

oppaga PB² Status Report



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Recent Initiatives Strengthen Florida's Performance-Based Budgeting System

at a glance

Florida's performance-based program budgeting (PB²) experience shows that focusing on performance has improved accountability for state programs, led to better public services, and produced cost savings. However, not all agencies have used PB² to improve their efficiency. The 2000 Legislature and Governor have enacted changes to the PB² system that will greatly strengthen its impact on government efficiency. These changes

- require agencies to undertake core process mapping and to better align their budgets and long-range program plans;
- require agencies to maintain a comprehensive set of performance measures; and
- create a Legislative Budget Commission responsible for reviewing agency requests for budget amendments and for conducting in-depth reviews of agency budgets using zero-based budgeting principles.

Background

Florida is completing a seven-year effort to change the way it funds government programs. This budget reform, called performance-based program budgeting (PB²), is part of a nationwide movement in which governments at all levels are focusing attention on program results.¹

This report discusses the status of Florida's PB² budget reform effort including recent initiatives by the Legislature and Governor for making performance-based program budgeting more useful to state budgeting and agency reform efforts. This is the fourth in a series of OPPAGA reports that have addressed Florida's PB² initiatives.²

In the 1994 Government Accountability Act, the Legislature required all agencies to include information about the performance of their programs in their legislative budget requests.

¹ The Government Performance and Accountability Act of 1994 (Ch. 94-249, *Laws of Florida*) established performance-based program budgeting in Florida.

² The prior reports were *Performance-Based Program Budgeting in Context: History and Comparison*, [Report No. 96-77A](#), April 1997; *Performance-Based Program Budgeting in Florida: Current Status and Next Steps*, [Report No. 96-77B](#), April 1997; and *PB² Status Report, Fiscal Year 1998-99: Performance-Based Budgeting Has Produced Benefits But Its Usefulness Can Be Improved*, [Report No. 98-45](#), January 1999. The first report describes prior budget reform efforts and compares PB² to similar budget reforms at the national level and in other states. The second two reports assess the implementation of PB² and suggest ways to improve it.

This performance information must include output measures showing how many goods and services the programs produce and outcome measures showing the effect of these goods and services in achieving desired results. The Legislature adopts standards for these outputs and outcomes in the appropriations act.

Through performance-based program budgeting, the Legislature hoped to improve efficiency and effectiveness in a number of ways. These included ensuring that agencies have clear goals and objectives, undergo performance evaluation, be held accountable for their outcomes, and be motivated by incentives and disincentives.

PB² has improved accountability and performance

Performance-based program budgeting has produced many positive effects. For example, during the measurement development and approval process, agencies and the Legislature clarified the goals and objectives of state programs, and most agencies focused their efforts on achieving these goals and objectives. In addition, most agencies have developed reasonable measures of the benefits their programs provide, and OPPAGA and other evaluators have used these measures to evaluate program effectiveness. The Legislature has also used PB² measures to strengthen its oversight of agency progress in attaining key state goals.

In addition, a few agencies, such as the Departments of Revenue and Law Enforcement, have built on PB² by implementing business process mapping and other techniques that enable them to detect and eliminate operating inefficiencies. These agencies developed comprehensive accountability systems that include performance measures for key processes and intermediate outcomes.

Agency managers use these internal measures to track and improve program performance.

PB² weaknesses limited its impact

However, most agencies have not gone beyond minimal PB² requirements, and therefore PB² as initially established did not produce all desired results. Several weaknesses in Florida's PB² initiative have limited its impact on state budgeting and management.

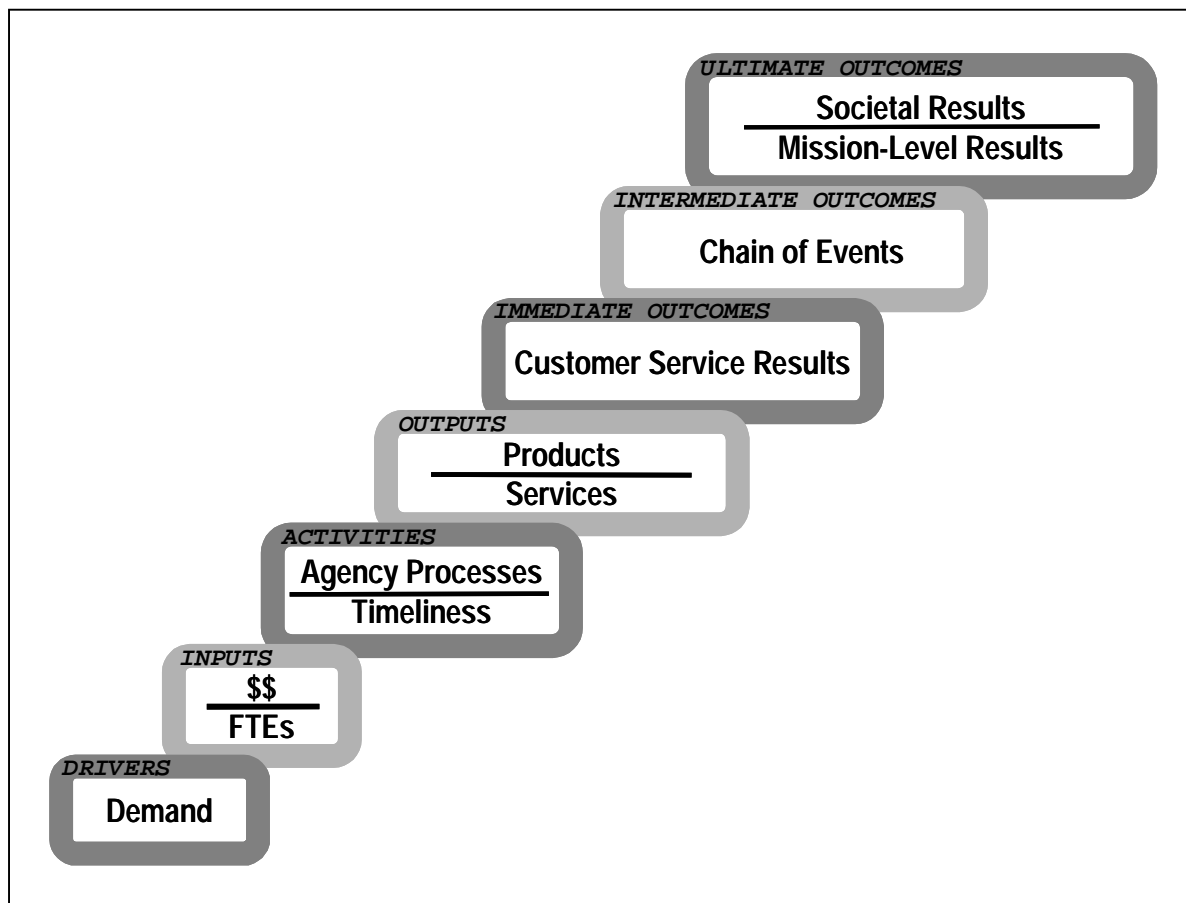
Inconsistent accountability systems

Agencies have been inconsistent in their efforts to develop accountability systems. Some agencies have developed limited accountability systems that do not contain process or interim outcome measures. These internal measures are needed to help managers detect and correct potential operating problems. They also are essential to tie agency processes to final outcomes. Exhibit 1 shows how agency activities should be linked to societal outcomes. To help manage and explain performance, agencies need to develop measures for key links in the value chain connecting inputs to ultimate outcomes.

In contrast, other agencies included numerous process and intermediate measures in their budget requests. This created a large set of measures and hindered the facility with which policymakers could sort out their relative importance. The Legislature has been reluctant to cut back on the number of measures out of concern that agencies might not keep data on measures that were not in the appropriations act. As a result, the appropriations act became overloaded with performance measures. To control this, most measures have been included in an implementing bill. Agencies need to develop comprehensive performance measures, but not all of these measures should be included in the budget.

Exhibit 1

The Value Chain Shows the Connection Between Inputs, Outputs, and Outcomes



Source: OPPAGA, based on materials from the Governor's Office, Washington.

Lack of cost information

A lack of unit cost information has impeded the Legislature's efforts to assess program efficiency. Prior to 1999, agencies were not required to provide information about unit costs for their outputs. As a result, obtaining the information needed to assess the cost-efficiency of state programs or compare the costs of state output to those of private sector organizations (needed for sound privatization decisions) was time-consuming and expensive.

Agencies face a major barrier to developing unit costs because the state accounting system generally tracks expenditures by appropriations categories and organizational units rather than by programs and their outputs. Thus, agencies cannot readily

use accounting system information to develop unit costs.

Weak links between measures, plans, and budget requests

Finally the links between performance measures, program plans, and legislative appropriations have been weak. For example, agencies were required to produce strategic plans, but they were not required to use PB² measures when reporting performance in the plans. In addition, they were not encouraged to develop priorities for their program services and focus on services that make a difference.

In addition, the Legislature did not have a systematic way of linking strategic plans and performance measures to agency budget

requests for additional resources, which in Florida's system are called "budget issues." Without these links, agency plans and performance measures had limited value in the legislative budgetary process.

Recent changes improve PB² and enhance state efficiency

Over the last two years, the Legislature and Governor's Office have taken steps to address these weaknesses in the PB² system. These initiatives strengthen the performance-based program budgeting process and should enhance its effect on the budget process and government efficiency.

Initiatives enacted in 1999

In 1999, the Legislature took a major step to improve PB² by requiring agencies to identify and report their unit costs. Chapter 99-377, *Laws of Florida*, required state agencies to report unit costs for each of their PB² output measures. When added together, these unit costs are to equal the total amount budgeted for each agency. This requirement, which is still being implemented, will provide a basis for establishing useful unit cost information about state services. However, its implementation will be hindered until improvements are made to the state accounting systems to enable this system to automatically track costs at the service level.

Initiatives Enacted in 2000

In 2000, the Legislature took additional steps to strengthen performance-based program budgeting. These changes were made in substantive law and in proviso to the appropriations act. In making the changes, the Legislature adopted a new budget structure, updated the state's budgeting statutes, facilitated integration of planning and budgeting, and launched a more comprehensive legislative review of agency performance and budgets. In addition, the Legislature provided funding for the initial

development of a new state accounting system and for agencies to undergo core business mapping for use in developing the accounting system.

New Program Structure. During the budgeting and appropriations process, the Governor proposed and the Legislature adopted a new program structure that is more closely aligned to the budget structure. Under this new structure, programs are broken down into services, and outcome measures are associated with each of these services. (See Exhibit 2.) Each of the services is further broken down into component activities with output measures and unit costs associated with these outputs. This new structure provides a more consistent basis for organizing state government activities into programs and services and shows how individual government tasks are related to larger state goals.

Exhibit 2 An Example of the New Program Structure

Program—Licensure of Facilities
<i>Outcome measures—Percentage of facilities in compliance with licensure requirements</i>
Service—Facility Licensure
<i>Interim outcome measure—Average number of days taken to issue/renew a license</i>
Activity—License Issuance
<i>Output measure—Number of licenses issued</i>
Activity—License Renewal
<i>Output measures—Number of licenses renewed</i>
Service—Enforcement of Licensure Standards
<i>Interim Outcome Measure—Percentage of serious complaints investigated within 24 hours</i>
Activity—Facility Inspections
<i>Output measures—Number of facilities inspected</i>
Activity—Facility Reinspections
<i>Output measure—Number of facilities reinspected</i>
Activity—Prosecution of facilities not meeting standards
<i>Output measures—Number of facilities prosecuted</i>

Source: OPPAGA.

Updating state budgeting statutes. Chapter 2000-371, *Laws of Florida*, substantially revised the state's budgeting statutes as reflected in actions noted below.

- The law removes statutory language that had become obsolete because all agencies are operating under a performance-based program budget. For example, the old budgeting statutes included two sets of requirements for agency budget requests: one set for agencies that were operating under performance-based program budgets, and a different set for agencies that had not yet come under PB². The new statutory language provides for a single set of requirements: all agencies are to submit performance information with their budget requests. Similarly, the law deletes the now-completed schedule for agencies to begin operating under a performance-based program budget.
- The law aligned the budget and appropriations structures by changing the definition of a budget entity, the lowest level to which the Legislature appropriates funds, to be equivalent to a program service, the major component of programs. This will enable the Legislature to specify the amount of resources that are to be dedicated to providing specific public services.
- The law requires all agencies to maintain comprehensive accountability systems. Only a subset of these measures will be included in the appropriations act, and agencies must provide the Legislature with a list of all the measures they maintain. This will help agency managers monitor performance and take corrective when needed. It will also enable the Legislature to obtain additional information to determine how agency actions have contributed to ultimate outcomes.

Requiring agencies to establish useful long-range plans. While agencies have been required to develop strategic plans for many years, these plans were not always tied to budget requests and did not always include cost information. The new law replaces the strategic planning requirements with requirements for agencies to annually develop long-range program plans. In developing these plans, agencies are to thoroughly examine and justify their functions and associated costs. Agencies are to use the plans to implement the state's goals and objectives and to report performance indicators for their services and activities. In addition, the plans are to provide the framework and context for agency budget requests.

The governor's office has issued [instructions for completing long-range program plans](#).³ The instructions require agencies to examine their customers' needs as well as their agency programs and associated costs. Agencies must use this information to develop and implement long-range program plans that are policy-based, priority-driven, and accountable. These plans are to be developed using an integrated interagency planning process that brings together cognate agency outcome measures. The plans are to cover a five-year period and provide the framework for agency budget requests.

The instructions require agencies to ask critical questions in developing these plans, including those below.

- Does the service or activity need to be provided?
- What is the optimum level of a service to meet the need and achieve a stated goal or objective?
- What is the best mix of activities?
- What are suitable alternatives?

³ http://www.state.fl.us/myflorida/opb_instructions/index.html

The instructions require agencies to reduce their general review and trust fund expenditures by 5% in Fiscal Year 2001-02 and to examine the impact of reducing their workforces by 25% over a five-year period. Agencies are to accomplish this by assigning priorities to their services and activities and eliminating lower-priority services and activities. They also are to consider privatizing services and activities or shifting them to local entities.

The instructions also require agencies to include in their plans statements of their goals and objectives and related outcome measures. These goals, objectives, and outcome measures are to be developed after the agencies conduct analyses of their strengths, weaknesses, opportunities, and threats. However, for Fiscal Year 2001-02, agencies are to use the performance measures approved by the Legislature.

Creating a Legislative Budgeting Commission. This new entity includes seven members of the Senate and seven members of the House. The commission is responsible for reviewing agency requests for interim budget amendments and for conducting an in-depth review of each state agency's budget using zero-based budgeting principles. These in-depth reviews will be conducted on at least an eight-year schedule that is to be developed by February 1, 2001. The law provides that the commission is to review the Department of Revenue and Department of Law Enforcement in the first year of this process, and it is to issue a report on these agencies by December 1, 2001.

The Legislative Budget Commission has approved instructions for agencies to follow when providing information for zero-based budgeting [reviews](#).⁴ These instructions require agencies to provide information on their services and activities including cost,

performance, impact of elimination, and level of privatization.

This information is intended to provide the Legislative Budget Commission with information that will enable it to answer three questions.

- Should government continue to provide a particular service and its associated activities?
- If the service or activity is recommended for continuation, is its current level of efficiency meeting legislative expectations and if not, should the activity be reengineered?
- If a service or activity should continue to be provided, would it be more efficiently and effectively provided by the private sector, another agency, or the current agency?

Requiring agencies to undergo core business process mapping. To support the zero-based budgeting review process and to facilitate the development of an integrated financial management system capable of collecting unit costs, the Legislature appropriated funds to enable agencies to identify their core business processes. In this process, agencies are to use methodologies consistent with the concepts and principles of zero-based budgeting and with the methodologies used in core-process mapping studies conducted by the Departments of Revenue and Law Enforcement. In addition, agencies are to recommend changes to their current business practices that are needed for an integrated financial management system.

Providing funding for an improved state accounting system. The Legislature appropriated \$19 million for the initial implementation of a new integrated financial management system in selected agencies. The system is to be implemented in agencies that have completed reviewing and revising their core businesses processes.

⁴<http://www.leg.state.fl.us/data/committees/joint/jclb/Meetings/AugustLBCPacket.pdf>

Effect of new changes on PB²

These new changes will greatly strengthen performance-based program budgeting and represent the next step in the evolution of Florida's government accountability system. The new system will address the weaknesses in the PB² process and will produce several important benefits.

The required core process mapping exercise should help all agencies develop a comprehensive performance measurement system. The agency business maps and comprehensive performance measurement systems should enable the Legislature and executive branch managers to assess how state services relate to high-level outcomes and to identify and eliminate activities that do not add substantial value to citizens.

The requirement for agencies to develop unit cost data, plus the initial development of an improved state accounting system, should provide the state more useful information on how much it costs to provide various public activities. This will enable the Legislature and the Governor to systematically consider policy options such as privatization and will allow agencies, the governor's office, and the Legislature to continually monitor program efficiency.

Finally, the requirement that agencies keep long-range program plans that are linked to their budget requests should help the legislature and agencies to focus on long-range priorities and invest resources in program activities that make a difference in achieving desired outcomes.

However, for all of these changes to yield their expected benefits, they have to be fully implemented. For example, when the Governor's Office first recommended the new program structure, the instructions required agencies to focus on the intermediate outcomes of program services rather than the ultimate outcome of the program.

This year's budget instructions allow agencies to include these higher-level

outcomes. However, the Legislature's efforts to link program services with overall program goals will be hindered if agency business maps and comprehensive measurement systems do not include measures of ultimate outcomes. In addition, if the Legislature does not oversee the way agencies develop comprehensive measurement systems, some agencies may continue to keep an insufficient number of measures to provide linkage between program services and ultimate results.

Similarly, the long-range program plans will likely have little effect on the appropriation process if the Legislature does not review and has no input into these plans. Historically, the Legislature has not formally reviewed or approved agency strategic plans. Therefore, the effect these plans had on legislative appropriations was minimal. To make the long-term program plans more effective in influencing legislative decisions on how to allocate limited resources, the Legislature will need to be involved in the planning process.

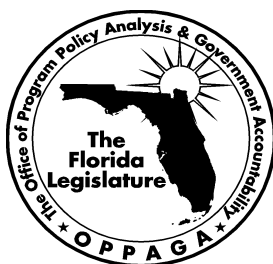
Recommendations

To ensure that legislative changes to the performance-based program budgeting system, agency planning systems, and the state's accounting systems have their intended effects, we recommend that the Legislature exercise strong oversight over agency core process mapping efforts to ensure that agencies are developing comprehensive measurement systems. We also recommend that the Legislature develop a process for reviewing long-range program plans to ensure that the plans agree with legislative intent. This should help the Legislature use the plans during the appropriations process.

OPPAGA will continue to fully support the performance-based program budgeting initiative and assist the Legislature in ensuring that these changes are effectively implemented and produce a stronger accountability system for Florida government.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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- [Florida Government Accountability Report \(FGAR\)](#) is an Internet encyclopedia of Florida state government. FGAR offers concise information about state programs, policy issues, and performance. Check out the ratings of the accountability systems of 13 state programs.
- [Best Financial Management Practice Reviews for Florida school districts](#). OPPAGA and the Auditor General jointly conduct reviews to determine if a school district is using best financial management practices to help school districts meet the challenge of educating their students in a cost-efficient manner.

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