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# LEGISLATIVE INFLUENCES ON PERFORMANCE-BASED BUDGETING REFORM

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**FRC Report No. 128**
**May 2006**

Georgia State University | ANDREW YOUNG SCHOOL OF POLICY STUDIES

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## Table of Contents

Acknowledgments ........ ii

Executive Summary ........ iv

I. Legislative Use of Performance Information ........ 1

Introduction ........ 1

What is Performance-Based Budgeting (PBB)? ........ 2

Legislatures Lag in Using Performance Information ........ 2

An Old Ambivalence about Legislatures ........ 3

The Debate over Legislative Capacity and Authority ........ 5

An Analysis of Legislatures and Their Influence on the Use of Performance Measures in Management and Budgeting ........ 7

Methods ........ 8

Findings ........ 10

A Package of Legislative Characteristics ........ 19

Conclusion ........ 21

II. The Georgia Appropriations Committees Survey ........ 23

Introduction ........ 23

Findings ........ 23

Conclusion ........ 30

III. Legislative Oversight ........ 32

Florida ........ 32

New Mexico ........ 35

Texas ........ 37

Conclusion ........ 39

Appendix ........ 40

References ........ 49

## Executive Summary

### Introduction

This report examines the issue of legislative involvement in performance-based budgeting reforms – specifically, whether and how legislative bodies should be engaged in implementation of the reform. Traditionally, budgeting and management reforms have focused on the executive branch and administrative agencies. However, a review of the history of budget reforms suggests that such an approach may be problematic. When legislatures are not engaged in the reform, they may fail to use the information generated or worse, may actively resist implementation. The analysis presented in this paper assesses current state-level implementation of performance-based management and budgeting reforms and how legislative involvement affects implementation. The analysis also assesses whether increasing legislative professionalism might improve the level of implementation.

### Key Findings

- **Legislative oversight but not legislative professionalism play an important role in the implementation of performance-based management and budgeting reforms.**

Drawing on a national survey of agency staff and budget officers in the states, the analysis presented in this report shows that the identification of legislative oversight of a performance management reform is one of the most consistent predictors of effective implementation across the government, including in agency management decisions, in budgetary processes, as well as in legislative policy-making. Although not a focus of this report, gubernatorial leadership also is an important variable, suggesting that elected official leadership in both branches is important if agencies are going to take the reform seriously.

A further question in the literature on legislatures is whether professional legislatures – full-time, highly resourced legislative bodies – provide more effective policymaking and oversight. Although legislative professionalism may be important for improving other legislative activities, this research finds little evidence that professionalism or higher levels of staff resources are the key to improving implementation of performance-based management and budgeting reforms. In fact, term limits appear to have a positive influence on implementation of the reform, and other measures of legislative professionalism have a statistically significant negative influence on implementation.

The positive effect of legislative oversight and the negative effect of professionalism suggests that the *quality* of legislator and staff engagement rather that quantity may be a deciding factor. A further examination of states where legislative bodies play a significant role in oversight shows that high levels of legislative responsibility are not necessarily coupled with high levels of professionalism. States such as Virginia, Texas, New Mexico, and South Carolina, all have citizen legislatures or "moderately" professional legislatures, but at the same time have legislatures with substantial responsibility for budgeting, policymaking, and oversight.

- **Legislators are more likely to trust performance information from their own staff or other legislatively-affiliated organizations, rather than agencies, executive staff, or interest groups.**

In a second section, this report describes the results of a 2005 survey of members of the Georgia House and Senate Appropriations Committees. The results of this survey indicate that legislators would welcome access to more results and performance-based information. However, an important criterion may be the *source* of this information. Although survey respondents came from both parties, legislators tended to be generally distrustful of agency self-reporting and even executive staff analyses of agency performance. Instead, legislators favored analyses from legislatively affiliated sources such as legislative staff and the Department of Audits.

A final section of the report simply describes what "legislative oversight" might look like by examining how the legislatures in Florida, Texas, and New Mexico are involved in the state's performance-based budgeting and management reform. A key feature in each of these states is an investment in legislative capacity to effectively evaluate performance information.

# I. Legislative Use of Performance Information

## Introduction

In 1993, the Georgia legislature passed the Budget Accountability and Planning Act. This legislation required "an outcome based budgeting system that relates funding to achievement" of agency goals and objectives and "measures agency performance against the attainment of planned outcomes." (Georgia State Senate 1993, SB 335.) Georgia was not alone in the passage of this kind of legislation. Over the past fifteen years, 47 out of 50 states have attempted to integrate performance information into their budgeting processes, and 33 have passed legislation to this effect (Melkers and Willoughby 2004). Similarly, Georgia is not alone in struggling to implement this reform. Numerous studies have shown that although performance management practices are increasingly prevalent, performance reforms are less likely to be integrated into budgetary processes generally and legislative budgetary processes in particular (Joyce 1999; Melkers and Willoughby 2004).

This report looks at the efforts to implement performance-based budgeting reforms across the states using both quantitative and qualitative analysis and assesses the institutional characteristics and legislative role in those states where the reform appears to have been successfully implemented. The analysis indicates that legislative engagement is a critical component of implementation and should not be ignored or pushed to the side. Legislatures with more engagement in oversight of the reform are associated with more effective *administrative* implementation of the reform – particularly in budgeting processes. While some have suggested that legislative capacity to implement performance-based reforms is a function of their level of their professionalism, this research also suggests that legislative professionalism may not be the answer and may even have a negative effect on administrative outcomes. A survey of members of the Georgia State appropriations committee members indicates that state legislators are interested in having more results-based information presented to them and are more likely to rely on performance information from sources not perceived as having a conflict of interest – i.e., sources external from the agencies or executive branch.

## What is Performance-Based Budgeting (PBB)[1]?

Although PBB comes in many forms and goes by many different names, key characteristics are a focus on outcomes or results rather than inputs or outputs and an effort to shift budgetary orientation from purchasing inputs to "purchasing results" (Joyce 1999). Philosophically, advocates of PBB tend to press for more entrepreneurial government, arguing that government orientation should be shifted from control over inputs to a more "contractual focus," where agency leadership and elected officials give managers increased freedom from rigid administrative controls but are expected to produce performance results in return (Osborne and Gaebler 1992; Cothran 1993).

In a budgeting system, this typically means reduced use of object classes to control spending on inputs and increased focus on the definition of programs, programmatic outcomes, and the associated resources required to achieve outcomes. The Government Finance Officers Association recommends that these program outcomes be linked to agency strategic plans (Government Finance Officers Association 2005), making performance budgeting part of the broader effort of performance management. This reform has been widely endorsed by a variety of groups, including the Government Accounting Standards Board, the Government Finance Officers Association, the International City/County Managers Association, the National Conference of State Legislatures, and the National Academy of Public Administration. Further, the federal government is increasingly requiring performance measures and evaluation as a condition of its grants.

## Legislatures Lag in Using Performance Information

Although a number of legislatures have passed bills endorsing a results based management and budgeting process, several recent studies have shown that legislatures lag behind the executive branch and administrative agencies in actually using performance information. Conducting a survey of all the states, Melkers and

[1] This report will refer to the reform by its generic name, performance-based budgeting. This type of reform, however, is called by a variety of other names: results based budgeting, purchasing results, etc.

Willoughby (2004) found that budget and administrative staff ranked legislative use of performance information around 1.5 for changing appropriations levels and 1.9 for changing the substance or tone of debate among legislators (on a scale from 1 to 4). By comparison, use of performance for improving agency management averaged 2.76. These findings are similar to those from the Government Performance Project which found that state "managing for results" processes were dominated by the executive branch (Moynihan 2002). Reviews of the federal implementation of performance management systems are similar. Although the U.S. Congress passed the Government Results and Performance Act in 1993, they too have struggled to capitalize on this involvement and by most accounts the use of this information by Congress has been haphazard at best (Joyce 2003; Radin 1998; Kettl 1995; Foreman 1995).

Although a lack of legislative engagement may be less a problem for *internal* agency management and strategic planning, legislatures are central to budgeting and resource allocation decisions. Given that legislatures lag in their use of performance information, it is not surprising that several studies and two national surveys show that performance-based *budgeting* has lagged behind performance-based management (Congressional Budget Office 1993; Jordan and Hackbart 1999; Joyce 1999; Melkers and Willoughby 1998; Melkers and Willoughby 2004).

## An Old Ambivalence about Legislatures

The problem of legislative engagement has a long history. Its roots go back to the early 20th Century with the institution of the executive budget process. In the late 18th and 19th century, budgeting was almost entirely the province of legislatures. However, in the face of rising urbanization, industrialization, westward expansion, and global competition, there was an increasing demand for a government that was *efficient.* The legislative budgeting process came to be viewed as fragmented and corrupt, unable to meet the needs of a modern administrative state (Burkhead 1956; Wildavsky and Caiden 2001).

In the early 1900s, Progressive reformers proposed an "executive budget process" transferring significant authority for developing budgets to the governors at the state level and enhancing executive staff capacity to develop and oversee the development of budgets. Legislatures were admonished to refrain from micromanagement and to focus on broad policy goals rather than involving themselves in the intimate details of budgeting (Brownlow 1949; Burkhead 1956; Rosenthal 1998). The federal government as well as most states adopted the executive budget process and strengthened executive capacity. However, this transfer of authority and capacity for budgeting created a rift: legislatures retained their historic authority for oversight and final approval of the budget, but in many states, the capacity to develop and monitor the budget resided primarily with the executive branch.

Since then, reformers have made a number of efforts to improve performance and accountability in budgeting; however, the dialogue has been almost entirely between the executive branch and administrative agencies. Legislatures have been on the periphery of the reforms – often creating frustration when they failed to embrace a reform, but rarely invited to the table during design or implementation. Reviewing some of these previous reform efforts suggests that ignoring the legislature is not a good strategy.

In the 1960s, many states and the federal government attempted to adopt a budgeting reform known as Planning Programming Budgeting Systems (PPBS). This reform required designation of expenditures by programmatic objectives and entailed a process of comprehensive planning and analysis for resource allocations. Although information overload most likely doomed this reform from the beginning, a further problem was that the initiative was actively resisted by legislatures. At the federal level, the reform met "ferocious"[2] resistance from Congress, was never incorporated into legislative decision-making, and thus had no impact on actual resource allocation decisions (Schick 1973; Botner 1970; Mosher 1969; Gross 1969; Gorham 1968). The problem at the federal level was mirrored at the state level (Sallack and Allen 1987; Mosher 1969). In a review of PPBS, one noted scholar observed:

> The fourth difficulty [in implementing PPBS] is the virtual vacuum in most PPB literature concerning the relationship of the system to the legislative body, its impact upon the separation of powers.

[2] Word used by Mosher (1969).

And then:

> This is no discredit to PPBS, for the same has been true of almost every budgetary reform proposal of the last half-century. I have the impression, too, that there has not been much change in the nature of budgetary presentations, the structure of appropriations, or the nature of Congressional review. In fact, most of the PPB literature simply ignores the legislative body, although much of it refers to crosswalks from the program structure to this budget; and one or two documents addressed to the states propose that appropriations be modified to accord with the programs. (Mosher 1969, 164)

Zero Base Budgeting (ZBB), the following reform, encountered similar problems. Although Georgia was the flagship state for the reform, in a 1978 study of its implementation, Thomas Lauth quoted a legislative budget office staff member as saying: “we throw most of that [ZBB] stuff in the can” (Lauth 1978). At the federal level, an early report on ZBB notes: “It is unclear how involved congressional committees will become in the zero-base process. Reportedly those appropriations subcommittees which have experimented with zero-based justifications are less than enamored with the results.” (Haider 1977, 406) Again, as with PPBS, lack of legislative engagement meant that administrators expended much time evaluating their programs, only to have budgetary decisions be made by legislative bodies in exactly the same way as prior to the reform (Herzlinger 1979; McCaffery 1981; Lauth 1978; Draper and Pitsvada 1981; Haider 1977). Although these reforms faced problems other than legislative engagement, legislative resistance created a significant barrier to implementation. Without legislative engagement and use of the information produced in budgeting, the time and effort spent on the analysis of budget alternatives was called into question.

## The Debate over Legislative Capacity and Authority

An ongoing debate is whether legislatures have the capacity to be equal and effective partners in governing in the first place. The debate centers around two key questions: first, do the legislators themselves need to be more “professional,” and second, do the legislative staff and support services need to be more “professional.” The first question is more intensely debated than the second. On the one hand, some argue that a full-time, relatively well paid legislative body will attract more talented legislators who are able to give policymaking their full attention. Such legislators will be able to make policy decisions themselves and will not have to relinquish as much of the decision-making to staff (Rosenthal 1998). The debates over term limits closely align with those over professionalism. The arguments against term limits is that they will shift authority to the staff, bring in inexperienced legislators who do not have a deep understanding of policy or long term perspective, and shift power to the executive branch and administrative agencies(Greenblatt 2006, 2005).

On the other hand, those who advocate for "citizen legislatures" point out that people who regard politics as their profession are likely to be much more worried about losing an election than those who have another profession. As a result a professional legislature might be much more hesitant to take on difficult issues than a citizen legislature. Further, some scholars have observed that legislators who are full time might be much more likely to micromanage agency activities rather than to prioritize key policy initiatives and set broad policy objectives. Rosenthal attributes some of the more recent decline in faith in legislative bodies, and subsequent moves toward term limits and other restrictions on legislative activities, to the problems created by citizen distrust of professional legislators (Squire 1993; Rosenthal 1998). Some analyses have found that higher legislative pay is associated with increased spending on developmental policies (indicating a tendency towards pork barrel spending) rather than state-wide redistributive policies (Barrilleaux and Berkman 2003).

Similarly, a study of term limits found that they lead legislators to be less interested in "pork barrel" projects and more apt to make decisions based on "conscience" and state-wide needs (Carey, Niemi, and Powell 1998). Specifically relating to performance-based budgeting, some scholars have suggested that the new legislators brought in by term limits might be more reliant on performance information because they do not have the same institutional knowledge of how an agency works or are more open to the ideas of using performance information (Grizzle and Pettijohn 2002).

Having professional legislators is considered distinct from legislative responsibility for budgeting or from having professional staff support. For instance, in states such as South Carolina and Texas, the legislators are not considered highly professional. However, the legislature has significant institutional authority over budgeting as well as staff capacity to evaluate budget requests. In contrast, some states may have a highly professional legislature, but less authority over the budget. The Texas Legislative Budget Board has around 136 staff involved in budgeting as well primary institutional responsibility for developing a budget (Bland and Clarke 2001). In South Carolina, the staff of a joint committee composed of the legislative leadership and the Governor oversees the revenue estimate, the development of the budget, as well as ongoing financial management (Whicker 1991).

Some research has shown that legislative *responsibility* for budgeting appears to be connected to increased legislative concern about agency efficiency and to making more responsible budgetary decisions (Abney and Lauth 1998, 1987). Along the same lines, having professional legislative staff support is generally perceived positively (Rosenthal 1998) and is thought to be important for the implementation of performance management reforms specifically (Grizzle and Pettijohn 2002). Thus, as states consider how to improve budgetary practices in legislative bodies, a further consideration might be the importance of legislative authority or capacity.

## An Analysis of Legislatures and Their Influence on the Use of Performance Measures in Management and Budgeting

The analysis that follows examines three primary research questions:

- Is there any quantitative evidence that legislatures actually matter in performance-based management or budget reform? If so, at what stage?
- What does the legislature need to do to improve implementation of the reform?
- Does professionalism at the legislator or staff level or increases in legislative responsibility for budgeting improve implementation of reform?

Reformers working on performance-based budgeting have probably made a more serious effort to engage legislatures from the beginning than in previous reforms. Certainly, as noted earlier, a number of states have passed legislation endorsing the reform. However, as evidenced by Georgia's experience, adoption of legislation has not proved sufficient to stimulate serious implementation. In 1993, the Georgia legislature passed performance legislation, SB 335, and for many years in Georgia, performance information was attached to the executive budget presentation; however, as with previous reforms, the legislature never used the information nor is it clear that the information was extensively used by the executive office. Once again lack of legislative (and possibly executive) engagement called into question the time and effort spent collecting the material in the first place.

A second wave of effort to engage states in performance management in budgeting includes the National Conference of State Legislatures' effort to help legislatures assimilate the reform and actually use performance information (National Conference of State Legislatures 2003). However, after a century of neglect, efforts to figure out how legislatures should engage such a reform, given the variety of capacities and institutional arrangements, are still in an early stage. History suggests that legislative involvement is important, but this evidence is only anecdotal. Further, engaging legislatures in performance reform can be considered part of a broader debate over efforts to extend legislative authority and capacity.

## Methods

This analysis examines these issues by drawing on a national survey of the states conducted by Julia Melkers and Katherine Willoughby. Melkers and Willoughby sent surveys to 121 budget staff in the executive and legislative branches in each state. 60 total (50 percent) responded from 36 states. However, because of incomplete surveys, only 31 to 38 can be used in the analysis. Melkers and Willoughby also sent surveys to 435 agency staff and 152 or 35 percent responded from 48 states – giving a substantially larger sample size than the budget officers. Models for both sets of respondents are reported; however, when considering reliability, the agency staff responses are likely more reliable because of the relative size of the dataset. However, both datasets are analyzed to see if there is consistency in the responses across different dependent variables and to assess differences in perspective. In general, the more consistent the effects across different respondents and across different aspects of the reform, the more confidence one might have that a particular variable is important in implementation.

The surveys of the budget officers and agency staff ask for an assessment of how well different aspects of performance-based management and budgeting have been implemented in each state as well as assessments of the level of involvement of the legislature, the executive, and others in administrative leadership positions. The data from this survey are paired with information from the U.S. Census and the Council of State Governments' *Book of the States 2000-2001* to build variables that reflect differences in legislative organization, executive power, and the political environment across the states.

The analysis that follows focuses on the effects of legislative oversight, legislative budget responsibility, and legislative professionalism across several dimensions of implementation of performance management reform, including:

- Effective use of performance measures in agency management practices, although such practices may not be widespread ("Effective Use of PM");
- *Extent* of effective use of performance measures across the agency or government ("Extent of Effective Use of PM");
- Use of performance measures in legislative budget debates and deliberations ("Budget Index");
- Use of performance measures generally in budgetary decision-making (legislative and agency) and extent of use in budgeting ("PM Vital" and "Extent of PM Use").

Some of these measures do overlap; however, the reason for using these types of measures it two fold – first seeing the same institutional effects across multiple dimensions of implementation suggests that the effects are robust and not simply an anomaly associated with a particular set of measures; second, although more speculative, differences across these measures and between budget officers and agency staff can indicate subtle differences in the factors that influence the success of implementation of a performance management reform.

The analysis also adds a number of "control variables" including gubernatorial power and engagement, political division, and demographic heterogeneity of the population in the state. The models also control for an initial level of implementation by assessing whether the state has a law mandating implementation and whether the state has taken initial steps to implement the reform ("PM Basics"). Details on the methodology and the variables tested are described in the Appendix.

## Findings

Overall, the models show some fairly consistent responses for several key variables. For both agency staff and budget officers, *legislative oversight* of performance reform corresponds with a stronger assessment of implementation across *all* dimensions of the reform. The legislative oversight variable is created from a specific question in the Melkers and Willoughby survey that asks respondents to identify the various stakeholders in state government that "verify performance measures or performance data for accuracy, reliability, relevance and validity." If the respondent identified a legislative auditor or legislative budget office staff (as opposed to executive auditor, executive budget staff, external government auditor, agency staff, external board, government oversight department or division, or state auditor) as taking this role,[3] then they were also significantly more likely to be positive in their assessment of the level of active use of performance information in management, legislative budgeting and general budgeting practices.

The effect of this legislative oversight variable is particularly strong in measures assessing extent of use of performance measures and in assessments of use of performance measures in budget processes. Budget officers are also more likely to give a positive assessment of implementation in legislative budgeting processes if

[3] Respondents had the option of checking all that applied, so the reference group for the dummy variable is all respondents who did not identify a legislative role in overseeing the development of performance measures.

budgetary responsibility is shared between the executive and legislative branches. An executive oversight measure equivalent to legislative oversight was created for executive office staff. Although less consistent, executive oversight also appears to have a positive effect on the assessments of both sets of respondents.

On the other hand, the more conventional measures of legislative professionalism, such as long session length, high expenditures on staff support, or no term limits generally have a negative effect or no effect. Meanwhile gubernatorial power, an index measure of both gubernatorial political control over the legislature (margin of same party control within the legislature) as well as institutional authorities (veto power, budgetary authority, appointment power and tenure in office), factors strongly and positively in agency responses but seems to have little effect or even a negative effect on budget officer assessments.

*Integration of Performance into Management.* Tables 1 and 2 show the effects of a series of variables on agency level *management* practices -- specifically, respondents were asked to assess how effective performance measures are in changing agency strategies, reducing duplicative services, improving service quality, or increasing awareness of factors affecting performance. In the second model, they were asked to assess the extent of such practices across their agency (for agency staff) or across agencies (for budget staff) (see Appendix for details on the questions used to construct this variable). Although there are some important differences between the budget officers and agency staff, the main trend for both sets of respondents is consistent with the one described above: a legislative oversight role in verifying performance measures corresponds with a positive assessment of the use of performance in management practices. This effect is not significant in the first model for both agency staff and budget officers; however, this is in part because of multicollinearity with several other independent variables. Removing several of these variables has little effect on the overall power of the model, but causes legislative oversight to become significant at .10. In assessing the *extent* of use of these management practices, legislative oversight is both stronger in its effect and significant at .01 for budget officers and .05 for agency staff. By way of contrast, executive oversight, a measure that is the equivalent of legislative oversight, is

**TABLE 1. AGENCY STAFF ASSESSMENT OF USE OF PM IN MANAGEMENT**

| | (1) | | (2) | |
|---|---|---|---|---|
| | Effective Use of PM | Effective Use of PM | Extent of Effective Use | Extent of Effective Use |
| **Professional Legislators** | | | | |
| Number of Legislators | .002 | | -.001 | |
| | (1.12) | | (1.21) | |
| Days in Session | -.001 | -.001 | -.002 | -.002 |
| | (1.40) | (1.58)† | (2.17)** | (1.92)* |
| Term Limits | .597 | .537 | .135 | .240 |
| | (4.08)*** | (3.63)*** | (0.83) | (1.62)† |
| **Staff Support** | | | | |
| Staff Index | -.232 | -.429 | -.126 | -.177 |
| | (.32) | (.64) | (.17) | (.25) |
| **Legislative Responsibility and Oversight** | | | | |
| Legislative Bill | .124 | .044 | .072 | .067 |
| | (1.03) | (.34) | (.54) | (.54) |
| Legislative Oversight | .168 | .202 | .305 | .289 |
| | (1.57)† | (1.77)* | (2.70)*** | (2.67)*** |
| **Gubernatorial Power and Oversight** | | | | |
| Gubernatorial Power | .533 | .420 | .334 | .375 |
| | (3.72)*** | (2.43)** | (1.98)** | (2.54)** |
| Executive Oversight | .290 | .317 | .049 | .030 |
| | (2.66)*** | (2.99)*** | (.45) | (.28) |
| **Basic Elements of Reform** | | | | |
| PM Basics | -.401 | -.387 | -.489 | -.481 |
| | (3.47)*** | (3.35)*** | (4.34)*** | (4.20)*** |
| **Political/Control Variables** | | | | |
| Split Legislative Control | .478 | .455 | .185 | .193 |
| | (3.88)*** | (3.65)*** | (1.27) | (1.32) |
| Population Heterogeneity Index | 5.546 | 5.206 | 3.063 | 4.177 |
| | (3.38)*** | (2.86)*** | (1.31) | (2.15)** |
| Citizen Ideology | -.005 | | -.005 | |
| | (1.14) | | (1.12) | |
| Government Ideology | .004 | .002 | .008 | .006 |
| | (1.42) | (1.12) | (2.92)*** | (2.96)*** |
| Expenditures per capita | .108 | .101 | .022 | .040 |
| | (2.30)** | (2.04)** | (0.41) | (0.74) |
| Ln State Population | .091 | .117 | .221 | .186 |
| | (0.78) | (1.08) | (1.73)* | (1.52)† |
| South | -.339 | -.302 | -.403 | -.368 |
| | (1.90)* | (1.75)* | (2.01)** | (1.90)* |
| Constant | -2.635 | -2.350 | -1.702 | -2.176 |
| | (1.37) | (1.08) | (0.81) | (1.06) |
| Observations | 130 | 130 | 124 | 124 |
| R-squared | .40 | .38 | .41 | .40 |

Robust t-statistics in parentheses.
†significant at 15%; *significant at 10%; ** significant at 5%; *** significant at 1%.
See Appendix for variable definitions and sources.

**TABLE 2. BUDGET OFFICERS ASSESSMENT OF USE OF PM IN MANAGEMENT**

| | (1) | | | (2) | | |
|---|---|---|---|---|---|---|
| | Effective Use of PM | Effective Use of PM | Effective Use of PM | Extent of Effective Use | Extent of Effective Use | Extent of Effective Use |
| **Professional Legislators** | | | | | | |
| Number of Legislators | 0.001 | | | -0.000 | | |
| | (0.20) | | | (0.02) | | |
| Days in Session | -0.006 | -0.005 | -0.005 | 0.002 | 0.003 | 0.002 |
| | (1.86)* | (1.55) | (1.92)* | (1.23) | (1.73)* | (1.68) |
| Term Limits | 0.310 | 0.284 | 0.352 | 0.652 | 0.654 | 0.812 |
| | (1.60) | (1.55) | (2.06)* | (1.63) | (1.98)* | (2.84)*** |
| **Staff Support** | | | | | | |
| Staff Index | -3.542 | -1.999 | -1.937 | -3.742 | -3.636 | -2.730 |
| | (1.87)* | (1.38) | (1.27) | (0.94) | (1.43) | (1.04) |
| **Legislative Responsibility and Oversight** | | | | | | |
| Legislative Bill | -0.410 | -0.389 | -0.293 | -0.418 | -0.416 | -0.471 |
| | (2.16)** | (2.08)** | (1.97)* | (1.14) | (1.15) | (1.71) |
| Legislative Oversight | 0.225 | 0.246 | 0.296 | 0.546 | 0.548 | 0.519 |
| | (1.46) | (1.82)* | (2.22)** | (2.03)* | (2.27)** | (2.20)** |
| **Gubernatorial Power and Oversight** | | | | | | |
| Gubernatorial Power | -0.347 | -0.245 | 0.013 | -0.060 | -0.057 | -0.154 |
| | (1.30) | (0.89) | (0.07) | (0.17) | (0.16) | (0.65) |
| Executive Oversight | 0.076 | 0.086 | 0.035 | -0.176 | -0.172 | -0.232 |
| | (0.39) | (0.44) | (0.22) | (0.46) | (0.59) | (0.80) |
| **Basic Elements of Reform** | | | | | | |
| PM Basics | -0.247 | -0.253 | -0.263 | -0.654 | -0.653 | -0.653 |
| | (1.40) | (1.50) | (1.73)* | (1.16) | (1.21) | (1.25) |
| **Political/Control Variables** | | | | | | |
| Split Legislative Control | 0.263 | 0.188 | 0.284 | 0.050 | 0.042 | 0.173 |
| | (1.12) | (0.86) | (1.46) | (0.15) | (0.14) | (0.58) |
| Population Heterogeneity Index | -2.336 | -3.911 | | 2.083 | 1.974 | |
| | (0.69) | (1.29) | | (0.35) | (0.42) | |
| Citizen Ideology | 0.012 | | | 0.001 | | |
| | (1.23) | | | (0.03) | | |
| Government Ideology | -0.008 | -0.001 | | -0.007 | -0.007 | |
| | (1.29) | (0.39) | | (0.55) | (1.75)* | |
| Expenditures Per Capita | 0.145 | 0.078 | 0.042 | 0.562 | 0.564 | 0.370 |
| | (1.46) | (1.12) | (0.58) | (2.22)** | (2.42)** | (1.95)* |
| Ln State Population | 0.263 | 0.188 | 0.135 | 0.620 | 0.613 | 0.457 |
| | (1.26) | (1.03) | (0.63) | (1.20) | (1.76)* | (1.37) |
| South | 0.428 | 0.379 | 0.172 | -0.092 | -0.092 | -0.091 |
| | (2.09)** | (1.75)* | (1.21) | (0.24) | (0.27) | (0.38) |
| Legislative Branch Respondent | 0.083 | 0.051 | 0.021 | -0.041 | -0.041 | -0.107 |
| | (0.42) | (0.29) | (0.12) | (0.10) | (0.11) | (0.30) |
| Constant | 0.312 | 1.893 | 0.545 | -7.514 | -7.404 | -3.784 |
| | (0.08) | (0.58) | (0.16) | (0.90) | (1.21) | (0.66) |
| Observations | 38 | 38 | 38 | 35 | 35 | 35 |
| R-squared | 0.67 | 0.65 | 0.62 | 0.47 | 0.47 | 0.44 |

Robust t-statistics in parentheses. *significant at 10%; ** significant at 5%; *** significant at 1%.
See Appendix for variable definitions and sources.

strongly significant in the first model where agency staff assess the effectiveness of use of performance measures, but then is not significant in agency staff assessments of extent of use of performance. Surprisingly, executive oversight is not significant in the budget officers' assessments of implementation either.

While legislative oversight may have a consistent and positive effect, measures of legislator professionalism have a fairly consistent "negative" effect. For agency staff respondents, shifting from a non-term limited legislature to a term-limited legislature leads to a 20 percent improvement in the respondents' assessment of effective use of performance measures for agency management (Table 1).[4] This measure also suffers from multicollinearity, in particular it is negatively associated with a liberal citizen ideology, one of the control variables. Dropping the ideology variables does not dramatically change the significance of the models, but does make term limits significant. In general, term limits are associated with citizen legislatures, or legislatures where the legislators do not view political office as their main profession (Rosenthal 1998). Consistent with the term limits findings, most of the models also show a negative relationship between "days in session" and effective implementation. In other words, the longer the legislature meets, again a characteristic of a professional legislature, the more likely the agency or budget officers are to negatively assess the level of implementation in their state. The one exception to this story is that budget officers assessing *extent* of effective implementation across agencies are more likely to identify widespread use of performance in management practices if the legislature serves for longer days in session. However, given that every other measure shows a negative relationship between days in session and budget officers, this effect may be an anomaly.

The effect of the staff index, which captures spending on staff and number of staff, is also consistently negative although in only one case is it significant. The existence of the legislative oversight variable does suggest the importance of staff in reviewing performance information – but staff input may more about "quality" or a

[4] These were measured on a scale from 1 to 4. So a .597 increase on this scale (over a half a point increase) is 19.9 percent.

careful allocation of staff resources to important tasks rather than the raw "quantity" of staff available to the legislature.

Finally, one might expect the passage of a law to implement performance-based management to affect implementation positively. However, having a law on the books does not seem to have any significant effect on agency staff assessments of level of implementation and has a *negative* effect on budget officer assessments of implementation. This finding is of course in keeping with Georgia's experience where passage of legislation requiring performance reporting did not necessarily translate into agencies actually using the information for management practices.

*Use of Performance in Legislative Budget Deliberations.* In Table 3, the indices being assessed capture the extent to which performance measures inform legislators' deliberations and in particular budgetary decision-making (see Appendix for the questions used to construct this index). Not surprisingly, legislative oversight in the development, evaluation, and audit of performance measures has a consistent and positive effect on the use of performance measures in legislative deliberations. Also, a higher level of legislative responsibility for budgeting has a significant and positive effect in budget officers' assessments of legislative use of the reform.[5] This budgetary responsibility variable is associated with states like Texas, New Mexico, and South Carolina, where the legislature has a greater responsibility for estimating revenues, developing the budget, and overseeing state financial activities. This finding suggests that legislatures with active oversight as well as active budgetary responsibility are likely to be active users of performance information -- both involved in and responsible for the reform. The finding that legislative responsibility for reform leads to use of the information in policymaking is consistent with Abney and Lauth's (1998) research which indicated that legislative responsibility for budgeting leads legislators to become more interested in agency efficiency. This finding is also consistent with research which showed that integrating performance

[5] This variable is added to models assessing legislative use of the information and budget impacts since it assesses the level of responsibility the legislature has for budget decision-making. Abney and Lauth provide theoretical and empirical support for its importance in legislative decision-making. The budget responsibility is not included in the other models. The measure for legislative budget responsibility is in part the inverse of the gubernatorial power measure.

**Table 3. Agency Staff/Budget Officers Assessment of PM Use in Legislative Budget Processes**

| | --Agency Staff-- | ---Budget Officers--- | | |
|---|---|---|---|---|
| | Legislative Budget Index | Legislative Budget Index | Legislative Budget Index | Legislative Budget Index |
| **Professional Legislators** | | | | |
| Number of Legislators | -0.001 | 0.001 | | |
| | (0.93) | (0.57) | | |
| Days in Session | -0.002 | -0.005 | -0.005 | -0.003 |
| | (2.10)** | (1.82)* | (2.06)* | (1.15) |
| Term Limits | -0.095 | 0.209 | 0.139 | 0.069 |
| | (0.64) | (0.97) | (0.81) | (0.45) |
| **Staff Support** | | | | |
| Staff Index | 0.303 | -1.057 | 0.266 | -0.086 |
| | (0.40) | (0.53) | (0.23) | (0.07) |
| **Legislative Responsibility and Oversight** | | | | |
| Shared Budget Responsibility | 0.199 | 0.749 | 0.856 | 0.701 |
| | (1.25) | (2.29)** | (2.57)** | (2.28)** |
| Legislative Bill | 0.171 | -0.522 | -0.529 | -0.428 |
| | (1.09) | (3.02)** | (3.24)*** | (2.96)*** |
| Legislative Oversight | 0.317 | 0.574 | 0.594 | 0.611 |
| | (2.46)** | (4.55)*** | (5.06)*** | (5.27)*** |
| **Gubernatorial Power and Oversight** | | | | |
| Gubernatorial Power | 0.333 | -0.545 | -0.489 | -0.528 |
| | (2.10)** | (3.35)*** | (2.86)** | (2.90)** |
| Executive Oversight | 0.244 | 0.252 | 0.269 | 0.241 |
| | (2.11)** | (1.75) | (2.12)* | (1.85)* |
| **Basic Elements of Reform** | | | | |
| PM Basics | -0.037 | -0.658 | -0.679 | -0.600 |
| | (0.28) | (3.39)*** | (4.10)*** | (4.21)*** |
| **Political/Control Variables** | | | | |
| Split Legislative Control | -0.001 | -0.063 | -0.143 | -0.071 |
| | (0.01) | (0.23) | (0.56) | (0.29) |
| Population Heterogeneity | 4.622 | -6.179 | -7.865 | -7.049 |
| | (1.91)* | (2.14)* | (3.64)*** | (3.35)*** |
| Citizen Ideology | -0.000 | 0.008 | | |
| | (0.02) | (0.82) | | |
| Government Ideology | 0.002 | -0.001 | 0.004 | |
| | (0.93) | (0.20) | (1.42) | |
| Expenditures Per Capita | -0.074 | 0.165 | 0.106 | 0.106 |
| | (1.57) | (1.62) | (1.84)* | (1.68) |
| Ln State Population | 0.084 | 0.120 | 0.053 | 0.061 |
| | (0.66) | (0.57) | (0.34) | (0.37) |
| South | -0.289 | 0.023 | -0.048 | 0.067 |
| | (1.19) | (0.11) | (0.22) | (0.37) |
| Legislative Branch Resp. | | 0.135 | 0.131 | 0.178 |
| | | (1.12) | (1.23) | (1.70) |
| Constant | -1.406 | 4.800 | 6.568 | 6.054 |
| | (0.60) | (1.21) | (2.46)** | (2.12)* |
| Observations | 116 | 31 | 31 | 31 |
| R-squared | 0.26 | 0.89 | 0.88 | 0.87 |

Robust t-statistics in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.
See Appendix for variable definitions and sources.

measures into legislative processes leads to a more substantive legislative debate over policy issues (Stanford 1992).

This particular model does raise questions of causation, since both legislative use and staff oversight could be part of a larger holistic push by the legislature to actively incorporate performance information into their processes. In other words, causation could be simultaneous. Still, it seems more likely that the audit, oversight, and development of measures takes place prior to the use of performance measures in "changing the substance or tone of discussion among legislators about agency budgets" or "changing appropriations levels." Also, the consistency of legislative oversight across all the measures, even those that are assessments of *agency* use of performance information, seems to indicate that legislative oversight might be a pivotal factor in the implementation of the reform.

Ironically, the adoption of legislation supporting performance reform again has no effect on the dependent variable or in the budget officers' assessment, a negative effect, suggesting that legislative endorsement of the reform is quite a different matter from actual integration into legislative processes. Gubernatorial power has a positive influence over agency assessments of legislative use of the reform but a negative influence over budget officers' assessments – a mixed finding. Again, consistent with previous findings, professionalism measures either have no statistically significant effect or a statistically significant negative effect.

*Use of Performance Information in Budget Decisions Generally.* Finally, in Table 4, two binary variables are used to assess the impact of legislative oversight and professionalism on whether performance measures are "vital in budget decision-making" and whether greater than 50 percent of programs in agencies use performance in budget decision making or less than 50 percent do. These two models are only for agency staff as the budget officer sample size creates problems for the econometric technique (logit) used to test these dependent variables.

Although this measure shows weaker relationships, generally the major trends are consistent. The legislative oversight measure proves significant and consistent across the models, while indicators of legislative professionalism generally have a

**TABLE 4. AGENCY STAFF ASSESSMENT OF PM USE IN GENERAL BUDGET PROCESSES (LOGIT)**

| | PM Vital to Budgeting | Extent Use of PM for Budgeting |
|---|---|---|
| **Professional Legislators** | | |
| Days in Session | -0.005 | -0.002 |
| | (1.23) | (0.60) |
| Term Limits | 1.106 | 0.634 |
| | (1.89)* | (1.21) |
| **Staff Support** | | |
| Staff Index | -3.641 | 0.714 |
| | (1.28) | (0.23) |
| **Legislative Responsibility and Oversight** | | |
| Shared Budget Responsibility | -0.248 | 0.713 |
| | (0.38) | (1.17) |
| Legislative Bill | 0.149 | -0.325 |
| | (0.28) | (0.68) |
| Legislative Oversight | 1.324 | 0.922 |
| | (2.79)*** | (2.08)** |
| **Gubernatorial Power and Oversight** | | |
| Gubernatorial Power | 1.573 | 1.527 |
| | (1.89)* | (2.02)** |
| Executive Oversight | 0.527 | 0.289 |
| | (1.17) | (0.68) |
| **Basic Elements of Reform** | | |
| PM Basics | -0.340 | -1.191 |
| | (0.71) | (2.66)*** |
| **Political/Control Variables** | | |
| Split Legislative Control | 0.360 | 1.300 |
| | (0.58) | (2.02)** |
| Population Heterogeneity | 20.866 | 5.497 |
| | (2.39)** | (0.71) |
| Government Ideology | 0.013 | 0.022 |
| | (1.27) | (2.16)** |
| Expenditures per capita | 0.375 | -0.013 |
| | (1.10) | (0.05) |
| Ln State Population | 0.897 | 0.167 |
| | (1.84)* | (0.36) |
| South | -0.779 | -0.174 |
| | (0.92) | (0.21) |
| Constant | -26.554 | -8.323 |
| | (2.94)*** | (1.03) |
| Observations | 133 | 140 |

Absolute value of z-statistics in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%.
See Appendix for variable definitions and sources.

negative effect. Here the term limits variable is positive and significant in the first model, while the session index is not significant but continues to be consistently negative. In this model, none of the executive variables seem to have a significant effect, although they continue to be positive. In general, the use of performance measures in budgeting processes has generally lagged behind the use of performance measures for management purposes which may explain the lack of effect (Melkers and Willoughby 2001; Joyce 1999, 2003).

## A Package of Legislative Characteristics

Overall, the results indicate a paradox: legislative professionalism tends to have no significant effect or a statistically significant negative effect on the use of performance measures, while legislative oversight has a consistent (perhaps the most consistent of any variable) and statistically significant positive effect. Examining the characteristics of legislatures with strong legislative oversight, one can see that legislative oversight of performance measures seems to coincide with legislative responsibility for budgeting but is not necessarily coincident with legislative professionalism. Looking at the states where over 60 percent of respondents identified "legislative oversight" in the development of performance measures (see Table 5), four of the states, New Mexico, Florida, Texas, and Louisiana are all widely recognized for having well developed systems of performance-based budgeting and these are all legislatively driven processes.[6] New Hampshire and South Dakota which are not widely recognized for their reforms and have weak legislatures may simply be anomalies. South Carolina has a legislature that shares authority with the governor for development of the state budget, as do three other states in this list, and

[6] In 2005 presentation by the National Conference of State Legislatures to the Georgia legislature, Harry Hatry cited Texas as having one of the most "mature" systems of performance management, and Louisiana as also having a well developed system. New Mexico, although behind Texas and Louisiana was also noted as a "maturing system." Florida is cited in other places as having a (relatively) well developed performance system(Grizzle and Pettijohn 2002).

**TABLE 5. ANALYSIS OF LEGISLATIVE OVERSIGHT**

| | % Respondents Aware of Legislative Oversight | Leg-Exec Shared Responsibility for Budgeting | Professionalism rank by NCSL (1= high, 5=low) | % Agency staff Identify Use of PM in Budget Decisions (Avg.) | PM Vital in Budget Decisions (Avg.) |
|---|---|---|---|---|---|
| New Mexico | 0.67 | Yes | 4 | 0.67 | 0.67 |
| South Carolina | 0.67 | Yes | 3 | 0.6 | 0.75 |
| Florida | 0.75 | Yes | 2 | 0.5 | 0.5 |
| Texas | 0.78 | Yes | 3 | 0.78 | 0.63 |
| Louisiana | 1.00 | Yes | 3 | 0.8 | 0.6 |
| New Hampshire | 1.00 | No | 5 | 0.33 | 0.33 |
| South Dakota | 1.00 | No | 5 | 1 | 1 |
| Average | | | | 0.67 | 0.64 |
| Avg. All Resources | | | | 0.49 | 0.51 |

South Carolina has recently been developing a system of performance-based budgeting.[7]

Table 5 also shows that none of these states, with perhaps the exception of Florida, have highly professional legislatures, as ranked by the National Conference of State Legislators (a ranking that considers level of salary, time on the job, and staff support), although Texas does have a high level of staff support (12 staff per legislator during session).[8] Three of the other states, New Mexico, Louisiana, and South Carolina have "moderate" levels of professionalism in the NCSL rankings, which includes around 3.1 staff per legislator, legislators that spend 70 percent of their time or less on the job, and legislative salaries averaging $35,326. New Hampshire and South Dakota have low levels of legislative professionalism.

The intriguing finding is that legislative engagement in overseeing performance measures, presumably through their staff, leads to better agency level use of performance measures in making management decision. However, high levels

[7] This variable was created by taking information from the 2000-2001 *Book of the States* (U.S. Census, The Council of State Governments 2000). New Mexico also has a highly coordinated legislative-executive budgeting process.

[8] According to the NCSL rankings, a professional legislature is counted as one where there are approximately 8.9 staff per legislator, legislators spend 80 percent of their time on the job and are compensated at $68,599 or higher. A moderately professional legislature is one where members spend 70 percent of the time on the job, are compensated approximately $35,326 and have a staff to member ratio of 3.1. A non-professional legislature is compensated at around $15,984 per legislator, has 1.2 staff members and spends around 54 percent of their time on the job. Georgia's legislature falls between moderate to low levels of professionalism (in the same category as New Mexico).

of responsibility do not have to be paired with high levels of staff or legislator professionalism, which suggests that quality rather than quantity of legislative involvement might be important. The package of legislative features that is associated with administrative efficacy in implementing the performance management reform, may be moderate or even low levels of legislative professionalism combined with significant engagement in oversight. This legislative model is also evident in states such as Virginia, which has consistently received top rankings from the Government Performance Project for good administrative practices (Government Performance Project 2005c). Virginia has high levels of legislative oversight through their Joint Legislative Audit and Review Commission (JLARC), but only a moderately professional legislature.

## Conclusion

To return to the questions posed at the beginning of this report:

- **Is there any quantitative evidence that legislatures actually matter in this budgetary reform? If so, at what stage?**

A number of the models indicate that legislative oversight (which in turn would require legislative capacity and authority) does have a significant effect on the implementation of management and budgeting reform. In particular legislative oversight is a robust and consistent variable, where similar variables of executive oversight are significant but less robust across all dimensions of the reform (other forms of oversight, including by the state auditor or by an "external organization," were tested but had no significant effect on the results). Legislative oversight was linked to legislative use of the information in budget deliberations and was a consistent institutional variable influencing use of performance in management and budget processes.

- **Does professionalism at the legislator or staff level improve implementation of reform?**

There is little evidence that the key to improving implementation of the reform is an investment in a more professional legislature – if anything this research indicates that citizen legislatures are the more successful alternative *in terms of* *performance management and budgeting reform*. This latter point is important because legislatures bring important democratic values to our institutions which may conflict with managerial effectiveness – for instance legislatures represent a broad cross-section of viewpoints which means they may bring many competing points of view to a policy arena. This research does not attempt to capture these effects! However, the findings do not support the idea that professional legislatures are particularly helpful for either the administrative implementation of the reform or even the legislative use of performance information.

- **What does the legislature need to do to improve implementation of the reform?**

The key finding here is again that active legislative *oversight* in evaluating and verifying performance data may be critical. The findings suggest that it is not enough for the legislature simply to endorse the reform through passage of a bill; rather, the legislature needs to actively engage in the use of performance information in order to encourage agency level implementation. Given the history of budgetary reforms, this effect stands to reason – agencies have repeatedly invested enormous time and resources into budget reforms only to have them fall by the wayside. Legislative oversight may signal that decision-makers intend to actually use the information produced by agencies and to hold agencies accountable for results. Legislative engagement may also suggest that a reform is more likely to endure gubernatorial changes – since the reform is endorsed by more than one branch of government.

## II. The Georgia Appropriations Committees Survey

### Introduction

In the spring and summer of 2005, thirty-two members of the Georgia House and Senate Appropriations Committees were interviewed in person or responded to a mail survey on their current decision-making practices, their use of budgetary information, and the types of information that they would like to see in the budget.[9] The survey was intended to help determine what information legislators currently use and what information they believe would be useful to them in the future. Interestingly, their responses indicate another way to interpret the data from the previous analysis. Namely, the legislators suggest that they are more likely to *trust* information from their own internal sources. Thus, active legislative oversight may produce information that legislators are more likely to use and may subsequently lead to more agency use of the information.

### Findings

*The Governor's Budget Initiative and the FY05 Amended and FY06 Budget*

First, when asking legislators about whether they were aware of the Governor's efforts at budget reform – 81 percent indicated that they were aware of the reform; however, 63 percent indicated that they were not using any of the information produced. When pressed in direct interviews, even fewer were able to identify characteristics of the reform, and it is likely that very few legislators at this time had any contact with the strategic planning, program designation and prioritization processes, or the performance measures that characterize the executive effort. This finding is in keeping with a long history of reform efforts in Georgia and

[9] All members of the House Appropriations Committee were contacted through a mail survey, of 73 members 19 responded (26 percent response rate). The 26 members of the Senate were contacted by phone or in person, and 13 agreed to be interviewed (50 percent response rate). Although only seven Democrats responded, once answers to questions that had obviously political implications were dropped (such as use of information by the Governor or Governor's staff), their answers did not differ substantially from the others.

elsewhere that are conducted as dialogues between the executive branch and administrative agencies. Although the Georgia legislature saw substantial turnover in the past two election cycles (in 2003 and 2005), of the members interviewed, only one was new and at least 20 had served for five years or more. So inexperience is unlikely to have affected this response.

In terms of the existing budget information used (reported in Table 6), there is almost an even distribution of elements that the legislators might find most useful. 14 ranked the recommended changes to baseline as one of their top two most useful information sources; 13 ranked object classes as most important; 11 placed program expenditure levels and agency organization and mission as top sources, and 10 thought the expenditures over time were most useful. Because of the evenness of response, the answers are to some degree ambiguous. In general, the descriptions of agency mission and organization tends to fall towards the bottom, the expenditures over time also seems less used, while the object class, program and changes to baseline tend to be more highly rated.

**TABLE 6. Q: WHEN YOU BEGAN THE PROCESS OF REVIEWING THE FY05 AMENDED BUDGET AND THE FY06 BUDGET, WHICH OF THE FOLLOWING INFORMATION IN THE GOVERNOR'S BUDGET BOOK WAS MOST USEFUL TO YOU? (PLEASE RANK THE FOLLOWING (1-5) FROM MOST TO LEAST HELPFUL. *PLEASE USE A NUMBER ONLY ONCE*)**

| | Q2a. Description of Agency Organization and Mission | Q2b. Description of Object Class Expenditure Levels | Q2c. Description of Programmatic Expenditure Levels | Q2d. Descriptions of the Governor's Recommended Changes to the Baseline Budget | Q2e. Descriptions of Expenditures Over Time |
|---|---|---|---|---|---|
| Rank as 1 | 4 | 8 | 8 | 7 | 3 |
| | 13% | 27% | 27% | 23% | 10% |
| Rank as 2 | 7 | 5 | 3 | 7 | 7 |
| | 24% | 17% | 10% | 24% | 24% |
| Sum | 11 | 13 | 11 | 14 | 10 |
| Rank as 3 | 1 | 8 | 10 | 3 | 6 |
| | 4% | 29% | 36% | 11% | 21% |
| Rank as 4 | 7 | 4 | 6 | 5 | 7 |
| | 24% | 14% | 21% | 17% | 24% |
| Rank as 5 | 9 | 4 | 1 | 6 | 5 |
| | 36% | 16% | 4% | 24% | 20% |

*What Information Would Legislators Like to See?*

Although legislators seem to be uncertain about the Governor's reform, as indicated in Table 7, they were highly interested in having access to better results information. 35 percent ranked program results as a top source of information that would help them make a more informed decision, 23 percent asked for unit costs and 19 percent asked for performance measures or outcome measures. Also of interest are input costs, which were not the top request of anyone but 11 made it their second request. Interestingly, although one might expect legislators to ask for performance information at a district level, reporting based on district level performance and district level inputs were frequently ranked as least important. 38 percent ranked district level performance impact as their second to last priority and 35 percent ranked district inputs as their last priority.

TABLE 7. Q: WHAT KIND OF INFORMATION WOULD HELP YOU MAKE A MORE INFORMED BUDGETARY DECISION? (PLEASE RANK THE FOLLOWING (1-9) FROM MOST TO LEAST HELPFUL. *PLEASE USE A NUMBER ONLY ONCE.)*

| | Q3a. report on workload | Q3b. Report on unit costs | Q3c. Report on input costs | Q3d. Report on performance /outcome measures | Q3e. Report on personnel | Q3f. Report on district level performance impact | Q3g. Report on district inputs | Q3h. Agency mission and goals | Q3i. Program results |
|---|---|---|---|---|---|---|---|---|---|
| Rank as 1 | 2 | 7 | 0 | 6 | 1 | 0 | 0 | 4 | 11 |
| | 6% | 23% | 0% | 19% | 3% | 0% | 0% | 13% | 35% |
| Rank as 2 | 4 | 4 | 11 | 6 | 3 | 3 | 1 | 1 | 5 |
| | 11% | 11% | 29% | 16% | 8% | 8% | 3% | 3% | 13% |
| Sum | 6 | 11 | 11 | 12 | 4 | 3 | 1 | 5 | 16 |
| % Ranking Source in top 2 | 19% | 35% | 35% | 39% | 13% | 10% | 3% | 16% | 52% |
| Rank as 3 | 1 | 10 | 5 | 5 | 3 | 1 | 1 | 3 | 1 |
| | 3% | 33% | 17% | 17% | 10% | 3% | 3% | 10% | 3% |
| Rank as 4 | 6 | 4 | 4 | 7 | 3 | 2 | 3 | 1 | 3 |
| | 18% | 12% | 12% | 21% | 9% | 6% | 9% | 3% | 9% |
| Rank as 5 | 4 | 3 | 1 | 3 | 6 | 3 | 3 | 6 | 2 |
| | 13% | 10% | 3% | 10% | 19% | 10% | 10% | 19% | 6% |
| Rank as 6 | 4 | 1 | 4 | 3 | 6 | 2 | 2 | 5 | 4 |
| | 13% | 3% | 13% | 10% | 19% | 6% | 6% | 16% | 13% |
| Rank as 7 | 6 | 0 | 3 | 1 | 4 | 5 | 4 | 4 | 2 |
| | 21% | 0% | 10% | 3% | 14% | 17% | 14% | 14% | 7% |
| Rank as 8 | 3 | 1 | 1 | 0 | 0 | 11 | 8 | 2 | 3 |
| | 10% | 3% | 3% | 0% | 0% | 38% | 28% | 7% | 10% |
| Rank as 9 | 1 | 1 | 1 | 0 | 5 | 4 | 9 | 5 | 0 |
| | 4% | 4% | 4% | 0% | 19% | 15% | 35% | 19% | 0% |

*Some legislators did not rank items continuously but used a number more than once.

*What Sources of Information Do Legislators Currently Use and What Sources Do They Trust?*

Both the answers to the survey and the more in depth interviews suggest that much of the legislator's information about agency operations is from informal advisors and colleagues. In contrast, legislators do not seem to trust lobbyists or non-constituent interest groups. In Table 8, legislators were asked "when you make a policy decision on a budgeting issue, which of the following [12 information sources] most heavily influences your decisions?" Although the rankings did vary significantly, there are some general clusters of responses. The "average rank" at the top of the table gives a sense of how highly, on average, legislators weight different information sources. On average, legislators use their "kitchen cabinet" or an informal group of advisors most heavily ("average rank" of 4). Looking at this another way, 53 percent (17 out of 32 respondents) identified this "kitchen cabinet" in their top three sources of information. In the next tier, on average, the legislators ranked their legislative colleagues, legislative staff, the Governor, external research reports, and constituent interest groups about the same (average rank of "5"), although some of these were more likely to be ranked in the top three. Over 30 percent of respondents ranked the Governor, colleagues in the legislature and constituent interest groups in the top three. The high ranking of the Governor has to be discounted somewhat since it reflects the partisan make-up of the sample.

Perhaps just as interesting is which groups legislators ranked last. Only one legislator ranked lobbyists and interest groups as a top source and more dramatically, 31 percent ranked lobbyists dead last. Legislators also give lower average preference to information from individual constituents, recommendations provided by agency staff and agency executives, and recommendations by executive staff. In interviews about their sources of information, some legislators indicated that constituents on an individual level may not be fully informed about the issues. Also legislators may not want to appear that they are swayed by a single contentious voice. The lower ranking for agency staff and agency executives, however, reflects a more general lack of trust of information from agencies. In another question reported later, again, agencies fall at the bottom of trusted information sources. Interestingly, executive staff also are

**TABLE 8. Q: WHEN YOU MAKE A POLICY DECISION ON A BUDGETING ISSUE WHICH OF THE FOLLOWING MOST HEAVILY INFLUENCES YOUR DECISIONS? (PLEASE RANK THE FOLLOWING (1-12) FROM MOST TO LEAST INFLUENTIAL. *PLEASE USE A NUMBER ONLY ONCE*): *TOTAL RANKINGS WITH MORE THAN 31 ARE DUE TO DUPLICATE RESPONSES.***

| | Q7a. Party Leadership | Q7b. Governor | Q7c. Colleagues in the Legislature | Q7d. Lobbyists /Interest Group Staff | Q7e. Agency Executives | Q7f. Recommend-ations provided by legis. staff | Q7g. Recommend-ations provided by agency staff | Q7h. Recommend-ations provided by Gov staff | Q7i. External research report | Q7j. "Kitchen cabinet" | Q7k. Consti-tuent interest groups | Q7l. Individual constituent input |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. Rank** | **6** | **5** | **5** | **8** | **7** | **5** | **7** | **7** | **5** | **4** | **5** | **7** |
| Rank as 1 | 3 | 1 | 4 | 0 | 1 | 3 | 0 | 0 | 4 | 5 | 2 | 2 |
| | 12% | 4% | 16% | 0% | 4% | 12% | 0% | 0% | 16% | 20% | 8% | 8% |
| Rank as 2 | 0 | 5 | 2 | 1 | 0 | 1 | 3 | 4 | 1 | 5 | 7 | 1 |
| | 0% | 17% | 7% | 3% | 0% | 3% | 10% | 13% | 3% | 17% | 23% | 3% |
| Rank as 3 | 1 | 5 | 4 | 1 | 3 | 2 | 1 | 0 | 2 | 7 | 3 | 5 |
| | 3% | 15% | 12% | 3% | 9% | 6% | 3% | 0% | 6% | 21% | 9% | 15% |
| **%Ranking Source in Top 3** | **13%** | **34%** | **31%** | **6%** | **13%** | **19%** | **13%** | **13%** | **22%** | **53%** | **38%** | **25%** |
| Rank as 4 | 5 | 2 | 6 | 1 | 4 | 3 | 1 | 0 | 3 | 2 | 2 | 1 |
| | 17% | 7% | 20% | 3% | 13% | 10% | 3% | 0% | 10% | 7% | 7% | 3% |
| Rank as 5 | 2 | 2 | 0 | 1 | 2 | 9 | 3 | 1 | 5 | 2 | 3 | 2 |
| | 6% | 6% | 0% | 3% | 6% | 28% | 9% | 3% | 16% | 6% | 9% | 6% |
| Rank as 6 | 5 | 2 | 5 | 1 | 4 | 2 | 4 | 4 | 2 | 1 | 2 | 1 |
| | 15% | 6% | 15% | 3% | 12% | 6% | 12% | 12% | 6% | 3% | 6% | 3% |
| Rank as 7 | 3 | 2 | 1 | 4 | 2 | 1 | 5 | 4 | 4 | 1 | 1 | 3 |
| | 10% | 6% | 3% | 13% | 6% | 3% | 16% | 13% | 13% | 3% | 3% | 10% |
| Rank as 8 | 2 | 2 | 1 | 5 | 2 | 4 | 3 | 4 | 2 | 1 | 2 | 2 |
| | 7% | 7% | 3% | 17% | 7% | 13% | 10% | 13% | 7% | 3% | 7% | 7% |
| Rank as 9 | 2 | 3 | 6 | 1 | 4 | 1 | 3 | 0 | 2 | 4 | 3 | 1 |
| | 7% | 10% | 20% | 3% | 13% | 3% | 10% | 0% | 7% | 13% | 10% | 3% |
| Rank as 10 | 3 | 2 | 0 | 2 | 3 | 3 | 3 | 4 | 3 | 0 | 2 | 5 |
| | 10% | 7% | 0% | 7% | 10% | 10% | 10% | 13% | 10% | 0% | 7% | 17% |
| Rank as 11 | 2 | 2 | 2 | 3 | 4 | 1 | 2 | 5 | 0 | 2 | 3 | 4 |
| | 7% | 7% | 7% | 10% | 13% | 3% | 7% | 17% | 0% | 7% | 10% | 13% |
| Rank as 12 | 2 | 2 | 0 | 10 | 3 | 1 | 3 | 5 | 1 | 1 | 0 | 4 |
| | 6% | 6% | 0% | **31%** | 9% | 3% | 9% | 16% | 3% | 3% | 0% | 13% |

ranked similarly to agency staff, despite this sample over-representing legislators from the Governor's party.

Later in the survey, legislators answered a similar set of questions, this time more directly inquiring about the sources of information, legislators trust to confirm that an agency is running efficiently. In any performance and evaluation system, a central question when assessing agency needs is whether the programs are being managed effectively and thus have a legitimate claim to request more funding, or whether there is "fat" in the system. As shown in Table 9, the results from this question reiterate the finding that legislators do not really trust agencies to self-report honestly. That agency-legislative relationships are generally antagonistic is a theme in other states as well (Grizzle and Pettijohn, 2002).

The sources of information on agency effectiveness that legislators trust most are their own experiences and their own staff or affiliated staff such as the Department of Audits. Second in priority are the informal network of advisors described in Table 4 – the "kitchen cabinet" and other legislators. Here constituents provide an important source of information as well. In interviews, several legislators mentioned that many of their judgments about agencies are based on what they hear from constituents about their interactions with the agency. Again, as in the previous set of questions, agency directors and interest groups rank last as a source of information about agency efficiency and again, the executive staff rank at the bottom, despite the likely partisan bias of the respondents towards the executive. The implication is that these sources, party affiliation notwithstanding, are perceived as having a conflict of interest, i.e., both the executive and the agencies have a political interest in showing good results and demonstrating that they are operating efficiently.[10]

[10] Again, although the Governor is ranked "4" – this response is likely influenced by party affiliation and so may be unreliable. More interesting is the contrast between the Governor and executive staff, which all legislators indicate are a less trusted source of information about agency efficiency.

**TABLE 9. Q: WHAT SOURCES OF INFORMATION WOULD YOU TRUST TO CONFIRM TO YOU THAT AN AGENCY IS RUNNING EFFICIENTLY? PLEASE RANK THE FOLLOWING INFORMATION SOURCES 1 THROUGH 5 WITH 1 BEING LOW RELIABILITY AND 5 BEING HIGH RELIABILITY.**

| | Reliability 1 Low-5 High | Rank 1 High – 11 Low |
|---|---|---|
| Agency Director | 2.88 | 9 |
| Governor | 3.84 | 4 |
| Governor's Staff | 3.19 | 8 |
| **Legislative Staff** | **3.94** | **3** |
| **Department of Audits (Performance Reports)** | **4.09** | **2** |
| Key Constituents/Advisors | 3.56 | 6 |
| Individual Constituents | 3.41 | 7 |
| Interest Groups | 2.84 | 10 |
| Other Legislators | 3.72 | 5 |
| **Personal Experience with Agency** | **4.63** | **1** |
| Agency Self-Reported Performance Information | 2.50 | 11 |

These final results are important in considerations of how to structure oversight. As noted in the first part of the analysis, legislative oversight proves consistently important in the implementation of performance-oriented management reform. These last two tables suggest that legislative oversight might be important because legislative staff are a trusted source of external information about agency performance. In contrast, agency self-reporting, or even perhaps executive performance reporting might be perceived as having problems of conflict of interest. Legislative staff have less of a vested interest in showing that agencies are operating efficiently, and if anything, they may gain political currency by showing agencies are operating inefficiently – a bias in the opposite direction.

## Conclusion

The findings in this section suggest that currently legislators are using an informal network of friends, constituents and colleagues to make decisions about policy in general, and budgeting specifically. This finding is in keeping with a wide body of research about legislative heuristics. The fundamental idea in performance-based budgeting is to focus on programmatic results and attempt to bring more information to bear on policy debates. The survey suggests that legislators would be receptive to additional information but that the source of information may be important. Agencies and even executive staff may be perceived as having a conflict of interest in terms of fairly reporting results data, while legislative staff or legislative agencies may be perceived as less biased, or at least biased in the direction of legislative interest. This finding adds an additional dimension to the findings in the first part, suggesting that legislative oversight of the development of performance information might be so important to the reform because it creates a source of information that decision-makers and in particular legislative decision-makers *trust* and thus is more likely to inform the policy debate throughout government.

- **For Georgia, the findings in both sections indicate that the legislature might want to consider a renewed effort to build the capacity to effectively evaluate agency performance.**

Interestingly, the 1993 Budget Accountability Act did anticipate the need for increased legislative involvement and oversight by authorizing the creation of the Budgetary Responsibility Oversight Committee. Yet, for a variety of reasons, performance reform continued to be almost exclusively the domain of the executive branch. The results here suggest that renewing the effort to build a series legislative program evaluation capacity may have several benefits: improving incentives for serious agency level implementation while also providing legislators with assessments from a trusted source of information.

## III. Legislative Oversight

The results described in the first two sections actually suggest developing a systemic reform rather than just an information-based reform. For instance, the passage of a legislative bill mandating that performance information be reported is not sufficient and may even have a negative effect on levels of implementation. In keeping with Georgia's experience, the mere production of information does not necessarily translate into actual use in agency decision-making and certainly does not translate into use of the information in budgeting.

A systems perspective, indicated by the legislative oversight and executive oversight variables in the analysis earlier, suggests that in addition to reporting information, states need to build a capacity to oversee, evaluate, and use performance information *external* to the agencies themselves. In many respects this finding should be intuitive because an external capacity to evaluate means that legislative and executive actors then have the ability to hold agencies accountable. Again, states where both agency and budget staff indicate high levels of *internal* use of performance information are also states where agency and budget staff indicate that there is a significant *external effort* to evaluate performance information. Housing an audit and evaluation capacity in the legislative branch may be particularly critical.

This section is intended to paint of picture of what "legislative oversight" might look like in the context of performance-based budgeting reform by briefly examining three states described at the end of Section I, Florida, New Mexico, and Texas. Other states such as South Carolina and Virginia are also known for having a significant legislative role in oversight of agencies, although recent budget reforms have been predominantly executive initiatives.

### Florida

*Overview of the Reform:*

In 1994, Florida adopted a performance-based program budget reform, the Performance and Accountability Act ($PB^2$). $PB^2$ was phased in over a seven-year period with an average of five additional agencies beginning the process each year. Major components of this reform include:

- Program budgeting giving agencies increased flexibility in their use of resources;
- Agency development of long range plans that identify performance measures associated with each program over a five-year horizon;
- Agency tracking of performance measures and inclusion of performance measures from long range plans in budget requests;
- Executive approval of performance measures;
- Legislative review of performance measures and adoption of performance targets in conjunction with the annual budget process;
- Agency Inspectors General audit of performance measures;
- Creation of the Office of Program Policy Analysis and Government Accountability (OPPAGA) to evaluate program performance.

*Legislative Role in Performance-Based Budgeting*

Although the state uses an executive budget process and the governor has a line item veto, the Florida legislature continues to play a substantial role in setting budget priorities. For instance, the initial revenue estimate is developed by the "Revenue Estimating Conference," comprised of staff from the Office of the Governor, the Senate, the House of Representatives, and the Division of Economic and Demographic Research.

The 1994 performance-based budgeting reform designates roles for each branch. Agencies are required to identify programs and a range of performance measures associated with each program in their long range plan (the equivalent of a strategic planning process). Agencies then track these "banks" of performance measures over time and submit key measures as well as recommended performance standards or targets in their budget requests. The Inspector General for each agency (who is appointed by the agency head) has responsibility for auditing agency performance measures for accuracy and reliability. In the early years of the reform OPPAGA, the legislative evaluation agency also evaluated the validity of agency performance measures; however, as agencies have taken ownership of the reform most of these audits have tapered off - except in cases where a legislator requests an investigation. “Substantive” legislative committees contribute to this process by approving the initial performance measures associated with each program, while executive branch staff oversee and approve annual agency designations of programs, measures, and proposed performance standards.

During budget consideration, budget committee staff assess agency performance measures in conjunction with the agency’s budget request. The legislative budget process culminates with passage of two bills, a general appropriations act and a bill setting the proposed performance standards for each program. Technically, these performance standards have the force of law, but serve a more general purpose of indicating legislative intent and seriousness about agency performance.

The Florida legislature has also developed one of the best performance audit capacities in the country (Government Performance Project 2005a). OPPAGA assesses programmatic progress in achieving the performance standards and provides a variety of other evaluations of program effectiveness. When Florida initiated the $PB^2$ reform in the 1990s, OPPAGA conducted regular performance evaluations assessing how well agencies were implementing the reform, as well as regular assessments of program effectiveness in agencies. However, as the reform has evolved and agencies have taken ownership of performance driven decision-making, OPPAGA’s role has shifted to focus on conducting evaluations based on requests from legislators.

OPPAGA is governed by the Joint Legislative Auditing Committee, composed of five members of the House and five members of the Senate with rotating chairmanship. The responsibilities of OPPAGA include:

- Performance audits and policy reviews of government programs;
- Follow up reviews to assess whether agencies have addressed previously identified problems;
- Maintenance and updating of the Florida Government Accountability Report which encompasses descriptive and evaluative information about all major state programs (approx. 240 profiles);

- Technical assistance and reviews of agency accountability systems;
- Research support for legislative committees.

Prior to consideration of the budget, OPPAGA generates an annual report that consolidates its program evaluations from the past year and then generates series of budgetary recommendations based on these reports. (For the 2005 “Annotated Listing of Legislative Recommendations” to the budget see http://www.oppaga.state.fl.us/reports/r05-55s.html) OPPAGA internal assessments suggest that agencies adopted 74 percent of their recommendations and the legislature adopted around 60 percent (Florida Office of Program Policy Analysis and Government Accountability 2005). To do this work, the agency has approximately 100 staff members and had a budget of $8.3 million in FY2005.

## New Mexico

*Overview of the Reform*

In 1999, the State of New Mexico adopted its Accountability in Government Act which required agencies to identify programs and then submit performance information for each program category as part of the budget process. This reform was phased in over four years starting in 2000. Key aspects of the reform include:

- Agency development of strategic plans, identifying key programs and performance measures;
- Program-based appropriations, giving agencies increased flexibility;
- Agency budget requests that include historical performance information and performance targets for each program; requests for increases in resources or shifts in resources must be justified by changes in program results;
- Performance information in appropriations bills;
- Legislative Finance Committee evaluation of the implementation of the performance reform as well as agency performance. These assessments and recommendations are consolidated into an annual report prior to consideration of budget;

- Emphasis on cost accounting to associate costs with programmatic outputs.

(Sources: New Mexico Legislative Finance Committee (2006); Williams (2005))

*Legislative Role in Performance-Based Budgeting*

The legislative branch in New Mexico has long had a significant role in developing the budget. In forecasting the revenue estimate, like Florida, New Mexico uses a joint consensus process where staff from the departments of Taxation and Revenue, Finance and Administration, and Highway and Transportation as well as staff from the Legislative Finance Committee develop the estimates. Further both the executive office and the Legislative Finance Committee (LFC) develop independent state budgets. The Legislative Finance Committee guides legislative approval of the budget and provides extensive budget recommendations drawing on performance evaluations conducted throughout the year.

The LFC, which is the primary mechanism for legislative oversight, was created in the 1950s and the committee is composed of 8 representatives from the House and 8 from the Senate. Party membership is in proportion to the number of seats held in the body overall. Chairmanship of the committee rotates between the House and Senate every two years. The Committee has 36 staff, of which 31 are analysts or auditors and had a budget of approximately $3.5 million in FY 2006.

The New Mexico performance-based budgeting system requires agencies to develop strategic plans and to identify key programs and performance measures. Agencies are encouraged to work jointly with their executive budget analyst as well as with staff from the LFC in developing these measures. Agency budget requests are required to include historical information about performance targets and all requests for changes to the budget must explain why amendments and additions will improve agency performance-based on identified performance measures. The information on performance information and performance targets is kept in a statewide database.

The Legislative Finance Committee develops an independent budget based on the agency requests and recommends both budget allocations and performance targets. The Committee also develops an extensive narrative about agency and program performance based on performance information as well as previous program evaluations. Examples of these documents can be found on the LFC webpage (http://legis.state.nm.us/lcs/lfc/lfcpublications. asp). When considering the budget, the legislature adopts both appropriations levels and performance targets, which technically have the force of law. At the end of the year, agencies submit an assessment to the database describing whether they managed to attain the requested performance targets. This information is then available to legislators and staff to assess agency performance. Performance measures themselves are evaluated for validity by LFC staff, but the LFC is still working on building the capacity to make such efforts more systematic.

## Texas

*Overview of the Reform*

In 1991, Texas revised its budget process. Previously, budgeting had been based on zero-based budgeting concepts. The 1991 budget reform required agencies to engage in a strategic planning process for a six year time horizon and to identify programs and performance measures in conjunction with this process. Programs and performance measures then link to budgeting and evaluation. The focus of this reform was to better integrate agency planning and decision-making with budget decisions. Key elements of the reform include:

- Agency development of six year strategic plans, in which they identify programs and program outcome, output, and explanatory measures;
- Integration of agency goals, objectives, and selected outcome, output and explanatory measures into the legislative appropriations requests (LARs);
- Reporting agency goals, objectives and selected performance measures in the budget documents;
- Program level appropriations;
- Legislative determination of performance targets as part of the budget process;

- Legislative Budget Board (LBB) assessments of agency progress towards performance targets;
- Department of Audits certification of performance measures.

*Legislative Role in Performance-Based Budgeting*

Although the governor does present a budget recommendation, the legislature, through the LBB, has primary responsibility for developing the actual budget. The LBB also has responsibility for evaluation of agency program performance. The LBB traces its roots back to a 1949 reform when state law was amended to require state agencies to submit their budgets to the Board for review. In 1973, the Board's mandate was expanded to include evaluation of agency programs. The LBB is governed by a ten member committee including the Lieutenant Governor and the Speaker of the House of Representatives who act as joint-chairmen of the Committee. The Chairman of the House Ways and Means Committee and the House Appropriations Committee and the Chairman of the Senate Finance Committee receive an automatic appointment to the board. In addition, two members of the House are appointed by the Speaker and three members of the Senate are appointed by the Lieutenant Governor. The LBB received approximately $9.17 million in appropriations for its operations in FY 2006 and employs around 136 staff.

Texas is considered to have one of the best performance systems overall, although the current governor is less supportive of the effort (Government Performance Project 2005b). In the Texas performance management system, agencies develop strategic plans based on LBB criteria. Programs are identified as "strategies" that are used to achieve agency goals and objectives, and programs provide the basis for budget allocations.

The LBB is also a central actor in Texas' biannual budget process. Prior to consideration of the budget, the Board issues budget instructions to the agencies, which typically include the requirement to report historical information on performance measures. Agencies submit their budget requests directly to the LBB and in addition, maintain performance information in the Automated Budget and Evaluation System of Texas (ABEST), which is available for review by legislators and staff. The LBB designates selected performance measures for each program in an agency, and these "key" measures are included in their budget recommendation along with historical information on the budget and performance. Over the years, legislators have become increasingly comfortable with using performance information as part of their debate over the budget (Bland and Clarke 2001), and the legislature sets performance targets in conjunction with the budget numbers as a part of the biannual budget bill. In interim years, the LBB assembles an assessment of fiscal action taken by the legislature as well as annual and semi-annual assessments of agency progress in meeting key performance targets. Copies of these reports can be found at the LBB webpage (http://www.lbb.state.tx.us/The_LBB/Access/Other_Documents.htm#Perform).

Also each year the Department of Audits identifies a set of agencies and audits their performance measures for validity and accuracy. In previous years, the Department found that only around 50 percent of agency measures met criteria for appropriate validity and accuracy.

## Conclusion

These cases provide a snapshot of what legislative oversight systems might look like in the context of a performance budgeting reform. Key similarities in these three states include:

- The linkage of agency strategic plans to budget processes;
- The designation of programs and performance measures for each program;
- A system for auditing the validity of program measures;
- Legislative designation of performance targets or standards;
- Legislative staff (or legislative agency) development of program evaluations, which are used to inform the budget process.

# Appendix

## Methodology

The basic model being tested looks at the effects of legislative and executive institutional variables on a series of survey-based measures that capture dimensions of performance-based management and budget reform implementation in each state. The question is whether the institutional variables have any effect on respondents assessment of the use of performance information in decision-making processes.

Tables A1-A3 describe the construction of the dependent variable indices, including the questions used in each index, and descriptive statistics for the index. Table A4 gives descriptive statistics for the binary variables used in the logit model assessing the influence of institutional variables on budgetary decision-making. Table A5 describes an index, "performance measurement basics," that is used to control for the initial effort to implement the reform in each state. The argument behind the inclusion of this variable is that some states might not truly be implementing performance-based reforms and thus the effects of other variables will tend to be weakened because respondents in these states are more likely to have a negative assessment of implementation. All the models were tested with and without this variable and the effects were the same, with some small variations. The general trend was that some independent variables lost a small amount of significance, which would follow from the argument that they are now absorbing the effects of states that never made a serious effort to implement the reform in the first place. Table A6 gives a description of all of the independent variables, the data sources, and where appropriate, a detailed description of how the variable was actually constructed.

All of the linear regression models use robust standard errors to correct for heteroskedasticity that might arise from having multiple respondents from the same state. Also, all of the variables were tested for intercorrelations that might create problems of multicollinearity. There is substantial multicollinearity between a number of variables; however, the danger of multicollinearity is that some variables that should be significant do not appear significant. To try to address this issue, most models are presented in reduced forms, dropping intercorrelated variables that do not themselves seem to have an effect on the overall model.

**TABLE A1. DEPENDENT VARIABLES CONSTRUCTION OF INDICES**

---Agency Staff---

**Index Measure of Effectiveness of PM in Improving Management (Effectiveness of Use):**

| In your opinion, how effective has the development and use of performance measure been in programs in your agency regarding: | 1 = not effective | 2 = somewhat effective | 3 = effective | 4 = very effective | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|---|
| Improving effectiveness of agency programs? | *8* | *68* | *52* | *17* | *2.36* | Alpha: .91 |
| Reducing duplicative services? | *34* | *71* | *31* | *6* | *1.92* | Avg: 2.49 |
| Reducing/eliminating ineffective services/ programs? | *36* | *70* | *30* | *6* | *1.90* | Std: .63 |
| Changing strategies to achieve desired results? | *6* | *62* | *60* | *16* | *2.41* | Min: 1.00 |
| Improving programs/service quality? | *6* | *76* | *45* | *17* | *2.32* | Max: 4.00 |
| Increasing awareness of and focus on results? | *2* | *52* | *59* | *32* | *2.63* | N: 135 |
| Increasing awareness of factors that affect performance results? | *7* | *51* | *61* | *25* | *2.53* | |

**Index Measure of Extent of Effective Use of PM in Management (Extent of Effective Use):**

| Based on what you have observed, please place a check to indicate the extent to which *output* or *outcome* performance measures are actively *used* by programs in your agency for the following types of activities or decisions: | 1= no programs | 2 = "a few select programs" *and* "less than 50% of programs" | 3 = greater than 50% of programs | 4 = all programs | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|---|
| Establishing or changing policies | *6* | *66* | *48* | *19* | *2.58* | Alpha: .84 |
| Program planning, annual business planning, or oversight activities, including programmatic changes | *6* | *58* | *55* | *26* | *2.70* | Avg: 2.63<br>Std: .66 |
| Assessment of program results | *5* | *55* | *47* | *37* | *2.81* | Min: 1.00 |
| Managing operations (e.g., managing services or contractors) or daily decisions (e.g., scheduling activities) | *14* | *68* | *42* | *12* | *2.38* | Max: 4.00<br>N: 129 |

**Table A2. Dependent Variables Construction of Indices**

**Budget Officers**

**Index Measure of Effectiveness of PM in Improving Management (Effectiveness of Use):**

| In your opinion, how effective has the development and use of performance measure been in agencies in your state regarding: | 1 = not effective | 2 = somewhat effective | 3 = effective | 4 = very effective | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|---|
| Improving effectiveness of agency programs? | *14* | *26* | *3* | *0* | *1.74* | Alpha: .88 |
| Reducing duplicative services? | *25* | *15* | *1* | *1* | *1.48* | Avg: 1.71 |
| Reducing/eliminating ineffective services/ programs? | *26* | *16* | *1* | *0* | *1.42* | Std: .49 |
| Changing strategies to achieve desired results? | *12* | *27* | *2* | *0* | *1.76* | Min: 1.00 |
| Improving programs/service quality? | *16* | *23* | *3* | *0* | *1.69* | Max: 2.71 |
| Increasing awareness of and focus on results? | *11* | *24* | *8* | *1* | *1.98* | N: 39 |
| Increasing awareness of factors that affect performance results? | *12* | *24* | *6* | *1* | *1.91* | |

**Index Measure of Extent of Effective Use of PM in Management (Extent of Effective Use):**

| Based on what you have observed, please place a check to indicate the extent to which *output* <u>or</u> *outcome* performance measures are actively *used* by agencies in your state for the following types of activities or decisions: | 1= no agencies | 2 = "a few select programs" *and* "less than 50% of agencies" | 3 = greater than 50% of agencies | 4 = all agencies | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|---|
| Establishing or changing policies | *5* | *28* | *8* | *4* | *2.24* | Alpha: .94 |
| Program planning, annual business planning, or oversight activities, including programmatic changes | *6* | *30* | *8* | *7* | *2.28* | Avg: 2.19<br>Std: .80 |
| Assessment of program results | *9* | *25* | *8* | *7* | *2.27* | Min: 1.00 |
| Managing operations (e.g., managing services or contractors) or daily decisions (e.g., scheduling activities) | *11* | *21* | *6* | *3* | *2.02* | Max: 4.00<br>N: 39 |

TABLE A3. DEPENDENT VARIABLES CONSTRUCTION OF INDICES

**Agency Staff**

**Index Measure of Use of Performance Information in Legislative Budget Process (Budget Index):**

| (Rate on a scale from 1 to 4, with 4 being strongly agree, or highly effective, and 1 being strongly disagree or not effective) | **1 = not effective** | **2 = somewhat effective** | **3 = effective** | **4 = very effective** | **Mean** | **Descriptive Statistics for Index** |
|---|---|---|---|---|---|---|
| Effectiveness of performance measures in changing the substance or tone of discussion among legislators about agency budgets. | *33* | *58* | *36* | *16* | *2.24* | Alpha: .84 |
| Effectiveness of performance measures in changing appropriations levels. | *49* | *59* | *28* | *6* | *1.93* | Avg: 2.33<br>Std: .62 |
| The substance or tone of budget discussions among legislators has changed to focus more on results with the implementation of performance measures. | *11* | *45* | *62* | *9* | *2.54* | Min: 1.25<br>Max: 4 |
| Some changes in appropriations are directly attributable to outcomes from the development and use of performance measures by agencies. | *10* | *44* | *63* | *10* | *2.57* | N: 120 |

**Budget Officers**

**Index Measure of Use of Performance Information in Legislative Budget Process (Budget Index):**

| (Rate on a scale from 1 to 4, with 4 being strongly agree, or highly effective, and 1 being strongly disagree or not effective) | **1 = not effective** | **2 = somewhat effective** | **3 = effective** | **4 = very effective** | **Mean** | **Descriptive Statistics for Index** |
|---|---|---|---|---|---|---|
| Effectiveness of performance measures in changing the substance or tone of discussion among legislators about agency budgets. | *21* | *14* | *4* | *2* | *1.68* | Alpha: .81 |
| Effectiveness of performance measures in changing appropriations levels. | *25* | *16* | *2* | *0* | *1.47* | Avg: 1.82<br>Std: .58 |
| The substance or tone of budget discussions among legislators has changed to focus more on results with the implementation of performance measures. | *7* | *18* | *14* | *3* | *2.31* | Min: 1<br>Max: 3.25 |
| Some changes in appropriations are directly attributable to outcomes from the development and use of performance measures by agencies. | *7* | *19* | *16* | *0* | *2.21* | N: 33 |

**TABLE A4. BINARY MEASURE OF USE OF BUDGETING INFORMATION (FOR LOGIT)**

| Agency Staff Only | |
|---|---|
| **PM Vital**: Performance measures are a vital decision aid regarding budget issues. (Rated on a scale from 1 to 4; coded for analysis with 1 for strongly agree/agree and 0 being disagree/strongly disagree) | Agree: 80<br>Disagree: 58<br>N: 138 |
| **Extent PM Use**: Extent to which performance measures are used in budgeting, including resource allocation or discussion about resource changes. (Coded as 1 for "all programs;" "greater than 50% of programs;" as 0 for "less than 50% of programs," "a few select programs," and "no programs.") | Less than 50%: 66<br>Greater than 50%: 82<br>N: 148 |

**TABLE A5. INDEPENDENT VARIABLE INDEX FROM MELKERS-WILLOUGHBY SURVEY**

**Agency Staff**

**Index Measure of Performance Measurement Basics (PM Basics):**

| (Rate on a scale from 1 to 3, with 3 being a significant problem, 2 being somewhat of a problem and 1 being not a problem.) | 1 = not a problem | 2 = somewhat of a problem | 3 = a significant problem | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|
| 1. Development of performance measures that accurately reflect program activities. | *16* | *85* | *47* | *2.21* | Alpha: .73 |
| 2. Collection of performance data. | *17* | *94* | *36* | *2.13* | Avg: 2.13<br>Std: .47 |
| 3. Maintenance of performance data. | *31* | *80* | *32* | *2.00* | Min: 1<br>Max: 3 |
| 4. Lack of understanding of how to use performance measures. | *17* | *87* | *44* | *2.18* | N: 143 |

**Budget Officers**

**Index Measure of Performance Measurement Basics (PM Basics):**

| (Rate on a scale from 1 to 3, with 3 being a significant problem, 2 being somewhat of a problem and 1 being not a problem.) | 1 = not a problem | 2 = somewhat of a problem | 3 = a significant problem | Mean | Descriptive Statistics for Index |
|---|---|---|---|---|---|
| 1. Development of performance measures that accurately reflect program activities. | *3* | *29* | *19* | *2.31* | Alpha: .82 |
| 2. Collection of performance data. | *4* | *28* | *19* | *2.29* | Avg: 2.3<br>Std: .51 |
| 3. Maintenance of performance data. | *7* | *24* | *19* | *2.24* | Min: 1<br>Max: 3 |
| 4. Lack of understanding of how to use performance measures. | *4* | *25* | *23* | *2.37* | N: 50 |

**TABLE A6. INDEPENDENT VARIABLES**

| Measure | Methodology | Source of Data |
|---|---|---|
| Days in Session Index | Based on King (2000); Following King's methodology, the "days in session index" was created by taking the total days in session, including special sessions, for the legislature during the 1998-99 biennium and dividing by two. Legislative days are counted as 7/5ths of a calendar day. This annual number is then divided by total days in session of the U.S. Congress for 2000. | U.S. Census (2005); The Council of State Governments (2000); U.S. Senate (2000); Congressional Quarterly (2000) |
| Legislators | Total number of legislators in the House and Senate for each state | The Council of State Governments (2000) |
| Legislative Term Limits | Binary variable if term limits as of 1997. | Rosenthal (1998), 75 |
| Expenditures Index/ Professional Legislature Index | Based on King (2000); the total for legislative expenditures came from the U.S. Census of Governments 2000(U.S. Census Bureau 2004). Total compensation per legislator was calculated by taking salary information which was added to per diem information multiplied times annual days in session (The Council of State Governments 2000, 83). Legislative expenditures less the legislative compensation total for all members was then divided by total number of legislators and then divided by average expenditures per member of the U.S. Congress less average congressional compensation. The Professional Legislature Index was created by taking the staff index and averaging it with the expenditures index. | U.S. Census (2000); Congressional Quarterly (2000) |
| Staff Index | Number of staff in 2003 divided by average number of U.S. Congressional staff per legislator in 2003; NCSL only has counts for 1996 and 2003 | National Conference of State Legislatures (2003); Congressional Quarterly (2000) |
| Legislative Oversight | Coded as 1 if respondents identified a legislative audit office or budget office as verifying performance information. | Melkers and Willoughby Survey Dataset |
| Legislative Bill | Coded as 1 if state had passed a legislative bill implementing a performance management reform in 2000 | Melkers and Willoughby (2004) |
| Shared Responsibility for Budgeting | Coded as a 1 if responsibility for budgeting is shared between the executive and legislative branches, 0 if process is executive driven. | U.S. Census, The Council of State Governments (2000) |
| Gubernatorial Power | Used Beyle Index of Governor's Institutional Power for 2000, which includes scale measures (1 to 5) capturing governor's control over the budget, veto powers, appointment powers, tenure, and political control | Beyle (2003) |
| Executive Oversight | Coded as 1 if respondent identified executive audit office or budget office as verifying performance information | Melkers and Willoughby Survey, Dataset |

*Table A6 continues on next page…*

**TABLE A6 (CONTINUED). INDEPENDENT VARIABLES**

| Measure | Methodology | Source of Data |
|---|---|---|
| PM Basics | Combines two questions that asked respondents to determine if their agency had a "significant problem", "somewhat of a problem," or "no problem" with the collection of performance data and maintenance of performance data (alpha 0.85). The variable is coded as a three for "significant problem" so one would predict a negative association with the dependent variables measuring effective managerial use of performance measures. | Melkers and Willoughby Survey Dataset |
| Extent PM | Takes a single question asking the extent of "use of performance measures" across agencies and divides it into a binary variable for those respondents who indicated that greater than 50 percent of their agencies used performance measures and those who indicated that less than 50 percent use performance measures. | Melkers and Willoughby Survey Dataset |
| Split Legislative Control | Binary variable reflecting different party control of the House-Senate chambers | U.S. Census, The Council of State Governments (2000) |
| Citizen Ideology Index | Used Berry, Ringquist, Fording and Hanson measures for 2000. | Berry et al. (1998) |
| Government Ideology Index | Used Berry, Ringquist, Fording and Hanson measures for 2000. | Berry et al. (1998) |
| Expenditures, Population, and Heterogeneity Measures | Taken from U.S. Census 2000 measures; based on identification of key measures of heterogeneity in (Koetzle 1998). | U.S. Census (2000) |

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## About the Author

**Carolyn Bourdeaux** is an Assistant Professor who works in the areas of public finance and governance at the Andrew Young School of Policy Studies at Georgia State University. Her recent research has focused on performance-based management and budgeting. Her previous research has included a report on tax allocation districts in Georgia and the implications of using special district governments to develop infrastructure intensive services.

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