



› SUMMER 2014

INVESTING IN RESULTS

Using Performance Data to Inform State Budgeting

STATE EXPERIENCES & LESSONS LEARNED

NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS



THE NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

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I. Introduction

The use of performance data to inform the allocation of state resources through the budget process is an important topic for state officials. While the purpose and practice of performance budgeting strategies may vary among state governments, states can learn from one another's experiences, challenges, and successes in this area. States have experimented with and implemented various forms of performance budgeting for decades, especially since interest in the practice grew in the public sector in the early 1990s. Performance budgeting, broadly defined, can refer to a budget process where information on program goals and performance is somehow incorporated into spending decisions, whether it be at the budget preparation, approval, execution or audit and evaluation stage. This approach is often linked with a state's performance management and strategic planning activities. Despite widespread interest and growing use of performance budgeting practices, the process of actually tying performance information to funding decisions in an effective, meaningful, and practical manner continues to be a major challenge for all levels of government. In addition, many state budget officials have expressed concerns over a lack of shared understanding on best practices, obstacles, success factors, and limitations of this budgeting approach.

The current fiscal environment for many states is characterized by limited resources with numerous demands for spending and not enough revenue to go around. Coupled with the lack of shared knowledge and definitions among states on performance budgeting practices, the time is ripe for further research and analysis directed towards helping states use performance data to inform their resource allocation decisions, as well as other management and planning activities. This report provides a high-level overview

of state efforts to implement performance-based practices, recent trends and progress, and a set of shared definitions to help frame the discussion on this issue. An appendix to the report profiles eight case study states that have adopted or are in the process of implementing performance budgeting and management strategies to provide a range of experiences. Finally, it identifies a set of broadly applicable lessons learned that state governments and other public entities will want to keep in mind, whether they are launching a new performance initiative or trying to sustain or enhance their current performance system. This report, made possible by the generous support of the Annie E. Casey Foundation, is part of NASBO's ongoing efforts to examine and promote further use of performance data in the public sector.





II. Background on Performance Budgeting at the State Level

For state and local governments, the “traditional” approach to budgeting typically has centered on making appropriations to agencies and departments for specific activities or purposes, often referred to as “line items,” with the prior budget serving as the starting point for the upcoming budget cycle and adjustments made on an incremental basis. Many states develop a base budget that—except during a downturn—reflects the level of funding that would be necessary to provide approximately the same level of service as the prior year, often adjusted for factors such as inflation, negotiated pay raises or health care cost increases. Using this approach, changes to appropriation levels are viewed in the context of an increase or a decrease from the base or baseline, and these changes are generally incremental in nature.

There are a variety of reasons why this has been the traditional—and still most common—approach to public budgeting. While not an exhaustive list, the following benefits are frequently cited as a rationale for the traditional line item budget:

- **Control.** A government budget appropriates dollars raised by taxes and fees for specific public purposes. In general, the governor proposes the state budget and submits it to the legislature, while the legislature is responsible for passing appropriations, subject to final approval by the governor. A budget broken down at the line item level helps ensure that agencies and departments use their appropriations for the purposes intended by state lawmakers and the governor.
- **Transparency.** Line item appropriations with incremental changes from year to year provide a readily available, clear context in which the executive and legislative branches (and the general public) can discuss the budget and government activities.
- **Accessibility.** A line item budget, built from a “baseline” or prior year budget, is generally simple for decision-makers familiar with the document to follow. It allows for quick comparisons of how funding levels vary for different line items and from year to year.
- **Stability.** State governments are large, complex entities that are responsible for a multitude of critical functions. Much like a large ocean liner, it can be difficult for them to abruptly change course. In this context, budget changes that are incremental in nature are generally perceived as more desirable and less likely to lead to unintended consequences or problems.
- **Focus.** Line item budgets that contain incremental changes allow state legislatures to concentrate on new initiatives rather than open up debate on the totality of state spending decisions that have accrued over the years. The base budget method also allows agencies to focus on justifying new requests while eliminating some of the burden of explaining past budgets; the time and resources for more in-depth, comprehensive analysis do not always exist in state government.

While the traditional approach to budgeting is still widely practiced, there have been a variety of alternatives or variations examined and used in the public sector over the years. These budget reforms aimed to integrate more information into resource allocation decisions, particularly information on program goals and performance, while also seeking to focus more attention on assessing the validity of historical budget decisions. The emergence of program budgeting as an alternative to line item budgeting reflected a desire to shift the focus of the budget process away from inputs and towards the expected results of government services. Another alternative is known as zero-base budgeting (ZBB), where the budget is (at least according

to theory) created without any consideration of past budgets, with all spending requiring justification for each budget cycle. For example, the states of Georgia, Idaho and Maine have experience and active initiatives promoting a zero-base or modified zero-base budgeting approach.¹

Another budget approach that emerged as an alternative to traditional line-item budgeting—and the primary subject of this report—is performance budgeting, which may also be referred to as performance-based budgeting, outcome-based budgeting, budgeting for results, and so on. Performance budgeting has become a topic of budget theory and practice in many states (as well as other levels of government and internationally) over the years. It should be noted that a variety of terms are employed in reference to the use of performance data in budgeting, which can lead to some confusion for state officials, academic researchers, policy advocates and others trying to learn more about this topic. In addition to this terminology problem, the actual way that performance data informs budgeting is far from uniform among the states that practice this budget approach. This lack of consistency is a key sticking point in the overall discussion of the extent to which the approach is practiced among the states—and whether it can be “proven” to be effective at influencing decision-making in a way that leads to better results.

This paper defines performance budgeting as a budget process where performance information is, in some way, incorporated into resource allocation decisions.² It can refer to instances whereby performance information is available and/or used at any stage of the budget process, including budget preparation, budget approval, budget execution, and audit and evaluation.³ Performance budgeting practices generally link inputs or costs to program activities and goals, although it should not be inferred that this will always mean decreased funding when programs underperform their goals or increased funding when goals are exceeded. It should also be noted that whether states use a performance-based approach to budgeting is not typically a straightforward “yes” or “no” answer; in fact, performance budgeting use at the state level should probably be viewed along a continuum from minimal to extensive use, with

significant variation on how this is accomplished. A broader definition of performance budgeting, as described here, allows for more in-depth analysis of the benefits and drawbacks of the use of performance in particular policy areas or specific stages of the budget process.

Just as the definition and current practice of performance budgeting are subject to interpretation, the history of its use is also not clear-cut. Discussions of the linkage between performance and budget decisions have occurred for nearly a century, and past budget reform efforts at the federal, state and local levels of government have also touched on the subject. Several sources suggest that there was an increase in interest in the use of performance information in the budget process in the early 1990s as part of the “Reinventing Government” movement. Established by President Bill Clinton in March 1993 and led by Vice President Al Gore, the National Partnership for Reinventing Government (formerly the National Performance Review) aimed to create a government that “works better, costs less, and gets results Americans care about.”⁴ As the case studies in the report appendix indicate, states that have been using some form of performance budgeting for a longer period of time launched their efforts around that time period.

What is the status of the use of performance budgeting in the states currently? In today’s limited resource environment, states are increasingly seeking to build capacity to harness data and technology to inform decision-making. As one state budget official noted at a NASBO meeting, “More and more of our budget is being eaten up by things that we can’t control. So we have to make the most of the budget dollars we do have.” In a recent survey of NASBO members, 44 percent of respondents said that their state uses the term “performance budgeting” to describe its budgeting approach—often in conjunction with another type of budgeting method.⁵ In NASBO’s *Fall 2013 Fiscal Survey of States*, several states reported enacted changes to budgeting and financial management practices that establish or expand performance budgeting and management processes, reflecting the ongoing shift towards greater use of performance information in state government.⁶



III. Key Terms and Definitions

Discussions about performance budgeting can often get bogged down in confusion over terminology and definitions. This section identifies and defines some key budget process and performance measurement terms in an attempt to address some of this confusion.

BUDGET PROCESS TERMS

States generally use a combination of approaches to develop the budget. For example, some states use performance budgeting and program budgeting in conjunction with one another.

The following terms and definitions describe a more “traditional” public budgeting process:

- **Incremental Budgeting.** An approach to budgeting that generally requires explanation or justification only for additions or deletions to current budgeted or “base” expenditures. Funding decisions are made on the margin, based on the justifications for spending increases or decreases of operating agencies or programs.
- **Line-Item Budgeting.** An approach to budget development, analysis, authorization and control that focuses on objects or lines of expenditures (for example, personnel, supplies, contractual services, capital outlay).

A variety of terms are used to describe budget processes that have emerged as alternatives (or complements) to a more traditional budgeting approach, each intended to introduce different types of information into the budget process. In some instances, these terms are used interchangeably, which makes it especially difficult to standardize terminology. These include:

- **Program Budgeting.** An approach to budget formulation and appropriations that identifies programs or activities, rather

than line items, as the primary budget units, and presents information on program missions, goals and effectiveness. This information intends to aid the executive branch and legislature in understanding the broader policy implications of their funding decisions and the expected results of services to be carried out by programs.

- **Zero-Base Budgeting.** A systematic approach to planning and budgeting that subjects all expenditures to justification (in contrast to incremental budgeting). Funding requests, recommendations and allocations for existing and new programs are usually ranked in priority order on the basis of alternative service levels, which are lower, equal to and higher than current levels. A **modified zero-base budgeting** (ZBB) approach may use a spending baseline above zero (e.g., 80 percent of the current spending level) or apply the process to programs on a rotating basis so that only a portion of programs are subject to ZBB each budget cycle.
- **Performance Budgeting.** This budgeting approach uses programs or activities as budget units, and presents information on program goals and performance. This budget system places emphasis on incorporating program performance information into the budget development and appropriations process, and allocating resources to achieve measureable results.
- **Budgeting for Outcomes/Budgeting for Results (BFO/BFR).** This budget process focuses on achieving key outcomes through a somewhat market-based approach. As practiced in the past and/or present by the states of Illinois, Iowa, Nevada, Oregon and Washington, it includes identifying key outcomes to be “purchased,” agencies or departments submitting “offers” to provide outcomes, and a priority-setting exercise around making the best choices to obtain the most services with the budgetary resources available. There is significant

divergence among the states as to how this process takes place. The Budgeting for Outcomes approach can be considered a form of performance budgeting.

PERFORMANCE MEASUREMENT TERMS

A performance budgeting process requires some methodology to determine what performance is, as well as how it may be measured, analyzed and reported. Relevant terms in the field of performance measurement are sometimes understood differently by various audiences, which can blur discussions of performance budgeting.

Performance measures are generally the “tape measure” used to gauge program performance. There are various types of performance measures. Defined below are some of the most commonly used measure types and related terms.

- **Input Measure.** As the name implies, this is the amount of resources provided or used to carry out a program. This is often reported as a dollar amount but can also include other inputs, such as full-time employees (FTEs).
- **Output Measure.** This is the quantity of service, product or activity performed or provided. Examples include the number of students enrolled in a school district or the number of driver’s licenses generated.
- **Efficiency Measure.** This represents as a ratio how much output was obtained per unit of input. An example would be the cost per invoice produced (input divided by output) or invoices processed per employee (output divided by input).
- **Effectiveness (or Quality) Measure.** This measures how well a service, product or activity was delivered, based on characteristics important to the end users. Examples would be percentage of hazardous sites remediated or percent of children in foster care placed for adoption, etc.
- **Outcome Measure.** This is a measure of the result associated with a program or service. Outcome measures can be short- or long-term results that can be directly linked to a government program or service. Examples include the percentage of students reading at grade level, air quality, or the traffic fatality rate. Outcome measures are often the most desirable measures but the most difficult to use and analyze, as major system outcomes are generally derived from a variety of services, products and activities, and isolating the root cause of change is often very difficult.

➤ KEY ASPECTS OF A “BUDGETING FOR OUTCOMES” PROCESS

The Government Finance Officers Association (GFOA) recommends the “Budgeting for Outcomes” (BFO) process as a best practice and an effective method for “integrating performance into the budgetary process.” In their discussion of BFO, they identify the following as its key components:

1. “Determine how much money is available.”
2. “Prioritize results. The results or outcomes that matter most to citizens should be defined.”
3. “Allocate resources among high priority results.”
4. “Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.”
5. “Budget available dollars to the most significant programs and activities.”
6. “Set measures of annual progress, monitor, and close the feedback loop.”
7. “Check what actually happened. This involves using performance measures to compare actual versus budgeted results.”
8. “Communicate performance results. Internal and external stakeholders should be informed of the results in an understandable format.”

Government Finance Officers Association, “Best Practice: Budgeting for Results and Outcomes” (2007).

- **Program Evaluation.** Preparation of reports with rigorous analytical support to determine to what degree programs are effective and are accomplishing their objectives.
- **Performance Management.** A broad framework for using performance data to conduct business and improve operations. Performance budgeting can be considered a subset of an overall performance management process, which is predicated on using data analysis and other tools to facilitate learning and strengthen focus on results. It is a continuous process of planning, implementing, measuring, analyzing and adjusting actions to improve results.

IV. State Experiences and Lessons Learned

NASBO has held several recent meetings, funded by the Annie E. Casey Foundation (AECF), on the topic of performance budgeting with state budget officers. Additionally, NASBO, with funding support from AECF and assistance from consultants with Public Financial Management, Inc. (PFM), profiled eight states that are currently engaged in some form of performance budgeting and/or other performance management strategies. These state profiles, which can be found in the Appendix, reflect the diversity, as well as some common themes, among states in how performance information can be used in budgeting, planning and program management. This section of the report draws out key points and takeaways from these state profiles, as well as comments shared by other states during NASBO meetings, and identifies some common lessons learned.

AGENCY ENGAGEMENT AND BUY-IN

Because elected and politically appointed officials come and go, having civil servant buy-in is key to sustaining any initiative through leadership changes. “The governor will always change. Your legislators will change. Priorities change. Getting management involved for agencies’ buy-in is key,” said one state budget officer at a NASBO meeting. Performance budgeting requires a new way of looking at the budgeting process. As a result, it creates a level of uncertainty that will be unsettling to many of the key employees expected to implement the process. Concerns about loss of control, reduced expertise and a preference for the status quo are to be expected. Furthermore, this new method requires much upfront effort to implement a new system—as well as ongoing review, analysis and reporting. Discussions with state budget officers revealed several lessons learned on obtaining buy-in and support from state agency managers and staff.

> High-level leadership is a key determinant of success.

At NASBO meetings, budget officers emphasized the need for high-level officials’ involvement to ensure success of processes using performance to influence budget decision making. One state budget director stressed that results-based initiatives will not be taken seriously by state agencies unless the top leaders in state government support and actively participate in them. This gives the initiatives legitimacy and indicates that the information and data generated by them will actually be used to inform management and funding decisions. Another state, which is still fairly early in the process of implementing performance-based budgeting, explained, “We’ve worked hard to get buy-in from agencies—some embraced it wholeheartedly, others needed more convincing.”



In conversations with **Iowa's** budget office leadership, it was noted that the state has seen some aspects of its performance budgeting and management process rise (and fall) in importance over time, even with a statutory basis in place. Departments, with many important responsibilities, may be inclined to sink to the “lowest common denominator” in terms of time and effort spent on performance budgeting activities unless they are convinced that this is an important priority. In recent gubernatorial administrations, regular performance reviews between the governor and department directors helped instill discipline at the agency-level. Iowa officials have found that the more active they are in supporting agency efforts to use performance information, the more agencies participate and support the system.

In **Nevada**, budget office and agency staff noted that successfully implementing a performance budgeting system requires engagement and buy-in from state agencies, particularly from senior management. The state found that identifying a “champion,” a senior employee who is supportive of the use of performance data, in core state agencies can help achieve the necessary buy-in. The most effective champion is an employee assigned to oversee implementation of the changes, who has the strong backing of their supervisor, preferably the agency head. Active support and engagement from the agency head is also critical to success.

Virginia offers another example of how active involvement and leadership on the part of top state officials can be tremendously important to advancing a performance initiative. The Council on Virginia's Future, created in 2003, is chaired by the Governor, and includes the Lieutenant Governor and key members of the cabinet as well as legislators. By having these high-level champions involved, the Council has remained an integral part of the overall strategy and performance process, while other councils or commissions have been marginalized or eliminated due to changes in the political or budget landscape.

› Agencies must see real value in the initiative.

State budget officers have observed that people who do not understand the benefit of performance budgeting or performance management are likely to resist the initiative. There is a natural tendency for many to eschew change in favor of the status quo unless they understand and expect benefits worth the risks of change. Showing agencies and managers how they can use per-

› AUSTRIA'S EXPERIENCE MIRRORS LESSONS LEARNED IN THE U.S.

The experience of Austria offers an interesting international example of the strategies used to obtain support from agencies for the use of performance data. The country's robust performance budgeting initiative has been successful in part because they allow the government agencies to keep and redirect their savings, providing agencies with a compelling incentive to gather and use data about the effectiveness and efficiency of their programs. Other factors critical to the success of Austria's performance-based initiative, as identified by the country's budget office, also echo lessons that states in the U.S. too have learned, such as the importance of staff training, strong leadership at the top, building a results-oriented culture, and keeping the system as simple as possible.

See Gerhard Steger, “Budget Reform: Lessons Learned from Austrian Case” (June 2013), available at http://revisionedellaspesa.gov.it/documenti/2013-Junex_Vienna_Budget_Reform_Lessons_Learned_from_Aust_2.pdf.

formance information to manage and improve their programs can help obtain buy-in from civil servants on the usefulness of collecting, reporting, and analyzing performance data. “We're trying to find ways to help [agencies] add value to their operation—which is a good buy-in for them to work with us,” said a **Utah** state official leading the team responsible for implementing the state's new performance-based initiative. “Our strategic plan includes a need to generate quick wins. Once agencies see their counterparts finding value, making progress, etc., then they know it's real.”

In many traditional budget processes, the state budget director issues budget guidelines to agencies, agencies submit their budget requests, the budget office makes recommendations to the governor, and agencies have an opportunity to “make their case” to the governor prior to the completion of the recommended budget.



Under **Oregon's** Budgeting for Outcomes process, with citizen "program funding teams" making recommendations to the governor, there was understandable concern among agencies that they would lose the opportunity to present their budget justifications to the governor. Figuring out how agencies will fit into the final decision-making process in an outcome-oriented budgeting process is important. In Oregon, agencies were given an opportunity, after the citizen team recommendations, to provide additional input prior to the governor making his final budget recommendations.

Not only do state agency senior leadership and their staffs need to perceive a value to the use of performance data; they also need to see tangible benefits over time. A former state budget director noted that as a way to demonstrate good will and encourage participation in performance initiatives, states may consider returning some (or all) of the savings an agency achieves back to that agency. If the use of performance data in budgeting and management leads to impressive efficiencies and cost savings, yet the departments achieving those savings see no financial reward, the incentive to participate in the reform is minimized.

- › Performance budgeting should not be simply a budget cutting exercise.

There is general agreement among budget practitioners that any performance initiative should not be aimed primarily at reducing expenditures; doing so can undermine the value of the initiative and seriously jeopardize agency buy-in. A successful

initiative should lead to more efficient resource allocation decisions, which may result in net government savings, but the focus should be on how the process directs investment of scarce resources towards more effective programs. “We don’t bill this as a budget-cutting measure,” one state said of its results-based initiative at a meeting. “That’s a disincentive right off the bat. If we can build capacity in our systems, we’ll inevitably find ways to save money.” The main focus of the initiative should be centered on enhancing the efficiency and effectiveness of programs to build agencies’ capacity to meet their goals. “If we’re talking about where the money is going, for us it’s really been more about priorities and not cutting budgets,” said another state with a longstanding tradition of performance management and results-based budgeting. State budget officials also noted that communication between the executive branch and the legislature is critical to avoid the misperception of performance-based efforts as budget-cutting tools. The exercise should be viewed by all stakeholders as a positive use of information to lead to better decisions and improved outcomes.

- › Agencies must build knowledge and capacity, and be held accountable for results.

There are a variety of ways that performance budgeting or management systems can break down. To be effective, these systems require consistent data measurement, reporting, analysis and application. The system “should tell you how an agency is doing and whether it has the capacity to use its resources wisely,” said one state budget director at a NASBO meeting. A host of

internal and external weaknesses and threats can hamper system effectiveness. In some instances, budget and position cuts have been allowed to serve as a reason to suspend or end the use of performance data in the budget process. In other cases, departments have not been held to a standard of consistent data reporting—or the measures themselves have been chosen in a way that undermines their value.

Sufficient and regular staff training on how to collect, interpret, use and report data is also crucial to the successful use of performance information. In **Alabama**, the executive branch partnered with Auburn University to have expert consultants work with agencies on developing assessments of their programs. Several state budget officials also pointed out that it is critical for budget office staff to build a strong knowledge base about their agencies. “There is no substitute for well-trained staff. It’s not just formalized training in a classroom, it’s giving them the time to go out and understand the people they’re working with and what they’re doing,” said **Virginia**’s budget director. “You can’t overstate the value of making sure people understand the issues at hand, and the process. When they understand, they can help you get to the right information and data more quickly and efficiently.” In addition, **Nevada** budget office staff pointed out that during implementation, it is important to keep in mind that state departments and divisions may vary in terms of technical expertise, and some may be more resource-ready than others to adopt and embrace performance budgeting methods.

Greater accountability can also be accompanied by more flexibility for agencies. At a NASBO annual meeting, **Oregon**’s budget director explained regarding the state’s Budgeting for Outcomes (BFO) approach, “agencies are given the resources and flexibility to decide how to allocate resources to achieve outcomes.”

ROLE OF THE LEGISLATURE

Discussions with state budget officers suggest that legislatures (and individual committees or legislators within the same state legislature) vary in their approach to and level of involvement in performance measurement and performance budgeting. A couple of common themes were identified based on states’ experiences with performance- and results-based initiatives.

› Statutory framework may help ensure continuity.

Performance budgeting requires significant time and effort to add value and achieve success. That said, sometimes an administration—whether because of a change in direction or an election—loses interest. Some states have been able to maintain focus on performance budgeting by putting elements of

the process into statute, enacted by the legislature, which can help promote stability and consistency through political transitions and across government agencies. **Iowa**, for example, has statutory requirements for departments to develop strategic and performance plans and report on mitigation plans when they do not meet their performance goals. Iowa also has built

› RECENT FEDERAL EFFORTS TO BUILD AND USE EVIDENCE

A push for greater use of data to inform decision-making is also taking place at the federal government level in the United States. A recent example of this can be observed in the development and release of the President’s Budget for FY 2015. In July 2013, the White House Office of Management and Budget (OMB) issued a memo providing guidance on the Administration’s intentions to give priority to budget requests that strengthen the use of evidence and innovation. The memo invited agencies to participate in workshops and interagency collaborations aimed at helping them enhance proposals that harness data and innovation. The memo described a number of strategies to utilize evidence, and included specific examples of how these strategies have been applied. The President’s Budget for FY 2015, released in March 2014, included a fact sheet entitled, “Building and Using Evidence to Improve Results.” The section highlights how the Administration’s budget proposal seeks to build evidence on what works through pilot and demonstration programs, outcome-focused grant designs, Pay for Success approaches, and opening data sets, as well as investments that the budget proposes to make in programs based on evidence.

See Office of Management and Budget, “Next Steps in the Evidence and Innovation Agenda” (July 26, 2013), available at <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-17.pdf>, and The President’s Budget: Fiscal Year 2015, “Building and Using Evidence to Improve Results” (March 2014), available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/fact_sheets/building-and-using-evidence-to-strengthen-results-in-government.pdf.

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into its budget process (and budget system) requirements that all programs identify and report on services, products and/or activities associated with the program. Having a statutory basis for performance budgeting might also make state lawmakers more likely to use the information required under the law for decision-making.

One state budget officer noted in discussions that getting non-cabinet agencies to comply with an executive branch-led performance initiative can be especially challenging when there are no requirements written into statute. **Colorado** noted that the administration worked with the legislature to amend state law on performance management to align with the governor's efforts in this arena. Of course, a statute must be written to ensure flexibility. Otherwise, the use of performance in budgeting runs the risk of becoming nothing more than a bureaucratic duty, not an effective approach that actually brings about positive change in state government.

➤ STATE LEGISLATORS' VIEWS ON USING PERFORMANCE INFORMATION

According to the National Conference of State Legislatures (NCSL), state lawmakers and legislative staff members pointed to the following attributes as critical to creating a successful, sustainable results-based framework in state government:

- Permanent institutional commitment from the governor, legislature, and agency administrators
- A statutory base
- Adequate staff resources
- Existence of an oversight agency
- Investment in data management

It is worth noting that the study's findings echo many of the lessons learned shared by budget officers in the executive branch of state government.

See NCSL, "Legislative Performance Budgeting" (September 2008), available at <http://www.ncsl.org/research/fiscal-policy/legislative-performance-budgeting.aspx>.

➤ Determining optimal legislative involvement in the process is an open question.

Research and individual state experiences have shown that any performance or results-based budgeting initiative likely needs support and active engagement from both the executive and legislative branches to be successful and sustained over the long term.⁷ If lawmakers are not interested in using performance information to make decisions, the process can lack meaning and utility. When there is reluctance among leadership in one branch to support the initiative, building and fostering solid relationships between staff on the executive and legislative sides can offer a good starting point for further discussion and progress. In **Nevada**, the legislative fiscal office plays an influential role, and the budget office has focused attention on engaging that office in discussions and activities related to its performance budgeting initiative.

In **Connecticut**, multiple results-based initiatives have been primarily driven by certain members of the state legislature. However, it is sometimes unclear to the executive branch how and to what extent performance data are being used by lawmakers for budgetary decisions. This lack of clarity can fuel skepticism about an initiative's value among state agency and budget office staff, who often bear much of the workload associated with these initiatives. At the same time, state budget officials note that these results-based exercises have seemed to help lawmakers become more informed about state agencies and their programs.

Iowa has been a regular practitioner of performance budgeting and other performance initiatives for over 25 years. Enactment of the state's *Accountable Government Act* (AGA) in 2000 has helped ensure stability through administration changes. The key required components of the AGA have endured through transitions between governors and legislatures. Beyond mere endurance, it has also fostered consistency in application among departments in state government. Both the state's original Budgeting for Results approach in the 1990s and the Budgeting for Outcomes process in the 2000s sought to change how budgets were developed and presented. While the legislature was unwilling to fully give up the traditional line item budget approach and process, Iowa lawmakers have been open to engage in efforts to develop and use performance measures.

In the case of **Oregon**, the state's well-known benchmarking and performance measurement process has fallen in and out of legislative favor and been modified on multiple occasions over the years. On at least two occasions, the program has been either eliminated or not funded. Additionally, there has been some concern that the process, which has significant legislative involvement as well as a separate entity that drives it, does not coalesce

with the management information needed by state agencies to track their progress on key activities and services they deliver. This concern may have helped prompt the formation of the executive branch's separate key performance measures (KPM) process initiated in 2000. Regarding Oregon's "Budgeting for Outcomes" (BFO) initiative, there was significant pushback from the legislature in response to the shifting of agencies among the outcome areas. A BFO process may still have value, however, even should the legislature choose not to embrace it. Arguably, an executive branch focus on outcomes in developing its budget has worth regardless of how the legislature responds.

A number of states cited the challenges associated with getting the legislature and executive branch on the same page regarding the initiative. There is a concern that legislative involvement will be to primarily focus on programs or activities that do not meet their performance measure with the goal of eliminating those programs or reducing their funding. This "punishment paradigm" is often a point of discussion in the literature on performance budgeting, with the general consensus that this approach can significantly undermine the ability to gain widespread acceptance of performance budgeting. In some countries, budget officials have found that agencies only cooperate if there is no punishment exercise. There is also a concern that the legislature may identify performance measures that are of interest to them but do not provide useful information for program management or execution. At a NASBO meeting, **Utah** pointed out the importance of having a legislative outreach strategy as part of implementing a performance initiative to avoid these potential pitfalls.

PURPOSE AND DESIGN

A critical part of implementing a performance initiative entails defining that initiative's purpose and objectives, and then designing the approach to fulfill that purpose. One state budget official noted, "We stepped back . . . and asked why we wanted to do performance-based budgeting in the first place. If we can't answer the why, we come up with a multitude of measures across the board and default to measuring everything." Commonly cited goals of public sector performance-based initiatives include facilitating more informed, data-driven decision-making, greater accountability and transparency, and fostering an outcome-oriented funding approach to break down silos and promote inter-agency collaboration to achieve common objectives.

Discussing the ultimate purpose of a results-based budgeting framework, a senior **Illinois** government official noted during a NASBO meeting, "The big question is, how does budgeting drive achievement of outcomes?" An important aspect of **Oregon's** "Budgeting for Outcomes" (BFO) approach is to break down the



silos of appropriations by agency (and line items within agencies) and instead to think about how those appropriations affect the identified key priorities and outcomes. In **Nevada**, state budget office staff noted that one of the primary purposes of the state's "Priorities and Performance Based Budget" (PPBB) initiative initially has been to identify connections and areas of duplication in state government. Over time, the state plans to move towards learning how to use performance data to better manage programs internally.

With these goals in mind, discussions with state budget officials revealed several key lessons on how to design a performance-based system to ensure it supports its intended purpose.

› The number of measures is an important balancing act.

As with state government in general, many state departments are responsible for multiple important functions. It is often difficult for the department to develop just a handful of measures that embody the work it does. As is often noted, "what gets measured gets managed" and department leadership (and those who lead activities) may decide that "more is better" in selecting performance measures so that no activity is overlooked. While this perspective is understandable, it runs the risk of bogging down the performance discussion under the weight of the sheer number of measures to be collected, analyzed, reported and acted upon.

Utah found that limiting the number of performance measures is advisable, as too many measures can be counterproductive and overly burdensome, resulting in a lack of focus and making it difficult to find context to take action. A Utah senior official noted, "When we have so many different measures, the focus of our

IV. STATE EXPERIENCES AND LESSONS LEARNED

leaders gets watered down. Our management's attention is the scarcest resource in our state. We need them to focus." Nevada budget office staff also believed that the state's "Performance and Priorities Based Budgeting" system needed to be as simple as possible and therefore limited each "activity," defined as a program or service provided by an agency for a specific purpose that can be discreetly measured, to three performance measures.

It is true that selecting fewer measures also carries risks, especially when they are imposed in a top-down manner. It can lead to conflict within agencies as well as with the legislature, as the exercise may seem to prioritize one program or statute over another. In addition, it is important to be mindful of and try to guard against unintended consequences, such as unmeasured activities suffering as a result. Choosing measures that are too narrow may elevate this risk. When asked about the potential unintended consequences of selecting a limited number of performance measures, **Utah** responded, “We’re trying to be conscious of that. In our case, we’re boiling down these measures to get at the system, and what the system is trying to do. Our broader measures might actually help reduce the risk of focusing on the wrong place.” Using an appropriate combination of measures of quality, volume and cost to monitor government performance can help ensure that one does not suffer at the expense of another.

Several states commented that they still allow agencies to choose how many measures to collect, and then the central budget office picks the most useful measures for high-level decision-making. One state budget official said during a NASBO meeting, “We let [agencies] measure what they wanted, then we cherry-picked what was important to us, what we spotlighted.” Some states use performance agreements between the Governor and agency directors as a way to focus on the key department outcomes that will affect the director’s overall performance review. Others use websites with key indicators as a way to refine the performance discussion.

- › Careful selection of measures is required to ensure they are meaningful and useful.

Ideally, performance measures should be measurable, able to be linked to program activities, matter to the public and connect to strategic objectives. Outcome measures are generally considered the most desirable type of measure because they represent the result a program is intended to achieve and can be linked to statewide priorities. However, outcomes present challenges in that they are hard to measure, often requiring extensive, complicated data collection, and they can be affected by a variety of public services and external forces outside the control of state government. For these reasons, using a combination of output and outcome measures, along with other types of measures,



may be a good approach. In some cases, proxy measures that are closely correlated with outcomes can also be used for more timely data. The desire to have “the perfect” measures can prevent the implementation of a usable process. It is often advised to not let the perfect be the enemy of the good. Use of at least some measures, even if not optimal, is preferable to no data or information at all.

A **North Carolina** budget official observed that coupling performance management (that may rely more on output and proxy measures) with program evaluation (designed to measure the long-term impact of a program, often using longitudinal data) can provide a more holistic picture of a program and all the factors that contribute to its effectiveness. Collecting the same data over time in a consistent manner can also yield valuable time series data that can be helpful in measuring long-term program performance and offer other benefits. Some states are shifting away from program outcome measures in favor of using more short-term efficiency measures. However, in response to this trend, one state noted, “We haven’t given up on program outcome measures even though a lot of intervening variables not under the control of program managers can influence results.”

During the 2000s, much of the focus on performance budgeting in **Iowa** was on achieving outcomes associated with key programs. Outcome measures were highly valued in this process and underscored in the Budgeting for Outcomes process. Recently, the state has placed greater focus on government efficiency—including a key goal of substantially reducing the cost of government. As a result, efficiency and effectiveness measures have been particularly valued, and approaches to determine whether state government is obtaining the “best bang for the buck” have come to the forefront.

› Performance-based initiatives can be linked to other good government efforts.

In a number of states, performance or results-based budgeting has been viewed as a useful complement to other “good government” efforts, such as Lean management and related initiatives to eliminate waste and enhance efficiency. These initiatives all rely on collecting, interpreting and using performance data to inform decision-making, and they can work together to build and foster a data-driven, results-based culture in state government—or, as one state budget officer put it—“promote an operational culture of continuous improvement.” A results-based budgeting approach can also lend itself better to building a compelling narrative to communicate to the public about how taxpayer dollars are being used.

› THE RISE OF LEAN GOVERNMENT INITIATIVES

When discussing performance and results-based approaches in state government, inevitably mention of Lean methods comes up. Lean is an operations strategy guided by a philosophy of continuous improvement, and can be considered a “good government” approach alongside other practices such as performance management and results-based budgeting. Recent years have seen a growing interest within the public sector in applying Lean principles to increase government efficiency, eliminate waste, strengthen service delivery, and improve customer satisfaction. Colorado’s Governor’s Office of State Planning and Budgeting (OSPB) conducted a national survey in fall 2012 finding that the Lean methodology was being utilized by 21 state governments, including Colorado, at that time. The survey also identified key success factors for creating a culture of continuous improvement, including executive leadership, continuous communication and support for staff, a focus on outcomes, and celebration of achievement. It is not surprising that these findings resemble the lessons on performance budgeting that have been identified in this report.

See The Governor’s Office of State Planning and Budgeting, State of Colorado Lean Program Office Progress Report: Pursuing Effective, Efficient and Elegant Government Services (December 2013), available at <http://www.colorado.gov/ospb>.

Washington, with a long history of performance management, results-based budgeting and strategic planning, has sought to apply Lean thinking, tools and methods to improve the agencies’ business processes and make state government more efficient. In 2013, Washington’s governor revamped the state’s performance management system (formerly known as Government Management Accountability and Performance, or “GMAP”) and launched “Results Washington.” This new system increases the frequency of performance reviews and expands the process to all state government services and functions to provide greater

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public transparency of performance data. Results Washington also substantially expanded the state's Lean initiative.

For the state's 2014–2015 biennial budget, **Minnesota's** executive branch embarked on a process to develop an outcomes-focused framework and explore ways to change the way budget information is presented to shift the conversation from “what are we spending” to “what are we getting for our money?” This discussion was also seen as a complement to another executive branch initiative in Minnesota known as “Better Government,” which is focused on management strategies such as continuous quality improvement and Lean strategies. During a NASBO meeting, a **Colorado** budget official talked about how the state governor's Lean initiative offers opportunities to improve government efficiency and the user experience. “We believe that if we can focus our effort on improving the customer/consumer experience, we've found something we can all rally around.”

› **Integration and communication increase the opportunities for successful use of performance information.**

In order to succeed, performance budgeting initiatives need to become an integral part of the budget process—from inception through adoption, execution and reporting. If the process of developing and reporting performance measures is seen as separate and distinct from the budget development, adoption, and implementation process, performance budgeting initiatives will likely provide little additional value. In fact, this disconnect

between performance measures and budget decision-making is where many systems seem to stumble.

In a successfully integrated performance system, data analytics also play an important role in long-term strategic planning at the agency and statewide levels. As one state budget director said at a NASBO meeting, a state must ask two separate questions: “What are the right things to be doing?” (strategic planning), and “How can we do things better?” (performance management). In general, states have less budgetary flexibility than they used to, which makes it all the more important to make the best use of resources that are within states' direct control. One way in which performance data can inform a priority-setting process is when it can be used to support the argument that an investment now will save money over the long term. A state program area in which this case is often made is corrections (e.g., when investments in reentry programs can be shown to reduce recidivism rates).⁸ When public resources are not readily available to make such investments, some states are turning to newer financing strategies, such as “Pay for Success” contracts, to fund certain evidence-based interventions.

Integration is also an issue within the teams that are responsible for key activities of the performance budgeting process. In many states, the financial aspect of budget development, execution and reporting is handled by a team that typically includes the Governor's office, the budget office, the revenue department and other subject matter experts with specialized financial knowledge and skills. Often, the strategic planning and performance measurement, analysis and reporting functions are handled by a separate group of individuals whose expertise is more focused on these higher-level planning and organizational analysis activities. There can be a disconnect between the financial and planning processes unless ways are devised to bridge these differences. As in many activities, this requires significant communication, collaboration and coordination of the efforts of both of these groups of individuals. If this connectivity does not exist, there are likely to be gaps of knowledge from budget planning through execution and performance reporting.

Finally, technological integration is equally as important as process integration. To be both effective and efficient, ideally performance data will be able to be loaded and analyzed within the state's budget software system. If not, it becomes more difficult and burdensome to ensure that data is collected on a timely basis, as well as consistent and available for analysis. In states relying on spreadsheets and other “shadow systems”

➤ THE “PAY FOR SUCCESS” FINANCING MODEL

Even when there is evidence to support investment in a program or activity, states do not always have the resources readily available to make that investment. One relatively new alternative financing method, commonly known as “Social Impact Bonds” or “Pay for Success” contracts, may step in to fund an intervention when there is reasonable confidence that it will be effective, but there is not enough taxpayer money to do the program at scale. Under this model, the government generally contracts with a private or nonprofit entity to provide a social services program, and only pays the entity if the program achieves certain performance goals. The private entity will often raise working capital from philanthropic or commercial firms to cover operating costs. These investors may earn a return if the program is successful. Thought is divided on the merits of this financing method, which is essentially a particular form of a public-private partnership. Advocates for this method say that a provider overseen by private investors will have greater incentive than government has alone to manage a program efficiently, while critics argue that private investors end up reaping the benefits that should be enjoyed by taxpayers. Nonetheless, the pay-for-success model offers one opportunity to shift towards a new way of thinking about the role of government and budgeting for outcomes.

The Harvard Kennedy School of Government established a Social Impact Bond Technical Assistance Lab

(SIB Lab), with support from the Rockefeller Foundation, which provides pro bono assistance on a competitive basis to state and local governments using pay-for-success contracts to finance social service programs. The SIB Lab helped Massachusetts and New York develop pay-for-success contracts using social impact bonds, and in 2013, the lab began providing technical assistance to the winners of a national competition: Chicago, Colorado/Denver, Connecticut, Illinois, Michigan, New York, Ohio and South Carolina. More information about the “pay-for-success” efforts in these governments, as well as others not receiving assistance from the SIB Lab, is available at <http://hks-siblab.org/gov-docs/>.

It was pointed out during NASBO member discussions that the term “social impact bond,” which originated in the United Kingdom, is misleading in the context of U.S. public finance. State budget officers agreed that “pay-for-success” contracts may be a more appropriate term. Similarly, an SIB Lab publication explains the social impact bond is “not a typical debt instrument and these transactions do not require the government to issue debt. To avoid these misperceptions, the [U.S.] federal government tends to call these projects ‘pay for success contracts.’” (SIB Lab, *Social Impact Bonds: A Guide for State and Local Governments* (June 2013), p. 8, available at <http://hks-siblab.org/publications/>)

to track and maintain the data, it is much more challenging to achieve the ease of use and transparency needed for maximum effectiveness and long-term sustainability. Implementing a performance budgeting initiative in certain cases might require some technological upgrades or a complete budget system overhaul to enable the collection, accessibility, and integration of performance and/or financial data. While this can present challenges for resource-constrained budget offices, it also offers opportunities to streamline processes and improve efficiency over the long term.

SUSTAINING THE INITIATIVE

In discussions with state budget officers, several themes emerged on how to sustain a performance or results-based initiative over time. While the lessons aforementioned in this paper can all contribute to the sustainability and success of an initiative, the broad points identified below are particularly important to consider when designing, implementing and executing a performance budgeting system that will last.

IV. STATE EXPERIENCES AND LESSONS LEARNED

- › Process change takes time.

Adopting or making changes to a performance budgeting system will not happen overnight, and realizing value from it will likely take a significant amount of time as well. Performance budgeting is not an “event” with a defined start and end point. It is a continuous process of strengthening what works, improving or eliminating what does not, and making ongoing adjustments as conditions change. If performance budgeting is approached as the equivalent of an item to be checked off a to-do list, it will not be effective. A **Virginia** budget official explained at a NASBO meeting, “This needs to be an evolutionary process—it doesn’t happen overnight. It won’t be perfect on the first shot. You need to be willing to make an effort to make it work for you.”

Minnesota has learned that small changes can pave the way for reform. Incremental changes, including in how departments communicate budget decisions, can be a useful first step in broader efforts around performance budgeting. “When we tried to change to more meaningful, outcome-based reporting, [agencies] struggled because they hadn’t operationalized it at all. Instead, we are trying to create a set of management tools that are founded in performance management and results-based accountability in order to create a culture where performance is a natural part of the process,” explained a Minnesota budget official at a NASBO meeting.

- › Performance budgeting is a tool, not a cure-all.

As this report has often expressed, a performance budgeting system should not let perfect be the enemy of good. Gradual

budget and management reforms can flourish over time when the power of a performance budgeting system is not oversold from the beginning. No system will ever be so specific that it can directly determine how many dollars state officials should budget for a program. In our democratic political system, a good performance system does not yield numbers, but rather helps staff ask the right questions that then depend on sound human judgment to address. “We don’t count on performance measures to make decisions by themselves,” said a **Washington** state budget official. A results-based budgeting system “is a tool—an important one—but it won’t write the budget.”

Leadership in **Virginia's** budget office also espouse this view that performance budgeting is an informative, rather than determinative tool in making budget decisions. In many respects, this may reflect the state's years of experience with using performance data in budgeting and management—its value has been proven, but it has also been subject to the “tests of time” that expose external threats and internal weaknesses that reveal themselves in some instances. “The notion that performance budgeting is going to lead you to numbers isn’t true. It’s going to lead you to ask more questions and give you insight into how you should proceed,” said Virginia’s budget director.

- › System must be flexible.

Discussions with budget officials from states that have worked to implement or sustain any performance-based initiative also revealed a widely held view among practitioners that a stringent, one-size-fits-all approach to performance budgeting in state government will not work in the long term. It must be flexible and be able to adapt to different agency missions and changing statewide priorities, especially through leadership transitions. “As state budget officers, we’ve got to design something that fits roughly 140 agencies with different missions or goals,” said one state budget director. “There needs to be flexibility, and we can’t get mired in a one-size-fits-all approach.” Another state with experience in performance budgeting noted during a NASBO meeting, “Having a stringent program with a lot of rules, forms, participation restrictions, etc., ended up being very negative for us...A less-stringent process makes continuity easier.” Along similar lines, every state is unique and has different laws, political dynamics, government culture, and so on. These variables should also be considered when designing or implementing any performance-based system in a state, especially when the system is modelled off of another state’s approach.





V. Conclusion

Over the past few decades, state governments have invested significant time and effort into developing, implementing and using performance budgeting processes. While there is no uniform “one size fits all” method for effectively using a performance budgeting approach, this report has identified some general themes and

lessons learned based on discussions with those responsible for these state systems and a review of professional and scholarly articles and papers. NASBO believes opportunities and efforts to improve the practical use of performance data and application of a results-based framework in state budgeting can and will continue.

› USING PERFORMANCE DATA TO INFORM STATE BUDGETING: KEY THEMES & LESSONS LEARNED

Agency Engagement and Buy-In

- High-level leadership is a key determinant of success.
- Agencies must see real value in the initiative.
- Performance budgeting should not be simply a budget cutting exercise.
- Agencies must build knowledge and capacity and be held accountable for their data and results.

Role of the Legislature

- Statutory framework may help ensure continuity.
- Determining optimal legislative involvement in the process is an open question.

Purpose and Design

- The number of measures is an important balancing act.
- Careful selection of measures is required to ensure they are meaningful and useful.
- Performance-based initiatives can be linked to other good government efforts.
- Integration and communication increase the opportunities for successful use of performance information.

Sustaining the Initiative

- Process change takes time.
- Performance budgeting is a tool, not a cure-all.
- System must be flexible.

Appendix: Case Studies

CONNECTICUT

Background

The Appropriations Committee of the Connecticut General Assembly began implementing the Results-Based Accountability™ (RBA) approach in 2005 after learning of the methodology during a presentation by its founder, Mark Friedman at the Fiscal Policy Studies Institute (FPSI). RBA is a management strategy and decision-making tool that organizes and budgets for programs and activities by starting with the end results that these programs are intended to achieve, similar to other “Budgeting for Results” (BFR) approaches. Representative Diana Urban, who serves as a co-chair on the Results-Based Accountability Appropriations Subcommittee, championed the initiative. As such, this case study is somewhat unique among the state examples profiled in this report in that it features a PBB initiative that has been predominantly driven by the state legislature.



When RBA was first being implemented, one major challenge faced by its proponents in Connecticut was the perception that the approach might be the new “flavor of the month” that had the attention of some state lawmakers for the moment but would fade over time. This had been a familiar trend for civil servant staff, who put a significant amount of time and effort into similar initiatives in the past and then saw little attention paid to this work by top decision-makers in all three branches of government. Overcoming this challenge necessitated the building of solid, trusting relationships between staff on the legislative and executive sides, and these relationships proved critical in moving the initiative forward and encouraging agency participation. Nevertheless, skepticism remains in parts of the executive branch regarding whether and how RBA information is being used by the state legislature in making appropriations decisions.

Current Activities

Currently, there are three separate initiatives related to using performance information in state budgeting and management in Connecticut. RBA, discussed above and the primary focus of this case example, has received perhaps the most attention. In addition to RBA, another initiative known as Results First is ongoing in the state. This initiative is also mainly led by the legislative branch, with a small executive branch role. The Results First project, sponsored by the Pew Charitable Trusts and the MacArthur Foundation, provides technical assistance to states to implement cost-benefit analysis practices to help inform policy and budgetary decisions. The Washington State Institute for Public Policy (WSIPP) has been a leader in the state-level use of cost-benefit analysis, which can be thought of as a particular strand of return on investment (ROI) analysis. The Results First initiative aims to bring the WSIPP model to other states. Cost-benefit analysis represents a results-driven, evidence-based

decision-making tool that requires large amounts of data. In Connecticut, this initiative has been mostly applied to criminal justice policy issues. The goal of the Results First initiative is to use data and analysis derived specifically from the project to help inform funding decisions. One key challenge often associated with cost-benefit analysis is a lack of sufficient historical data to measure the impact of programs to calculate their benefits. A third evidence-based approach being used in Connecticut is the requirement that the governor present the budget recommendations on a program basis and include performance measure information in the budget document.

Today, the goal of RBA's use in the legislature is to better target resources to programs that are evidence-based, especially in the program areas of early childhood and criminal justice, where a broader body of work on RBA exists at the agency level. This effort to use RBA to make resource allocation decisions is ongoing and regarded within the RBA subcommittee as a work in progress. Executive branch agencies have become leaner in recent years, with fewer staff resources and opportunities for staff training. This has made it challenging to expand RBA beyond sporadic report cards from agencies to a more holistic, systematic effort that influences macro-level spending decisions. While the RBA methodology may not yet be clearly integrated with the state appropriations process, budget hearings are framed around RBA questions for many agencies, even those without a strong body of work in this area. State officials involved in RBA continue to work with the Charter Oak Group, consultants trained by Mark Friedman, as well as the RBA Practitioners Network, an informal coalition of nonprofits, appropriators and communities pursuing use of RBA methods.

While it is sometimes unclear to the executive branch whether and how the RBA and Results First data are being used by the legislature for budgetary decisions, the exercise has seemed to help lawmakers become more informed about state agencies and their programs. The lack of clarity on how the data are being used fuels ongoing skepticism about the legislature's commitment, as a whole, to the RBA tool. At the same time, the executive branch has allowed agencies to collaborate with the legislature on RBA.

In addition to the state's three results-based efforts, the executive branch is currently pursuing a separate management initiative to apply Lean strategies to government operations. Governor Dannel P. Malloy issued direction to state agency commission-

ers to implement Lean processes designed to maximize value to customers, generate efficiencies, and produce real cost savings. The Administration began by having several state agencies, including the Office of Policy and Management, implement these procedures in 2011. The administration released a report in September 2012 describing various activities under the Lean initiative, and in March 2013, Governor Malloy expanded the initiative to all state agencies.⁹

Lessons Learned

- **Fighting “Flavor of the Month” Perception.** When leadership in one branch of government pursues a new performance initiative or management tool, others within that branch and other branches may be suspicious that attention to the initiative will be short-lived and that it will not be used in a meaningful, sustainable way. This can be especially true for state agency and budget office staff, who often bear most of the workload associated with these initiatives and have grown skeptical that their efforts will prove worthwhile based on watching interest in performance-based strategies come and go in the legislature. Therefore, it is important for the advocates for the initiative or tool to demonstrate their commitment to the change. It is also vital that the initiative have support from top state officials with the ability to influence decision-making.
- **Initiative Needs Support from Legislative and Executive Branches.** Any performance or results-based budgeting initiative needs both legislature and executive branch support to be successful and sustained over the long term. When there is a reluctance among leadership in one branch to support the initiative, building and fostering solid relationships between staff on the executive and legislative sides can offer a good starting point for further discussion and progress.

IOWA

Background

Iowa has a long history of executive branch-driven performance initiatives, most of which had a performance budgeting component. In the 1980s, Iowa began reporting on budget-related performance measures, which were mostly output measures. In the 1990s, Governor Terry Branstad's administration embraced a form of Budgeting for Results, which was intended to group budget units that are focused on similar results. Beginning in 1993, the Department of



Management (Iowa's form of an Office of Management and Budget) began to focus on outcomes and outcome measures in the preparation of the governor's budget recommendations.

At the same time, the state commenced a benchmarking initiative and used public surveys to identify five key priority areas—economic development, workforce development, strategies for strong families, strong communities and healthy Iowans. As the governor's budget was prepared, the priority area and relevant benchmarks were determined, and the budget units working toward that outcome were presented together. The stated goal of the initiative at the time was to eventually blend the budgeted line items by department into allocations by result area, and the Department of Management intended to move to that approach by 1999. There were joint executive and legislative branch efforts to improve the overall knowledge and understanding of performance budgeting, including creation of a joint task force that included senior staff of 12 state agencies as well as non-partisan legislative staff members who assisted agencies with the development, data collection and use of performance measures.

In 1998, Tom Vilsack succeeded Terry Branstad as governor, who chose not to seek re-election after 16 years in office. The Vilsack administration embraced the previous administration's focus on performance and results in the budgeting process and sought to further institutionalize this approach. In 2000, Governor Vilsack recommended and the state legislature enacted the *Accountable Government Act* (AGA), which aligned and connected performance-based components of Iowa's management system and focused both the executive and legislative branches on results. The AGA required state government (and state agencies and de-

partments) to engage in strategic planning, agency performance planning, performance measurement, results-based budgeting, performance reporting and audits, and return on investment analysis. Iowa spent the next several years implementing the components of the AGA. These included creating a results reporting system, Results Iowa (www.resultsiowa.org), a web-enabled performance-based budget system, and performance agreements between the governor and department directors. In 2004, Iowa became the second state (after Washington), to develop the executive budget using a Budgeting for Outcomes process.

When Terry Branstad returned as governor in 2010, his administration sought to reinvigorate the focus on performance and results within state government. While his administration did not choose to use the Budgeting for Outcomes process, it has maintained—and in some areas strengthened—the activities associated with the AGA.

Current Activities

The current administration is committed to advancing the various components of the AGA. It is notable that the Results Iowa website, which was dormant for much of the 2008–2010 period, is once again being updated on a regular basis. While the administration has maintained most of the measures from past years, they have regularly reviewed them with departments and made some changes—for example, in the economic development area (a key results area for the administration), new performance measures are in place.

Since the early 2000s, Iowa has been a leader in the use of Lean processes to increase efficiency in state government. When discussing the state's performance reporting system, it was noted that one useful feature of the system is that it generates a lot of information that is useful in identifying Lean opportunities. Given the administration's focus on significantly reducing the cost of government, there has been a greater focus on efficiency and effectiveness measures. The current administration is devoting time and attention to developing a standard 'cost per unit' basis of comparison, which it hopes to use to benchmark state operations and programs with similar operations in or out of state government. As with many initiatives, a key consideration will be having the capacity to conduct in-depth data analysis to reach conclusions on the effectiveness and/or efficiency of state operations.

In discussions with the current Department of Management leadership, it was stressed that it is vital to have one central entity lead and drive the performance budgeting process. This focus is necessary to maintain consistency and focus. In the case of Iowa, the Department of Management has this responsibility.

Going forward, the administration is seeking to use data on both the back and front ends of the budget development and execution process. It was noted that they are currently seeking to better understand developments ‘on the fly’—for example, determining the cause and effect of an uptick or spike in overtime. Likewise, they are refining leading indicators used in projecting and managing programs like Medicaid.

Lessons Learned

- **A Performance Budgeting Statutory Basis Fosters Endurance.** The AGA has helped ensure stability throughout government transition. The key required components of the AGA have endured through transitions between governors and legislatures. Beyond mere endurance, it has also fostered consistency in application among departments in state government.
- **Leadership is key.** Even with a statutory duty to undertake certain activities, some AGA aspects have risen (and fallen) in importance over time, and the actual level of attention and effort can also vary. Departments, with many important responsibilities, may be inclined to sink to the ‘lowest common denominator’ in terms of time and effort spent on performance budgeting activities unless they are convinced that this is an important priority. In both the Vilsack and Branstad administrations, regular performance reviews between the governor and department directors helped instill that discipline.

This leadership also extends to the entity who ‘drives’ the process in state government. In the case of Iowa, when the Department of Management was actively engaged, the process had a higher level of participation and buy-in by others in state government.
- **Legislative Involvement has been Mixed.** Both the original Budgeting for Results approach in the 1990s and the Budgeting for Outcomes process in the 2000s sought to change the ways budgets were developed and presented. However, the legislature was unwilling to give up the traditional line item budget approach and process. At the same time, they have been willing to engage in efforts to develop and use performance measures.
- **Differing Areas of Focus are Understandable (and to be expected).** During the 2000s, much of the focus on performance budgeting was on achieving outcomes associated with key programs. Outcome measures were highly valued in this process and underscored in the Budgeting for Outcomes process. In the past two years, greater focus has been placed on government efficiency—including a key goal of substantially reducing the cost of government. As

a result, efficiency and effectiveness measures have been particularly valued, and approaches to determine whether state government is obtaining the ‘best bang for the buck’ have come to the forefront. Both are consistent with performance budgeting approaches.

MINNESOTA

Background

Minnesota was an ‘early adopter’ of performance reporting. In the 1990s, the legislature by statute required agencies to submit performance reports to provide information on the success of state programs, to encourage agencies to develop clear goals and objectives for programs and to strengthen accountability. Statute also created an Office of Strategic and Long-range Planning, which produced Minnesota Milestones, a set of statewide performance measures. Minnesota Milestones was initiated by Governor Arne Carlson in 1991, and progress was measured in 1993, 1996, 1998 and 2002. However, the legislature later repealed much of the original broad-based reporting requirements.

While Minnesota has traditionally employed a program-activity biennial budgeting process that uses the prior year’s appropriations as a base and makes generally incremental changes to it, performance-based aspects can be found in the approach. By statute, for example, performance data must be presented in the governor’s budget documents. Similarly, agencies, when submitting their budget requests to the budget division of Minnesota Management and Budget (MMB), are encouraged to identify and present outcome performance measures.

Current Activities

MMB embarked on a process to develop an outcomes-focused framework for the state’s 2014–2015 biennial budget. In doing so, statewide outcomes were identified, and the budget division constructed a dashboard of key performance indicators to guide discussions among agencies whose programs and activities materially affect the indicators. As identified in the governor’s budget, the following key statewide outcomes were developed by MMB, in collaboration with cabinet agencies and the governor’s office:

- A thriving economy that encourages business growth and employment opportunities
- Minnesotans are healthy
- Minnesotans have the education and skills needed to achieve their goals
- Minnesotans have strong and stable families and communities
- People in Minnesota are safe



- A clean, healthy environment with sustainable uses of natural resources
- Sustainable options to safely move people, goods, services and information
- Efficient and accountable government services

These outcomes are reflected in the current statewide dashboard of indicators for key policy and social areas that is accessible through MMB's website.

As part of this process, MMB developed a training program for executive branch staff focused on changing the way information is presented in the biennial budget document. This change aims to shift the conversation from "what are we spending" to "what are we getting for our money". This approach was also seen as a complement to another executive branch initiative, "Better Government," which focuses on improving state government management, including continuous quality improvement, Results Based Accountability (RBA) and Lean strategies.

While initial discussions leading into the development of the governor's budget focused on outcomes, the budget document itself was not prepared or presented according to a 'Budgeting for Outcomes' process. The budget was still organized by legislative committee and by individual agencies using a program-activity format. The governor's budget recommendations highlight changes in appropriations for specific programs or budget items.

The governor's FY 2014–15 budget recommendations included a significant revamping of the state tax structure, including both increases and decreases to major taxes. As a result, a significant portion of the budget discussion centered on those changes, as opposed to outcomes associated with funding decisions. This may have diverted some of the budget discussion from the issue of budgeting for outcomes.

Because Minnesota prepares a biennial budget, planning for the next budget cycle is still in the preliminary stages. At this time, MMB is planning to have agencies link to outcomes when they present the nature and purpose of their agency as a whole and build upon a Results Based Accountability framework by presenting and linking performance information at the activity level along with performance data for any budget changes an agency may propose.

In addition, MMB received funding during the most recent budget cycle to implement Results Management strategies across state government. Initial efforts in this area are focusing on the key indicators on the dashboard to better understand the state's role in each indicator and how the state could "bend the curve."

Lessons Learned

- **Small Changes Can Pave Way for Reform.** Incremental changes, including in how departments communicate budget decisions, can be a useful first step in broader efforts around performance budgeting.
- **Performance-Based Budgeting and "Good Government".** Performance-based budgeting can be a useful complement to other "good government" efforts, such as Lean management and other initiatives to eliminate waste and enhance efficiency. These initiatives all rely on collecting, interpreting and using performance data to inform decision-making. These initiatives can work together to build and foster a data-driven, results-based culture in state government.

NEVADA

Background

Nevada began adopting a performance-based budgeting system in 2010 during the preparation of the state's fiscal 2012–2013 biennial budget. The initiative started under the name "Priorities of Government" (modeled after Washington State) and legislation supporting the initiative was passed in 2011. The measure—Assembly Bill (AB) 248—enjoyed strong support from the governor and passed by unanimous vote in both houses. The bill required that information on state agencies'

performance goals for “core governmental functions”—and corresponding indicators to measure progress—be included in the proposed executive budget, among other similarly broad provisions. The governor’s budget office implemented the law by developing the “Priorities and Performance Based Budget” (PPBB) as part of the state budget preparation process.

Current Activities

Nevada’s PPBB system aims to enhance state government transparency for the public and decision-makers, improve performance measurement of state agencies, tie government programs and services to achieving objectives, and provide a foundation for using data to inform budgetary decisions. In a nutshell, the state budget office website explains, “The goal is to answer the question, ‘Why is our state spending money the way it is?’”¹⁰ In addition to preparing the PPBB and the traditional, line-item versions of the Executive Budget, this project also included developing a new website (<http://open.nv.gov/>) as a budgeting tool for agencies and to increase public transparency.

The Governor worked closely with budget office staff and his cabinet to design Nevada’s performance-based budgeting system. Below is an outline of the PPBB system’s structure.¹¹

1. Executive branch identifies statewide Strategic Priorities.
2. Executive branch establishes the Core Functions of state government.
3. Executive branch identifies high-level statewide Objectives for each Core Function. Each Objective must also advance at least one Strategic Priority.
4. Executive branch sets high-level Benchmark(s) to measure state’s progress towards each Objective.
5. Individual agencies define their Activities—the programs or services provided by the agency for a specific purpose that can be discreetly measured. Activities are re-evaluated and revised as needed. These Activities replace budget accounts as the new budget “building blocks.”
6. Individual agencies select Performance Measures (up to three per Activity) to measure Activity’s effectiveness.
7. Activities are tied to statewide Objectives to identify opportunities for consolidation or collaboration, compare the efficiency and effectiveness of Activities towards achieving Objectives, and identify inconsistency in Performance Measures across Activities.

Like other states, Nevada faced numerous obstacles and challenges while implementing and executing the PPBB system. Determining how to fairly and appropriately connect performance information to funding decisions was cited as one challenge, due to the inherent complexities and ambiguities associated with such a task. For example, if an activity fails to meet a performance target, does that mean the activity needs more resources to achieve its goals or should it receive less funding to free up resources for other, higher-performing programs? Getting the legislature to use performance information to make funding decisions has also proven difficult. Instead, lawmakers have preferred to focus their time on the traditional line-item budget. This leaves the performance budgeting process vulnerable to claims that it lacks real meaning. Also, to meet state lawmakers’ demand for traditional budget information while also following the PPBB approach, the state budget office has needed to prepare the executive budget through two different lenses. On top of preparing the line item budget, the budget office works to map proposed expenditures to outcomes to explain what the funding supports and what results are expected. While this latter additional work produces information that is beneficial to state management officials, the increased workload can take a toll on staff members and office morale. Technical challenges associated with implementing performance-based budgeting cited include adapting accounting systems to support the new approach and setting benchmarks for areas



where sufficient historical data are lacking. Identifying change management techniques to bring agency managers and staff on board was also a challenge for executive branch leadership.

Despite these obstacles, Nevada's PPBB system lays the foundation for improved, more data-driven decision-making about program funding and management. Over time, those implementing the system in Nevada expect the performance data collected as part of this process will become more meaningful as more data are obtained. In addition, Nevada's budget office views the process as a great opportunity for agencies to break out of traditional silos and work together to achieve high-level goals and advance statewide priorities. Another opportunity offered by PPBB is the chance for state government to engage more with the public and provide greater transparency about government spending and performance. Using activities rather than accounts as the building blocks of the budget has the potential to make the state budget more accessible and meaningful—not just for the public, but also for elected officials and civil servants.

Lessons Learned

- **Stakeholder Engagement is Critical.** Budget office and agency staff noted that successfully implementing a performance budgeting system requires engagement and buy-in from state agencies, particularly senior management, and the legislature. If lawmakers are not interested in using performance information to make decisions, the process will lack meaning. Managers also need to embrace the new approach to budgeting in order to foster a culture of performance. Identifying a “champion” for performance budgeting in the legislature and core state agencies can help achieve the necessary buy-in. In Nevada, the legislative fiscal office plays an influential role, and the budget office has focused attention on engaging that office in discussions and activities related to PPBB.
- **Keep System as Simple as Possible.** State budget office staff pointed out that the system should be as simple as possible, with objectives and performance measures limited in number. In addition, during implementation, it is important to keep in mind that state departments and divisions may vary in terms of technical expertise, and some may be more resource-ready than others to adopt and embrace performance budgeting methods.

OREGON Background

Oregon has a long history related to aspects of performance budgeting, particularly around developing performance measures

and statewide benchmarks. Oregon budget officials trace these efforts to the 1980s, when the state encountered economic problems and sought to transition from an economy that was primarily based on agriculture, timber and salmon.

At the time, Oregon Governor Neil Goldschmidt created a blue ribbon panel of key leaders, which resulted in Oregon Shines—a strategic vision focused on diversifying the state economy. Goldschmidt also pushed for establishment of the Oregon Progress Board, which was created by statute in 1989, to focus attention on the goals, issue biennial reports on progress, and perform periodic updates to the plan. The enabling legislation required the board to hold public hearings to ensure participation of a broad cross section of Oregonians. This public benchmarking process has, over the years, attracted widespread attention in and outside of the state.

The initial “Oregon Benchmarks” report included 152 benchmarks against which state agencies were to chart their progress. The Progress Board's 1993 report was used by Governor John Kitzhaber to help establish budget priorities for his biennial budget for the fiscal years 1995–97. However, in 1995, after a shift in control of the state legislature, the authorizing legislation for the Progress Board and Oregon Benchmarks was allowed to sunset. As a result, Governor Kitzhaber re-established the board and benchmarking process by executive order.

In the following years, refinements were made to the process, including establishing Oregon Shines II in 1997. Among other things, this iteration reduced and refined the number of benchmarks to 92. With improvements in place, the legislature re-authorized the Oregon Progress Board in 1997. It is notable that in 2001, legislation moved the Progress Board to Oregon's Department of Administrative Services and required the linkage of the benchmarks to state agency performance measures. It also added legislative membership to the Progress Board. In its 2009 report, the number of benchmarks listed was 91 in seven broad categories (economy, education, civic engagement, social support, public safety, built environment, natural environment).

There has been concern within state government that the benchmarking process has been legislative-driven and does not focus on many departmental activities. In response to this, in 2000, key performance measures (KPMs) were established for every agency as part of the budget process. These KPMs are included in the budget, with historical data for five prior fiscal years and planned expenditures for the next two years. Each biennium, state agencies have the opportunity to propose additions or deletions to their approved KPM when making their formal budget

request, subject to final approval by the legislature's Joint Ways and Means Committee.

Current Activities

After eight years as governor and an eight-year hiatus, Governor Kitzhaber was again elected in 2010. In developing the biennial budget for Fiscal Years 2013–2015, the governor used a Budgeting for Outcomes (BFO) process. As part of the overall process, the governor appointed an Enterprise Leadership Team (ELT) consisting of approximately 25 agency heads to assist with high-level budget planning and development. ELT meetings started in July 2010 and focused on defining the priorities of Oregonians. Eventually, these key priorities fell into five key priority areas: education, jobs and innovation, healthy people, safety and healthy environment. Based on these categories, the ELT began the process of determining key outcomes within the categories.

The ELT was split into teams to identify key outcomes and budgets for each of the key priority areas, with the provision that directors could not serve on a team in their agency's outcome area. As these teams focused on key outcomes, each agency was directed to link its programs to these outcomes (and in some cases more than one outcome).

While these efforts were underway within state government, the governor also created an executive committee, including representatives of both the public and private sector, to make recommendations related to a 10-year strategic plan for Oregon. The resulting plan is built on a framework of strategic priorities and outcomes and serves as a guide for the governor's budget decision making.

Through the work of the ELT, the executive committee and agencies, the Budgeting for Outcomes process settled on six outcome areas—education, healthy people, safety, jobs and innovation, healthy environment and improving government. These aligned with the governor's strategic plan, and each outcome area had a 10-year goal defining what the state seeks to accomplish, the strategies to meet that goal, and success metrics to measure progress. As an example, the education 10-year goal is that “Every Oregonian has the knowledge, skills and credentials to succeed in life.” One of 13 strategies identified in the governor's budget to achieve this is: “Align the funding, outcomes and education strategies across the entire continuum of a child's development—from birth to K–12 to post-secondary education and training.” One of the three success metrics is that “All third graders are reading at grade level.”

A key activity in a BFO process, following the identification of outcomes, consists of ranking the programs (or ‘offers’) that agencies present to achieve the outcomes. In Oregon, the governor formed

citizen teams, called “program funding teams,” to advise on how to prioritize programs based on each program's contribution to achieving citizens' goals. These teams were formed for each outcome area and consisted of citizen volunteers with “leadership, experience and general familiarity with Oregon.” Those volunteers met regularly for several months to rank—from first to last—each of the programs within their outcome area. Those recommendations were provided to the governor in October 2012, and the governor's budget was submitted, as required by statute, by December 1, 2012.

As has generally been the case in other states where the governor presents the budget by outcome area, the legislature ultimately resorted to a traditional approach when approving the budget. At the same time, the governor's key initiatives within the outcomes-based budget recommendations were enacted by the legislature. The response from key “thought leaders”—including the media and business groups—was positive as well.

Lessons Learned—Oregon Shines and Benchmarking

- **Executive and Legislative Branch Disconnect.** Over the years, Oregon's well-known benchmarking and performance measurement process has fallen in and out of legislative favor and been modified on multiple occasions. On at least two occasions, the program has been either eliminated or not funded. Beyond issues of funding and approach, there has been a concern that the process, which has significant legislative involvement as well as a separate Progress Board that drives it, does not coalesce with the management information needed by state agencies to track their progress on key



activities and services they deliver. This helps to explain the separate KPM process initiated in 2000.

- **Agency Engagement.** While agencies comply with reporting requirements related to the Progress Board and Oregon Benchmarks, that participation probably does not rise to the top of their priorities related to performance management or PBB. As with the previous bullet, the legislative and agency priorities in this area often do not align.

Lessons Learned—Budgeting for Outcomes

The governor's 2013–2015 budget proposal marked the first time that an Oregon governor had presented the recommended budget using a Budgeting for Outcomes approach. Indications are that the governor intends to use that process again. As can be expected, there are 'lessons learned' that will guide some changes to the process. It is notable that the Budgeting for Outcomes approach has varied among the states that have used it in the past and present.

- **Balancing Citizen Engagement in the Process.** Oregon's Citizen Program Funding Teams (PFTs) had a great deal of responsibility in the process. These volunteers had to become familiar with various (and varying) programs across multiple state agencies that often were responsible for billions of dollars in state appropriations. Getting their 'arms around' complex activities like Medicaid or the state's school finance system is a daunting and time-consuming task. Their responsibility also extended to ranking each program from first to last—and determining a recommended level of funding for each PFT that meant that many current activities would not be able to be funded. While each PFT was able to complete its work, there was significant frustration within the teams, and, over time, the number of members of some teams dwindled. The administration is rethinking citizen involvement in the next process, with the goal of having citizens advise a bit later in the process to limit the time and effort commitment necessary to be involved in the process.
- **Determining Where Programs Fit Within the Outcomes.** A unique (and important) aspect of BFO is to break down the silos of appropriations by agency (and line items within agencies) and instead to think about how those appropriations impact the identified key priorities and outcomes. This can be a tricky discussion, as some programs could conceivably fit in more than one area. In allocating programs and services, the 'Safety' category was probably the most difficult for citizens to deal with—as it included everything from child welfare programs administered by the Department of Human Services, to correctional facilities and the state police, along

with Department of Transportation funding and various regulatory functions. The disparate nature of many of these activities made them difficult to weigh and prioritize.

- **Determining Where Agencies Weigh In on the Process.** In many traditional budget processes, the state budget director issues budget guidelines to agencies, agencies submit their budget requests, the budget office makes recommendations to the governor, and agencies have an opportunity to "make their case" to the governor prior to the completion of the recommended budget. Under Oregon's BFO process, with the PFTs making recommendations to the governor, there was (understandable) concern among agencies that they would lose the opportunity to present their budget justifications to the governor. Figuring out how agencies will fit into the final decision making process in BFO is important. In Oregon, agencies were given an opportunity, after the PFT recommendations, to provide additional input prior to the governor making his final budget recommendations.
- **Legislative Engagement.** It is notable that no state legislature that has been presented a BFO budget has complied and approved a budget in a BFO format. In the case of Oregon, there was significant pushback from the legislature with the shifting of agencies among the outcome areas. It is, of course, an open question as to whether the BFO process has value even should the legislature choose not to embrace it. Arguably, an executive branch focus on outcomes in developing its budget has value regardless of how the Legislature responds. At the same time, a successful strategy for gaining legislative engagement in a BFO process has not yet been demonstrated.

UTAH

Background

Utah has incorporated some aspects of performance-based budgeting and balanced scorecard metrics into its budget process for a number of years. In 2007, the Governor's Office of Planning and Budget (GOPB) developed a plan to launch the use of the balanced scorecard, a performance management tool, in state government. The goal of the balanced scorecard initiative was to create a culture of performance improvement by providing individuals, departments and systems with continuous feedback on internal processes and external outcomes. Agencies submitted department-level scorecards to the Governor's Office and GOPB, and GOPB analysts reviewed them and provided feedback to agency management.

In recent years, multiple commissions were set up to examine opportunities to make state government more efficient and effective. In 2009, Governor Gary Herbert established the Utah Advi-

sory Commission to Optimize State Government, and charged the group to review current practices and submit recommendations to better optimize state government. That commission submitted the initial report on its findings and a detailed set of recommendations in 2010, and released a follow-up report on the implementation of its recommendations in 2012.¹² In 2011, the state legislature passed a bill establishing a separate commission to explore opportunities to streamline services, enhance efficiency, reduce administrative costs and incorporate best management practices. That commission's report identified 25 recommendations for agency realignment and operational change.¹³

Current Activities

The work of the commissions described above helped inform the current performance-based efforts taking place in Utah. The state took a major step forward in the area of performance management and budgeting after Governor Herbert's 2013 State of the State address, when he challenged cabinet agencies to achieve 25 percent improvement in operational performance over his four-year term. This challenge has made performance management and budgeting more "real" for state agencies. To put this into action, the state reorganized the Governor's Office of Management and Budget (GOMB), renamed from the Office of Planning and Budget, into three teams: Budget and Policy Analysis, Financial Operations, and Operational Excellence. Resources were reallocated to expand capacity within the Operational Excellence team to provide ongoing support and training for agencies to improve operational performance. Active outreach to the legislature to keep them informed of what the executive branch is doing has also been crucial.

To help state agencies meet the governor's 25 percent improvement goal, Utah is currently implementing a set of performance management principles and methodologies, referred to as the SUCCESS Framework. Under this approach, agencies have been asked to identify four-to-five mission-critical systems across the agency. State agencies then work with consultants, usually state experts though sometimes external support is also utilized, to produce a Throughput Operation Strategy (TOS). A TOS is a one-page visual design that describes the flow of activities through the system required to make products or to render services. The TOS specifically identifies the system control point (or constraint) and indicates where improvement efforts would be most beneficial. It is one of several tools used by an agency to create and implement a plan to improve the quality and flow of throughput in the system. Also as part of this effort, the state reassessed its balanced scorecard process, aiming to get management to focus attention on the most important performance measures for each system that provide useful feedback—metrics that relate directly to an agency's



operations and also show whether state taxpayers are getting a return on their investment. Measures are developed in partnership with agencies and also need to be able to be validated and audited. The metrics selected should together measure three variables:

1. **Throughput/volume (T)**—How much work is the system producing?
2. **Quality (Q)**—What is the quality (speed, accuracy, and effectiveness) of the work being produced?
3. **Operating Expenses (OE)**—How does that work relate to cost?

GOMB calculates a system's operational performance using the following ratio: QT/OE (or quality throughput per operating expense dollar). The change in this ratio is used to measure progress towards the governor's challenge to improve state operations by 25 percent. The goal of each system influences which measures are selected or emphasized in its ratio. For example, in a system that processes applications, speed may be especially important, whereas in a crime lab, accuracy may be the top priority.

While implementing the SUCCESS framework, GOMB is focused on demonstrating to agency managers how they can use performance measures, their one-page strategic plans, and other operational excellence methodologies and tools to help them add value to their operation and the customers they serve. A number of reporting tools will also be provided to agencies to help them and the governor track progress and identify success stories. Performance information will also help to inform the budget process, with the goal of finding internal capacity before funding is increased.

Lessons Learned

- **Do Not Use Initiative Primarily to Cut Budgets.** Utah does not bill this as a budget-cutting exercise, but rather a capacity-building effort. While building more capacity in agencies' systems will inevitably save money over time, the emphasis should be on improving agency operations and the quality of government services, and positioning state government to be able to respond to increasing service demands. Billing the initiative as a budget-cutting activity can undermine its value and seriously jeopardize agency participation. Communication between the executive branch and the legislature is critical in this regard, so that stakeholders understand the goals and methodology of the initiative to guard against a perception that the process is a subtler cutting exercise.
- **Developing Performance Measures that Provide Actionable Feedback.** Stakeholders who do not understand the benefit of performance management or the measures being implemented are likely to resist the initiative. Thus, it is important to show agencies how they can use performance measures to improve management practices and their programs. Limiting the number of performance measures is also advisable, as too many measures can be counterproductive and overly burdensome, resulting in a lack of focus and making it difficult to find context to take action. Performance measures comprehend the broad scope of a system's actions and have a clear and direct connection to the goal or purpose. Operational indicators are measures smaller in scope, which help management understand how their system functions day-to-day. Operational indicators support system performance measures and signal if the system is on track to achieve the desired goals. Using an appropriate combination of performance measures and operational indicators can help ensure that gauged feedback is actionable.

VIRGINIA Background

In most discussions of the status of performance budgeting among the states, Virginia is cited as a leader in this area. Virginia traces its experience with performance budgeting to efforts in the 1980s focused on activity-based budgeting. The state broadened its performance-based efforts during the Wilder Administration, and in the mid-1990s, a unit within the Department of Planning and Budget (DPB) was instituted and dedicated to creating performance measures for use throughout the executive branch. The development and use of performance measures continued throughout the 1990s. However, this process was largely separate from the budget process—there was some linkage but no significant effort to draw the performance measurement and budget processes together.



Virginia's focus on connecting these two processes commenced in Governor Mark Warner's Administration and has been continued by both Democratic Governor Tim Kaine and Republican Governor Bob McDonnell. In 2003, HB 2097 established the Council on Virginia's Future and defined its scope of work, membership, duties, and other details. The council, an advisory board to the governor and the legislature, was charged with developing a vision and long-term goals for Virginia's future. It was also tasked with developing a performance leadership and accountability system for state government that aligns with and supports achievement of the vision.

The council is chaired by the governor and also includes the lieutenant governor, members of the cabinet, legislators, citizens and representatives of the business community. The council also initiated Virginia Performs, the state's Performance Leadership and Accountability System (www.future.virginia.gov/aboutVA-Performs.php). In 2008, the General Assembly passed SB 574, which continues the council's mission through June 2013.

Current Activities

Most recently, the council and the executive branch have focused on developing better linkages between societal indicators collected and analyzed by the council and the broader strategic planning and budget development done by the executive branch. The current method for connecting planning and budgeting lies in a process that includes cabinet agencies developing goals and objectives that reflect enterprise strategies and link to agency strategic plans. According to DPB, this is still a work in progress, often described as an evolutionary process. Another area where changes have been adopted relates to programs funded in the budget. In prior years, everything had to be tied to a performance

measure, but while that requirement is still emphasized, the absolute requirement has been eliminated.

One focus area of late has been procurement, development and implementation of a performance budgeting system. This new system better connects budget and performance data, and allows more seamless collection and reporting of performance information that aligns with budget data. In the past, Virginia Performs data and the State's legacy budget system did not interface, which hampered use of the data from both systems. Virginia began its effort to procure a new performance budgeting system with a request for proposal (RFP) in 2006 and an award in 2007. However, that contract was subsequently cancelled and a new RFP issued, with an award made in 2008. The state has now completed its fourth budget with this new system and believes it has the toolkit to connect and better use performance and budget information.

Virginia is also now working to determine the right balance of DPB leadership and involvement with agencies. It was noted that without agency buy-in, the performance measurement process loses meaning and value. At the same time, agencies (and DPB) have endured staff reductions that present challenges to making improvements to advance performance budgeting. In these instances, it may be just as helpful to maintain the process, even if larger scale transformation efforts have to take a backseat to less significant process improvements.

Legislative involvement in the process in Virginia is mixed. Legislators are members of the Council on Virginia's Future and, as a result, have a seat at the table for discussions of strategy and results. Of late, the legislature has focused more on transparency than results. The legislature requires that new initiatives in the budget are reported upon, in the year following, with a focus on the budgeted program measures and analysis of results. The entire performance measurement system is audited on a yearly basis by the Auditor of Public Accounts.

Lessons Learned

- **Tool, not a Panacea.** DPB leadership is supportive of performance budgeting but view it as an informative, rather than determinative tool in making budget decisions. In many respects, this may reflect the state's years of experience with performance budgeting—its value has been proven, but it has also been subject to the 'tests of time' that expose external threats and internal weaknesses that reveal themselves in some instances.
- **Evolutionary, not Revolutionary.** In recent years, Virginia has used its performance budgeting process to focus on best

management practices. DPB conducts reviews focused on departmental best management practices and works with departments to improve overall performance. In this respect, the focus on building internal capacity through an improved performance budgeting system reflects this approach as well.

- **Leadership is Still Key.** The Council on Virginia's Future is chaired by the governor, and includes the lieutenant governor and key members of the cabinet as well as legislators. In this respect, it has remained an integral part of the overall strategy and performance process, while other similar councils or commissions have been marginalized or eliminated due to changes in the political or budget landscape.

WASHINGTON

Background

The State of Washington has been doing various iterations of performance management and performance-informed strategic planning for many years. The state has had statutory requirements for strategic planning in place for several decades. Agencies must define their mission and establish goals linked to performance measures. For eight years, beginning with its implementation in 2005, the state's performance management system was known as Government Management Accountability and Performance, or "GMAP." In 2013, newly elected Governor Inslee began transitioning the state from GMAP to a new tool referred to as "Results Washington."

Beginning with the governor's 2003–05 biennial budget recommendations, Washington has used a statewide results-oriented decision-making strategy called "Priorities of Government" (POG). Under this approach, state agencies are required to define all of their activities, assess their costs, and provide activity-level performance measures. The POG process uses results teams for major state strategic goal areas (education, human services, health care, transportation, etc.) to rank agency activities in terms of priority to improve outcomes for each goal area, a process informed but not dictated by the performance data collected under GMAP (now "Results Washington"). At various points in time, the Governor's Office has created internal and external teams to oversee this process and ensure agencies and results teams could explain why they ranked their activities as they did and how those priorities will help the state be successful in the long term. This exercise allows the Governor's Office to build a narrative that can be explained to the public. Akin to other "budgeting for outcomes" approaches, POG begins by identifying the desired statewide results of government services and works backwards to rank and prioritize activities based on how effective they are at achieving these results.



Essentially, GMAP served to tell state officials and the public how government activities are performing (how can we do things better?), while the POG budget process has helped set the government's strategic priorities (what are the right things to be doing?). These frameworks have not been used as budget cutting tools, per se, but rather to make government more efficient and to highlight service and service level trade-offs for policy makers. Both tools inform the budget development process, but neither produces a budget proposal without substantial additional analysis, debate and decision-making within the Office of Financial Management (OFM) and the Governor's office. Both processes have helped OFM concentrate budget debates on priorities and performance more consistently over time and with greater focus on outcomes rather than on inputs and outputs. Major challenges have included managing ever-increasing quantities of data and freshening the processes to avoid process fatigue while maintaining long-term planning and longitudinal data enhancement. A further challenge is to learn to more effectively use both tools to help policy-makers weigh budget choices across disparate goal areas (how does the state consider the relative importance of transportation improvements against better services for vulnerable populations or stronger strategies to improve student learning?).

Current Activities

Washington State is increasingly focusing on implementing Lean principles and techniques to improve the efficiency and value of state government. In December 2011, Governor Christine Gregoire issued an executive order calling on state agencies to apply Lean thinking, tools and methods to improve their business processes

and make state government more efficient. In particular, agencies were directed to learn about Lean principles, complete a Lean project, perform activities to build capacity for Lean, and report results and lessons learned by August 31, 2012. This "Lean Transformation" initiative led to the production of a report, published by the Governor's Office in October 2012, providing an overview of the information reported by state agencies implementing Lean.

On September 10, 2013, Governor Inslee signed Executive Order 13-04 creating "Results Washington" as the state's new performance management initiative. The initiative is based on the governor's new strategic framework that lays out state government's vision, mission, foundation, and goals, along with an integrated plan to make state government more responsive, data-driven and results-oriented. Results Washington builds upon the GMAP performance management system, increasing the frequency of performance reviews, providing greater public transparency of performance data and extending performance management beyond Cabinet agencies to include all state government services and functions. In addition, Results Washington substantially expanded the state's Lean initiative. As part of this effort, the state developed a new Lean Fellowship Program, with one Lean fellow assigned to each of five statewide goal areas. Lean fellows are sent to state agencies on a rotational basis to work with them to develop performance improvement plans. Lean fellows are also partnered with Lean experts from a variety of organizations outside of government.

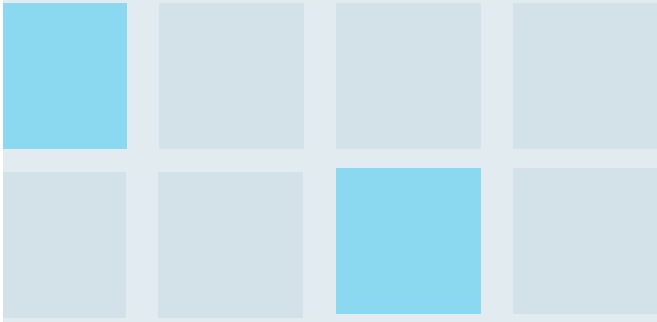
Lessons Learned

- **Top Leadership Must Be Involved.** Results-based initiatives will not be taken seriously by state agencies unless the top leaders in state government support and actively participate in them. This gives the initiatives legitimacy and indicates that the information and data generated by them will actually be used to inform management and funding decisions.
- **Risks and Rewards of Prioritization.** There are risks involved with prioritization processes, and states should be prepared for criticism of individual decisions or outcomes from stakeholders, legislators, media, and others. Executives must be willing to run the risk that some of their priorities may not rank as highly in priority as they would like. On the other hand, attention to priority-setting serves as a compelling educational tool in exploring policy trade-offs under different budget scenarios. Greater attention to successes of performance-based initiatives provides an opportunity to obtain buy-in from key stakeholders and state lawmakers. A results-based budgeting approach also can lend itself better to building a compelling narrative to communicate to the public about how taxpayer dollars are being used.

ENDNOTES

- ¹ For more information on zero-based budgeting (ZBB) in these states, see http://dfm.idaho.gov/st_agency_guide/zbb.html; <http://opb.georgia.gov/zero-based-budgeting>; and <http://www.maine.gov/budget/Zero%20base%20budgeting/index.shtml>). Additionally, the Commonwealth of Massachusetts established a Zero-Based Budget Commission in 2013 to consider the merits of ZBB. The Commission's report is available at: <http://www.mass.gov/anf/docs/anf/zero-based-budget-final-report-feb-1.pdf>.
- ² This definition is used by Kenneth Klase and Michael Dougherty in a paper "Establishing a Research Agenda for Empirically Testing the Effects of Performance Budgeting" prepared for the Annual Meeting of the Association of Budgeting and Financial Management (ABFM) of the American Society for Public Administration, October 2004.
- ³ Philip G. Joyce and Susan Sieg, *Using Performance Information for Budgeting: Clarifying the Framework and Investigating Recent State Experience* (2000), Prepared for the 2000 Symposium of the Center for Accountability and Performance of the American Society for Public Administration
- ⁴ More information about the National Partnership for Reinventing Government can be found at <http://govinfo.library.unt.edu/npr/index.htm>.
- ⁵ NASBO conducted a member survey at NASBO's 2013 Annual Meeting. The survey asked "What term(s) does your state use to describe its budgeting approach?" States were given multiple choices and asked to check all that apply (that is, states could select more than one choice). Out of 39 responses collected, 17 states (44 percent) said that their state uses the term "performance budgeting" to describe its budgeting approach. Eighteen states said they use a program budgeting approach, 27 states said they use an incremental budgeting approach, and nine states said they use a zero-base budgeting (ZBB) or modified ZBB approach.
- ⁶ See NASBO, *Fall 2013 Fiscal Survey of States*, Table 30.
- ⁷ For more discussion, see Carolyn Bourdeaux, "Do Legislatures Matter in Budgetary Reform?," *Public Budgeting & Finance* (Spring 2006): 120–142.
- ⁸ For more examples, the National Conference of State Legislatures (NCSL) has compiled resources for states on data-driven "Justice Reinvestment" reforms, available at <http://www.ncsl.org/research/civil-and-criminal-justice/justicereinvestment.aspx>.
- ⁹ State of Connecticut Office of Policy and Management, *Report to the Governor: Changing How Connecticut State Government Does Business* (September 25, 2012), available at http://www.governor.ct.gov/malloys/lib/malloys/2012.09.25_state_agency_change_report.pdf.
- ¹⁰ See <http://budget.nv.gov/PPBB/>.
- ¹¹ For more information on the PPBB structure and definitions, see State Nevada Department of Administration—Budget Division, *2015–2017 Biennium Budget Instructions*, p. 24–26, available at http://budget.nv.gov/uploadedFiles/budgetnvgov/content/StateBudget/2016-2017/2015-2017_Budget_Instructions.pdf.
- ¹² For the Utah Advisory Commission to Optimize State Government 2010 report, see http://gomb.utah.gov/wp-content/uploads/sites/7/2013/09/Optcom_Final_Report.pdf. For the Commission's 2012 update report, see <http://gomb.utah.gov/wp-content/uploads/sites/7/2013/09/2012-Update-Optimization-Report.pdf>.
- ¹³ The legislation creating the Advisory Council on Optimizing and Streamlining State Government (HB280) can be found at <http://le.utah.gov/%7E2011/bills/hbillenr/hb0280.pdf>. The final report submitted by the council is available at <http://gomb.utah.gov/wp-content/uploads/sites/7/2013/09/Agency-Realignment-Report-to-the-Governor-Final.pdf>.





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