDT'S CHALLENGE: PROTECT OREGON'S LIVABILITY" (June 7, 1990). *The Oregonian*.

5. Data Generation

Performance-based budgeting's effectiveness is only as good as the data that is collected. Therefore, the objectivity of the data collection method is vital to the success of systems. States primarily use one of three methods of data generation and collection:

- Agencies create and report their own data.
- Agencies create their own data; an outside agency or office analyzes their performance.
- Outside agencies and offices create and analyze data.

Currently, no state has agencies generate the data and report it directly to lawmakers. There is always an intermediary of some kind, such as the Office of Management and Budget or the Legislative Finance Committee. In theory, agencies could be in charge of reporting this data, but this would likely result in non-uniform outputs that can be compared across agencies. There is also a fear that agencies are not necessarily unbiased judges of their own performance.

Most often agencies generate their data and report it to the Departments of Finance or Budget in the executive branch to analyze. In Louisiana, agencies create five-year strategic plans that are submitted to show whether they are meeting their goals. Agencies continuously update these plans every third year while also reporting quarterly to the Office of Planning and Budget. This allows them to combine their strategic plans and quarterly updates with the state's performance accountability system when making budget requests.

Washington asks that each department of state government turn in an "Agency Strategic Plan" to the Office of Financial Management. The plans break down goals (i.e. Protect and reduce the risk to public health by assuring the safety of the state's food supply) into sub-strategies (i.e. Monitor, inspect, test, and provide technical assistance to Washington state's food processing and storage industry). The Office of Financial Management audits whether the department has achieved their goals by meeting each strategy's objectives. The Governor then uses the audit to decide whether or not state departments are using their allotted budget appropriately to meet their state program goals.

In other states, agencies submit the data to the Legislative Auditor or Legislative Finance Committee or a similar institution. For example, in Utah each department in an agency links their measures and goals to their strategic plan. The Office of the Legislative Auditor General then audits the department, giving them a scorecard on how they met the goals that they set going into the fiscal budget year.

5.1. Confronting Tradeoffs

Agencies and programs have different motivations and benefits in the systems used to collect and analyze data. It would be easier for departments and agencies to generate and analyze their own data. However, there is a risk that they could manipulate that data to match benchmarks. Without independent organizations overseeing the process, there is an implicit threat that an agency could skew the data in a way that either keeps their funding at current levels, or can ensure greater funding because of demonstrated need.

If an outside agency like the Legislative Analyst's Office is auditing state departments and programs, there is a greater sense of transparency in the performance-based budgeting process. Under this scenario, politicians are also spared accusations of attempting to cut certain programs since they are being left out of the measure process and analysis of data. This provides objectivity when analyzing whether the measures have been met that would not be possible if a political actor is responsible for analyzing the data.

If the governor's office is in charge of setting the goals and auditing, then the department might fall under a strategic plan that is more closely linked to what the executive branch was looking for. Benefits to this system are that the whole process is more closely synced, allowing for synergy between the levels of government and agencies providing services to the people. A detriment to this system is that cuts to programs can be looked at as being done because of partisan politics instead of as a way to curb programs based on performance measures.

State Highlight: Louisiana

Origin of PBB System: Louisiana’s performance-based budgeting system was first approved by the Legislature in Act 1465 of the 1997 regular legislative session

Stated Objectives: The objectives are focused on finding wasteful spending, with some later additions that reference rewards for good performance. From the enabling legislation: “To develop and make available to the legislature and its committees such fiscal information as will assist the legislature or any legislative committee in its deliberations with the view of pointing out unnecessary programs, projects and functions; calling attention to inefficient and uneconomical practices; monitoring, reviewing, and analyzing the performance of state agencies; making recommendations for improvement, and carrying out similar functions.”¹⁷

Metric Generation: The Joint Legislative Committee on the Budget approves metrics proposed by each agency in consultation with the Division of Administration and the Office of Planning and Budget. Agencies may request changes to their metrics.

State’s Output: Each quarter, agencies report on a number of metrics against targets that have been set out in five-year strategic plans. One example is below.

Fiscal Year	2010
Department	19D - Department of Education
Agency	678 - State Activities

Program Id	A						
Program Name	Executive Office						
Objective Num	1						
Objective Name	The Executive Office Program, through the Executive Management activity, will provide information and assistance to the public seeking information and services on the DOE website and use the Communications Office to provide information and assistance to						
PI Num	1						
PI Name	Percentage of Communications Office users rating informational services as good or excellent on a customer satisfaction survey.						
PI Level	PI Format	Prior Year Actual	Perf Standard	PS Revised	Final Variance (%)	Var Ind	PI Code
K	%	92.07	90		4.64	P	8479
Quarter	Target	Actual	Variance (%)	Agency Head Approval	Period Code		
1	90	94.32	4.80	Y	RP		
2	90	92.86	3.18	Y	RP		
3	90	97.87	8.74	Y	RP		
4	90	94.18	4.64	Y	RP		
Q1 Notes	The percentage was based on a reduced survey population due to the Call Center database being down for the second half of the quarter. forty-five callers were surveyed.						
Q2 Notes							
Q3 Notes	The percentage was based on a reduced survey population. There were fewer mailouts and survey responses for the quarter.						
Q4 Notes							
Yearend Notes							

Use of metrics and outputs in the budget process: Louisiana's Executive Branch departments and agencies are required to submit quarterly performance reports through the Louisiana Performance Accountability System. It compares actual performance with annual performance standards and quarterly interim targets and calculates variances. Variances greater than 5% must be explained by reporting entities. A range of performance-based rewards and penalties has been established, including the Exceptional Performance and Efficiency Incentive Program.

¹⁷ State of Louisiana Revised Statutes 24:603
<http://www.legis.state.la.us/lss/lss.asp?doc=84165>

6. Presentation of Information

States use a wide variety of websites, database technologies, and information systems to present information about state performance and agency budgets to decision-makers and the public. These range from user-friendly interactive systems with easily accessible graphs and clearly aggregated performance indicators, to basic databases with instructions on building queries, to systems that were clearly designed for other purposes. More basic systems tend to be less costly to implement and maintain, while more involved systems can be more costly, but often prove to be more useful to decision-makers and the public.

While there are many variations in where performance measures are hosted, there seem to be two trends. Performance information is either hosted in state website of the department responsible for producing the performance reports, or it is hosted on a dedicated site. Examples of performance measures hosted in departmental websites include the state Office of Management and Budget website (Alaska),¹⁸ the Office of Planning and Budget Website (Louisiana),¹⁹ and the Department of Administrative Services (Oregon).²⁰ This is often the simplest solution, but does not draw public attention to the performance-based budgeting system. Alternately, some states create a new dedicated website, aimed at informing the public about performance-based budgeting. This is often reflected in the name and presentation of the website such as the State of New Jersey Transparency Center, hosted at www.yourmoney.nj.gov.

The next major feature that differentiates state performance websites is how the information is organized. Some strictly show budget allocation and performance measures by department (Alaska),²¹ while others organize by issue area. Pennsylvania, for example, breaks down performance by seven categories (Education, Economic Development, Health and Human Services, Environment, Public Safety, Consumer Protection, and Government Efficiency).²² In each category, it then lists which agencies contributed to the data. Other states simply present an

¹⁸ Office of Management and Budget <http://omb.alaska.gov/html/performance/departments-key-indicators.html>

¹⁹ Division of Administration <http://doa.louisiana.gov/opb/lapas/lapas.htm>

²⁰ Oregon Progress Board

http://www.oregon.gov/DAS/OPB/GOVresults.shtml#Agency_Performance_Reports

²¹ Office of Management and Budget <http://omb.alaska.gov/html/performance/departments-key-indicators.html>

²² 2009-2010 Report on State Performance

<http://www.performanceplan.state.pa.us/Dashboard/Performance%20Manager%20Dashboard.html>

annual report of performance, allowing the user to pick which sections to include or exclude, which contains all performance measures and are often more than 300 pages long.²³

There are pros and cons to each of these options for organizing the data. If the data is organized by agency, one can more easily link a particular agency's performance to its budget. If the data is organized by issue area, it may enable the use of more tangible performance targets, but responsibility for performance would be shared by several agencies, in which case it may not be possible to pinpoint the causes of good or bad performance. Overall, if the goal is to make budget decisions informed by government performance, it is important to link the organization of performance information with how budget decisions are made. Performance information should be organized in the same way as appropriations are made, whether it is by agency or by initiative. It is also helpful to have user-friendly ways to present various cuts of the data, which can allow decision-makers to get relevant performance information easily when it is needed.

The next key feature of the presentation of information is how the data are displayed. Most states, at a minimum show a list of performance indicators, numerical data for the current period, and the target for the period. Some states also show the trend of the data over time by including the data for each performance indicator for previous years, and some states compare performance indicators to those same indicators for other states and rank their own states performance compared to others. Several states tie each metric to the mission statement of an agency, and include information about why each metric is important and the desired trend direction. Pennsylvania for example, breaks down performance by objectives. Within each objective, it details, "Why this objective is important," "how we are doing," "strategies" and "measures," and shows results of measures compared to past fiscal years.

While some states only display numerical data, others include charts and graphs to better illustrate trends. Other states include arrows that indicate data trends, either highlighting whether or not targets have been met, or whether long-term targets are on track, off track, or at risk. To fill this same function, other states use a traffic light system to show which performance indicators are on track, at risk, or off track. Some states also include graphics to tie agency or program budgets to outcomes, for example, presenting a pie chart of agency spending linked to specific agency goals.²⁴

²³ 2009 Benchmark Highlights Report <http://benchmarks.oregon.gov/>

²⁴ State of New Jersey Transparency Center

<http://www.yourmoney.nj.gov/transparency/performance/mvc/index.html>

There are some unique features we have only observed in a few states that are worth mentioning.

- In at least one state (Virginia), alongside the state performance scorecard, it has an indicator of which measures have ‘limited state influence’ versus ‘significant state influence.’²⁵
- Some states have a login option on the performance measurement website that allows the same site to display different information or allow different workflows for the public versus decision-makers.²⁶
- Some states also break down performance measures by region or district.²⁷

In designing the display of information for a performance-based budgeting system, it is important to align the organization and presentation of information with features of the state budget process. It is also important to confront the tradeoffs in developing the user interface, the greatest of which is the cost of implementation and upkeep versus greater functionality and ease of use. Implementing new systems, tracking and reporting performance measures, preparing aggregated reports, and upkeep of the website are costly exercises. Some states, such as Ohio, have had limited success in their performance-based budgeting initiatives because of insufficient investment to date in creating an effective system. In Ohio’s January 2011 report on state fiscal highlights it was noted that implementing successful performance-based budgeting “could require significant modifications to the existing statewide budget and planning process overseen by the Office of Budget and Management (OBM), particularly the Budget and Planning Module component of the Ohio Administrative Knowledge System.”²⁸

Similarly, we see the results of underestimating the cost of upkeep for a performance-based budgeting system in Oregon, where the performance-based budgeting website notes “Due to severe budget reductions in Oregon state government, funding for the Oregon Progress Board was eliminated as of June 30, 2009, and the Board is now inactive.” The Oregon website still exists, but no new data has been added after 2009. Florida’s performance-based budgeting

²⁵Virginia Performs. <http://vaperforms.virginia.gov/Scorecard/ScorecardatGlace.php>

²⁶ Division of Administration. <http://www.doa.louisiana.gov/opb/lapas/login.htm>

²⁷ MVA State Stat. http://www.statestat.maryland.gov/reports/20120327_MVA_Template.pdf (p22)

²⁸ Ohio Legislative Service Commission.

<http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/hb0002in.pdf>

website, which was launched in 2007 as part of Governor Charlie Crist's first day in office initiative, now simply displays a message that "This application is currently offline"²⁹.

The main takeaway on the cost versus functionality tradeoffs is that performance-based budgeting systems are expensive, and to be effective in achieving its goals, a state must understand and commit to the cost. In Connecticut's plan to implement performance-based budgeting, "The program review committee staff estimated the annual cost of the new staff and equipment within OPM and the auditor's office required to implement the system would be around \$500,000."³⁰ Some states have under committed funding, leading to systems that are not effective achieving their goals. Other states have underestimated the continual maintenance costs of performance-based budgeting systems, and have had to abandon their systems after spending significant amounts to create them. Other states have successful performance-based budgeting systems in which the costs of various types of functionality have been balanced with the need for such functionality, and the state has ended up with an effective tool to help manage its budget.

²⁹ Application is Offline. www.floridaperforms.com

³⁰ Connecticut Budget Process.

http://www.cga.ct.gov/2003/pridata/Studies/Budget_Final_Report.htm

6.1. Examples of displays

6.1.1. Louisiana

Measure: Percent of treatment, storage and/or disposal hazardous waste facilities inspected

Program Id	A						
Program Name	Environmental Compliance						
Objective Num	1						
Objective Name	Through the Surveillance Activity, inspect regulated facilities related to air emissions, solid and hazardous waste, waste fires, water discharges, radiation and asbestos statewide following procedures outlined in the Compliance Monitory Strategy in FY 20						
PI Num	2						
PI Name	Percent of treatment, storage and/or disposal hazardous waste facilities inspected						
PI Level	PI Format	Prior Year Actual	Perf Standard	PS Revised	Final Variance (%)	Var Ind	PI Code
K	%	48	50		0.00	P	9757
Quarter	Target	Actual	Variance (%)	Agency Head Approval	Period Code		
1	2	2	0.00	Y	RP		
2	26	26	0.00	Y	RP		
3	42	42	0.00	Y	RP		
4	50	50	0.00	Y	RP		

This report contains lots of relevant information, but is presented in a plain text output that is not particularly user-friendly. There is no color-coding, or clear indication of what is the important takeaway. Especially given that this is just one of many performance indicators, it is unlikely that a decision-maker would be able to make effective use of outputs in this format. Most likely, a budget analyst will need to distill the information that this report contains to make the information usable to inform budget decisions.

6.1.2. New Jersey

NJ Motor Vehicle Commission – Performance Indicators February 2012

New Jersey Motor Vehicle Commission		Frequency	Desired Trend	Target	Prior Period	Current Period	% Change	Last 12 Month Average
Performance Indicators - February 2012 reporting								
Improve Driver and Vehicle Safety								
Percent completion rate of those individuals scheduled to attend Probationary Driver Improvement Training	m	Increase	100%	68.4%	64.6%	-5.6%	66%	
Percent completion rate of licensed motorcyclists who have passed a certified rider safety course.*	m	Increase	10%	0.0%	0.0%	0.0%	6%	
Average number of bus safety inspections per person (Daily rate)	m	Increase	7	3.9	4.0	1.5%	4.4	
Wait time for an emissions inspection at an MVC inspection lane (minutes)	m	Decrease	5 min	9.6	10.7	11.4%	12.0	
Service Delivery Levels - Driver Testing								
To receive a scheduled road test for a class D drivers license (calendar days)	m	Decrease	10	13	12	-7.7%	16	
To receive a scheduled road test for a CDL drivers license (calendar days)	m	Decrease	5	35	40	14.3%	28	
To receive a scheduled road test for a Motorcycle drivers license (calendar days)	m	Decrease	10	4	4	0.0%	14	
Service Delivery Levels - Correspondence Response Times								
To speak with a representative for general information (minutes)	m	Decrease	1 min	2.00	2.9	46.7%	3	
To speak with a representative for surcharge processing (minutes)	m	Decrease	5 min	13.3	19.0	42.5%	19	
To receive a response from an email (business days)	m	Maintain	1 day	1	1	0.0%	1	
To receive a response from a letter (business days)	m	Maintain	10 days	10	10	0.0%	10	
To receive a scheduled driver conference (calendar days)	m	Decrease	10	10	23	137.7%	8	
Percent of medical review cases backlogged over 3 weeks.	m	Decrease	10%	32.9%	23%	-29.4%	19%	
Improve Customer Identification and Document Security								
Percent of suspected facial image fraud forwarded for action within the month of discovery	m	Increase	100%	-	-	-	-	
Percent of all major stakeholders trained in fraud/forgery prevention (YTD cumulative)	m	Increase	100%	98.3%	121.7%	23.3%	56%	
Service Delivery Levels - Field Agency Wait Time								
Average customer wait time to be served at a field agency (Data not yet available)		Decrease	15 min	-	-	-	-	
Service Delivery Levels - Vehicle Registration Business								
Percent of registrations conducted online	m	Increase	60%	24.5%	23.9%	-2.3%	25%	
Percent of registrations conducted at local agency offices	m	decrease	10%	26.3%	31.4%	19.2%	30%	
Percent of registrations conducted through mail	m	decrease	28%	47.8%	43.0%	-10.0%	44%	
Percent of registrations conducted by third party vendors	m	Increase	2%	1.4%	1.6%	21.4%	1%	
Improve Financial Sustainability								
Total Federal Grant Dollars Awarded (YTD)	q	Increase	\$1MM	\$ 4,197,520	\$4,197,520	0.0%	\$ 4,197,520	
Percent of processed data inquiries which are paid for by the State	m	Decrease	10%	73.9%	72.4%	-2.0%	58%	

New Jersey prepares monthly performance reports for each department, which are available in PDF format on the Governor’s Performance Center section of the NJ Transparency Center website. While the output is a spreadsheet and not an interactive system, this snapshot contains multiple metrics, and utilizes color-coding to make the output more user-friendly.

6.1.3. Pennsylvania

Objective: Decrease risk to consumers when engaging in commercial transactions.

Measure: Number of calls received on the Consumer Complaint Hotline

Consumer Protection – Ensure the Consumer Protection of Our Citizens

Click an Objective listed below to learn more Subject Area: **Licensing, Registration and Oversight**

Decrease the risk to Pennsylvania consumers when engaging in commercial transactions.

Enforce the commonwealth's Dog Law through licensing, inspections and citations.

Increase compliance of fair insurance practices.

Increase oversight of the mortgage industry.

Increase the number of charitable organizations and professional fundraisers that register as required by law.

Increase the number of compliance violations resulting in revocation/suspension of licenses and individual prohibition orders.

Increase the number of outreach events in order to provide consumers with timely and useful insurance information.

Why this objective is important: Protecting Pennsylvania consumers from inaccurate transactions keeps money in people's pockets and consumer confidence high. By inspecting and certifying parking meters, fuel dispensers, retail scanners and commercial scales, the Department of Agriculture ensures the accuracy of commercial transactions.

How we are doing: The department's Bureau of Ride and Measurement Standards continues to play an increased role in inspecting weighing and measuring devices across the state. Since 1996, 46 counties have turned these inspections back over to the state because of shrinking budgets. This shift has led to 100,000 devices being added to the Department's complement. In

[Continued](#)

Strategies Measures [Printable PDF of This Goal](#)

Investigate management opportunities - including increased staff complement - to account for increased turnover of inspections from counties and local governments.

Make available to the public, through the new online Weights and Measures inspection database, inspection reports for weighing and measuring devices inspection by the Department or Certified Examiner of Weights and Measures participants.

Publicize the toll-free number, 1-877-TEST-007 (1-877-837-8007), to encourage consumers to take an active role in ensuring equity in the marketplace.

Utilize the Certified Examiner of Weights and Measures program to denutize private sector

Objective: Decrease the risk to Pennsylvania consumers when engaging in commercial transactions. [Close](#)

Please select measures listed below

Number of calls received on the Consumer Complaint Hotline.

Number of Weights and Measures Device and System Inspections

Number of calls received on the Consumer Complaint Hotline.

Fiscal Year	Number of calls
2007-08	248
2008-09	501
2009-10	331

Hover over columns to view values

Pennsylvania has an interactive robust performance-based budgeting system which includes a list of objectives and associated measures, and describes, “Why this objective is important”, “How we are doing”, and displays a graph of the measure which includes previous years. It clearly is designed with public access and government transparency in mind, but can also convey information efficiently to a decision maker.

7. Use in Budget Process

No two states have identical budget processes, and as a result there is great variation in how performance measures are used in the budgeting process. Even within a state, the governor and various agencies and legislators use performance measures differently. What works in one agency or for one legislator might be ignored by another. Yet there are common design choices that states face in designing their own systems. These are greatly influenced by the policy goals the states wish to achieve with performance-based budgeting. One important decision is how often the performance data should be reviewed. The most fundamental choice states face is whether the metrics should simply be informative to decision-makers or if they should automatically trigger some sort of action by the department or the legislature. Few states have determinative systems; so for the most part performance data is used to inform the budget process and better target spending.

7.1. How Often Is Data Reviewed?

There is substantial variation across states in how often the metrics are reviewed. Most states review the metrics only during the annual or biennial budget process, while some review the metrics as often as once a month. Reviewing them as part of the regular budget process is the simplest method, and obviously takes the least time. The legislative branch can only exert control over agencies through the regular budget process; budget decisions cannot be made year-round.

In governor-led systems, more frequent reviews have clear value because the governor has more direct control over agencies. For example, in New Jersey, which has a performance-based budgeting system that was initiated by Governor Chris Christie, performance data is updated monthly and used to direct agencies' attention toward top priorities. For some metrics, this is not practical, so the information is updated annually or seasonally. In Maryland, another state with a Governor-led system, reports for each department are prepared weekly. This approach places a higher burden on agencies to produce the data and on decision-makers to review it, but enhances accountability. Legislatures have less ability to make changes year-round, but some states, such as Louisiana, review the measures more frequently to allow for more in-depth understanding of the agencies' performance.

7.2. Informative or Determinative?

One of the central considerations in performance-based budgeting is whether the system is *informative*, meaning that it is designed to provide policymakers with performance

information to guide their decisions, or *determinative*, meaning that there is a built-in mechanism to determine funding levels. In theory, a budgetary system could be designed such that funding-level decisions were completely based on performance: programs, which performed well on their metrics would receive more funding and programs that perform poorly would be cut. In practice, however, states have mostly decided against adopting determinative systems because state finances are too variable to solely rely on performance data to determine funding levels.³¹ However, introducing this subjective component limits the potential cost-savings of performance-based systems by weakening performance incentives.

Automatic measures give the performance measures teeth: agencies are motivated to perform well on the metrics because they know they will be punished or rewarded for their performance. If no automatic action occurs, agencies are not required to address problems and can evade responsibility by shifting the burden to the Legislature. For example, in Alaska, one measure that the Department of Environmental Conservation publishes is the percentage of restaurants that are visited by a health and safety inspector in a year. The goal for this metric is 100%, but the actual percentage has not come close to that since the metric's inception. Since no automatic action is required and it's not a Department priority, they have not asked for more health and safety inspectors despite the clear poor performance.³² As a result, the metric is effective at identifying a problem area but does not compel any party to take action to fix it. If persistent failure on that metric caused a reduction in funding to the agency as a whole, the more likely outcome would be that the agency addresses it.

The disadvantage of a deterministic approach is that increasing or decreasing funds may not be the proper response when agencies fail to meet goals. In the above example, the agency does not have adequate funding to hire enough inspectors to meet the goal; so reducing their funding would be counterproductive. Yet increasing funding would also be a problematic approach, because it rewards the agency for failing to meet the outlined goal. Either way the incentive is structured creates problems. A more flexible approach would be more effective in actually addressing the cause of the underperformance.

³¹ Thor Nilson et al. "Performance Based Budgeting." Utah Office of the Legislative Fiscal Analyst, October 19, 1999. http://le.utah.gov/lfa/reports/dhs_pbb.pdf

³² Alaska Department of Environmental Conservation budget. http://omb.alaska.gov/ombfiles/13_budget/DEC/Proposed/rdu207.pdf. The inspection rate in FY2012 was 36%, which represented a 10% increase over the previous year.

The one current example of a truly automatic and deterministic performance element is the Indiana higher education budget. 5% of the \$1.2 billion higher education budget is allocated based on the performance of schools. Next year, this will increase to 6% and then 7% a year later. The Commission for Higher Education developed a funding formula based on a range of performance indicators, but the most significant is the proportion of students who graduate on time.³³ The formula is not consistent, though, as the Commission alters it rendering an unstable incentive system for performance. As the percentage of the budget determined by the metrics increases, however, it should have the effect of shifting schools to focus on the goals that are included in the formula.

Louisiana has an automatic element, but with less concrete budget alterations. State agencies submit quarterly performance assessments to the Department of Administration. The department must explain any variance from the target by 5% or more. In addition, through the state's Exceptional Performance and Efficiency Incentive Program, the Joint Legislative Budget Committee on the Budget gives out awards from the "Incentive Fund" to agencies that consistently meet or exceed standards. The Joint Legislative Budget Committee can also impose penalties on agencies that consistently underperform, without going through the regular budget process.³⁴ This approach allows for an enhanced ability to reward or punish agencies for their performance than most systems, without the problems that a fully automatic system would cause. Such a system requires a substantial time commitment, however: the Joint Legislative Budget Committee has a special subcommittee that is responsible only for giving out these Incentive Fund rewards.

However, most states do not have any sort of automatic element in their performance-based budgeting systems. While many do have certain flags for poor or exceptional performance, they are meant to be informative to decision-makers in the Legislature or the Executive Branch rather than deterministic. In addition to the problems mentioned above, the metrics would have to be very well-designed and specific in order to work properly, and many performance-based budgeting systems have metrics that are simply too broad to directly and automatically translate into funding decisions.

³³ Kyle Stokes. "Year in Review: The Cost Game in Higher Education." StateImpact, December 11, 2011. <http://stateimpact.npr.org/indiana/2011/12/27/year-in-review-the-cost-game-in-higher-education/>

³⁴ R.S. 39:87.4(A) provides that "the committee may directly impose a penalty, as provided in Subsection E of this Section, upon such agency by adoption of a committee resolution to that effect." The committee additionally may impose a penalty through the regular budget process.

7.3. Targeting Spending

One of the most common goals that states proclaim when they adopt performance-based budgeting is that it will promote accountability over government spending. Distinct from creating incentives, it is thought that measuring performance and requiring agencies to quantify progress towards their missions, it is thought that decision-makers will be able to better target funding. Of course, the idea that money should be spent wisely is not unique to performance-based budgeting; that is the point of any budgeting system. Yet having more data to guide the process can add value.

There are several examples of states using performance data to shift resources toward more effective programs. In Indiana, for example, several programs were eliminated completely because they lacked measurable goals or results. In Virginia, performance data indicated that in-house meal service was cheaper than contracting meals in prisons, so the Department of Corrections was able to save money by making the change. Other data indicated that state-funded pre-kindergarten programs were highly effective, leading to a substantial funding increase.³⁵ By having quantitative measures of the success of programs, states are better able to determine which programs provide the most bang for their buck, and which are underperforming.

It is difficult to empirically demonstrate the impact of performance-based budgeting on spending levels and priorities. One study, which attempted to do this, found that states that implemented performance-based budgeting were able to reduce the growth in spending by about two percent, but that the impacts were not spread out equally to all programs.³⁶ Some programs, such as the prison system, saw spending increase, while others, such as welfare spending, saw decreases.³⁷ However, the variation in spending levels may not be caused by performance-based budgeting: most states are required to balance their budgets each year, so spending levels is driven by some degree by available revenue. It may be that states that maintained a performance-based budgeting system did so because of revenue limitations and this explains the relatively low spending levels in those states. It is also possible that the effect is much larger that reported,

³⁵ Michael Blanding et al. "Trade-Off Time: How Four States Continue to Deliver." Pew Center on the States, February 2009.

http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Government_Performance/GPP%20Budget%20Brief_final_2web_0209revised.pdf

³⁶ W. Mark Crain and J. Brian O'Roark. "The impact of performance-based budgeting on state fiscal performance." *The Economics of Governing*, 2004. P. 167,

<http://www.springerlink.com/content/d8kew5ru89hw3kctc>

³⁷Ibid, p. 180

because the extent to which the performance information is used varies substantially across states, so perhaps the effect is diluted by the presence of performance-based budgeting systems in name only.

Some states that generate seemingly useful information do not actually use it in the budget process. In Alabama, for example, the system appears robust on the surface and produces easy-to-read information, but one agency official complained, “I am afraid the legislators don’t care too much about that information.”³⁸ In Alaska, performance measures have been part of the budget process since then-State Senator Sean Parnell passed legislation mandating that agencies report performance measures in 1999. However, they were mostly ignored until Parnell became the Governor in 2009. It does not appear that simply requiring performance measures is sufficient to transition a state to a performance-based budgeting system: political actors must be committed to the system for it to be strong. This is one of the factors that states have identified to be the most crucial to their success.³⁹

³⁸ “Grading the States.” Pew Center on the States. *Governing*, March 2008.

http://www.pewstates.org/uploadedFiles/PCS_Assets/2008/Grading-the-States-2008.pdf

³⁹ “Performance-Based Budgeting in Louisiana: Putting the Pieces Together.” Louisiana Office of Planning and Budget, 2006. http://www.doa.louisiana.gov/OPB/pbb/PBB_in_LA-Putting_Pieces_Together_2006%20.pps

State Highlight: New Mexico

Origin of PBB System: Performance-based budgeting was established in statute in 1999 after six years of pilot studies. The Legislature and Executive Branch jointly run the system.

Stated Objectives: The stated aims include accountability, providing incentives for performance, improving efficiency and effectiveness of government, providing better information to decision-makers, and to keeping the public informed about the budget process.

Metric Generation: The State Budget Division in the Department of Finance determines the metrics in consultation with the Legislative Finance Committee. Agencies may request changes to their metrics.

State's Output: the Budget Division and the Finance Committee staff review the performance information for most agencies quarterly. The Finance Committee creates reports cards (see below) that grade each program's performance and make recommendations as necessary. Some smaller agencies are only evaluated once per year.

Water Quality Program		Budget: \$20,770,100	FTE: 186.5	FY11 Actual	FY12 Target	Q1	Q2	Q3	Q4	Rating
1	Percent of permitted groundwater discharge facilities receiving annual compliance evaluations and annual field inspections (cumulative)*			54%	50%	10.1%	19.1%			Y
2	Percent of permitted facilities where monitoring results do not exceed standards* (Equivalent to "successfully prevented groundwater pollution")			72%	70%	72.1%	72.3%			G
3	Percent of cases in which Sandia national labs (SNL) and Los Alamos national lab are notified of agency action on document submittals within the timeframes specified in the executed consent orders			92%	90%	100%	100%			G
4	Percent of large quantity hazardous waste generators (LQGs) inspected (cumulative)*			45.7%	20%	3.1%	10.2%			G
Program Rating				G						G

Comments: The program is not on pace in evaluating and inspecting groundwater discharge facilities, citing three inspection staff vacancies that will be filled during Q3, and anticipates that the inspections will increase throughout FY12. The remaining measures indicate that the program is successful in working with the national laboratories and performing inspections, though with the exception of measure 2, the results do little to indicate whether pollution is prevented or water quality is improving.

Use of Metrics and Outputs in the Budget Process: The Legislature and Governor use the performance data to inform their budget proposals; there is no automatic element. The Legislative Finance Committee has a strong role in the process and performance information is a key source of its recommendations.

Realized Outcomes: The precise impacts for performance-based budgeting are not clear, but New Mexico significantly cut its budget in 2009-2011 and in 2012 enjoyed a modest budget surplus. The system has continued to run robustly under both Democratic and Republican Governors for over a decade.

8. Lessons Learned

A state looking to implement a new performance-based budgeting system today has much to learn from other states' experiences. Creating a new system requires making numerous design choices. Many of these choices are driven by the goals that the state wishes to pursue in their system, as there are significant tradeoffs among the choices. In other areas, there are clear best practices that all states should follow, regardless of the particular circumstance.

8.1. Best Practices

- States should clearly articulate the goals they hope to accomplish with performance-based budgeting.
- States should choose enough metrics to be specific and meaningful, but not so many that decision-makers are overloaded with information.
- The best and most stable performance-based budgeting systems have buy-in from the legislature, governor and state agencies.
- Performance-based budgeting is a useful diagnostic tool to identify good or bad agency performance, but is rarely prescriptive. Subjective processes are still necessary.

8.2. Confronting Tradeoffs

- States must balance the control of the system between the Legislature and Governor. There are tradeoffs with each type of system.
- Cost/difficulty of implementation and ease of use for decision-makers and the public must be balanced.
- The burden on agencies must be balanced against the desire for more metrics or more frequent reporting.
- Determinative systems remove politics from budgeting and will provide clear performance incentives, but subjective processes may be more useful for many decisions.
- Beginning a performance-based budgeting system with a pilot program allows for fine-tuning of the system, but may not allow the system to amass sufficient political support to achieve complete implementation.

To create an effective performance-based budgeting system, states must have realistic expectations about how much time, money and political will is necessary to create an effective system. They must be patient and realize that a strong performance-based budgeting system must constantly evolve. Savings may materialize over time, but initially there will likely be more costs than savings. The states that have been most successful, such as Virginia and New Mexico, are deeply committed to performance-based budgeting, while other states with seemingly strong systems like Oregon and Florida have seen their programs disappear due to political conflicts. It is especially important that the legislature, Governor and agencies all buy into the system. Performance-based budgeting is a potentially useful tool for states to improve their budgeting process, but its mixed track record illustrates the importance of careful program design and of political will.