PERFORMANCE BASED BUDGETING REQUIREMENTS IN STATE GOVERNMENTS

Introduction

What are state agencies required to do with respect to performance measurement and performance budgeting? This Policy Brief, which is based on research presented in Melkers and Willochby (1998), addresses the trend toward improving performance in state government through the use of performance-based budgeting (PBB). We define PBB as requiring strategic planning regarding agency mission, goals and objectives and a process that requests quantifiable data that provides meaningful information about program outcomes. PBB may also require an assessment of agency progress toward specified targets.

Results: Legislated PBB in the States

Florida, Louisiana, Minnesota, Oregon, and Texas are among the most well-known states regarding application of performance-based budgeting and management activities (Broom and McGuire, 1995; CBO, 1993; GAO, 1993a, 1993b). But our research shows that performance-based requirements are widespread at the state-level. Findings on legal requirements across states indicates that 62 percent (31 states) have legislation that requires PBB, as defined in the introduction, to be conducted. Approximately 32 percent (16 states) have some form of PBB instituted by administrative requirements, such as through budget instructions or guidelines. Table 1 shows that only three states, Arkansas, Massachusetts, and New York do not have either type of mandate to conduct PBB.

Defining Performance

What constitutes “performance” varies to some extent from state to state. Typically, this variation involves different specifications of the type of performance information that is required by the law. Terms such as input, process, output, outcome, effectiveness and efficiency are used in the context of performance measurement across the states. Wyoming is the only state in which legislation specifies that performance measures be based on the Government Accounting Standards Board (GASB) definitions for measuring agency accomplishments. North Carolina’s Office of State Planning (North Carolina OSP, 1997) describes a process of performance planning as an avenue for “agencies to evaluate whether programs are doing the right thing (effective) and in the right way (efficient).”

This statement is illustrative of an important component of current PBB. The link between agency activities and actual outcomes constitutes performance. States vary, however, in the detail of their specification of the relationship of measures to goals, objectives, and mission statements. For example, Nevada’s legislation states only that budget documents must contain a “mission statement and measurement indicators for each program.”
On the other hand, Texas has performance measurement requirements that provide explicit guidelines for state agencies to define six-year strategic plans for their programs along with their budget requests. These plans include agency goals, objectives, outcome measures, strategies, output measures, and efficiency measures.

For some states, the relationship of performance measurement to the quality of government services is defined. For example, in 1994, Washington passed the Government Performance and Accountability Act (ESB6601), which indicates that the state "have clear measures of performance that will result in quality customer service, accountability for cost-effective services, and improved productivity." Later legislation calls for agencies to institute PBB — "agency budget proposals must include integration of performance measures that allow objective determination of a program's success in achieving its goals" (ESHB6680, section 10).

Performance Measures And Strategic Planning

Sixteen of the 31 states with PBB legislation link performance measures and strategic planning in the law (see Table 1). In addition to these, Hawaii, Iowa and Oregon make reference to long term planning, but not specifically strategic planning. In Virginia, requirements for linking performance measures are contained in the state code and the budget bill. The executive memorandum establishing performance-based budgeting also contains language about strategic planning. For most of the 16 states that refer to strategic planning, such plans are defined in the legislation along with requirements for performance budgeting.

Arizona spotlights strategic planning in its 1995 budget reform legislation — it will phase 75 programs into the Program Authorization Review process that requires development and presentation of performance measures. The Office of Strategic Planning and Budgeting, and the Joint Legislative Budget Committee must then review agency self assessments that include background information, program funding, strategic plan, performance measures and performance results. In its 1994 Appropriations Act, Vermont directs state agencies, departments, office, or programs to include a strategic plan in their budget. The strategic plan is to include a mission and goals statement and a description of the indicators used to measure output and outcome. The related budget instructions distributed by the Vermont Secretary of Administration, provide additional directions on how outcome and output indicators should be defined and described. The instructions also ask for a narrative description from agencies which defines the rationale of how the program will achieve its objectives. In 1994, the Mississippi Performance Budget and Strategic Planning Act was passed that requires appropriation bills to include performance targets and data that is maintained by state agencies. Finally, Wyoming reports that performance measures have been successfully integrated into its budget process. In 1994, legislation was passed requiring the development of methods and criteria to measure agency performance. This includes requirements for a five-year "strategic approach."

Benchmarks

Oregon has been influential in popularizing the introduction of benchmarks at the state level. "Oregon Benchmarks are the measurable indicators that the state uses to assess its progress toward broad strategic goals" (Oregon Progress Board, 1994). Which states are making progress in using benchmarks in their PBB efforts as Oregon has done? Of the 31 states with performance-based legislation, six specify the use of benchmarks, including: California, Connecticut, Iowa, Oregon, Texas, and Washington.

Other states take a participatory approach to benchmark identification. As part of their "Budgeting for Results Initiative" in Iowa, communities volunteer to be "Benchmarking Communities." This involves developing community-specific benchmarks. Overall, 15 benchmarks have been developed in three policy priority areas. The Iowa model has relied heavily on public participation — the actual benchmarks were to be developed using public opinion surveys.

Although they do not specifically refer to benchmarking, a few states do indicate the need for comparison data in their legislation. Florida's legislation calls for baseline data. In Minnesota, performance is to be shown relative to previous four years and projected two years. Idaho's recent statute requiring performance plans also requires agencies to provide "historical, comparative report of its performance and plans compared to its performance standards and measures."

Benchmarks can be difficult to identify for agencies that are not comfortable with tracking performance and identifying reasonable targets. Nevertheless, some states are planning to institute benchmarking at a later date. This sort of incremental approach is not uncommon.
Implementing PBB

Performance-based legislation in the states varies in the specification of requirements, processes, and responsibilities involved in implementing PBB. Some legislation provides timelines for development of the measures as well as parties who are to be involved in the process. Other states are only at the stage where they have established the budget format, but have yet to work out the details. Comparison of legislation across the states indicates that several require comprehensive application of PBB in all agencies and departments, while others have identified pilot areas for initial implementation of the performance requirements.

In most cases, legislation assigns the responsibility for identification of the performance measures to agencies. Legislation regarding the executive budget in Hawaii specifies that agencies develop measures of effectiveness and identify planned levels of effectiveness over a six-year period within the program structure. Connecticut stresses a participatory approach to the identification and development of performance measures with input required from agencies, other providers, and consumers of government services.

In the State of Rhode Island, the 1996 Appropriations Act indicates that the governor will recommend "appropriate standards" against which to measure agency performance. The governor is to submit performance objectives and data for all state programs. The Act does not specify the process for identifying the measures or standards.

The approach of agency direction and involvement in the development of performance measures seems to be the norm in many states. For example, in Idaho, a statute directs all state agencies to prepare an annual performance plan, which includes performance measures and standards, in the agency’s budget request. The law is specific in requiring performance measures that are “objective, quantifiable, and measurable.” Each program is to have relevant outcome and output measures. A similar statute was passed in South Carolina.

Incentives and Disincentives For Performance

Only seven states with legislated PBB provide explicit guidelines for actual agency attainment, or non-attainment of goals and objectives. These are guidelines that offer "rewards" to public managers to strive for and attain the performance goals that they have identified in their strategic planning or other process. Table 2 summarizes these guidelines. Financial rewards in the form of gain sharing or a proportion of savings are afforded to agency personnel in California, Florida, Georgia, and Texas. Mississippi adds public commendation with a monetary reward for cost-savings; Louisiana provides incentives through an existing employee incentive program.

Only two states, Florida and Texas provide specific verbiage related to adverse actions for noncompliance. The Texas 1996-1997 General Appropriations guidelines state that if an agency fails to meet its goals, the Legislative Budget Board and the Governor may adopt a budget execution order, which may result in the "reduction, elimination, restriction, or withholding of funding or...transferability," in addition to possible reorganization. Florida prescribes a number of budget execution and management restrictions in the event of poor performance, which is not defined.

Issue of Oversight

A few states have created offices to assist in the performance measurement process. Oregon is well known for its Oregon Progress Board, which is responsible for the development and tracking of benchmark information for the "Oregon Benchmarks.” In Connecticut, the Connecticut Progress Council was created in 1992 to “develop a long-range vision for the state and define benchmarks to measure progress to achieve the vision” (Connecticut P.L. 93-387). In Georgia, The Budgetary Responsibility and Oversight Committee (BROC) was established to provide guidance in performance-based efforts. BROC also conducts its own evaluations. This office is similar to the Joint Legislative Commission on Budget and Program Oversight in the State of Oklahoma.

Florida’s Government Performance and Accountability Act legislates that PBB be piloted in several agencies, with all agencies participating by the year 2002. This law creates several bodies to support PBB in the state. These include the Office of Program Policy Analysis and Government Accountability within the Office of the Auditor General to assist in the evaluation, justification, and audit of agency programs operating in the PBB system. The law also creates a Commission on Government Accountability to the People made up of gubernatorial appointees. Aligned with the Executive Office of the Governor, the Commission receives input from the public related to agency performance, assesses agency progress in meeting goals, and
Table 1. Performance-Based Budgeting Legislation and Initiatives in the States

<table>
<thead>
<tr>
<th>PERFORMANCE-BASED LEGISLATION</th>
<th>OTHER PBB INITIATIVES</th>
<th>NO (Centralized) PBB INITIATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama(^1)</td>
<td>Mississippi(^1)</td>
<td>Alaska</td>
</tr>
<tr>
<td>Arizona</td>
<td>Montana</td>
<td>Colorado</td>
</tr>
<tr>
<td>California(^{1,2})</td>
<td>Nevada</td>
<td>Indiana</td>
</tr>
<tr>
<td>Connecticut(^{1,2})</td>
<td>North Carolina</td>
<td>Kansas</td>
</tr>
<tr>
<td>Delaware(^1)</td>
<td>Ohio</td>
<td>Maryland</td>
</tr>
<tr>
<td>Florida(^1)</td>
<td>Oklahoma</td>
<td>Michigan</td>
</tr>
<tr>
<td>Georgia(^1)</td>
<td>Oregon(^2)</td>
<td>Missouri</td>
</tr>
<tr>
<td>Hawaii</td>
<td>Rhode Island</td>
<td>Nebraska</td>
</tr>
<tr>
<td>Idaho(^1)</td>
<td>South Carolina</td>
<td>New Hampshire</td>
</tr>
<tr>
<td>Illinois</td>
<td>South Dakota(^1)</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Iowa(^2)</td>
<td>Texas(^{1,2})</td>
<td>New Mexico</td>
</tr>
<tr>
<td>Kentucky(^1)</td>
<td>Vermont(^1)</td>
<td>North Dakota</td>
</tr>
<tr>
<td>Louisiana(^1)</td>
<td>Virginia</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>Maine(^1)</td>
<td>Washington(^{1,2})</td>
<td>Tennessee</td>
</tr>
<tr>
<td>Minnesota</td>
<td>Wisconsin</td>
<td>Utah</td>
</tr>
<tr>
<td></td>
<td>Wyoming(^1)</td>
<td>West Virginia</td>
</tr>
</tbody>
</table>

\(^1\) = strategic planning mentioned in legislation; \(^2\) = benchmarks mentioned in legislation

Table 2. Incentives and Disincentives for Performance: Legislative Guidelines

<table>
<thead>
<tr>
<th>STATES</th>
<th>INCENTIVES</th>
<th>DISINCENTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>Gain sharing. Rewards to innovative cost-</td>
<td>Not specified</td>
</tr>
<tr>
<td></td>
<td>saving agencies</td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td>Increased budget, personnel flexibility,</td>
<td>Mandatory quarterly reports on progress, quarterly appearances, elimination or</td>
</tr>
<tr>
<td></td>
<td>retention of unencumbered appropriations,</td>
<td>restructuring of program, retention of total positions, restriction or</td>
</tr>
<tr>
<td></td>
<td>employee bonuses, resources improvements</td>
<td>reduction of positions, reduction of managerial strategies</td>
</tr>
<tr>
<td>Georgia</td>
<td>Financial incentives</td>
<td>Not specified</td>
</tr>
<tr>
<td>Illinois</td>
<td>Financial rewards to employees (not mgt) in</td>
<td>Not specified</td>
</tr>
<tr>
<td></td>
<td>return for cost savings</td>
<td></td>
</tr>
<tr>
<td>Louisiana</td>
<td>Incentives encouraged by the State Employees</td>
<td>Not specified</td>
</tr>
<tr>
<td></td>
<td>Incentive Award Committee through the incentive program authorized by R.S. 39.366.1</td>
<td></td>
</tr>
<tr>
<td>Mississippi</td>
<td>Public commendation and monetary reward for</td>
<td>Not specified</td>
</tr>
<tr>
<td></td>
<td>cost-saving measures</td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td>Increased funding, exemption from reporting</td>
<td>Evaluation of outcome variables for remedial plan, reduction, elimination,</td>
</tr>
<tr>
<td></td>
<td>requirements, increased funding transferability, formalized recognition or accolade, awards or bonuses, expanded responsibility or expanded contracting authority</td>
<td>restriction or withholding of funding, reduction of funding transferability, transfer of functional responsibility to other entity, recommendation for placement in conservatorship</td>
</tr>
</tbody>
</table>
makes recommendations to enhance their productivity. A newly created State Council on Competitive Government works with the above mentioned offices to consider privatization initiatives within public agencies. Finally, this law creates a State Innovation Commission to assess innovative projects, and delineate cost savings and improvements resulting from such innovation. This Commission evaluates projects and makes recommendations to a review board of private and public members which then recommends which projects should be funded. The Department of Management Services monitors and evaluates implementation of these projects to determine if anticipated results are achieved.

Non-Legislated PBB Initiatives

While the majority of states (31) have legislated some form of performance-based budgeting, they do not represent the only PBB initiatives in the states. Sixteen states have non-legislated, yet formalized processes for integrating performance measures and data in the budgetary process.

States with non-legislated initiatives vary in the specificity of the performance measures to be integrated in agency budget requests. Some states, such as Colorado, Indiana, Maryland, Missouri, Nebraska, New Mexico, and Pennsylvania make a clear distinction between workload, efficiency, quality, impact and outcome measures. Others, such as Alaska, Michigan, New Hampshire and New Jersey refer to "measures of performance," "program effectiveness," "program measurement," or "evaluation data." Like the states with PBB legislation, some also have developed oversight bodies to assist in the performance-based process. Missouri, for instance, has made a first step in moving toward performance management with the Commission on Management and Productivity Implementation Order, passed by the governor in 1995.

For some of these states, strategic planning initiatives may be part of a movement toward performance-based management. Several states pay particular attention to strategic planning processes and refer to performance measures in a strategic planning context. In Utah, the state code (Title 36, 1995) established the Utah Tomorrow Strategic Planning Committee, which is made up of agency heads and legislators. This Committee was established to help agencies develop objectives and goals in their strategic planning efforts. While this legislation makes no reference to performance measures, the Utah Tomorrow 1996 annual report includes performance measures which correspond to goals for ten key areas — culture, economic development, education, environment and natural resources, free enterprise and regulatory systems, government, health and safety, human services, infrastructure, and justice. Task groups were formed that define goals, objectives, and performance measures for each area.

Overall, the states with administrative requirements for PBB do not appear to differ significantly in their directions from the states with legislative ones. The administratively-driven efforts are, however, not necessarily as recent as the legislated efforts. For example, for the past 25 years, Pennsylvania has maintained a program budgeting format which requires long-range planning and performance measurement.

Conclusion

The major findings from this research are:

- Most states have adopted a formal requirement for performance-based budgeting.
- There does not seem to be a major difference between legislatively or administratively initiated reforms.
- A number of states have created oversight bodies with responsibilities once the purview of the central budget office.
- There is a commitment to continued development of performance measures and a willingness to revise the use of PBB systems given their place within the larger efforts of strategic planning and benchmarking activities.
- States see the importance of clearly defining the producers and consumers of information and providing an appropriate incentive strategy for the use of performance-based information, particularly by recognizing the role of the public in assessing agency performance.
- Some states have established formal incentive programs to support enhanced agency performance.
- States recognize the importance of involvement from agency personnel and outside sources concerning development of performance measures.
Ultimately, the effects on appropriations and influence on programs and activities is the real test of the success of PBB in the states.

References


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For a free copy of the study from which this Policy Brief is drawn, or any of the other publications listed, call the Fiscal Research Program at 404/651-4342, or fax us at 404/651-2737.

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