

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN BUILDING
MAJORITY CAUCUS ROOM

TUESDAY, OCTOBER 25, 2016
8:30 A.M.

PRESENTATION ON SENATE BILL 1341

BEFORE:

HONORABLE WILLIAM ADOLPH, JR., MAJORITY CHAIRMAN
HONORABLE KAREN BOBACK
HONORABLE GEORGE DUNBAR
HONORABLE KEITH GREINER
HONORABLE SETH GROVE
HONORABLE SUSAN HELM
HONORABLE WARREN KAMPF
HONORABLE FRED KELLER
HONORABLE JIM MARSHALL
HONORABLE KURT MASSER
HONORABLE DAVID MILLARD
HONORABLE MARGUERITE QUINN
HONORABLE CURTIS SONNEY

HONORABLE JOSEPH MARKOSEK, DEMOCRATIC CHAIRMAN
HONORABLE TIM BRIGGS
HONORABLE DONNA BULLOCK
HONORABLE MARK JO DALEY
HONORABLE MADELEINE DEAN
HONORABLE MARIA DONATUCCI
HONORABLE PATTY KIM

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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts online.)

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P R O C E E D I N G S

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MAJORITY CHAIRMAN ADOLPH: Good morning, everyone.

I would like to call to order the House Appropriations informational hearing on Senate Bill 1341.

If we could just go over a couple of housekeeping rules. For those testifiers and members and the public, if you would just take a minute and check your cell phones and any other electronic equipment that you may have, turn it off, because this hearing is being televised by PCN and it interferes with their broadcast.

I want to call this information hearing to order. Today's hearing, as I mentioned, is about Senate Bill 1341, which had been referred to this committee as a standing committee.

Senate Bill 1341 proposes to create a performance-based budget mechanism in Pennsylvania. The legislation would direct the Independent Fiscal Office to develop performance-based budget plans and performance measures for agencies subject to a performance-based budget review. It establishes the Performance-based Budget Board as an independent board

1 to review and approve performance-based budget plans and
2 to make recommendations on how each agency of the state
3 operations and programs may be made more transparent,
4 effective, and efficient. The board is to be comprised
5 of the Secretary of the Budget and the majority and the
6 minority chairs of the House and Senate Appropriations
7 Committees.

8 This legislation was introduced by our
9 first testifier, Senator Mensch, on July 11th and was
10 amended in the Senate Appropriations Committee on
11 Monday, September 26th. And it passed the full Senate
12 on Wednesday, September 28th, by a vote of 33 to 17.
13 This legislation was then referred to our committee on
14 October 3rd.

15 This legislation is indeed a very
16 important step, but also very complex, and would alter
17 some of the budget processes.

18 I agree with the intent of this
19 legislation. Obviously, I won't be here next year, but
20 many of you will be. Therefore, I thought it was a good
21 idea to allow you to get some basic knowledge of this
22 very, very important proposal.

23 Today, we're going to have Senator
24 Mensch, Secretary of the Budget Randy Albright, and the
25 IFO Director, Matt Knittel. Each testifier will be

1 given a 30-minute slot with room for opening remarks and
2 a question-and-answer period.

3 This room, we have until 10 a.m. The
4 Judiciary Committee will then come in with their public
5 hearing.

6 Senator Mensch, who I've known for quite
7 sometime right now, represents the 24th Senatorial
8 District. And, Senator, welcome. Welcome back to the
9 House of Representatives.

10 SENATOR MENSCH: Chairman, thank you.
11 It's good to be back.

12 MAJORITY CHAIRMAN ADOLPH: The time is
13 yours.

14 SENATOR MENSCH: Well, thank you and good
15 morning to you, Chairman Adolph, and you, Chairman
16 Markosek. It's good to be back with old friends. And
17 so many of the old faces, Karen, Representative Boback,
18 who helped me a great deal on a breast cancer density
19 bill. Thank you.

20 But today we're here to talk about the
21 performance-based budgeting. And by the way, Bill, with
22 me is Matt Azeles from my office, who is my legislative
23 director.

24 MAJORITY CHAIRMAN ADOLPH: Welcome.

25 SENATOR MENSCH: He's here with a life

1 line if there is a question that I'm not able to answer.
2 But I think that your description was very appropriate,
3 so let me just add a few additional comments rather than
4 go through the mechanical description you already did.

5 It's been said that we have a process in
6 place in Pennsylvania, and of course, we all know that
7 we do, the appropriations process. But we -- a man that
8 we all knew and respected, Sam Smith, used to say, "When
9 you're in a hole, stop digging, throw the shovel away."

10 We're at a point now in our budget
11 looking at the deficits for next year. We're in a
12 position where I think we need to find a new way of
13 going about the budget process. And to use Sam's
14 analogy, I think we have to begin to fill in the hole.
15 We can't keep digging the hole even deeper.

16 Our process today pretty much rewards
17 every line item continued success in the budget and we
18 don't do a lot of scrutiny of the performance of a
19 particular line item. And I think we have an
20 accountability, I think we have a responsibility to the
21 taxpayers, our employers, to be able to assess more
22 effectively each of the line items and begin to
23 understand whether or not the money that we're
24 allocating to a particular project or a particular issue
25 has a positive return. Is it getting the result that we

1 want? So performance-based budgeting is the beginning
2 of that.

3 There is a companion bill, or a
4 complementary bill, that presently sits in Senate
5 Appropriations by Representative Dunbar, which is
6 Results First. It's a process out of the PEW
7 Foundation. We met with PEW earlier when we were doing
8 our work and we are of the mind that they are both very
9 complementary processes.

10 The Results First is a little bit more
11 anecdotal. It uses some comparative anecdotal
12 information between states. We would like to use more
13 measurable and calculated data to be able to measure.
14 Those are the two significant differences, but I think
15 that they could work together very well. And with it,
16 we would begin to give our Appropriations Committee
17 members better tools to evaluate the proposals.

18 You know, I've sat through a number of
19 Appropriations hearings through the years and we often
20 talk more about emotion than we do about fact and we
21 make a lot of emotionally-based decisions. But we are
22 dealing with billions of our taxpayers' dollars. Now, I
23 think it's time that we get beyond just that emotional
24 understanding of what we want to do and we have to begin
25 to quantitate it in a way that we know that the money

1 that we are allocating on behalf of our taxpayers is
2 getting the return that we expect.

3 So with that, Mr. Chairman, I would be
4 happy to take any questions.

5 MAJORITY CHAIRMAN ADOLPH: Thank you,
6 Senator.

7 Chairman Markosek for opening comments.

8 MINORITY CHAIRMAN MARKOSEK: Thank you,
9 Chairman Adolph.

10 And welcome, Senator. Welcome, sir.

11 SENATOR MENSCH: Good to see you.

12 MINORITY CHAIRMAN MARKOSEK: Good to see
13 you again and hope everything is going well for you.

14 SENATOR MENSCH: It is.

15 MINORITY CHAIRMAN MARKOSEK: I want to
16 just echo a little bit of some of the items that
17 Chairman Adolph mentioned relative to this. And I,
18 quite frankly, don't know a whole lot about this whole
19 process, so I'm here to learn and listen and learn, just
20 like I think a lot of our members are.

21 Talking to my staff, we have looked at
22 this type of budgeting in the past somewhat extensively.
23 And I think it was all more or less put on a shelf back
24 then, and here we are a number of years later, and it's
25 in front of us again as a potential way to do things.

1 I was -- I noticed that your bill sets up
2 a board of which possibly I would be a member of, as
3 well as the other chairs of the Appropriations
4 Committees and the Secretary. It's not a mandatory --
5 whatever comes out of that board is not mandatory. So
6 whatever we do is something that we may or may not --
7 whatever that board would come up with is something that
8 we may or may not actually follow.

9 My question is -- and again, maybe being
10 a budget person, you know -- the costs of putting this
11 together. I think the fiscal note, if I'm not mistaken,
12 correct me if I'm wrong, from the Senate was around
13 \$400,000, which was, I think had to do a lot with what
14 the IFO would need to up, beef up their staff to do
15 this. But there was no mention of what it would cost
16 each of the agencies who would also have to be part of
17 this, to do the appropriate studies and take a look at
18 the various aspects of this, in doing it.

19 Do you have any figures for that or
20 potential figures for that? Because there would be a
21 cost over and above what the IFO would have.

22 SENATOR MENSCH: You raise a number of
23 very good points, Joe, if I can address them.

24 First is forgetting any of the -- let me
25 comment first to the previous processes that may have

1 been proposed.

2 In my 10 years in the legislature, I'm
3 not aware, but the difference between performance-based
4 budgeting and anything that might have been proposed
5 before is that we are going to use the IFO to help
6 establish the metrics. Heretofore, in various states
7 across the nation, there's very often a self-assessment.
8 So a committee will get together and they'll establish,
9 well, we're going to achieve this goal. And after 365
10 days, they get together and say, "Okay, we achieved it."
11 But there's nothing measurable against that.

12 We would like to begin to use indexes
13 that exist across the nation to be able to evaluate the
14 effectiveness of a program.

15 You know, in a business, they look at
16 liquidity, leverage, activity, profitability ratios
17 almost on a daily basis, if it's a large enough
18 business. But every business at some point wants to
19 understand how they stack against the other companies in
20 their industry. And they use very public information
21 out of Standard & Poor's or some other publication that
22 they can benchmark. We want -- this would begin to put
23 that process in place. So it becomes more definitive,
24 more defined in the process.

25 As far as the cost is concerned, the

1 IFO -- well, let me talk about the IFO a bit more first.

2 The IFO would, is another new component,
3 something that hasn't been done before here or almost
4 anywhere else in the nation.

5 In our hearing that Representative Adolph
6 mentioned a little bit ago, we had a representative from
7 the International Association of Budget Officers testify
8 and she said nowhere else in the nation do they have
9 this complete a design. And she's very interested in
10 actually following the progress of the bill and it might
11 be something that they would like to be able to promote
12 across the nation because it is kind of a trendsetting
13 idea, not one that we hit upon easily, I will tell you.
14 We spent over a year just sitting in rooms talking about
15 this before we ever put paper and a pencil together.

16 But the IFO becomes instrumental, and the
17 IFO has already issued guidelines for this year. So it
18 is assumed -- and perhaps Mr. Knittel can comment more
19 to it -- but I believe it's assumed that much of the
20 infrastructures are already in place within the
21 departments themselves. The IFO is the one department
22 that will have to beef up. They don't have enough
23 analysts to do this.

24 But as we've all witnessed, the IFO has
25 been quite a positive tool for us in the legislature to

1 understand the financials of our state. And this gives
2 them additional people to help us make more credible
3 decisions.

4 It is a \$400,000 cost for additional
5 personnel and equipment. One-time equipment is in
6 there, as well. But we would expect the savings would
7 be far outweighing them, that efficiencies, not just
8 savings, in real dollars.

9 We, as a government, have the same option
10 that every other business has in the world. There are
11 three options. There's only three ways you can improve
12 a business. You increase your revenues, to us, that's
13 taxes; we control or reduce operating expenses or we
14 optimize our investments and assets. When we're dealing
15 with those last two is when the IFO can really be a
16 positive tool with us and help us understand the impacts
17 of savings, efficiency, redesign.

18 A perfect example would be, we met
19 yesterday with the State Police and with the IT
20 Secretary. I have done a resolution suggesting that the
21 Governor appoint one person to streamline the process
22 and have one person entirely accountable for the entire
23 police radio system. With the advent of that, we now
24 have a new -- we issued the RFB, we have a new process
25 in place, and we're saving significant dollars and we

1 aren't penalizing the operation in any way.

2 Around here, for some reason, every time
3 that we say we're going to save a dollar, people think
4 we're going to take something away from a constituent.
5 But we have so many inefficiencies, the things -- the
6 way we do business -- that if we can begin to nail those
7 down, we can begin to save our taxpayers legitimate
8 dollars without penalizing any of the deliverable to the
9 end user. So that's where we would expect to be able to
10 not only recover that \$400,000, but pay back beyond
11 that.

12 MINORITY CHAIRMAN MARKOSEK: Okay. Well,
13 thank you. You know, I'll let the other folks, perhaps,
14 ask some questions. But again, welcome back.

15 SENATOR MENSCH: Thank you.

16 MINORITY CHAIRMAN MARKOSEK: And I look
17 forward to hearing more.

18 SENATOR MENSCH: Okay. Thank you.

19 MAJORITY CHAIRMAN ADOLPH: Thank you.

20 Next question will be asked by
21 Representative George Dunbar.

22 REPRESENTATIVE DUNBAR: Thank you. Thank
23 you, Mr. Chairman, and thank you, Senator.

24 I do applaud you for your bill here and I
25 also want to thank you for giving me a shout-out on my

1 bill, too.

2 SENATOR MENSCH: Thank you.

3 I think -- I really do believe, it's not
4 patronizing, I do believe they work very well together.

5 REPRESENTATIVE DUNBAR: And I agree. I
6 do believe that they do work very well together and I do
7 share a lot of the thoughts that you've expressed so far
8 to this committee.

9 I find it also ironic, because all the
10 time, I sit here and say, "We can't legislate on
11 emotion, we cannot legislate on emotion." You take it a
12 step further and say, "We can't budget on emotion." I
13 do appreciate that.

14 A couple of things -- first off, I'm not
15 saying that our present structure is wrong. I don't
16 believe that you're saying our present structure is
17 wrong, it just can be improved. I often say that -- I
18 use the acronym SALY, "same as last year" is our
19 budgeting technique.

20 Right now, we take last year's number as
21 our starting point for this year, and then either
22 increase percentages or decrease percentages based upon
23 anticipated revenues. I know that's, it's not as simple
24 as that. I know it's much more complex than that, but
25 that is the basis of what we're doing right now. And in

1 that process of doing that, we get an annual budget.

2 The Budget Secretary puts out the
3 Governor's budget with a pretty detailed summary. It's
4 a pretty thick booklet, and with a lot of different
5 information in it.

6 I was wondering if you could comment
7 briefly on how PBB, performance-based budgeting, differs
8 from what we're doing right now as far as information.
9 There's quite a bit of information out there. Is that
10 performance-based what they're giving us right now, all
11 that information they're providing us?

12 SENATOR MENSCH: It is the basis that we
13 would use to establish performance-based, but the form
14 that it is presented in is not. It doesn't represent
15 anything that I would expect to come out of a
16 performance-based budget process.

17 You know, there's only so much data in
18 each department, number of people, computers, expenses
19 for programs, and so forth. What we need to do is begin
20 to break that down in a way that it becomes a measurable
21 or a quantifiable piece of empirical data, whether it's
22 spending per person or it becomes a percentage or
23 whatever form that that number, the measurable, the
24 metric would take. But it needs to be something that is
25 quantifiable and measurable against other spending

1 programs, maybe in other states, within our own
2 department.

3 It was suggested in our previous hearing
4 that a checklist would suffice to be a -- it would be a
5 metric measurable. But a checklist is just a checklist.

6 You know, it's kind of like getting ready
7 for vacation. The checklist is what you use to make
8 sure that you put everything in the suitcase, all right?
9 The metric is what does it cost me for my
10 transportation, my meals, my hotel, and so forth. So
11 there really is a significant difference.

12 I would expect that the IFO, the reason that
13 they're in the process -- and it's even spelled out
14 here. And by the way, they're already required by
15 statute. The enabling statute for the IFO says that
16 they will begin to do some of this performance-based
17 measurement for us. It's laid out here in the
18 Governor's direction to the departments for this year.

19 But what this bill does is puts the
20 legislature and the Budget Office directly in the middle
21 of the process with the IFO, so that we -- one of the
22 things that wasn't mentioned before is that we will look
23 at every department and agency in the state over a
24 five-year period.

25 The IFO with the committee will decide -- and

1 the Budget Secretary primarily with the IFO -- but with
2 the committee, will decide which departments are being
3 performance-based measured in which year of the
4 five-year cycle. So we will really begin to be able to
5 require much more of each of the departments than the
6 measurable data that you're looking for and getting away
7 from the emotion.

8 And once they've done it, you would expect
9 that the next time they come through the cycle that that
10 same department and agency would be much better prepared
11 to give us even more credible information. And in
12 subsequent years, I see that the process will become
13 more refined and more professional in its appearance.

14 REPRESENTATIVE DUNBAR: And a quick
15 follow-up, just in comparison to what we're presently
16 doing, where we have last year's numbers, if I read
17 correctly, there was some -- you alluded to a couple of
18 points in your bill about zero-based budgeting.

19 SENATOR MENSCH: Yes, sir.

20 REPRESENTATIVE DUNBAR: So are you
21 talking about starting at zero for all of these line
22 items or what exactly are we speaking of here?

23 SENATOR MENSCH: Zero-based budgeting
24 could be used if the IFO and the Budget Secretary would
25 deem that to be appropriate. The bill does not specify

1 specifically one way or the other.

2 REPRESENTATIVE DUNBAR: And again, thank
3 you for bringing it up. And I think one of the
4 important things as we continue down this process is to
5 be very selective on what exactly we're measuring, what
6 are the outcomes that we're trying to measure. And I
7 think that's of critical importance.

8 Thank you, Mr. Chairman.

9 SENATOR MENSCH: And we -- to that point,
10 we purposely didn't outline those parameters. When you
11 try to be too specific, you become exclusionary and we
12 didn't want to exclude any possibility. So we're
13 leaving that to the committee and to the IFO.

14 And I have great trust in the
15 organization called the IFO. I really do. I think
16 they're top-shelf.

17 MAJORITY CHAIRMAN ADOLPH: Thank you,
18 Representative.

19 Representative Daley.

20 REPRESENTATIVE DALEY: Thank you, Mr.
21 Chairman, and thank you, Senator Mensch, for being here.

22 SENATOR MENSCH: My pleasure.

23 REPRESENTATIVE DALEY: Obviously, I think
24 we're pretty much all interested in making our
25 government work more efficiently and effectively, so I

1 appreciate the work that's been done on this bill.

2 But I want to go back to, you said
3 something about -- I think Chairman Metcalfe, or sorry,
4 Chairman Markosek asked you a question about the IFO and
5 you made a comment about the IFO versus self-assessment.

6 Because my concern when I look at what I
7 see in the bill is that the departments themselves are
8 not involved in the assessment. And so I guess my
9 concern is that they know the most about what their
10 department's mission is, what their goals are, what
11 they're supposed to accomplish, what the mandates are on
12 them, and the day-to-day. I mean, they're people that,
13 they're where the rubber hits the road. They have to
14 make this work for, you know, the people of
15 Pennsylvania.

16 SENATOR MENSCH: Sure.

17 REPRESENTATIVE DALEY: And so, it didn't
18 look like there was input -- I mean, there's
19 requirements, it sounds like, of the departments, but
20 I'm not sure how much input they actually have in
21 reasonable metrics or developing the metrics.

22 And I guess the other point that I wanted
23 to just go back to was, when you talked about how
24 businesses have metrics that are, you know, they all
25 have agreed on, I guess, over time the metrics for, you

1 know, return on investment, et cetera. But states, you
2 know, what other states have actually done this? And
3 all states are not created equal. I mean, we have
4 different geography, different populations, different
5 political environments. And so those are some of the
6 things that I just have questions about, if you could --

7 SENATOR MENSCH: Sure.

8 REPRESENTATIVE DALEY: -- talk about
9 that.

10 SENATOR MENSCH: Yes. Actually, I
11 believe that performance-based budgeting puts the
12 departments more squarely into the process than what we
13 have today with the publication of this document. This
14 is really good. I'm not casting --

15 REPRESENTATIVE DALEY: I haven't seen it,
16 so...

17 SENATOR MENSCH: Okay. It was
18 distributed to all of us some time ago in e-mail, about
19 June or so. But regardless, this is really a good
20 document.

21 REPRESENTATIVE DALEY: Okay.

22 SENATOR MENSCH: It casts no aspersion.

23 But we want to put the department more
24 into the process of the discussion. So they would,
25 their representatives would be having discussions with

1 the board after the IFO and the board begin to define
2 what the department would be required to do in the way
3 of providing information. So they become part of that
4 discussion. And we believe that it makes it much more
5 concrete.

6 So as far as measurements are concerned,
7 there is -- the government is kind of unique in the way
8 we do business. No two governments are really the same,
9 but it's also true no two businesses are really the
10 same. But there are measurements that are done by
11 Standard & Poor's, Moody's, and others for what is
12 called the gem sector of government, education, and
13 medical. And if we wanted to, we could avail ourselves
14 of those indices and begin to measure those.

15 It's not suggested that we do that. We
16 are just trying to quantify more effectively the
17 spending versus the result in Pennsylvania government.

18 REPRESENTATIVE DALEY: Okay. That's
19 really helpful.

20 But just as a follow-up, do we then
21 anticipate how much effort would be required from the
22 departments or will they need additional staff to be
23 able to do this additional work on top of what they are
24 already doing? Because we know that their complements
25 have been cut --

1 SENATOR MENSCH: Well, we know that --

2 REPRESENTATIVE DALEY: -- and they're
3 working with fewer people.

4 SENATOR MENSCH: -- but, Representative,
5 you and I get these binders every year of all this data.
6 All we're suggesting is that that be compiled in a
7 different format, same information. So I don't think
8 that it's a critical imposition.

9 But we've also taken that into account in
10 saying that we're going to cycle this every five years.
11 So the Representative Daley department or agency would
12 only be required to do this once every five years. And
13 once you do it the first time, I think that you'll be
14 better prepared to do it the next, in six years hence,
15 or five years hence, in the sixth year.

16 REPRESENTATIVE DALEY: Thank you.

17 SENATOR MENSCH: Okay? Thank you.

18 MAJORITY CHAIRMAN ADOLPH: Thank you,
19 Representative.

20 Representative Sue Helm.

21 REPRESENTATIVE HELM: Thank you, Mr.
22 Chairman.

23 Senator Mensch, every year around June
24 30th I have constituents that ask, you know, why don't
25 we start the budget earlier? Because we're always

1 trying to get that June 30th deadline in. And I also
2 have constituents ask about a two-year budget.

3 Like would this performance-based
4 budgeting ever lead to make it easier -- we would hit
5 the target date and could it lead into a two-year budget
6 process?

7 SENATOR MENSCH: I have no idea whether
8 it would lead into a two-year budget. There are bills
9 around that deal separately with a two-year budget. I
10 don't know that I could give you a credible answer to
11 that. Excuse me.

12 Will it help us be done in a more timely
13 fashion? It could, if we treat the information
14 seriously.

15 REPRESENTATIVE HELM: And I know you said
16 you're going to review the agencies every five years,
17 so...

18 SENATOR MENSCH: Yes. Well, the
19 Secretary of the Budget and the IFO will decide early in
20 the process, January, February, that this year this
21 group of departments and agencies will be the ones
22 participating in performance-based budgeting. So they
23 would be forewarned and they would be prepared when they
24 come to Appropriations to have that information or
25 they'd know what they would be asked to provide.

1 The second year, the Budget Secretary and
2 the IFO will identify a separate, a new group of
3 departments and agencies, so that in a five-year cycle,
4 we have then done this with each of the departments and
5 agencies. It's not that we're going to do all of them
6 once every five years.

7 REPRESENTATIVE HELM: I understand.

8 SENATOR MENSCH: Okay? It's going to be
9 a continuing cycle every year. But we'll do about
10 20 percent of the government each year.

11 REPRESENTATIVE HELM: Well, I think this
12 is a good idea, but we all know the public wants us to
13 get this budget done by June 30th, so we're always
14 looking for that process.

15 SENATOR MENSCH: Well, I left my pixie
16 dust at home. I don't know.

17 REPRESENTATIVE HELM: Thank you.

18 MAJORITY CHAIRMAN ADOLPH: Thank you,
19 Representative.

20 The next and final question for Senator
21 Mensch will be offered by Representative Seth Grove.

22 REPRESENTATIVE GROVE: Thank you,
23 Senator, appreciate your work on this.

24 Let's say, let's say there weren't any
25 partisanship in the general assembly or the Governor's

1 Office. Everyone is basically equal, no party
2 structure, just citizens being there. How effective do
3 you think performance-based budgeting for the general
4 public and for legislators looking at the budget from an
5 analytical perspective would be kind of outside the
6 realm of party politics and who cares who's in the
7 Governor's Office, who's in control of the general
8 assembly, and so forth? Do you think it would provide a
9 better process long-term for a better overall budget
10 process?

11 SENATOR MENSCH: I do. I think it would
12 be better.

13 We -- back to the comments from
14 Representative Dunbar. We do an awful lot of business
15 based on emotion and less on quantified, measurable,
16 understandable data. And this will give us that data so
17 that we can begin.

18 You know, what's interesting is something
19 that wasn't mentioned. In our testimony, we had a
20 county, the county of Montgomery, testify that they use
21 it. We had two school districts in my district that
22 came in and testified that they use it. Subsequently, I
23 learned that we have almost every school district in my
24 district doing some form, already, of performance-based
25 budgeting, or they call it zero-based. It fits a lot of

1 taking the time out of your very busy schedule, you
2 know, this week in session, and we certainly are looking
3 at this. And I think, I think you're going to see many
4 of the legislators, you know, really jump on board with
5 the idea.

6 There's a couple of questions that we're
7 going to hear from the Budget Secretary and some issues
8 with the IFO officer as well. And it's something that I
9 think -- you would hope that maybe the deputy
10 secretaries and the managers of the various departments
11 with the state would be using some type of
12 performance-based budgeting as they present us the
13 budget, you know.

14 But we're going to hear from the
15 Secretary next, and I'm looking forward to it.

16 Thank you very much.

17 SENATOR MENSCH: Thank you. Thank you
18 all, appreciate the opportunity.

19 MAJORITY CHAIRMAN ADOLPH: Thank you.
20 Thank you very much.

21 Okay. We'll just give the Senator a
22 couple of minutes to leave the desk.

23 And we're certainly very thankful that
24 the Secretary of the Budget, Randy Albright, has also
25 agreed to testify and give some input regarding Senate

1 Bill 1341. And we're trying to stay on schedule, which
2 is something unusual for us, but we're going to try our
3 best. We have this room till ten o'clock.

4 So good morning, Mr. Secretary.

5 SECRETARY ALBRIGHT: Good morning,
6 Mr. Chairman.

7 MAJORITY CHAIRMAN ADOLPH: Thanks for
8 being with us.

9 SECRETARY ALBRIGHT: Thank you for the
10 chance.

11 MAJORITY CHAIRMAN ADOLPH: Okay. And you
12 can start with your opening testimony regarding Senate
13 Bill 1341.

14 SECRETARY ALBRIGHT: Thank you.

15 I'll try to keep my remarks relatively
16 brief. I did provide written copies of the testimony,
17 but want to provide some time for ample questions.

18 First, a little bit of history about our
19 budgeting process, so everybody has some context to
20 understand how we got to the current budgeting system
21 that we have.

22 Starting back in 1968, then-Governor
23 Raymond P. Shafer installed at the time what was
24 referred to as a planning, programming, and budgeting
25 system that structured program decision-making around

1 program performance in relation to stated objectives.
2 The approach to budgeting was a complete departure from
3 any of the methods that had been previously employed up
4 until that time. The determination of program value was
5 based on the combination of results achieved and cost,
6 as opposed to focusing on cost alone as had been the
7 case.

8 The new process was highly dependent on
9 analysis, not only for the development and maintenance
10 of the data, but also to show the degree of linkage
11 between cost and results.

12 Ten years later, in 1978, Section 610A of
13 the Administrative Code of 1929 was enacted to require
14 preparation of program measures and efficiency metrics,
15 along with other provisions now familiar in our current
16 budget process. The new system required all programs
17 appearing in the budget to have stated objectives
18 describing desired results and a group of measures to
19 quantify program performance in terms of results
20 obtained.

21 At this point, I would want to
22 personalize this a little bit to say that our current
23 program budgeting system, that we still have in place
24 today, I take a lot of personal pride in. I'm a
25 personal graduate of the master's program in public

1 administration at Penn State. It was then Dr. Robert J.
2 Mowitz, the director of the department, who was
3 instrumental in helping build that system. It was
4 something that we were very proud of, as graduate
5 students participating, you know, while we were getting
6 or receiving our graduate education and understanding,
7 and came to Pennsylvania with the knowledge of a budget
8 system that was firmly rooted in program budgeting
9 metrics and program measures.

10 While the current budget process in
11 Pennsylvania remains rooted in that planning,
12 programming, and budgeting system that we codified back
13 in 1978, it has evolved significantly since then. For
14 example, a section of the Governor's budget book has
15 since been added to include general fund tax
16 expenditures, recognizing that tax policies have revenue
17 consequences and must be part of the overall budgeting
18 decision-making process as well as expenditure
19 decisions.

20 Today, Pennsylvania continues to employ a
21 program budgeting system with a budget that focuses on
22 objectives to be accomplished through activities
23 underwritten wholly or in part by state revenues. This
24 implies that whether the activities are conducted
25 directly by the Commonwealth or carried out by another

1 entity through a transfer of payment, the program budget
2 must justify that expenditure by explaining the
3 resulting ultimate outcome. The budget process is
4 designed to answer the question, "what is the result of
5 a government program," in terms of its effect or impact
6 on the people served and its corresponding environment.

7 The distinguishing features of our budget
8 process can be summarized with a few bullet points. The
9 use of clearly stated objectives for each program, the
10 use of performance measures that gauge progress toward
11 an objective to demonstrate the direct result of the
12 activities conducted, the use of total costs regardless
13 of source associated with each program, the use of an
14 extended time horizon -- five years is what we normally
15 use -- over which to project all data, the use of budget
16 instructions which explicitly guide agencies in the
17 development of their budget requests, and the use of
18 program audits and evaluations to test the relationship
19 between outcomes, outputs, and impacts to search out
20 more effective means to accomplish desired results and
21 provide transparency to the general public that we
22 serve.

23 The 2017-18 budget planning process continues
24 to emphasize these performance measurement goal settings
25 as a core component of our budget planning process.

1 Pennsylvania's public servants are entrusted to expend
2 and invest the public's money on the public's behalf.
3 In return, citizens expect results and accountability.

4 In the 2017-18 budget instructions, agencies
5 were directed to identify key performance indicators,
6 along with strategies for achieving key results.
7 Agencies must identify how their funding requests relate
8 to high level goals in their annual performance plans.

9 A core goal of the budget review process is
10 to evaluate the impact of each agency's proposed
11 expenditure levels to achieve its mission and
12 programmatic goals utilizing the most efficient methods
13 possible.

14 Shortly after taking office, Governor Wolf
15 asked all cabinet agencies to review their program
16 metrics and develop three overarching agency goals with
17 measurable metrics to chart progress. In February of
18 2016, Governor Wolf announced the beta launch of a new
19 website, the Governor's Goals, to make government more
20 transparent by introducing these measurable goals that
21 align to the Governor's three key priorities, jobs that
22 pay, schools that teach, and government that works.

23 While this is the first phase of the website,
24 future iterations will track the progress of these
25 administrative goals and make the data used to measure

1 the goals available to the public. The Wolf
2 administration is currently compiling data from
3 Pennsylvania government agencies, which will be verified
4 by our budget office prior to being released.

5 In this iteration of the site, each measure
6 has a goal set for 2020. Progress towards this 2020
7 goal will be tracked and marked as on track, near goal,
8 or more work to do. And as the data are updated,
9 agencies will be able to monitor goal progress, focus
10 attention and resources as available on goals that are
11 not being met. The measurement of goals with an
12 increased emphasis on progress tracking is the next step
13 toward making Pennsylvania government more accountable
14 to citizens.

15 So as agencies prepare their 2017-18 budget
16 plans, thorough review of existing metrics is a
17 priority, ensuring that all measures align with the
18 Governor's overall goals to better guide
19 decision-making. Agencies were directed to the evaluate
20 the history of program areas as opposed to simply
21 reproposing prior year line items. And agency funding
22 requests will be driven by data collected about each
23 program's effectiveness in achieving its purpose.
24 Agencies will work with the Office of the Budget to
25 match the performance of operations to the spending

1 requests as the overall part of their performance
2 report.

3 Now, what does this all mean for our budget
4 process? As you all know, the budget challenges that we
5 face, and we will continue to face with the '17-'18
6 fiscal year, remain large. We enacted for the '16-'17
7 fiscal year what many of you essentially refer to as a
8 cost-to-carry budget. In other words, very little new
9 initiatives or spending were included beyond increases
10 in basic education funding, opioid abuse fighting, and a
11 few other small initiatives. What we've said to
12 agencies, as we work with them to develop their budgets,
13 is that they have to go back and look at all aspects of
14 their current budget. We don't necessarily say "no" to
15 new initiatives that are warranted and have merit. But to
16 fund those initiatives within the existing resources
17 that have been allocated to them, they have to take a
18 hard look and decide whether there are things that they
19 currently do that they don't need to be doing any longer
20 or whether they don't need to be doing as much in a
21 particular area so they have more resources for other
22 program priorities. These are the choices that a
23 program budget decision-making process and real
24 performance measures that are necessary to help agencies
25 guide in that decision-making process.

1 GO-TIME, the Governor's Office of
2 Transformation Initiative Management -- Innovation,
3 Management, and Efficiency --

4 MAJORITY CHAIRMAN ADOLPH: Excuse me.

5 SECRETARY ALBRIGHT: Yes.

6 MAJORITY CHAIRMAN ADOLPH: Mr. Secretary
7 -- and I apologize -- but we only have a half an hour.

8 SECRETARY ALBRIGHT: Okay.

9 MAJORITY CHAIRMAN ADOLPH: And we have
10 some legislators here that are very interested in asking
11 you some specific questions.

12 I want to thank you for your remarks that
13 we all have written copies of. And I actually read your
14 testimony last night.

15 So without further adieu, I'm going to
16 ask Representative Greiner to proceed with the questions
17 because we have to be out of this room by ten o'clock
18 and we have the IFO coming in after you.

19 SECRETARY ALBRIGHT: Sure. Whatever you
20 prefer.

21 MAJORITY CHAIRMAN ADOLPH: Thank you very
22 much. And I apologize for interrupting you.

23 SECRETARY ALBRIGHT: It's quite all
24 right.

25 MAJORITY CHAIRMAN ADOLPH: Thank you.

1 REPRESENTATIVE GREINER: Thank you, Mr.
2 Chairman, and good morning, Mr. Secretary.

3 SECRETARY ALBRIGHT: Good morning.

4 REPRESENTATIVE GREINER: Just a --
5 appreciate your testimony. I know it was pretty
6 extensive there. I know that you were going to talk
7 about some GO-TIME initiatives. I'm sure there might be
8 a question on that.

9 Overarching, would you support the
10 enactment of Senate Bill 1341? I mean, is it something
11 that you think you could get behind or would there be
12 other statutory enhancements to our current system of
13 program measures and management that you think we should
14 possibly address or look at going forward?

15 SECRETARY ALBRIGHT: I did have the
16 opportunity to testify before the Senate a few weeks
17 ago, and I think what I said at that time, what I'll
18 repeat now, is that we are very committed, as hopefully
19 my testimony has already underscored, to a vigorous
20 program budgeting decision-making process with
21 performance measures, a very transparent process. And
22 additionally, will work with the general assembly to
23 continue to develop and build upon that process,
24 improving on it as we go forward.

25 We don't believe at this point that

1 statutory changes are necessary. We're very concerned
2 about unintended impacts, redundancies, inefficiencies
3 that that statute might create. You know, the sponsor
4 of that legislation, as I heard in his earlier
5 testimony, discussed taking more than a year in the
6 development of that legislation. It's something that
7 we've only, that's only been shared with us recently.

8 So what we have recommended is a
9 willingness to work with the general assembly, continue
10 to look at other iterations that may be helpful as we
11 continue to develop our budget process. But we don't
12 see the need for enacting additional legislation to
13 drive that process right now, and frankly, we're very
14 proud of the budget system that we have in place.

15 REPRESENTATIVE GREINER: Excuse me, I
16 appreciate the answer on that. And I wish Senator
17 Mensch was still here because in light of your answer,
18 there was something in the bill that I was concerned
19 about, in that the board that makes the decisions for
20 this budgeting would include the four Appropriations
21 chairmen, and then, of course, the Secretary of the
22 Budget. And in any mind, it doesn't matter whether it's
23 Republican or Democrat in the office, that I think there
24 is a concern about how the board is going to be
25 independent, doesn't matter which party it is. Because

1 when you have that kind of makeup, the Budget Secretary
2 is kind of the swing vote and I think he's going to be
3 supportive of the Governor.

4 Maybe that's somewhat opining. I don't
5 know what your thoughts are. I know certainly, you
6 probably feel you could be objective if this type of
7 legislation does get passed, but what are your thoughts
8 on that? I mean, is that a consign -- I mean, I
9 actually thought that -- reviewing the bill, I did have
10 some concerns. Like I said, I didn't have an
11 opportunity to talk to the prime sponsor, but maybe you
12 can provide some input.

13 SECRETARY ALBRIGHT: Well, again, we
14 first and foremost want to avoid any redundancies, any
15 additional administrative requirements, costs, frankly,
16 in the current budget environment that we work with and
17 that are unnecessary.

18 You know, we believe that the budgeting
19 system is only as good as the effort that's made to
20 implement it in a meaningful way. That's why we have
21 tried to reach out, work very directly with all four
22 Appropriations Committees, meet on a regular basis when
23 we get into the budget season. We will begin on a
24 weekly basis, you know, meeting with the four executive
25 directors from the Appropriations Committees. We always

1 try to make ourselves available and commit, along with
2 the entire administration, with the cabinet secretaries,
3 the Governor himself, to a very open, transparent
4 process to have accountability at the core of all of the
5 budget decision-making that we do.

6 So again, we're very committed to many of
7 the process goals, I think, that the legislation tries
8 to address, but we simply don't feel at this point that
9 a statutory change is necessary to really make the
10 ongoing, or develop the ongoing changes that can build a
11 continually improved budget system.

12 REPRESENTATIVE GREINER: I appreciate
13 your time. Thank you, Mr. Secretary.

14 Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN ADOLPH: Thank you,
16 Representative.

17 Representative Dean.

18 REPRESENTATIVE DEAN: Thank you, Mr.
19 Chairman.

20 Good morning, Mr. Secretary.

21 SECRETARY ALBRIGHT: Good morning.

22 REPRESENTATIVE DEAN: Nice to see you.

23 A couple of questions from your
24 testimony -- first of all, I appreciate your testimony
25 and the history that you offer. And it seems to me that

1 if we distill down your testimony to its simplest terms,
2 we are already doing performance-based budgeting at many
3 levels. Is that the right takeaway?

4 SECRETARY ALBRIGHT: It is an essential
5 component of the program budgeting system that we've had
6 in place for many decades.

7 REPRESENTATIVE DEAN: Almost 50 years,
8 and you're right to be proud of it.

9 What would the difference be between what
10 we're doing now and the proposed legislation?

11 SECRETARY ALBRIGHT: Again, I think the
12 concern we simply have is that the legislation adds
13 another layer, a process that we think in some ways
14 could be redundant and is simply not necessary in
15 continuing to implement meaningful program measures,
16 metrics, transparency, and accountability to the general
17 public, all of those underlying principles.

18 Yes, everybody on the surface thinks that
19 it is nothing more than an incremental budget system
20 that we use each year. They don't see the work that
21 goes on within each agency, the interaction with the
22 Budget Office, and ultimately, the work that goes on
23 with the general assembly in coming to a final budget
24 resolution.

25 As you see in my written testimony, I

1 provided a couple of additional examples of some major
2 program decision-making that was really driven by
3 performance measures and program metrics. The justice
4 reinvestment initiative was one simple example.
5 Community health choices and a plan now to implement
6 managed long-care oversight and drive more local and
7 community-based care in our long-term care system is
8 another example of where performance measures, program
9 metrics will really drive policy and budget decision
10 making. So that's our view.

11 REPRESENTATIVE DEAN: Something I'm very
12 interested in. And when the Governor proposed it, when
13 he was sworn in, is the GO-TIME piece. And I think from
14 your testimony, you show that in the last fiscal year,
15 GO-TIME produced savings of about \$156 million, a little
16 more than what the Governor was targeting.

17 Can you talk a little more about the
18 GO-TIME initiatives, where we're finding savings based
19 on performance evaluation?

20 SECRETARY ALBRIGHT: Yes. We've tried
21 to, at the lowest level of every state agency, have a
22 commitment to take a look at all aspects or operations
23 of each of our departments with oversight from our
24 Office of Administration and input from the Governor's
25 Budget Office. We've tried to develop real goals --

1 156 million is what was realized in year one of our
2 GO-TIME plan.

3 One of the unfortunate circumstances of
4 the budget impasse last year is that we didn't have a
5 chance to incorporate to the extent that we would have
6 hoped an illustration or information regarding GO-TIME
7 progress and initiatives in the Governor's budget book
8 itself. It is a goal for the '17-'18 fiscal year. So
9 when we provide to the general assembly in February the
10 Governor's proposed budget, we will underscore by agency
11 all of those GO-TIME initiatives and savings, what has
12 been accomplished to date, and what our goals are for
13 '17-'18 and the future.

14 REPRESENTATIVE DEAN: And just a final
15 comment. It strikes me, the 156 million reminds me of
16 another number that we are faced with, and that is what
17 I have heard estimates of about 150 million or more a
18 year in increased interest expenses on our borrowing
19 based on our credit downgrades. So while we're doing
20 some good things in terms of trying to find savings and
21 trying to be more efficient, at the same time, you know,
22 until we all really budget responsibly in a balanced way
23 and prove to the rest of the world and the credit
24 agencies that we're doing our job and doing it well,
25 we're eating up the very savings that we're finding.

1 share your positive note there at the end. Thank you
2 very much.

3 MAJORITY CHAIRMAN ADOLPH: Thank you.
4 Representative Karen Boback.

5 REPRESENTATIVE BOBACK: Thank you, Mr.
6 Chairman.

7 Good morning.

8 SECRETARY ALBRIGHT: Good morning.

9 REPRESENTATIVE BOBACK: Can you give us a
10 specific example of how your office works with or
11 questions the agencies' performance measures? And these
12 would be included in the Governor's executive budget on
13 annual performance. Something specific, where you went
14 into one of these agencies and said, "Look, your numbers
15 aren't where they should be. We suggest that you
16 improve them." Something to that effect.

17 SECRETARY ALBRIGHT: Yes. I will be very
18 specific in the prior administration.

19 You know, frankly, when Governor Rendell
20 took office, he was very committed to providing very
21 significant increases in basic education funding. The
22 general assembly, working with the administration, did
23 that over the course of his term. There -- we wouldn't
24 really know if those investments really made a
25 difference or not if we didn't have in place what then

1 were referred to as the PSSAs, the standardized tests
2 that are given to students.

3 Along with those increases in education
4 funding each year, Penn State -- or Pennsylvania was a
5 state without peer. We had and were the only state that
6 had increased performance at all grade levels tested
7 every year of his administration. When, as soon as aid
8 to local school districts was cut dramatically in the
9 next fiscal year, those scores immediately plummeted and
10 declined for the next three years following.

11 I can't think of a clearer example of how
12 program measures and performance metrics really did
13 underscore that investments did make a difference, that
14 dollars do matter, in this case, to something so
15 critical as aid to basic education.

16 REPRESENTATIVE BOBACK: Thank you for
17 that.

18 And getting specific with the metrics,
19 then. On page 1 of your testimony, would you consider
20 all of those qualifiers, on the bottom of your
21 testimony -- and I apologize, I just received this this
22 morning -- where you talked about the distinguishing
23 features of the budget, are they the metrics you're
24 referring to or do you have anything more specific than
25 that?

1 SECRETARY ALBRIGHT: The metrics
2 themselves, some of which -- well, they're first of all,
3 now in a very transparent way -- you know, we were in a
4 process to provide that information, hopefully, to make
5 it more available to the public on the website that I
6 alluded to earlier. Many of those metrics, the most
7 important ones, we believe, essential to each agency's
8 budget are included in the budget book in February that
9 we provide along with the Governor's proposed budget.

10 Those -- the bullet points that I listed
11 at the bottom of the first page of my testimony are
12 really both an outline of how those metrics are used and
13 the process then that is part of that ongoing agency
14 review and decision-making that underlies the
15 preparation and ultimately final adoption of our annual
16 budget.

17 REPRESENTATIVE BOBACK: Thank you,
18 Mr. Secretary.

19 Thank you, Mr. Chairman.

20 SECRETARY ALBRIGHT: Thank you.

21 MAJORITY CHAIRMAN ADOLPH: Thank you.

22 Representative Daley.

23 REPRESENTATIVE DALEY: Thank you, Mr.
24 Chairman, and welcome, Secretary Albright.

25 SECRETARY ALBRIGHT: Thank you.

1 REPRESENTATIVE DALEY: So I just wanted
2 to pick up on something you mentioned in, under current
3 program budgeting process in Pennsylvania. And you
4 mentioned that a section of the Governor's budget book
5 has since been added to include in the general fund tax
6 expenditures, recognizing that tax policies have revenue
7 consequences and must be part of the overall budget
8 decision-making.

9 In looking at what's proposed in the
10 performance-based budgeting, it appears that that just
11 discusses the expenditure part of the budget, but we all
12 know that budgets have two sides, revenues,
13 expenditures.

14 Can you just talk about how you see the
15 tax expenditure information being used by the general
16 assembly as it's in the budget book?

17 SECRETARY ALBRIGHT: No, I think you've
18 rightly pointed out, as, you know, I was trying to
19 illustrate in our testimony, that tax expenditure
20 decision-making is as integral as deciding, you know,
21 annual appropriations and the way that they impact the
22 ultimate bottom line of the Commonwealth's budget. And
23 when we decide to provide a tax credit to a particular
24 business or entity for whatever reason, we should have,
25 you know, accountability metrics and measures that

1 ensure that the investment of those state resources has
2 a legitimate return.

3 So it doesn't matter, or there shouldn't
4 be an artificial distinction, whether it's
5 Appropriations authority, you know, or a tax credit, you
6 know, when we undergo that analysis and make sure that
7 we're accountable in a way to justify that annual
8 decision.

9 REPRESENTATIVE DALEY: So this may seem
10 like a naive question, and I apologize, but does your
11 budget, or your office then is responsible for both
12 sides of the budget, the revenue and expenditures, in
13 some way? I mean --

14 SECRETARY ALBRIGHT: Yes.

15 REPRESENTATIVE DALEY: -- I know we have
16 a Department of Revenue also, but this is your concern.

17 SECRETARY ALBRIGHT: Again, it wasn't a
18 decision made in our administration.

19 REPRESENTATIVE DALEY: Right.

20 SECRETARY ALBRIGHT: We've had that
21 section in the budget book for many years. But yes,
22 it's there, you know, to be accountable to the public,
23 to hopefully enable general assembly members, you know,
24 anyone providing meaningful input into the budget
25 process, to fully understand the tax and revenue

1 decisions we make and how they affect the state's budget
2 bottom line.

3 REPRESENTATIVE DALEY: All right. Thank
4 you.

5 SECRETARY ALBRIGHT: Thank you.

6 MAJORITY CHAIRMAN ADOLPH: Thank you.

7 Representative Warren Kampf.

8 REPRESENTATIVE KAMPF: Hi, Mr. Secretary.

9 SECRETARY ALBRIGHT: Good morning.

10 REPRESENTATIVE KAMPF: So you know, when
11 I think of the budget process, I think of, okay, here's
12 the available dollars, the projections, here's what the
13 departments are seeking. And you know, through our
14 process, how do we come to a final conclusion on
15 reconciling those?

16 You've indicated that there are
17 performance standards or measurements in our budgeting
18 process and they've been around for sometime. Can you
19 give me an example, you know, either in this
20 administration or others, where one of those
21 measurements, or a couple of those measurements, of a
22 particular program, you know, in a given year were not
23 good, and so then the Budget Office or the department
24 eliminated that particular program or consolidated or
25 some management change occurred?

1 And I don't mean management in that you
2 change the actual manager, but things were done
3 differently as a result of not meeting the metric.

4 SECRETARY ALBRIGHT: Yes. Again, it was
5 a decision and a piece of legislation that's still
6 pending before the general assembly here in the House.
7 The Senate had previously already enacted or sent it to
8 the House, a piece of legislation that would merge the
9 Department of Corrections with the Board of Probation
10 and Parole.

11 It was our review of the parole
12 decision-making process, the interaction and integration
13 of decision making between the Department of Corrections
14 and the Board of Probation and Parole, that led us to
15 the conclusion that we could save immediately
16 administratively an estimated \$10 million and
17 significantly more in better outcomes in future fiscal
18 years if we were to simply merge the two departments.
19 That at its most fundamental point, just scheduling
20 parole hearings and having timely review and parole
21 decision-making, if that process could be streamlined or
22 made more effective -- and we would reduce the current
23 two-month lag before an eligible parolee on average
24 receives his parole hearing -- we could save, as I
25 shared with this committee two years ago, as much as

1 \$30 million in more timely released decisions.

2 So yes, there are very clear metrics and
3 evaluations that go on in all aspects of an agency's
4 budget that we use before we come to those conclusions
5 and make those recommendations.

6 It's not something that this chamber has
7 acted upon in this session, but it's something, again, a
8 discussion that maybe we need to do a better job of
9 communicating the program metrics and the specifics of
10 why we think that's a decision that should be made and a
11 conversation that we hope to have in the '17-'18 budget
12 process.

13 MAJORITY CHAIRMAN ADOLPH: Thank you,
14 Secretary.

15 Representative Seth Grove will be the
16 final Representative with a question for you.

17 SECRETARY ALBRIGHT: Thank you.

18 MAJORITY CHAIRMAN ADOLPH: Representative
19 Grove.

20 REPRESENTATIVE GROVE: Thank you, Mr.
21 Chairman.

22 Secretary, good to see you.

23 SECRETARY ALBRIGHT: Thank you. Good
24 morning.

25 REPRESENTATIVE GROVE: First, I applaud

1 you. You actually have a booklet on your website that
2 is very detailed on the budget process. It was very
3 well done, very well put together. So I just wanted to
4 plug you and your staff for doing that.

5 SECRETARY ALBRIGHT: I would thank and
6 recognize my staff for that work.

7 REPRESENTATIVE GROVE: It's good stuff.

8 So obviously, we're talking about
9 performance-based budgeting. The IFO obviously released
10 a report on their findings. It's just one of their
11 charts. We have them up next.

12 Their assessment of our current budget
13 process is as follows, quote, "Most states continue to
14 use an incremental budget approach where appropriations
15 are not tied to specific goals or objectives. Rather,
16 appropriations are motivated by amounts from the prior
17 year with adjustments for agency workload, in some case,
18 inflation. Although states recognize the value of
19 performance-based budgeting and performance measures,
20 the great majority only use that system to augment the
21 legacy budget process that has been in place for
22 decades.

23 "The Office of the Budget publishes an
24 agency performance data on its website and select
25 measures appear in the executive budget. However, it is

1 widely perceived that the measures have very limited
2 impact on the allocation of funds within or across
3 agencies. The current budget process continues to
4 closely resemble an incremental approach and performance
5 measures are rarely considered during the budget
6 process. The Commonwealth has developed significant
7 performance measures, infrastructure, but remains
8 underutilize."

9 They further go on to say, "For
10 Pennsylvania, performance measures are widely viewed as
11 a management tool as opposed to a budgeting tool.
12 Moreover, performance measures are generally used to
13 evaluate requests to increase program funds rather than
14 facilitate an informed overall resource of allocations.
15 While these measures provide data points that may be
16 informative and provide background, most are not
17 indicative of agency or program performances and they
18 have limited potential to improve resource allocation."

19 I went back and pulled a Corrections
20 booklet that we received. It's thick. It has a lot of
21 information. But nothing in here really alleviates to
22 performance measures through these agencies. They go
23 through and kind of explain why and rationalize why
24 there's increases throughout Correction's Department.

25 So I guess the general question is, do

1 you agree with what the IFO is saying about our budget
2 process currently, and am I missing, specifically, any
3 specific measures within the documents that we get?

4 SECRETARY ALBRIGHT: Yes. You're holding
5 their agency budget request. That's not the -- I'm
6 referring to if you had the larger Governor's budget
7 book. And if you had that document, you would see then
8 a clear page of articulated program measures and metrics
9 that are used to evaluate program decision-making in the
10 department's budget for that particular year.

11 There's no question that, you know,
12 there's always room for improvement. We can't do a
13 better job in a more transparent way to communicate
14 metrics, program goals. That's why the Governor
15 launched the website initiative that I referred to
16 earlier. You know, we can't think of a more transparent
17 way than to have each agency identify overarching
18 measurable goals that are tracked each year with an
19 annual progress report and indicators about whether we
20 seem to be on track or not. But then more importantly,
21 to align, and beneath each of those overarching goals
22 are individual metrics that really do drive individual
23 budget decision-making.

24 We are always happy to, you know, work
25 with the IFO and seek their input into the budget

1 decision-making process as well, as we are in working
2 with the general assembly. And could we do a better job
3 of communicating and making sure everyone understands
4 the process that does underlie that decision-making
5 process? Sure. And I think that's something that we
6 would look to work with the general assembly to improve
7 upon in the future.

8 REPRESENTATIVE GROVE: So within this
9 document, let's say Department of Economic Development
10 will complete 130 foreign investment projects by 2020.
11 If they don't reach that goal, would it be the
12 department's -- would you come back and say, "We need to
13 reduce that funding"?

14 SECRETARY ALBRIGHT: That could be an
15 ultimate outcome. And as I said, in the agency budget
16 discussions that we've already begun -- and I've had the
17 opportunity already to sit down with each individual
18 cabinet agency, review before they actually present to
19 us their proposed budgets for the next fiscal year, to
20 have a frank conversation with them about the budget
21 challenges we face and the decision-making process that
22 they're going to use.

23 And we're very serious. They have to
24 begin and look at all aspects of what the agency
25 currently does. And yes, they will always and should

1 have initiatives for how they want to improve service or
2 do more of this or that. But they also need to take a
3 hard look at what they are doing now and ask the
4 difficult question, is that really necessary or priority
5 going forward, and should we be doing less of this or
6 less of that so that we can do more of this that really
7 is that priority?

8 What those decisions are are ultimately
9 things that we need to work with you and the general
10 assembly. And again, I can't say enough times, the
11 better job we do to communicate and are transparent in
12 that decision-making process, maybe the more confidence
13 the general public will have in the decisions that we
14 ultimately make.

15 REPRESENTATIVE GROVE: Chairman Adolph
16 has been a stickler on this. Every year, the Governor
17 comes in within their budget documents, and adds and the
18 kind of health-related ALS and stuff is either cut or
19 eliminated. What's the performance measures used to
20 decide they should be gone?

21 SECRETARY ALBRIGHT: Well, you bring up a
22 good suggestion, frankly. Those -- what we refer to
23 commonly as legislative adds are sort of outside of the
24 executive's original or initial decision-making process
25 and are priorities that are added by the general

1 assembly, for the most part.

2 However, they really don't, in many
3 cases -- and I won't speak in absolutes, maybe there are
4 some exceptions -- but they don't, in most cases, have
5 real program metrics that evaluate the effectiveness of
6 those adds in legislative spending. And maybe we ought
7 to do that. Maybe that's a process that we ought to
8 begin talking about now with all four caucuses in the
9 general assembly, to talk about a process, again, that
10 makes those budget decisions more accountable each year
11 in the same way that the rest of the executive budget
12 is.

13 REPRESENTATIVE GROVE: And actually,
14 that's the goal of the underlying bill, so thank you,
15 Mr. Secretary.

16 SECRETARY ALBRIGHT: Thank you.

17 MAJORITY CHAIRMAN ADOLPH: Thank you,
18 Representative.

19 And, Mr. Secretary, thank you for
20 testifying today regarding the Senate bill and we
21 appreciate you taking time from your very busy schedule.

22 SECRETARY ALBRIGHT: Thank you, Mr.
23 Chairman. And I would be remiss if I didn't thank you
24 for your many years of service and certainly wish you
25 well.

1 MAJORITY CHAIRMAN ADOLPH: Thank you. I
2 wish you luck as well.

3 SECRETARY ALBRIGHT: Thank you.

4 MAJORITY CHAIRMAN ADOLPH: Thank you.

5 The next testifier will be Mr. Matt
6 Knittel from the Independent Fiscal Office.

7 The Independent Fiscal Office is tasked
8 with creating the performance plans, and it's important
9 to get their unbiased opinion on Senate Bill 1341.

10 Good morning, Mr. Knittel.

11 DIRECTOR KNITTEL: Good morning.

12 MAJORITY CHAIRMAN ADOLPH: Just real
13 quick, we have this room until ten o'clock, so
14 appreciate -- I know we have copies of your opening
15 statement.

16 DIRECTOR KNITTEL: Yes.

17 MAJORITY CHAIRMAN ADOLPH: And if you'd
18 just like to give us the Cliffs Note's version of that,
19 that would be fine and we'll get right on to questions.

20 DIRECTOR KNITTEL: Very good, I'll keep
21 my remarks very brief.

22 MAJORITY CHAIRMAN ADOLPH: Thank you.

23 DIRECTOR KNITTEL: Chairman Adolph,
24 Chairman Markosek, and members of the committee, as
25 noted, we did put out a performance-based budget report

1 in September, which we submitted, and it's on our
2 website.

3 The mandate for the office is really to
4 develop performance measures for use in the budget
5 process and to look at all executive agencies and to
6 work with them to develop those measures. And that's a
7 very broad mandate, which is good because it allows us
8 flexibility. And our intention with this report that we
9 issued was to solicit feedback from the general assembly
10 regarding what would be most useful.

11 If you read the report, as noted,
12 Pennsylvania does already publish significant
13 performance measures, nearly 700. We do feel that they
14 are underutilized. They could be used in the budget
15 process more. If you look across all of the states,
16 what you'll find is 31 states currently have a statutory
17 requirement that requires performance measures to be
18 published and 40 of them publish them in some fashion.

19 In the report, we have what we call a
20 prototype report, which is just one method that could be
21 used to introduce performance measures into the budget.
22 And I won't go through the details. It's in the report.

23 One thing that we have found to be very
24 useful that's been communicated to us is we do make what
25 we call benchmark comparisons to agencies in other

1 states. We worked very closely with the Department of
2 Corrections, and I'd like to thank them for their
3 assistance. And what we did is we compared, such as
4 average cost per inmate across Pennsylvania and the
5 surrounding states, average health-care costs, things
6 such as that. It was communicated to us that that was
7 very helpful.

8 And as I noted, this is only one method
9 that could be used to introduce performance measures
10 into the budget process. SB 1341 is yet another method
11 that could be used, which would have our office be a bit
12 more involved. We would work with the agencies to
13 develop performance plans. We would develop performance
14 measures and then we would submit those to a budget
15 board.

16 We are not allowed to make policy
17 recommendations, so I cannot say whether that is a
18 better or worse approach. I can only say that we would
19 work with the general assembly and the executive branch
20 to be as helpful as possible in this process.

21 So with that, let me conclude and I'll
22 try to answer any questions.

23 MAJORITY CHAIRMAN ADOLPH: Thank you.

24 Representative George Dunbar.

25 REPRESENTATIVE DUNBAR: Thank you,

1 Director Knittel. Good to see you again.

2 You had mentioned that you have
3 evaluations on close to 700 performance evaluations.

4 DIRECTOR KNITTEL: Yes. They're
5 published by the Office of the Budget.

6 REPRESENTATIVE DUNBAR: And they are part
7 of the budget process right now or they're just after
8 the fact? Help me understand how we're utilizing those.

9 DIRECTOR KNITTEL: Well, many of them are
10 published in the executive budget, not all 700 are. All
11 700 are contained online.

12 How they're used in the budget process,
13 whether they're discussed, our understanding is that
14 there's very limited discussion.

15 REPRESENTATIVE DUNBAR: Thank you for
16 that.

17 There was also, I heard questions earlier
18 in regards to costs. Have you been able, as Director,
19 to do an evaluation of what SB 1341 will cost as far as
20 IFO?

21 DIRECTOR KNITTEL: We have not undertaken
22 that analysis yet.

23 REPRESENTATIVE DUNBAR: And not to
24 advocate for my own legislation, but we've had
25 discussions in the past on HB 1205, which is a Results

1 First initiative. We've actually gotten to the point
2 where we talked about how much staffing and everything
3 else that would require.

4 Would that -- is there a direct link or
5 comparison between the two? You may be the one person
6 that's familiar with both of them.

7 DIRECTOR KNITTEL: There is a link. I
8 would characterize the Results First as being more at
9 the program level, a particular type of program.
10 Whereas, performance measures being more of an
11 agency-wide approach.

12 Now, many states actually use both
13 approaches and there is some nice overlap between them.

14 REPRESENTATIVE DUNBAR: And I appreciate
15 that because in discussions with Senator Mensch earlier,
16 we pretty much had that discussion about how these could
17 be merged together into one. And I know you can't do
18 policy recommendation, but that is something that
19 certainly the IFO can handle; is that correct?

20 DIRECTOR KNITTEL: If it's the desire of
21 the general assembly, and we have had discussions
22 before, we could undertake those duties and house the
23 PEW model, the Results First model.

24 REPRESENTATIVE DUNBAR: Thank you.

25 MAJORITY CHAIRMAN ADOLPH: Thank you,

1 Representative.

2 Representative Dean.

3 REPRESENTATIVE DEAN: Good morning and
4 welcome.

5 DIRECTOR KNITTEL: Good morning.

6 REPRESENTATIVE DEAN: Good to see you.

7 On the question of costs, resources that
8 it would take to implement legislation such as Senator
9 Mensch's legislation, can you give us any rounded kinds
10 of resources that it would require of your office?

11 DIRECTOR KNITTEL: Based on my
12 understanding of the bill, I do think it would require a
13 few additional staff. How many, I'm not sure. It just
14 depends on how extensive it is.

15 One of the things that needs to be
16 defined yet is will it supply to all of the agencies --
17 we think it will -- and how often will those agencies
18 come under review? It could be every year, could be
19 every five years.

20 REPRESENTATIVE DEAN: And we had part of
21 that conversation with the Senator.

22 Do you have any idea of being able to say
23 what the agencies would then need to do to staff up or
24 resource in order to fulfill the mission of this
25 legislation?

1 DIRECTOR KNITTEL: That I don't have a
2 good appreciation of at this point.

3 REPRESENTATIVE DEAN: Okay. And I
4 think -- I want to be clear. I'm very interested in
5 performance-based measures, metrics, taking a look at
6 how we're spending, and what the outcomes are. And from
7 your testimony and from my knowledge of the fine work of
8 your office, you're using a lot of performance-based
9 metrics already. We just heard from the Secretary. We
10 are doing that in our budget.

11 Something I'm thinking about, and maybe
12 you could help me, is sort of, if we were to pass this
13 legislation -- which as I said, we're doing
14 performance-based measures already -- if we are to pass
15 this legislation, how would we enforce it? It's almost
16 to me the question of, what's the performance basis of
17 the legislation? How would we actually enforce the
18 general assembly to budget only by way of
19 performance-based metrics?

20 DIRECTOR KNITTEL: That is a key issue.
21 Our experiences and in the report we do look at six
22 states very intensively that use performance-based
23 measures to budget, to allocate resources. And one of
24 the important questions -- there's really two -- is how
25 often are the data reviewed? Many of the states even do

1 it on a quarterly basis.

2 And the other thing is, if we are going
3 to set performance targets, who's going to set those
4 targets? And if the targets are not met, what's the
5 penalty and reward mechanism? So that's a very integral
6 part of the performance-based budgeting process and is
7 an important decision.

8 REPRESENTATIVE DEAN: And are there such
9 penalty and enforcement measures in other states'
10 version of this?

11 DIRECTOR KNITTEL: Some states have used
12 them. They have transferred responsibilities or reduced
13 budgets. I would characterize that as the exception
14 rather than the rule.

15 REPRESENTATIVE DEAN: Okay. Thank you.

16 MAJORITY CHAIRMAN ADOLPH: Thank you,
17 Representative.

18 Representative Grove.

19 REPRESENTATIVE GROVE: Thank you, Mr.
20 Chairman.

21 Director Knittel, thanks again, and I
22 just want to echo the great work that your agency does
23 on behalf of the Commonwealth. You're valued as an
24 independent source and we just appreciate the work that
25 you do.

1 DIRECTOR KNITTEL: Thank you.

2 REPRESENTATIVE GROVE: So please pass the
3 good work on to your staff.

4 In your analysis of performance-based
5 budgeting, you cite three models used by government to
6 improve resource allocation or maximize the return on
7 taxpayer funds, efficiency initiatives, lean government,
8 continuous improvement, cost budget analysis, and
9 performance-based budgeting.

10 If we were to start from scratch and
11 develop a new budget process moving forward, would it
12 include all three models working in tandem?

13 DIRECTOR KNITTEL: That is a possibility.
14 My sense of it, without getting into the details, is it
15 would be difficult to coordinate all three at once and
16 it may be best to focus on one item.

17 We had discussed that, potentially -- and
18 many states do so -- two of them are already in use.
19 That is the PEW model, which is Results First, and
20 performance-based budgeting. That type of model has
21 been done and seems to work well.

22 REPRESENTATIVE GROVE: Okay. In your
23 case study, is there a state which utilizes all three
24 that you've looked at or is it just kind of two or one
25 or...

1 DIRECTOR KNITTEL: I would characterize a
2 state very close to that as Washington, where the
3 Results First model actually developed.

4 REPRESENTATIVE GROVE: And then they use
5 kind of continuous improvement and performance-based
6 budgeting as well as a cost benefit analysis?

7 DIRECTOR KNITTEL: Yes. They use
8 something called Lean Initiative, so...

9 REPRESENTATIVE GROVE: Okay. And then in
10 order to fully integrate a performance-based budget in
11 Pennsylvania, what changes would the general assembly
12 have to make in order to facilitate that as well?

13 DIRECTOR KNITTEL: I would emphasize just
14 a long-term commitment to reviewing the measures for all
15 of the agencies.

16 One of the things we found is that if
17 legislators are not constantly reviewing the measures
18 and interacting with the agency to review those, that
19 the system doesn't hold up, so constant review.

20 REPRESENTATIVE GROVE: And the system
21 that most states use, is it just appropriations, is it
22 standing committees, a combination?

23 DIRECTOR KNITTEL: It's really a
24 combination. Sometimes they use them in the hearings
25 process, but often -- for example, New Mexico will have

1 quarterly meetings on the performance measures and hold
2 a public meeting and bring in the agency managers and
3 review the performance measures.

4 REPRESENTATIVE GROVE: Okay. And your
5 charge is to kind of develop performance-based
6 budgeting.

7 Within your packet, you had a great
8 analysis of what Corrections can look like. It was
9 great information that, you know, I wish, being on
10 Appropriations, we had moving forward. So I applaud
11 that and would urge you and your staff to continue
12 working with the administration on developing those for
13 Appropriations hearings moving forward.

14 DIRECTOR KNITTEL: Okay.

15 REPRESENTATIVE GROVE: Thank you, Mr.
16 Chairman.

17 MAJORITY CHAIRMAN ADOLPH: Thank you,
18 Representative.

19 Representative Warren Kampf.

20 REPRESENTATIVE KAMPF: Thank you, Mr.
21 Chairman.

22 Director, good morning.

23 DIRECTOR KNITTEL: Good morning.

24 REPRESENTATIVE KAMPF: I just wanted to
25 highlight something in your executive summary from this

1 report.

2 You cite a survey from the National
3 Association of State Budget Officers from 2015, August
4 of 2015. And that indicates that 40 states compel
5 agencies to include performance measures as part of
6 their annual budget submission. But you go on to say,
7 "Despite widespread use, the same survey found that only
8 three states characterize performance budgeting as their
9 primary budget approach. Most states continue to use an
10 incremental budget approach where appropriations are not
11 tied to specific goals or objectives."

12 And it is correct that Pennsylvania is
13 not one of those three states?

14 DIRECTOR KNITTEL: Based on that survey,
15 that's correct.

16 REPRESENTATIVE KAMPF: If we were to do
17 a, you know, true performance-based budget process year
18 in, year out, who are the experts that we would look to?
19 Are there, you know, nonprofits, outside companies that
20 really know about this?

21 DIRECTOR KNITTEL: The two organizations
22 that I would point to you, one you noted is NABO, the
23 budget officers, the other one is NCSO. They are very
24 involved. They work with all of the states very
25 closely. I would even recommend bringing in a few

1 states that use these very extensively, Texas and
2 Washington come to mind.

3 MAJORITY CHAIRMAN ADOLPH: Thank you.

4 Mr. Knittel, I want to thank you very
5 much for your testimony today. I also, I would be
6 remiss if I didn't thank you for the job that you're
7 doing.

8 This Appropriations Committee, you know,
9 we have been charged with trying to put together budgets
10 over the last several years. I don't have to tell
11 anybody in this room, you know, the mandates alone are
12 going up about a billion dollars a year. And I
13 certainly think it's necessary to have performance-based
14 budgeting.

15 I think, you know, with education being
16 40 percent of our budget and DHS being another
17 40 percent of our budget, we have to take a look at
18 those programs and make sure that the money is getting
19 into the classroom, okay? And getting to the people
20 that need it the most.

21 I think if we would have had
22 performance-based budgeting working in education, we
23 certainly would not have waited two and a half decades
24 to change hold harmless. Just that phrase, "hold
25 harmless," you know, sounds great. But if the students

1 aren't there, the money should have been reallocated and
2 spread over to where the students were. So that's
3 pretty simple, performance-based, based upon the number
4 of students.

5 So I want to thank you.

6 I want to wish the general assembly good
7 luck in the coming year. They're going to need it,
8 okay? And any type of new initiatives necessary to make
9 the budget process work, I certainly would be supportive
10 of.

11 So thank you very much. And this hearing
12 is adjourned. Thank you.

13 (Whereupon, the hearing concluded at
14 10 a.m.)

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REPORTER'S CERTIFICATE

I HEREBY CERTIFY that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings, and that this is a true and accurate transcript of the same.

Summer A. Miller, Court Reporter
Notary Public