Using Goals, Targets and Performance Information to Inform Budget Decisions

Lessons from Other States

Improving California's Budget-Making Process

Numerous states – including California – have made progress in defining goals, setting targets and using information on performance to guide decision-making. But California has not consistently used that information to inform budget decisions. In education, the state has established educational goals, standards, testing requirements and other strategies to better understand the achievements of California's school systems. Yet information on the performance of K-12 schools – with some exceptions – is not used to determine how funding is allocated, where organizational or management reforms are needed or how policies should change. The focus of attention often is on the amount of cost of living adjustment that will be applied to school district revenue limits.

The federal government has mandated a series of performance outcomes that cover the operation of several social services programs. Although some progress has been achieved in measuring the performance of state programs, there is no consistent requirement that program outcomes be integrated into the California budget-making process.

Lessons Learned From other States

Using the budget process to measure progress toward goals. In many states, the governor and the legislature have put in place clearly defined goals linked to performance information that allows the public and policymakers to assess progress. The budget process typically starts with the governor articulating performance targets for the year and aligning dollars to those goals. The call might be to reduce violent crime, increase employment, and achieve higher graduation rates from high schools, colleges and universities. Performance information allows public officials and advocates to assess the adequacy of declared goals, whether progress toward those goals is sufficient, and the impact that more or less funding in the upcoming fiscal year would have on that progress.

Monitoring program improvement over time. Putting in place goals and performance measures can be complicated and require a significant investment in data collection, analysis and reporting. However, many agencies and departments already collect information on the programs they administer. This information could simply be applied to measuring program performance tied to budgetary decisions. Few states can immediately begin performance reporting. Many public

agencies instead report progress over time. For some, progress may mean providing services to more residents than in the year before. For others, it may mean reducing the costs of services so limited dollars cover more needs. Still other agencies track how quickly the job gets done – whether that is repairing roadways, solving crimes, or helping injured workers heal and return to the workforce. Information on whether public services are improving can help policymakers determine where more money is justified and where reforms may be required.

The State of Washington

In Washington State, the Governor publishes proposals for each of the three budget bills in December and submits them to the Legislature in January. The Legislature holds hearings, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for action.

Using performance information and forecasts in budgeting. Much like California, departmental and agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). OFM staff evaluates departmental budget requests during the fall and make recommendations to the Governor.

Washington has integrated its use of performance measures into budgeting decisions. Prior to review by OFM, departments and agencies develop strategic plans to guide resource requests. Referred to as the "Priorities of Government (POG) process," this procedure allows departments and OFM to frame the Governor's budget proposals around specific goals. For each program, the state establishes goals with targeted outcomes and measures to assess performance. This approach gives OFM the information it needs to assess budget requests. Unlike California – where the budget process focuses on whether state agencies will receive a marginal increase or decrease from their previous year's base funding – the budget process in Washington is goal driven. Budget decisions are designed to help program managers understand and focus on objectives, and ensure sufficient and efficient funding to meet those objectives.

Observations. Washington has been able to sustain its performance approach to budgeting because it has become part of the culture of budget development and political deliberation. Beginning with the administration of Governor Gary Locke in 1996, Washington has employed a performance-based budgeting and a forecasting strategy. Washington's approach to budgeting enabled Governor Locke to confront a $2 billion shortfall during the 2002-03 biennium. His response to the shortfall was to review the performance of state programs and to establish priorities that guided which programs received full funding and which were considered for reductions. Locke's approach to budgeting has been sustained by subsequent administrations. That culture has allowed the state to avoid one of California's pitfalls: budgeting that begins with the notion that programs will receive regular annual increases. Instead, in Washington, the budget process begins with a discreet discussion of programs goals and how resources will be used to achieve those goals.

The State of Florida

Florida's lead budget agency is the Office of Planning and Budgeting (OPB) within the Executive Office of the Governor. The OPB reviews agency funding requests and prepares the Governor's Budget Recommendations, which are submitted to the Legislature. In preparing budget recommendations, state agencies and the OPB include information on proposed programs, performance standards and performance measures for those programs.

As a counterpart to the Office of Planning and Budgeting, Florida's legislative branch includes the Office of Program Policy Analysis and Government Accountability (OPPAGA). OPPAGA is similar to California's Legislative Analysts' Office, but its primary role is to oversee the integration of performance measures into the budget-making system.

Using performance information and forecasts in budgeting. The Florida legislature established a performance-based budget process to link funding to the products, services or results that each agency provides. Under the Florida budget system, agency budget requests include specific funding levels, but also include information on the level of work or service that will be performed and the outcomes that funding will support. The Legislature also establishes performance targets for outcomes and outputs, and those targets are included in Florida's General Appropriations Act or other implementing legislation. Agencies then report their actual performance in their long range program plans and budget requests for the following fiscal year. Agencies may be given incentives for performance exceeding standards or disincentives for performance that falls below standards. These incentives and disincentives can be monetary and non-monetary. For example, stellar performance might result in performance bonuses for employees and managers, or a department could be granted increased flexibility in how it uses limited public funding.

Through its role in adopting the appropriations act, the Legislature reviews and approves expenditure levels for agency programs, performance measures, and performance standards. Information on each program, measure and standard is incorporated in the state's budget act or subsequent implementing legislation. Typically, substantive legislative committees approve proposed programs and measures, while appropriations committees approve funding levels and performance standards.

Observations. Perhaps the most compelling aspect of the Florida budget process – with regard to opportunities for reform in California – is the role of the Office of Program Policy Analysis and Government Accountability. OPPAGA has a central role in the implementation of the state's performance-based budgeting system. OPPAGA's focus on performance strategies creates a venue to focus management, staff training and capacity building around the performance of public programs.

What Have we Learned?

Washington and Florida have each developed similar strategies to inform budget decisions and infuse performance information into fiscal deliberations. The availability of performance information is not an antidote to politics or the pressures of influential special interests. Yet each state has put in place organizational or procedures practices that could offer guidance to efforts to improve California's budget process.

The general conclusion is that the states of Washington and Florida focus the budget-making process on program performance. These states have moved away from baseline budgeting – standard practice in California – which focuses budget decisions on the marginal increase or decrease that departments will receive upon last year's allocation. In each state, emphasis on performance allows administrators and budget staff to discuss progress toward goals, as reflected in specific performance measures, enabling a range of discussions on how best to use additional funding, organizational reform or alternate management strategies to achieve performance improvements.

In reviewing the characteristics of budget practices in Washington and Florida, the lessons learned include:

- Assign responsibility for the use of performance information and its application to expenditure decisions to a lead executive agency. In California, the Department of Finance would logically assume that responsibility.
- Establish an ongoing process for building and ensuring agreement between the executive and legislative branches on goals, performance measures, data points and expectations for progress toward goals.
- Integrate performance information, performance measures and data analysis into the preparation of budget materials, legislative decision-making and oversight. In California, the Legislative Analyst, and the budget committees, in partnership with the Department of Finance and agency secretaries, should be engaged in developing those strategies.
- Develop metrics or other tools to assess the effectiveness of budget decisions and identify fiscal, management or organizational options for improving effectiveness.