

Testimony for Hearing on Performance-Based Budgeting

House Appropriations Committee

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Good morning Chairmen Adolph and Markosek. Thank you for the opportunity to testify today on Performance-Based Budgeting. For my brief comments, I would like to focus on a report that the IFO released last month that discusses using performance measures in the state budget process.

The statute that created the IFO requires the office to “develop and evaluate” performance measures for executive-level programs and agencies. The statute also requires that the measures be outcome-based, so that they reflect the impact of programs on recipient populations.

Given this broad mandate, we determined that the best approach was the issuance of a report that attempts to solicit comments and feedback regarding performance measures and performance-based budgeting generally. Specifically, the report published by the IFO considers three questions:

- How do other states develop, use and evaluate performance measures?
- Which methods and conventions work, and which do not?
- What factors need to be considered to move the process forward?

I should note that performance measures are often part of a larger budget system known as performance-based budgeting (or PBB). In that system, performance measures are used to assess agency progress towards clearly defined goals and objectives. Some states set performance measure targets and utilize a reward and penalty mechanism to motivate agencies to meet those targets.

Currently, Pennsylvania executive agencies report and submit 686 performance measures to assess agency progress towards stated goals and objectives. However, based on informal discussions with budget staff and legislators, we believe that the performance measures are generally underutilized and have a limited impact on the budget process.

Background on Performance Measures

In our report, we found that 31 states currently have a statutory requirement that compels agencies to report performance measures, and 40 states require agencies to

include performance measures as part of their budget submission. However, only 3 states characterize PBB as their primary budget approach. For most states, performance measures are not fully integrated into the budget process, and many use an incremental budget approach, where funding is largely based on the amount from the prior year.

The IFO report considers 6 states that have extensive experience with PBB. The report discusses the attributes of those states that facilitate the effective use of performance measure reports in their budget process. Important factors include:

- The reports should be concise. All states have noted that users can be quickly overwhelmed with too much data that lack context.
- The reports should have the ability to be integrated quickly into the budget process. A long start-up process risks failure.
- The reports should include agency comments to allow managers to explain recent trends and outcomes.
- Finally, the reports should include more outcome and benchmark measures, or comparisons to other states.

This final element is clearly lacking in many states. While most states publish large volumes of measures, there are very few outcome measures because they are not readily available and can be costly to develop.

Prototype Performance Measures Report

The IFO report lays out what is referred to as a “prototype performance measures report” that could be used during budget hearings. (See pages 37 to 41 of the main report.) The prototype report is simply a method to solicit feedback and comments regarding the form, content and timing of a performance measures report and how it could be used. As constructed, we had assumed that the report would be used for one or two agencies during the Spring 2017 budget hearings, and certain fields that are now missing would be filled in after the release of the Executive Budget.

I will only make brief comments about the tables in the report to provide some context. We used the Department of Corrections (DOC) as a template agency because they are a large agency that publishes extensive data, similar to its counterparts in other states.

The first two tables show the agency mission statement, goals and objectives, the source of agency funds and the purpose for which the funds are used. These first two tables provide data that illustrate recent agency cost drivers to provide context for the performance measures that will follow.

The third table contains the performance measures. The first group is output measures. The current report includes measures of DOC workload such as number of inmates, number of receptions and releases, and number of inmates enrolled in treatment or academic programs.

The second group is efficiency measures, which reflect productivity or trends in cost containment. The measures include the number of inmates per staff, total average cost per inmate and average healthcare cost per inmate.

The final group is outcome measures, which attempt to gauge whether the agency is making progress towards its goals and objectives. For DOC, a primary goal is to reduce recidivism. The measures include the 1-year re-incarceration rate, the 3-year recidivism rate and the inmate employment rate.

The fourth table presents benchmark comparisons to surrounding states. The current metrics include two efficiency measures (average cost per inmate and average healthcare cost) and an outcome measure (re-incarceration rate). These data allow a comparison of trends between the Pennsylvania DOC and agencies in surrounding states.

The fifth table presents historical data over the past decade to provide a view of long-term agency trends. The page contains cost data, output, efficiency and outcome measures. The bottom of the page displays broad demographic and economic data for additional context.

Not shown are the proposed pages for agency comments. If some version of this report is used, the report would be forwarded to the agency as (1) a check for data accuracy and (2) for commentary prior to distribution to the Appropriations Committees for use in the budget hearings.

This basic report attempts to get data in front of policymakers to inform the budget process in a concise and timely manner. Once the basic reports have been established, they could be modified or expanded, and new measures could be added.

The report we published presents one method that could be used to establish the use of performance measures in the budget process. Over time, the intention is that the measures would become an integral part of the budget process. The report is only one method that could be used to inform a more efficient allocation of limited resources.

Senate Bill 1341 is another potential method. Under that bill, the IFO would:

- Review extensive information submitted by the executive agencies, and work with them to develop the relevant data sets and sources.
- Work with the agencies to develop a performance-based budget plan. The bill envisions that a few agencies would come under review each year.
- The IFO would also develop performance measures to facilitate the assessment of agency progress towards meeting the goals and objectives outlined in the plan.
- The IFO would then submit the plan to the Budget Board for their review.

The IFO is not able to make a recommendation regarding the best approach to pursue because the office cannot make policy recommendations. However, the office is committed to working with the General Assembly and Executive Branch to enhance and improve the budget process in a manner that is deemed most appropriate and useful.

More generally, if the General Assembly is considering approaches to implement Performance-Based Budgeting, the experience of other states suggests that it would be useful to consider four key issues:

- What agencies would be subject to reporting and how would they be selected and phased-in? How often would they be subject to reporting?
- Should the reports include explicit performance targets, as used by many other states? If targets are used, who would determine them, and what would be the penalties and rewards for failure to meet those targets?
- At what point would reports be used in the budget process?
- Is there a willingness to invest the long-term time and resources necessary to ensure success? For example, there is a clear lack of outcome measures, and it will require additional resources from the executive and legislative branches to develop more informative measures. Moreover, legislators will need to devote time to ensure the regular review of performance measures across all agencies. Experience in other states clearly demonstrates that a lack of legislative or executive interest implies failure of PBB systems. Both branches must be actively engaged in the process.

Thank you. I would be happy to try to answer any questions you have.