THE FLORIDA LEGISLATURE ⬩⬩ Abstract ⬩⬩ Report No. 96-77A

Office of Program Policy Analysis and Government Accountability

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April 1997

Performance-Based Program Budgeting in Context: History and Comparison

This report is one of two OPPAGA studies assessing performance-based program budgeting (PB^2) in Florida. This report describes the national and state historical context, current initiatives in the federal government and selected states, and conclusions pointing to actions that Florida should take to increase chances of success. The companion report provides a status report on performance-based program budgeting in Florida and suggests specific implementation steps.

Summary

We conclude that performance-based budgeting offers public reporting of government results and makes reporting vital by linking it to resource decisions. While Florida has the elements of a strong system, many of the conditions that led to failure of past reforms and difficulties in other states are still present. Florida's reformers must be mindful of lessons to be learned while continuing implementation.

The Legislature should focus on performance and accountability through clarifying agency and program mission and expected outcomes. It should direct agencies to prepare outcome measures of their contribution to expected results of government programs. It should also require them to prepare output measures of the quality and cost-effectiveness of their products and services, so that the Legislature has budget decision tools. The Legislature should support improved information management by agencies and direct them to use limited evaluation resources in the most productive ways. The Legislature should then develop ways to encourage and reward good results and to discourage poor ones.

However, PB^2 should not be expected to be a mechanistic, rational system that will replace the political process of making resource choices in a complex environment of competing demands. Instead, it can become an information-based process that demands good performance through accountability, rewards good performance with flexibility and other incentives, and offers decision-makers and the public an understanding of the benefits derived through investment in government so that they can make informed choices.

Results in Brief

Budget Reform History. Performance-based budgeting is the latest in a series of budget reform efforts. Since the 1940s and 1950s, federal and state governments have initiated major budget reforms to increase the information basis and rationality of the budget process to improve government performance. Florida's own reform efforts took shape in the 1970s with a planning-programming-budgeting system, were re-examined in the 1980s with the effort to integrate planning and budgeting, and have again returned to the forefront in the 1990s. Historical conditions such as poor technology and analysis capacity, limited legislative and executive leadership commitment, and unrealistic expectations for changing the political process are still factors that can affect the present reform efforts.

Performance-Based Budgeting Experiences. All governments reviewed appear to be confronting similar issues. They are recognizing the importance of key stakeholder involvement in setting policy direction for the reform, dealing with the problem of weak government capacity to manage and analyze performance data, and confronting the challenges of designing performance information that both describes government and is useful to decision-makers in budget decisions.

Lessons Learned in Performance-Based Budgeting Implementation. We make these observations in comparing various models to the Florida one:

- Legislative support and involvement in a budget reform initiative is needed to provide essential policy guidance and to make the product a useful legislative tool. Experience in Florida has made clear that the Legislature needs to more explicitly define desired objectives and outcomes of programs so that efforts are directed to these ends.
- Performance measurement ability in government is often outstripped by the need for such information. State agencies frequently do not have data systems that can readily generate needed performance information, and Legislative recognition of this problem and support while agencies work through it is important. Support does not necessarily entail additional resource commitment, as it may be that an agency needs time to modify an existing system.
- Cost-accounting information managed electronically is critical for accurate and reliable measures of the cost to achieve desired outputs and outcomes. Florida's statewide accounting system does not collect costs by the types of programs that the Legislature establishes under PB^2. The proposed replacement for the statewide accounting system should be examined carefully to ensure that it supports needed data collection.
- Florida's experience with performance-based budget reform has shown that it is critical to begin developing a measurement system that provides information for decision-making before rewards and administrative flexibility are granted. The Legislature should be satisfied that an agency's PB^2 proposal meets fundamental requirements for measures quality and appropriateness before granting flexibility through lump-sum appropriation.
- In all systems we studied, understanding how to apply incentives and disincentives has been difficult. In Florida, lack of clear and generally understood criteria for awarding incentives has led to agency disillusionment about the benefits of PB^2. It appears more feasible to begin building accountability measurement and reporting systems before rewards and punishments are introduced to modify behavior.
- Performance-based budgeting approaches vary according to the value reformers place on describing government structure and on developing various types of performance measures. In further implementing PB^2, the Legislature should examine conflicts between perspectives in order to make expectations clear and to guide agencies in producing useful information.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (904-488-1023 or 800-531-2477), by FAX (904-487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302).

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A Report On

Performance-Based Program Budgeting in Context: History and Comparison

Office of Program Policy Analysis and Government Accountability

April 1997

Report 96-77A

Performance-Based Program Budgeting in Context: History and Comparison

- Both in past budget reform experiences in Florida and the federal government and in current reforms nationwide, some key implementation issues affect continuing success:
  - the critical importance of Legislative leadership and involvement in clarifying expectations for the reform,
  - the problem of weak government capacity to manage and analyze performance data, including inadequate data management and cost accounting systems, and
  - the challenges of designing performance information that both describes government and is useful to decision-makers as a budget tool.
- The Legislature should focus on performance and accountability through clarifying agency and program mission and expected outcomes. It should direct agencies to prepare outcome measures of their contribution to expected results of government programs. It should require output measures of the quality and cost-effectiveness of agency products and services, so that the Legislature has budget decision tools. The Legislature should then develop ways to encourage and reward good results and to discourage poor ones.

OPPAGA Mission Statement

This Office provides objective, independent, professional analyses of state policies and services to assist the Florida Legislature in decision-making, to ensure government accountability, and to recommend the best use of public resources.

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Executive Summary

This report is one of two OPPAGA studies assessing performance-based program budgeting in Florida. This report

- describes the history of national and Florida budget reform efforts and lessons to be learned from these experiences,
- discusses the current efforts of the federal government and selected states and compares these to the Florida initiative, and
- summarizes conclusions drawn from the Florida experience and those of other jurisdictions to point to actions that Florida should take to increase chances of success.

The companion report provides a status report on performance-based program budgeting in Florida and suggests specific implementation steps to be taken.

Background

Florida is implementing a major reform to improve the state's system for appropriating public funds. In 1994, the Legislature enacted the Government Performance and Accountability Act, which established performance-based program budgeting (PB^2) in state government. Florida's initiative is part of a national movement towards performance-based budgeting: a method of relating appropriations to program performance and expected outcomes.

By statute, PB^2 is being phased in over a seven-year period. On a staggered schedule, each agency must provide the Executive Office of the Governor with a list of programs, performance measures for each program, baseline data showing its past and current performance, and proposed standards for performance on each measure for the coming year. These programs, measures, and standards may be approved, modified, or rejected by the Governor and the Legislature. Approved programs and measures are included in the agencies' Legislative Budget Requests. The Legislature then designates acceptable agency programs, performance measures, performance standards, and the resources appropriated to accomplish these standards in the General Appropriations Act. As part of the subsequent year's appropriations process, the Legislature will examine actual performance of these programs in comparison to their standards and may provide incentives or disincentives based on performance.

Results in Brief

Budget Reform History. Performance-based budgeting is the latest in a series of budget reform efforts. Since the 1940s and 1950s, federal and state governments have initiated major budget reforms to increase the information basis and rationality of the budget process to improve government performance. Florida's own reform efforts took shape in the 1970s with a planning-programming-budgeting system, were re-examined in the 1980s with the effort to integrate planning and budgeting, and have again returned to the forefront in the 1990s. Historical conditions such as poor technology and analysis capacity, limited legislative and executive leadership commitment, and unrealistic expectations for changing the political process are still factors that can affect the present reform efforts.

Performance-Based Budgeting Experiences. In the federal and state governments, reform efforts based on program performance information range from using it as a program management and administration tool to using it as a budget tool for resource allocation decisions. The federal government, Minnesota, North Carolina, Iowa, and Texas all fall on this spectrum in using program performance information, but Florida's performance-based budgeting initiative is among the most ambitious. All these jurisdictions appear to be confronting similar issues. They are recognizing the importance of key stakeholder involvement in setting policy direction for the reform, dealing with the problem of weak government capacity to manage and analyze performance data, and confronting the challenges of designing performance information that both describes government and is useful to decision-makers. From these other jurisdictions, Florida reformers can identify useful practices and avoid pitfalls in continued PB^2 implementation.

Lessons Learned in Performance-Based Budgeting Implementation. Conclusions drawn about the Florida experience and those of the federal government and other states point to ways to increase chances of success of PB^2. Generally, performance-based reforms value accountability as a purpose of reform, but information is most relevant if it is tied to resource allocation in some way. Legislative direction in developing expected outcomes for state programs is critical, as is legislative support while agencies work to design measures and improve data systems. Offering flexibility in exchange for improved performance and accountability is a key component of performance-based budgeting reform, but the Legislature should ensure that it is satisfied with agencies' measurement efforts before granting flexibility and incentives. Performance-based budgeting approaches vary according to the value reformers place on describing government structure and on developing various types of performance measures. In further implementing PB^2, the Legislature should examine conflicts between perspectives in order to make expectations clear and to guide agencies in producing useful information.

CHAPTER 1 INTRODUCTION

Requested by the Joint Legislative Auditing Committee, this report is one of two OPPAGA reports assessing performance-based program budgeting in Florida. This report

- describes the history of national and Florida budget reform efforts and lessons to be learned from these experiences;
- discusses the current budget reform efforts of the federal government and selected states and compares these to the Florida initiative; and
- summarizes conclusions drawn from the Florida experience and those of other jurisdictions to point to actions that Florida should take to increase chances of success.

The second report provides a detailed status report on performance-based program budgeting in Florida and suggests specific implementation steps to be taken.

Background

Florida is undertaking a major reform of its budget system.

Florida is implementing a major reform to improve the state's system for appropriating public funds. In 1994, the Legislature enacted the Government Performance and Accountability Act, which established performance-based program budgeting (PB^2) in state government.

Florida's initiative is part of a national movement towards performance-based budgeting. Performance-based budgeting is a method of relating appropriations to program performance and expected outcomes. Government budgeting has traditionally focused on directing spending through appropriations for line items: specific categories of allowed expenditure such as salaries, operating expenses, and capital improvements. This approach uses incremental funding changes to satisfy immediate needs. As a result, critics charge that line-item budgeting tends to continue programs without examining their effectiveness and does not maximize the use of scarce public resources.

Performance-based budgeting allocates resources based on program results.

Performance-based budgeting is a different approach that considers how well an agency is achieving its goals using the money it has been given when assessing funding needs. This approach offers more information for lawmakers in deciding how to address complex and competing needs for resources. A study by the National Conference of State

Legislatures identified several characteristics that differentiate a performance-based budget from traditional budgets:

- It presents the major purpose for which funds are allocated and sets measurable objectives.
- It reports on past performance and allows comparison of programs rather than their line items.
- It offers managers flexibility to reallocate resources when conditions warrant, and it provides rewards for achievement or sanctions for failure.
- It incorporates findings from periodic, performance-specific evaluation and is supported by reliable, credible information that can be independently verified.[1]

Florida's PB^2 initiative provides greater management flexibility to agencies in exchange for accountability.

In enacting the Government Performance and Accountability Act, the Legislature declared that state agencies should be granted more flexibility in using their resources but should be held accountable for the services and products they provide citizens. Agencies should have incentives to deliver services and products efficiently and effectively. Their performance in achieving desired outcomes should be measured against clearly-defined missions, goals, and objectives. Finally, information on performance and public benefits of government services should be provided to the state's citizens.[2]

PB^2 requires the Governor and the Legislature to establish performance measures for state programs.

By statute, PB^2 is being phased in for state government over a seven-year period. An average of five agencies are designated to begin PB^2 every year until fiscal year 2001-2002. When required by the statutory schedule, each agency must provide the Executive Office of the Governor with a list of programs that it believes are conducive to performance-based budgeting. The following year, the agency submits performance measures for each of these programs. These measures are to assess program outputs (products produced by the agency) and outcomes (program results). The agency must also submit baseline data showing its past and current performance and proposed standards for performance on each measure for the coming year. (See Appendix A for a schedule of agency participation in PB^2.)

The Governor may approve, modify, or reject the programs, measures, and performance standards. Approved programs and measures are then included in the agencies' Legislative Budget Requests. The Legislature considers the information provided

[1] Carter, Karen. *The Performance Budget Revisited: A Report on State Budget Reform*. Legislative Finance Paper #91, National Conference of State Legislatures, Washington, DC, February 1991.

[2] Chapter 94-249, Laws of Florida.

and may reject, modify, or approve the programs, measures, and standards offered. In the General Appropriations Act, the Legislature then designates acceptable agency programs, performance measures, performance standards, and the resources appropriated to accomplish these standards.

To date, agencies under performance-based program budgeting have been provided a lump-sum appropriation for each of their programs, which provides managers with flexibility in using the funds (funds can transferred from one expenditure category to another). As part of the subsequent year's appropriations process, the Legislature will examine actual performance of these programs in comparison to their standards. The Legislature may provide incentives (such as more budget flexibility) to agencies whose programs meet their performance standards. It may also impose disincentives (such as budget reductions) if agency programs fail to meet their performance standards. (See Appendix B for a time-line of the performance-based program budgeting process, and Appendix C for a list of authorized incentives and disincentives).

CHAPTER 2 BUDGET REFORM HISTORY

Performance-based budgeting is the latest in a series of budget reform efforts. Since the 1940s and 1950s, federal and state governments have initiated major budget reforms to increase the information basis and rationality of the budget process to improve government performance. Florida's own reform efforts took shape in the 1970s with a planning-programming-budgeting system, were re-examined in the 1980s with the effort to integrate planning and budgeting, and have again returned to the forefront in the 1990s. Historical conditions such as poor technology and analysis capacity, limited legislative and executive leadership commitment, and unrealistic expectations for changing the political process are still factors that can affect the present reform efforts.

National Reform Efforts

The federal government has undertaken budget reform efforts since the 1940s, and state governments have often modeled on these attempts.

The most prominent guidance for federal budget reform came from the 1949 federal Hoover Commission on the Organization of the Executive Branch. The Commission recommended "program budgeting" (a budget based upon functions, activities, and projects) rather than the then-current method of budgeting by objects of expenditure, such as salaries and operating capital outlay.[3] Although federal budgeting in the 1950s was statutorily directed to relate to performance data, the data available was largely work load measures.

In 1961 the Defense Department piloted a planning-programming-budgeting system (PPBS) that was expanded to civilian federal agencies by 1965 and also adopted by many states. PPBS was intended to link long and short-range planning with budgeting by identifying goals, objectives, and costs several years into the future. It was supposed to provide decision-makers with information on the cost and effectiveness of alternative approaches to achieving objectives. However, by 1971, a new presidential administration reduced the focus on the planning orientation of PPBS and looked more at current management issues.

In 1973 the federal government piloted management by objectives (MBO) in 21 federal agencies. Under MBO, managers set targets for program objectives, established annual operating plans, and tracked progress toward these goals. Managers were to have discussions with staff through the

[3] Isolated instances of budget reform attempts occurred before 1940 in a few jurisdictions; these efforts are antecedents to the more visible and influential activity based on the 1949 Hoover Commission recommendations.

year on how to improve performance. This performance information was productivity- rather than result-focused, and it was not linked with the budget. This effort was discontinued in the mid-1970s.

Zero-based budgeting (ZBB) was a 1970s reform effort adopted in Georgia and attempted by at least 11 other state governments as well as the federal government in 1977. ZBB was an effort to examine all program spending annually and present funding decision packages ranked on the costs and benefits of each. Rather than focusing on planning or performance, as did earlier reforms, ZBB was a tool to build budgets through examining management and efficiency. By the early 1980s, the effort was abandoned in many jurisdictions.

Budget reform efforts have failed to be sustained for several reasons.

While these reform efforts have had some effect on the government budgeting process, all failed to be sustained for several reasons. First, the information requirements of these systems were extensive but were not supported by adequate historical record-keeping, sufficient staff expertise, or sufficient computer support for the type of analysis required. Typically, these systems collapsed under paperwork. Second, requiring all programs to justify their existence under a system like zero-based budgeting was a laborious exercise that was not feasible on a regular basis and did not appear to produce substantial resource reallocation. Third, by stressing “rational” analysis, these systems did not acknowledge the political choices inherent in budgeting and so tended to have little impact on funding decisions. Finally, prior reform efforts have often not had the strong and consistent backing from both the executive and legislative branches needed to succeed.

Florida Reform Efforts

Florida’s earlier experiences with budget reform mirror national efforts.

Program and performance-based budgeting are not new concepts in Florida budgeting. As early as the 1950s, academic articles from Florida institutions contrasted budgeting by objects of expenditure with budgeting by government functions and objectives. Such commentary noted that as the state’s needs become more complex, legislators need a budget that provides greater information.

Statutory changes and executive branch initiatives brought reform ideas to action. The 1967 State Planning and Programming Act introduced to Florida government the concepts of long-range state planning and short-range action programs. The Office of State Planning (created by the 1967 law) began a planning-programming-budgeting system (PPBS) initiative by categorizing state government activities into a taxonomy of ten state “programs,” or policy areas that cut across agency organization. This taxonomy was to provide each policy area's goals and objectives with financial information, for six years. With the 1969 statutory reorganization of Florida government came the legal requirement that each department compile a comprehensive program budget reflecting all program and fiscal matters related to the department and each program, sub-program, and activity. By 1970 the PPBS taxonomy was completed and was intended to be used for budget preparation.

Although PPBS in Florida provided a program structure that remains part of the budget process, PPBS was largely unsuccessful for reasons similar to those for national lack of success.

Although the resulting program structure described the services and programs of state government, the effort to link planning to budgeting was relatively unsuccessful for some of the same reasons that national efforts failed. Interviews with staff who had been involved in this effort indicate that Department of Administration budget staff were reluctant to abandon the line-item system that facilitated expenditure control in favor of long-range planning that did not take fiscal constraints into account. Agencies did not have the staff and computer capacity to create a program budget with the type of analysis required and reportedly did not use the program structure for their fiscal year 1971-72 budget requests. They also were uncertain whether the extensive workload would yield benefits in the legislative process.

In part because of inadequate computer support and the lack of a statewide accounting system, the appropriations bill in the early 1970s remained structured along bureaucratic organizational lines and was not cross-walked to the new program structure. Thus, the structure could not be used to display funding for programs and their objectives. Staff indicate that PPBS was not explicitly abandoned, as the program structure was eventually used for agency budget requests in order to show program objectives. However, the key ideas of planning and measuring achievement of objectives were not embraced by the Legislature and so were not central to the budget decision-making process.

A second major attempt to integrate planning and budgeting came out of statewide planning legislation.

In the 1980s the Legislature passed major legislation establishing the framework for strategic planning in Florida state and local government based on a state comprehensive plan. By 1986 the Governor's Office and the Legislative appropriations committees had instructed agencies to integrate strategic planning and operational budget preparation to produce budgets consonant with agency goals. Also in the mid 1980s, the program structure from the earlier PPBS efforts continued to be modified.[4] It was incorporated to a limited degree in the statewide accounting system so that

[4] The ten program areas are presently Economic Opportunities, Agriculture, and Employment; Public Safety; Education; Health and Social Concerns; Housing and Community Development; Natural Resources and Environmental Management; Recreational and Cultural Opportunities; Transportation; Governmental Direction and Support Services; and State Lottery Operations.

program structure could be linked to expenditure information and budget preparation. However, the performance measures included in legislative budget requests in the 1970s and 1980s were often output or workload measures that were not easily understood outside the agency and that did not describe results. Over time both the executive and legislative branches considered these measures inaccurate and irrelevant to management or budget decision-making.

Historical Lessons Learned

Lessons learned from federal and Florida reform history are important to consider for the current initiative.

Several important observations can be made about prior reform efforts. One important lesson to be learned from past experience is that ambitions of budget reforms have often outstripped the analytic and information management capacity of government agencies. The labor-intensive nature of these systems led to a recognition that they were not feasible. Another key lesson is that lack of leadership support in both the executive and legislative branches allows reform efforts to falter. There must be real commitment from all parties to shift budgeting towards directing results as well as overseeing spending. A third lesson is that rational, planning-based systems must not be expected to replace the political process of making resource choices in a highly complex environment of competing interests. Such systems may focus on government structure and thus seem divorced from operations and performance. It may appear impractical as a decision tool and unrelated to pressing, immediate concerns.

The current policy environment may allow greater success of budget reform.

Florida's current budget reform effort may have a greater chance of success than did previous reform efforts. The PB^2 effort takes place in an environment of increasing public discontent with government results and increasing demand for more government accountability. Its design is more focused on performance or effect of government functions than on government structure. It emphasizes results or outcomes and offers agencies increased management flexibility in exchange for accountability through performance information. Such flexibility may allow management innovation or tailoring resource use to solve problems. Because prior reforms brought trained professionals into the public sector to support systematic analysis in public budgeting, performance objectives and results may be better measured today than in the past. Also, modern computer systems are capable of such analysis. Finally, PB^2 in Florida was established as a legislative initiative and enjoys leadership support.

CHAPTER 3 PERFORMANCE-BASED BUDGETING EXPERIENCES

In the federal and state governments, reform efforts based on program performance information range from using it as a program management and administration tool to using it as a budget tool for resource allocation decisions. The federal government, Minnesota, North Carolina, Iowa, and Texas all fall on this spectrum in using program performance information, but Florida's performance-based budgeting initiative is among the most ambitious. All these jurisdictions appear to be confronting similar issues. They are recognizing the importance of key stakeholder involvement in setting policy direction for the reform; dealing with the problem of weak government capacity to manage and analyze performance data; and confronting the challenges of designing performance information that both describes government and is useful to decision-makers. From these other jurisdictions, Florida reformers can identify useful practices and avoid pitfalls in continued PB^2 implementation.

Spectrum of Use of Performance Information

Governments use a range of methods for bringing performance information into government management and decision-making.

In the federal and state governments, the effort to bring program performance information into management and decision-making has taken several forms. At one end of the spectrum is the development of performance information primarily as a program management and administration tool. In the middle of the spectrum is the periodic reporting of information to the Legislature for use in broad policy-making and to influence budgeting. At the other end of the spectrum is the use of performance information as formal measures in budget documents to make better resource allocation decisions. Florida's performance-based budgeting initiative falls at this ambitious end of the performance information spectrum and is in the forefront of the states in attempting system-wide performance-based budgeting (see Exhibit 1).[5]

[5] As case-study assessments of the use of performance information in budget making, we visited North Carolina, Minnesota, Iowa, Colorado, and Texas to understand their systems and identify factors affecting success or failure. Colorado does not have a formal performance-based budgeting system and so is not profiled in this chapter; please see Appendix D for a summary of our impressions of Colorado and the other states.

Exhibit 1
Methods of Using Program Performance Information Shows Florida is Ambitious

Source: Office of Program Policy Analysis and Government Accountability analysis.

Performance Information as Management Tool

Some jurisdictions are attempting to develop performance information systems as primarily a management tool. The purpose is to improve program effectiveness through long-range planning and goal setting. Formalized performance measures are then used to demonstrate improved performance on these goals over time. This information may be used in the budget process in the future and is sometimes provided to the legislative body, but the present focus is on management results.

The federal Government Performance and Results Act is directing agency strategic planning and performance measurement, primarily for management use at present.

One example of using performance information as a management tool is the federal government model. Congress enacted the 1993 Government Performance and Results Act (GPRA) to improve the effectiveness and efficiency of federal programs by creating a system for establishing goals and measuring progress towards goal achievement.[6] By September 1997, each agency is to submit to the Office of Management and Budget and to Congress a five-year strategic plan showing its mission, long-term goals and objectives, and achievement strategies. For fiscal year 1999, agencies are to submit annual program performance plans linking long-term goals with annual goals and daily activities. In these plans, managers can apply for waivers for increased administrative flexibility in exchange for the potential of improved performance. By April 2000, each agency is to submit an annual performance report showing achievements and further actions needed to reach unmet goals.[7]

GAO reports conditions similar to those in past failures.

The General Accounting Office (GAO) has assessed implementation of GPRA and has found mixed success in the agencies that piloted the GPRA reforms. Some agencies have developed good practices for performance reporting that have helped them relate agency mission to concrete performance information. They have learned to display baseline and trend data so that progress can be tracked. They also have begun to include cost and other context information to make the reports more useful to Congress in understanding performance.

[6] Prior to GPRA, Congress required systematic performance measurement by federal agencies through the 1990 Chief Financial Officers Act.

[7] Beginning in fiscal year 1998, five agencies will pilot performance-based budgeting, in which they will link proposed spending with expected performance levels and report anticipated performance changes based on varying resource levels.

However, GAO notes that agencies have had less success in other activities, such as measures development. It reports that a critical barrier is lack of agreement on agency mission by key stakeholders. It notes that the turnover rate of top political appointees and the lack of senior management involvement in goals and measures development have affected agency commitment to planning, measurement, and reporting. Lack of leadership support may allow managers and staff to avoid integrating program performance information into daily operations and to disregard the need to measure outcomes. GAO also noted that agencies had needed better staff analytic and technical capacity to develop and maintain performance measurement information. Finally, GAO notes that incentives to encourage agencies to undertake improvement initiatives are missing from the system.

Performance Information as Policy/Budget Influence Tool

Other jurisdictions are working on initiatives to describe to the Legislature, through program performance information, what it is that state programs intend to and actually achieve. These efforts are strongly descriptive in nature. The information should allow the Legislature to set policy couched in a larger view of all the activities of government, and ideally evaluate budget choices in view of government-wide performance data. Both Minnesota and North Carolina prepare performance information as this sort of policy and budget influence tool.

Minnesota uses statewide performance reporting to inform the Legislature without establishing a direct link to the budget.

Minnesota's Performance Reporting. Minnesota is not using program performance information for performance-based budgeting. Instead, state agencies biennially submit performance reports that consist of performance measures and other information to show progress toward meeting specific objectives.[8] Performance reporting is intended to provide information that promotes informed decision-making by members, develop clear goals for state programs, provide proof of accountability to the public, and create an incentive system that encourages good performance. However, there is neither an incentive and disincentive system nor a statutory change in the budgeting system to affect funding levels based on measure results.

The Office of the Legislative Auditor (OLA) has an ongoing role in critiquing agency reports and measures. OLA reported that the 1994 performance reports had data on agency

[8] Annual reporting requirements were statutorily established in 1993. The 1995 Legislature changed the cycle to biennial reporting.

outputs, such as the number of clients served, but not much information on outcomes or the ultimate impact of programs. The second set of reports was filed in December 1996 and is still under OLA review. The Legislative Auditor has called for improvements in the process, such as more vigorous executive branch leadership for agencies in reporting practices, better Legislative direction on the type of information desired, and better linkage of performance reporting to budget documents.

Agency interviewees reported that they are now generally improving the quality of the measures and information they report. They commented that reporting requires them to examine operations and customer service, so measures can become a management tool. However, agency staff indicate skepticism about Legislative use of the reports for budget decisions and so meet the reporting mandate by focusing reports for internal management use. We observed that this approach may benefit agencies but may weaken the reports' capacity to be a legislative budget tool. Agencies also noted that preparing reports has been difficult because of tight time frames and limited guidance from the Department of Finance, which is responsible for directing performance reporting. The Department has created a central database for agencies to use to track measures and generate performance reports, but legislative staff report agency dissatisfaction with the limited capacity of the database software to produce readable reports.

Some legislators we spoke to were enthusiastic about the potential for using reports to make performance-based funding decisions. The reports are cross-referenced to the budget document so that performance can be examined against funding. OLA observed that legislative discussions of the 1994 reports were limited and has recommended legislative hearings on agency performance that use the performance reports as a focal point. It also has recommended legislative discussion about how performance reporting can be more flexible for agencies and relevant to legislative budget-making. We conclude that statewide performance reporting is a critically important step to bring program performance information to the Legislature, and Minnesota is searching for ways to make this information more relevant and applicable to the budget decision-making process.

Among the states, North Carolina is trying to link planning with budgeting by developing a taxonomy of state government in order to provide context for budget decisions.

North Carolina's Performance/Program Budget. North Carolina is developing a system of budgeting by programs. The performance/program budget offers a programmatic structure of state government as a framework to display desired outcomes and program impact. Governor's planning and budgeting staff have classified existing budget entities into a hierarchy of goals, programs, subprograms, and elements under ten program areas.[9] Agencies are to establish objectives for programs and provide accompanying performance measures to gauge achievement against costs. The program hierarchy and performance measures are presented in a separate performance/program budget; the traditional budget on organizational lines has also been prepared for the 1997-99 biennium.

Interviewees commented that the General Assembly apparently has had difficulty using the performance budget because it is organized around the ten-program framework rather than along departmental lines. Because legislative committees have jurisdiction over agencies, not program areas, committees with agencies that contribute to more than one program area had to examine several program budget documents to understand a single agency's funding. Governor's budget staff have been working to crosswalk the two types of budget documents. The 1997 Session will reveal whether these efforts have made the performance/program budget document more useful.

Agencies report that the model is somewhat rigid and that measures development is difficult. Agency staff reported that the model allows only one objective per goal and one measure per objective. Staff noted that this restriction may produce composite measures that are not very reliable. Agencies also noted that describing budget entities that contribute resources to the outcomes of different programs is difficult, as they must either be split apart for budget presentation or shown under only one program (overstating the program's resources). They also report typical measurement problems, such as poor-quality data and lack of staff measurement expertise.

We observed that the North Carolina approach has focused more on structure and planning than on measurement, as the primary effort has been in development of the programmatic classification and objectives for programs. Also, no independent evaluation or audit of measures occurs, and both legislative and executive branch staff cited concerns about the validity and reliability of measures. This weakness may affect the usefulness of measures for policy or budget decisions. However, key staff see some immediate benefits as a result of the classification effort, such as improved state planning, potential identification of duplicative services, and pressure on agencies to better manage.

[9] The ten program areas are Corrections, Cultural Resources, Economic Development and Commerce, Education, Environment, General Government, Health, Justice and Public Safety, Human Services, and Transportation.

North Carolina's system does not have a formal element of exchange of flexibility for improved performance and better accountability information. Nor does the system contain provisions for rewards or sanctions based on performance. We observe that North Carolina's effort appears to be to describe and measure the activities and funding streams for various policy areas of government, with an expectation that performance information may become a basis for funding decisions in the future.

Performance Information as Budget Tool

The most complex method of using performance information is as a basis for budget decisions. Resource decisions are to be made on changes demonstrated by performance measures. This method often requires restructuring of the budget document by changing budget entities (the units that are appropriated funds) from a bureaucratic entity, such as a department or division, to a strategy to be followed or an outcome to be achieved.

Although most states report maintaining some type of performance measures, relatively few of them link measures to the budget.

Florida is in the forefront of the states in bringing performance measurement information into the budget process to make funding decisions. As shown in Exhibit 2, almost all other (45) states report that they presently or plan to have performance measures to describe state agencies' activities, although only 15 of them report that they have performance-based budgeting efforts underway and intend to use program performance information as a basis for budget decisions. Of the 15, about two-thirds (9) report they are in an early or pilot phase of the initiative. Twelve other states reported using performance information as a tool to influence policy and budgeting, and three others reported initiatives to use program performance information as a management tool. No states report that they presently use an incentive/disincentive component in their system to affect agency performance (see Appendix E for state-by-state display).

Exhibit 2

States' Budget Reform Initiatives Possess Similar Components

Component	Number of States[1]
State Has Performance Measures	45
State Using Performance-Information as Budget Decision Tool	15
State Using Performance Information as Policy and Budget Influence Tool	12
State Using Performance Information as Management Tool	3
State Has Incentive/Disincentive System in Use	0

[1] Excludes Florida.

Source: Office of Program Policy Analysis and Government Accountability survey, October 1996.

Of the states that are trying to link performance information to the budget, Iowa has an ambitious plan to budget for results and to assess the unit cost of performance. Texas has the most developed performance-based budgeting system, as the state has been budgeting by strategies since 1994. Florida's PB^2 system also falls at this end of the spectrum.

Iowa has an ambitious plan to budget for results and assess the unit cost of performance.

Iowa's Budgeting for Results. Iowa reformers have designed Budgeting for Results as part of their performance information reform. The framework for this system is based in a set of five priority areas identified by a public/private council with public input.[10] Each of these areas has several benchmarks, or narrower areas of concern that should be measurable. State agency budgets are supposed to display a desired result under a given benchmark and shorter-term state policy goal, and they are supposed to display the budget entities that contribute to the result with performance measures to show attainment. This model is in early implementation, as not all agencies are required to participate and those that are participating may submit selected programs for performance-based budgeting. Legislative staff report that 6 agencies submitted 1996-97 fiscal year performance budget schedules in addition to their standard budget requests and about 17 more submitted schedules for fiscal year 1997-98.

Because this initiative requires restructuring the budget in accordance with public priority areas and expected results, Legislative involvement appears critical for success.

[10] These priority areas are Economic Development, Workforce Development, Strategies for Strong Families, Strong Communities, and Healthy Iowans.

However, legislative and executive branch staff reported limited legislative participation in the model design, and little legislative agreement that the priority areas are the most critical ones for Iowa. The performance budget reportedly was used by only a few legislators for the 1996-97 budget, as they predominately relied on the former line-item-oriented budget that is also required. Legislative staff indicated that legislative use has not increased in the 1997 Session presently underway. However, they report that the Governor's staff plan to submit Budgeting for Results budgets for 50% of the appropriated general fund dollars to be requested next year and so predict greater legislative use of Budgeting for Results information.

Iowa agency staff reported typical measurement problems of data availability and understanding how and what to measure. They have been assisted by a cross-agency performance measurement task force that has examined and improved methodology for measures. However, no independent entity like Minnesota's Office of the Legislative Auditor reviews data and measures, which fosters some suspicion of information quality in the legislative branch.

Linked to Budgeting for Results is a plan for Investment Budgeting, which is to involve determining the net present value of results and comparing the return on investment produced by various strategies to achieve these results. This ambitious program must be supported by adequate cost data. Because Iowa reportedly does not have a cost accounting system, developing measures of unit cost of outputs and outcomes may be very difficult and time-consuming.

Budgeting for Results has no incentive/disincentive structure and no formal exchange of flexibility for performance and accountability. Governor's staff see flexibility evolving in the system when the discussion is no longer about inputs but about how well strategies for particular results are working and how they should be changed. Agency staff noted that Budgeting for Results ideally can reorient government culture away from short term and anecdotal decision-making towards long-term thinking about results.

Texas has had most success in changing their budgeting system to be more based on performance information.

Texas' Strategic Planning and Budgeting. Texas' approach has been to restructure the budget not by program areas or public benchmarks, but by state government goals and the strategies that will be used to reach them. Since the 1994-95 biennium, Texas has had a performance-based budget for all its agencies. The budget is based on agencies' strategic plans in which they identify goals, objectives, and measures that are then lifted into the state budget. The budget entity is now a strategy, and the agency receives funding for the strategy based on the results of the performance measures describing how well the strategy is working for achieving stated goals. Agencies report on a quarterly basis to a legislative board whose nonpartisan staff evaluate performance on measures, and the state auditor reviews measures for validity and reliability. Strategic planning and budgeting is supported by electronic tracking systems that record measures and funding history for reporting and budget preparation.

Measures are a part of the budget document, as well as the performance standards that agencies expect to achieve. Although authorized by statute, the Legislature does not use incentives and disincentives; legislative staff acknowledge that offering incentives may be politically difficult if a program then fails to achieve its anticipated results. Although staff indicate that measurement information is used for allocation decisions, they appear to acknowledge that budget-making is a political process requiring choices among competing needs. Performance measures have oriented the Legislature towards strategic and performance-based assessment, but they are only one source of information to help the legislature make choices.

However, even this comparatively successful performance-based budgeting effort has some difficulties. Legislative staff acknowledge that many budget measures examine program outputs and said that agencies are permitted to show some outcomes as explanatory measures rather than ones for which they will be held directly accountable. Outcomes are no easier to measure in this system than in any other, and budget measures largely are not oriented toward long-range expected outcomes. Key staff also commented that because the strategic plan is the basis of the budget, it is created with an awareness of present resource constraints. Thus, the strategic plan's usefulness as a vision document is reduced. Finally, although the accounting system reportedly supports collection of costs such that they can be linked to strategies, it is a somewhat cumbersome system that not all agencies use for their cost estimations in budget preparation.

Both executive and legislative branch staff cited agency management improvement as the chief benefit of the system. Staff commented that better planning and internal resource allocation practices have been positive results.

Florida's effort is directed at developing a better performance information system and holding agencies accountable for their results through the budget process.

Florida's Performance-Based Program Budgeting. Florida's model shares characteristics with all four of the models of states we visited. Like North Carolina, Florida has a program structure underlying the agency budget request, and PB^2 requires agencies to examine this structure to identify programs conducive to PB^2. Like Minnesota's performance reporting, Florida's PB^2 requires detailed measurement and reporting of measures, although Florida requires these measures in supporting schedules of the budget request. Like Iowa and Texas, these measures are to focus on outcomes and are to be used for resource allocation decisions.

Florida's approach is unique in other respects. One significant difference is the method of determining the governmental unit to be budgeted and measured. In the course of identifying programs that are conducive to performance-based budgeting, agencies have typically combined several existing programs into a new, larger "program" entity for budget purposes. To date, agencies have received lump sums for these approved program entities. Agencies report taking this approach because they are trying to regain some of the budget flexibility they believe they have lost through PB^2. In the past, agencies were statutorily authorized to transfer a limited amount between appropriations categories within a budget entity, and they could transfer a limited amount of the same category between entities[11] Under PB^2, agencies have unlimited transfer ability between budget categories within programs but may no longer transfer funds between programs.[12] To maximize spending flexibility, agencies have an incentive to submit large PB^2 programs combining several former budget entities into one appropriation.[13]

Legislative committee staff have expressed concern that combining multiple activities into larger programs may reduce rather than improve accountability because the funding and results of the component programs may be obscured by the larger PB^2 entity. Also, some agencies have combined activities with dissimilar goals into programs, leading to concerns about whether these activities contribute to a common purpose.

Florida's system is like all others reviewed in that most agencies have struggled to develop adequate measurement systems. As observed elsewhere, agencies with an organizational culture supporting measurement have fared better than others. Many agencies generally lack historical data and measurement expertise to assess program outcomes and instead maintain data on outputs, such as the number of services provided. Agencies also find that developing measures for multiple

[11] Section 216.292(3), F.S., provides that the head of a department or the Chief Justice of the Supreme Court may transfer appropriations from identical funding sources, except for appropriations for fixed capital outlay, between categories of appropriations within budget entities and between budget entities within identical categories of appropriations if no category is increased or decreased by more than 5% of the original approved budget or $25,000, whichever is greater.

[12] Section 216.292(2), F.S., requires the agency head or the Chief Justice to distribute a lump sum appropriated for a performance-based program into traditional expenditure categories but then permits transfer between those categories within the appropriation with no limit on the transfer amount.

[13] For example, the Department of Revenue combined four budget entities into a single PB^2 program, and the Department of Management Services combined three budget entities into one program.

stakeholders and audiences is difficult. They find that measures need to be policy-oriented, responsive to resource changes, understandable to general audiences, and descriptive of complex program activities and results. Agencies also commonly do not have adequate internal controls on data collection or sufficient computer support to generate valid and reliable data. Even Florida's statewide accounting system does not support easy identification of unit costs of a given performance level. Finally, agencies are concerned about how outcome information will be used and are reluctant to measure program outcomes that are not within their direct control.

However, agencies in Florida cite benefits similar to those realized in other states. Agencies under PB^2 have used their new ability to transfer funds among appropriations categories within lump-summed budget entities. Agencies have used flexibility of funding transfer to cover shortages in various categories, to buy equipment, and to fund salary incentive payments. They have also used PB^2 as an opportunity to study and re-engineer their organizations, business processes, or service delivery. As intangible benefits, the process of program identification and measures development help facilitate better management and staff understanding of agency processes and accomplishments with appropriated funds. It focuses attention on what the agency does and what it is supposed to accomplish, promoting a refined sense of agency purpose and goals. The process also brings together staff of various agency units, facilitating a better sense of teamwork and exchange of ideas. Additionally, the process forces agencies to identify information system weaknesses and to target improvements.

Summary

Regardless of usage, program performance information causes a new focus on program results.

Whether a jurisdiction uses performance information for management improvement, for policy and budget influence, or for a budget-making tool, there are some benefits that all systems appear to generate. Government agencies report a new focus on results, opportunities for re-engineering, and a heightened sense of mission in their internal operations. They see possibilities for a move towards information-based decision-making, away from anecdotal, micro-managing and short-range methods. Similarly, some implementation problems appear universally shared. Variable management and leadership commitment to an initiative has been a common problem, often accompanied by a general cynicism about the usefulness of such efforts. Lack of analytic and technical capacity in government agencies has also been evident. Finally, legislative use of the information generated has varied across these initiatives. The following chapter summarizes the lessons to be learned from the experiences of Florida and other jurisdictions in implementing performance information and performance-based budgeting reforms.

CHAPTER 4 LESSONS LEARNED IN PERFORMANCE-BASED BUDGETING IMPLEMENTATION

Conclusions that can be drawn from the Florida experience and those of other states and the federal government point to actions that Florida should take to increase chances of success of PB^2. Generally, performance-based reforms value accountability as a purpose of reform, but information is most relevant if it is tied to resource allocation in some way. Legislative direction in developing expected outcomes for state programs is critical, as is legislative support while agencies work to design measures and improve data systems. Offering flexibility in exchange for improved performance and accountability is a key component of performance-based budgeting reform, but the Legislature should ensure that it is satisfied with agencies' accountability systems before granting flexibility and incentives. Performance-based budgeting approaches vary according to the value reformers place on describing government structure and on developing various types of performance measures. In further implementing PB^2, the Legislature should examine conflicts between perspectives in order to make expectations clear and to guide agencies in producing useful information for the Legislature.

Conclusions

Performance-based budgeting systems place a value on public accountability for its own sake.

We conclude from our review that performance-based budgeting systems are largely intended to show public accountability of government so that legislatures and the public may understand what the goals and strategies are that public funds support. Florida's system and those of the four states we reviewed all emphasize accountability. For instance, both Minnesota and Florida laws make specific reference to providing proof of accountability to the public as a purpose of the reform. This accountability focus is likely a response to public dissatisfaction with government and its need for information on results.

To ensure relevance, performance-based information should be tied to budget-making.

To ensure that an accountability system is relevant, it must be tied to budget decision-making. An accountability system whose performance information does not affect resource provision may become simply another reporting mandate for agencies. We noted that this concern was expressed in Minnesota, where there is no direct link between performance reporting and the budget. However, this kind of link should be constructed so that unintended consequences do not occur. When measures are used for resource decisions, the inclination to measure only what is achievable or to report data inaccurately may be more pronounced.

Policy direction from the Legislature and executive leadership support are critical.

Legislative support and involvement in a budget reform initiative is needed to provide essential policy guidance and to make the product a useful legislative tool. Experience in Florida has made clear that the Legislature needs to more explicitly define desired objectives and outcomes so that efforts are directed to these ends. In its study of other states, the GAO concurs that the performance-based budgeting reform calls for legislative entities to become more explicit about the desired objectives of programs. Legislative direction may result in a more useful product; as Iowa interviewees commented, the information resulting from their reform may not be useful to the Legislature because they are based on benchmarks that may not be the areas of most critical legislative concern.

Executive leadership is also essential, as is a joint and explicit understanding between the Legislature and the chief executive of the purposes that the reform should serve. Failure seems more likely if the executive and legislative branches have conflicting objectives for the reform and conflicting understandings of why the reform is necessary. Policy direction should be reasonably coherent from the top decision-makers of the state. The lack of joint understanding and support has been an evident problem in past reform efforts. A contributor to Texas's success has been the continued support of the Governor, the Lieutenant Governor, and the Legislature through administration changes.

Performance measurement ability in government is often outstripped by the need for such information.

Performance measurement is needed to describe results but is often a weak link in performance-based budgeting reforms. The state of performance measurement in government has generally improved over the last decade and exceeds the capacity that government held during previous efforts at budget reform. Nonetheless, agencies find themselves without the training necessary to think in evaluative and performance-measuring ways. Agencies across the states we reviewed reported that their initial measurement efforts related to outputs such as number of services rendered or units produced. They are learning how to think about outcomes, or the results of their activities, although effectively measuring these results appears to be an ongoing challenge. Because the problems that government activities attempt to solve are often larger social concerns with many contributing factors, it is difficult to determine how to hold an agency directly responsible for changes in these problems. Demonstrating results of long-term government activities in the short run is also an expectation that agencies find difficult to meet.

Electronic support and adequate data management are necessary components missing in many states' systems.

State agencies frequently do not have data systems that can readily generate needed performance information. Many state agencies have collected program data in mainframe systems that cannot easily respond to information needs other than those for which they were programmed. Legislative recognition of this problem and support while agencies work through it is important. Such support does not necessarily entail additional direct resource commitment, as it may be that an agency needs time to modify an existing system. Texas interviewees reported a general recognition that data and data management will improve over time as agencies identify and solve their data problems. As in Texas, tolerance for Florida state agencies' imperfect data systems may be necessary in the short run in exchange for a time-specific promise of better performance information. Nonetheless, the Legislature should be aware that collecting evaluation information has a cost, and agencies should estimate how much it will cost to develop various measures so that the Legislature may make resource choices about desired information.

Combined with data quality needs are needs for better electronic support for maintaining performance measures data. Minnesota and Texas are developing and improving electronic systems that centrally house performance measures so that this information can be tracked over time and directly included in or linked to the budget. Interviewees in these states saw a benefit to maintaining historical measures information in a database. Nonetheless, even these systems have been cumbersome or rigid in certain aspects; technology developers in this area should have a clear understanding of what types of products will support the processes of measures development, data collection, and analysis of trends.

Cost-accounting support is missing in Florida but crucial for performance measures that examine the cost of government goods and services.

Cost-accounting information managed electronically is critical for accurate and reliable measures of the cost to achieve desired outputs and outcomes. Program cost accounting attributes all direct and indirect costs to a program to provide a more accurate cost picture. Accurate cost data is critical to analysis that seeks to determine the return on investment in government programs. Florida's Statewide Automated Management Accounting Subsystem (SAMAS) does not collect costs by the types of programs that the Legislature establishes under PB[2]. This is a significant problem as agencies try to develop measures of the cost of outputs and outcomes of programs that are different than the organizational structure along which SAMAS presently records expenditures. The proposed replacement for the statewide accounting system should be examined carefully to ensure that it supports performance-based program budgeting, as reliable financial data describing PB^2 programs is essential.[14]

The exchange of flexibility for performance and accountability should be approached carefully.

Florida's experience with performance-based budget reform has shown that it is critical to develop a measurement system that provides information for decision-making before rewards and administrative flexibility are granted. Implementation in Florida initially developed as a grant of flexibility (defined by developing large programs for lump sum appropriation), before satisfactory performance measurement took place. The Legislature since has resisted releasing control without evidence that benefits will be derived from the change. This exchange of flexibility for improved performance and accountability is a basic tenet of performance-based budgeting but it may have been made more quickly in Florida than is supportable, given the current state of performance measurement. The Legislature should be satisfied that an agency PB^2 proposal meets fundamental requirements for measures quality and appropriateness before granting flexibility through lump sum appropriation.

Because grants and reductions of flexibility are such powerful tools, the Legislature should take care to avoid creating perverse incentives when it modifies approaches to flexibility. The reduction of transfer authority when an agency establishes a performance-based program budget has led to agencies defining large programs as budget entities in order to have transferability inside the entity to make up for loss of cross-entity transfers. Although a rational response by agencies, this approach is counter to the Legislature's present satisfaction level with accountability information presently provided. Appendix F offers a comparison of transfer authority of the executive branch, by state, to show how other legislatures deal with agency need to move resources.

Incentives and disincentives are complicated tools.

In all systems we studied, understanding of how to apply incentives and disincentives to change performance in desired ways has been difficult. North Carolina agency staff report the fear of sanctions for bad performance but no rewards for good performance. To support this observation, Texas legislative staff report more comfort with disincentives, such as public testimony and budget cuts, than with incentives that an agency could earn but then offer poor performance afterwards. In Florida, lack of clear and generally understood criteria for awarding incentives has led

[14] In March 1995, the Department of Banking and Finance established a team to reengineer the state's accounting processes and replace SAMAS. The proposed system will be called Florida's Accounting Information Resource (FLAIR). According to Department staff, a work group has been established for reengineering one of six identified major business processes. This work group will complete phase one of their effort by December 1997. A timeline has not been set for the remaining five processes, including accounting and information access processes. Department staff indicate that a replacement system may not be available until after 2000.

to agency disillusionment about the benefits of performance-based budgeting. It appears more feasible to begin building accountability measurement and reporting systems before rewards and punishments are introduced to modify behavior. Iowa staff observe that the potential of disincentives may encourage conservatism in how agencies perform and what they measure, as they will try and report only efforts likely to succeed or outcomes over which they have complete control.

Strategic planning is an important foundation for performance-based budgeting, but this choice may change the strategic planning tool.

Using strategic planning as a budget basis has advantages and drawbacks. Basing performance-based budgeting systems in some form of strategic planning makes the system more realistic for executive branch management use because performance information measures achievement of established goals. However, using strategic planning in this way may reduce its utility for long-range, visionary thinking about the best solutions to identified problems. Its format may become less future- or change-oriented and more focused on what is achievable within current resources, so it may be limited as a tool to envision best solutions. Texas executive and legislative staff observe a reduced value in strategic planning as a future-oriented tool, although it has been an extremely valuable basis for the budget.

Independent assessment of data and measures appears to increase legislative confidence in performance information.

To foster decision-maker trust in the information products of performance-based budgeting, an independent entity should assess measures and data. Both Texas and Minnesota have found it is valuable to involve an entity that has acknowledged expertise in measurement or in evaluating the quality of supporting data. This outside party examining performance information reportedly increases legislative belief in its accuracy and usefulness. In contrast, Iowa legislative staff expressed suspicion of executive branch data, as it is not verified by an independent entity. Florida's model requires the inspector general of each agency to assess the reliability and validity of performance measures and supporting data, which is a valuable independent assessment. Also, OPPAGA is required to consult on measures development and to conduct intensive program evaluation and justification reviews of programs under PB^2 in the second year following budgeting under this system, which is another important independent review of performance information systems.

Different approaches to performance-based budgeting reforms yield differing results.

We observe that approaches to performance-based budgeting vary according to the attention paid to government structure and various types of performance measures. For instance, if reform efforts focus primarily on describing government programmatic structure, the product may be a strong classification of programs and objectives but a weak tool for describing performance through measures.

Budgeting may not change towards a performance basis because a focus on structure, as in Florida's past PPBS reform, may make the effort seem unrelated to performance concerns.

However, if reforms focus on developing measures for which programs can be held directly and uniquely accountable, the result may be a set of measures that capture low-level activities and do not address larger outcomes to which a program may contribute. Measures may be oriented towards activity and output measures that commonly do not examine the larger results for which government is responsible.

In contrast, if the Legislature requires agencies to develop measures that examine exclusively the outcomes to which programs contribute, the Legislature may not get measures sensitive to short-term resource changes that can be used for budget decisions. There is a natural time lag in measuring some outcomes, such as recidivism rates, and a relatively slow rate of change of some high-level outcomes, such as poverty rates. If these are the primary decision-making tool for budget making, legislatures have little information for decisions in the short term and so may give up significant control over the budget.

We observe that these perspectives can be blended if they are each explicitly addressed in the development of performance information reform; conflicts appear to arise when these expectations are not made clear. To encourage agency commitment to the reform, the Legislature should examine conflicts between perspectives in order to make expectations clear and to guide agencies in producing useful information. This could help agencies avoid efforts to meet multiple and conflicting directives or to develop different sets of measures for different audiences.

Summary

In summary, we conclude that performance-based budgeting offers public reporting of government results and makes it vital by linking reporting and resource decisions. While Florida has the elements of a strong system, many of the conditions that led to failure of past reforms and difficulties in other states are still present. Florida's reformers must be mindful of lessons to be learned while continuing implementation.

The Legislature should focus on performance and accountability through clarifying agency and program mission and expected outcomes. It should direct agencies to prepare outcome measures that indicate their contribution to expected results of government programs. It should also require them to prepare output measures that describe the quality and cost-effectiveness of their products and services, so that the Legislature has tools for budget decisions. Agencies would then have better policy direction and a clearer awareness of the customer of performance information. This sort of guidance would also make explicit the type of performance-based budgeting model the Legislature wishes to develop.

The Legislature should be cognizant of how agencies define programs but not be distracted by an undue focus on government structure at the expense of considering program results. The Legislature should support improved information management by agencies and direct them to collect the most vital information, so that limited evaluation resources can be used in the most productive ways.

PB^2 has been developing in the performance measurement arena, with less understanding and effort dedicated to designing methods for allocating resources on a performance basis. This chronology is appropriate, as good measures and data are needed to accurately apply performance funding methods. It is evident that building a performance-based system is an iterative process that takes time and commitment from all parties. However, the next step after building good measurement systems is to develop ways to encourage and reward good results and to discourage poor ones .

Finally, a system of performance-based program budgeting makes explicit not only state program performance, but also the necessary choices the Legislature makes between programs in a resource-limited environment. The GAO observes in its work that accountability in this fashion may complicate already-complex resource allocation because it increases the visibility of these choices. However, PB^2 should not be expected to be a mechanistic, rational system that will replace the political process of making resource choices in a complex environment of competing demands. Instead, it can become an information-based process that demands good performance through accountability, rewards good performance with flexibility and other incentives, and offers decision-makers and the public an understanding of the benefits derived through investment in government so that they can make informed choices.

APPENDIX A SCHEDULE OF AGENCY PARTICIPATION

Participation	Fiscal Year	Department	Programs
Programs Operating Under PB[2]	**1994-95**	*REVENUE*[1]	• General Tax Administration
	1995-96	*REVENUE*	• Property Tax Administration
		MANAGEMENT SERVICES[1]	• Facilities
	1996-97	*EDUCATION (COMMUNITY COLLEGES)*	• Associate in Arts Degree • Associate in Science Degree and Certificates • College Preparatory
		LABOR & EMPLOYMENT SECURITY[1]	• Disability Determination • Rehabilitation
		LAW ENFORCEMENT	• Criminal Justice Investigations/Protection • Criminal Justice Information • Criminal Justice Professionalism
		MANAGEMENT SERVICES	• Support • Technology • Workforce
		DIVISION OF RETIREMENT	• Retirement
Programs Proposed for PB[2] *in Fiscal Year 1997-98*	**1997-98**	*AGENCY FOR HEALTH CARE ADMINISTRATION*[1]	• Health Care Quality Improvement
		EDUCATION (STATE UNIVERSITY SYSTEM)[1]	• Instruction • Research
		GAME & FRESH WATER FISH COMMISSION[1]	• Law Enforcement
		HIGHWAY SAFETY & MOTOR VEHICLES[1]	• Highway Patrol
		STATE[1]	• Libraries, Archives, and Information
		TRANSPORTATION	• Transportation Systems Development • Transportation Systems Operations
		LABOR & EMPLOYMENT SECURITY[1]	• Workers' Compensation and Safety
		CHILDREN & FAMILIES[1,2]	• Alcohol, Drug Abuse, and Mental Health
Programs Proposed for PB[2] *in Subsequent Fiscal Years*		*AGENCY FOR HEALTH CARE ADMINISTRATION*	• State Health Care Purchasing
		EDUCATION (STATE UNIVERSITY SYSTEM)	• Public Service
		GAME & FRESH WATER FISH COMMISSION	• Fish and Wildlife Conservation
		HIGHWAY SAFETY & MOTOR VEHICLES	• Driver Licenses • Motor Vehicles
		STATE	• Elections • Historic Preservation • Commercial Recordings and Registrations • Grants/Cultural • Licensing
		LABOR & EMPLOYMENT SECURITY	• Employment Security
Remaining Statutory Schedule of PB[2] *Participation (s. 216.0172, F.S.)*	**1998-99**	*BANKING & FINANCE*	
		CORRECTIONS	
		EDUCATION (PUBLIC SCHOOLS)	
		ENVIRONMENTAL PROTECTION	
		EXECUTIVE OFFICE OF THE GOVERNOR	
		CHILDREN & FAMILIES	
		JUVENILE JUSTICE[3]	
		LEGAL AFFAIRS	
	1999-2000	*AGRICULTURE & CONSUMER SERVICES*	

Participation	Fiscal Year	Department	Programs
		ELDER AFFAIRS	
		LOTTERY	
		MILITARY AFFAIRS	
	2000-01	*DIVISION OF ADMINISTRATIVE HEARINGS*	
		BUSINESS & PROFESSIONAL REGULATION	
		PAROLE & PROBATION COMMISSION	
		PUBLIC SERVICE COMMISSION	
	2001-02	*CITRUS*	
		COMMUNITY AFFAIRS	
		INSURANCE	
		VETERANS' AFFAIRS	

[1] These agencies submitted or plan to submit additional programs for PB[2] in successive years. The statutory schedule provided in s. 216.0172, F.S. lists each agency only once.

[2] Previously the Department of Health and Rehabilitative Services. This program was deferred from fiscal year 1996-97 for lack of baseline data.

[3] Added to the schedule by Chapter 96-398, Laws of Florida.

Source: Office of Program Policy Analysis and Government Accountability analysis.

APPENDIX B STATUTORY TIMELINE FOR PERFORMANCE-BASED BUDGETING

		AGENCY	GOVERNOR'S OFFICE	LEGISLATURE
	Jul			
	Aug			
	Sep			
	Oct	Submits program lists for review		
	Nov		Approves agency program lists	
	Dec		Provides instructions for measures	Concurs with instructions for measures
Year 2	Jan			
Before	Feb			
SESSION	Mar			
	Apr			
	May			
	Jun	Submits measures for approved programs		
	Jul		Approves measures	Concurs with measures
	Aug	Submits preliminary PB^2 legislative budget request	Receives preliminary PB^2 legislative budget request	
	Sep		Submits final PB^2 legislative budget request	Receives final PB^2 legislative budget request
	Oct			
	Nov			
	Dec			Committees consider measures and legislative budget request
Year 1	Jan			
Before	Feb			
SESSION	Mar			Passes General Appropriations Act with approved programs and measures
	Apr	May submit program/measure changes for fiscal year following upcoming year		
	May	May submit changes to standards based on amounts appropriated for upcoming fiscal year	Approves changes in standards	Reviews changes in standards
	Jun			
	Jul	**Agency programs begin operating under PB^2**; Inspector General monitoring plan due		
	Aug	Submits preliminary PB^2 legislative budget request with program and measure changes	Receives preliminary PB^2 legislative budget request	
	Sep		Submits final PB^2 legislative budget request	Receives final PB^2 legislative budget request
	Oct			
	Nov			
	Dec			Committees consider measures and legislative budget request
Year 1	Jan			
After	Feb			
SESSION	Mar			Passes General Appropriations Act with revised and approved programs and measures
	Apr	May submit program/measure changes for fiscal year following upcoming year		
	May	May submit changes in standards	Approves changes in standards	Reviews changes in standards
	Jun			
	Jul			
	Aug	Submits preliminary PB^2 legislative budget request with program and measure changes	Receives preliminary PB^2 legislative budget request	

		AGENCY	GOVERNOR'S OFFICE	LEGISLATURE
	Sep		Submits final PB^2 legislative budget request	Receives final PB^2 legislative budget request
	Oct			
	Nov			
Year 2	Dec			Committees consider measures and legislative budget request
After	Jan			
	Feb			
SESSION	Mar			Passes General Appropriations Act with revised and approved programs and measures
	Apr	May submit program/measure changes for fiscal year following upcoming year		
	May	May submit changes in standards	Approves changes in standards	Reviews changes in standards
	Jun			
	Jul			OPPAGA submits agency evaluation and justification review to Legislature, Governor, and agency

Source: Chapter 216, Florida Statutes.

APPENDIX C AUTHORIZED INCENTIVES AND DISINCENTIVES

Governor's Office May Submit Recommendation Regarding Incentives or Disincentives for Agency Performance

Incentives	Disincentives
• Additional flexibility in budget management • Additional flexibility in salary rate and position management • Retention of up to 50% of unexpended and unencumbered balances of appropriations • Additional funds	• Mandatory quarterly reports to the EOG and the Legislature on the agency's progress in meeting performance standards • Mandatory quarterly appearances before the Legislature, the Governor, or the Governor and Cabinet to report on the agency's progress in meeting performance standards • Elimination or restructuring of the program • Reduction of total positions for the program • Restriction on or reduction of spending authority • Reduction of managerial salaries

Source: Section 216.163(4), Florida Statutes.

APPENDIX D SITE VISIT SUMMARIES

Minnesota

The model

Minnesota's performance-based budgeting effort is organized around performance reporting, with no statutory changes of the budget structure or process. These reports, submitted biennially, show agencies' progress toward meeting specified goals. There has been no change in budget processes as a result of performance reporting. No dollars are tied to performance and measures are not directly linked to the budget process. There has been, however, some use of these reports by a few committees which lead to some discussion of performance during the budget process. State leaders hope that performance reports can be further used to facilitate debate in policy and budget discussions.

Although performance information has been in the budget document for over a decade, it reportedly was not generally used. A specific requirement for performance reporting was passed in 1993 and subsequently revised to require biennial even-year reporting. The law states these purposes of performance reporting: to provide information that promotes informed decision-making by members, to develop clear goals for state programs, to provide proof of accountability to the public, and to create an incentive system that encourages good performance.

Performance information is kept separate from the budget for clarity and utility purposes. Performance reports are presented before the budget document so that members have the opportunity to view the information before they see the budget document. The intent of these reports is to elevate decision-making to a higher policy level, although governor's budget staff acknowledge that the focus of these reports has been on internal management. This has been beneficial as an agency tool but weak as a legislative information tool. They anticipate a future focus on system-wide reporting in a given policy area to show how agencies contribute to specified results.

Flexibility is not an incentive in this system. Legislative staff told us that agencies already have reasonable management flexibility and transfer authority, as they can transfer money between budget entities with notification to the fiscal divisions in the Legislature. Also, there appears to be less legislative control over staff resource decisions in terms of position control through the budget. The Legislature relinquished position control a few years ago and has reportedly accepted this reduction in their detailed oversight. There has been no formal system of incentives and disincentives yet established. Some performance incentives reportedly have been provided in the appropriations bill for higher education.

There is an electronic support system for performance reporting (PERFORM^S), and it is linked to the budget system so that budget dollar amounts, staff totals, and fund codes will appear in performance reports as a cross-reference to the budget document.[15] The PERFORM^S system is to be used to record agency goals, objectives, and measures to generate the performance report and to provide a tracking system that may be viewed by the legislative branch. The system is in early stages of use, but agency staff described the system as restrictive and not useful beyond generating the performance report. We noted, however, that the system allows on-line comment by specified users, such as legislative staff working with agencies on measures development.

Experiences with the system

Agencies have had some difficulty measuring what they do and tend to report on activities to avoid being held accountable for outcomes they cannot control. Some agencies have moved towards using customer satisfaction surveys to substitute for outcomes more difficult to measure. Agencies also note the problem of measuring state programs with local delivery mechanisms. Governor's staff suggested that these cases be handled through performance-based contracts in which the state is held accountable for holding local systems accountable.

As in Florida, agencies appear to struggle with who the audience is for performance information: the agency itself, policy makers, or the public. Some agency staff feel that the Legislature will not use the reports and so have determined they should direct the report to internal use and view information to the Legislature as a side benefit. Agency staff commented that this initiative allows the agency to refocus its energies to improving its operations and to focus on the customer.

Several entities work to improve the quality of performance reporting. The lead agency is the Department of Finance, although interviewees commented on the limited amount of staff resources committed to the effort. The Department of Administration serves as an agency trainer on performance measurement and acts as an outside consultant to improve measurement quality. The Office of the Legislative Auditor (OLA) has taken a strong role in the performance reporting process by reviewing and reporting on agencies' performance

[15] PERFORM^s stands for Performance and Outcomes Monitoring System.

reports, as required by law. They have established a set of criteria for evaluating performance reports, and these criteria also assist agencies in better presentation of information. The OLA also assesses particular types of measures used by several agencies, such as citizen satisfaction measures, and reports on their reliability, validity, and usefulness. Legislative staff and members described a higher comfort level with measures when OLA has reviewed reports and reported hopes that OLA participation will bring about a new confidence in the Legislature in measures reported by the executive branch.

Nonetheless, Legislative committee staff had mixed reviews of performance reporting. They said that some committees have used the reports, which has led to some discussion of them in the budget process, while other committees have not or have been unaware of them. There was general agreement that reports can serve as tools to facilitate debate and discussion during budget deliberations rather to make budget decisions. Staff commented that because they have a role in what members see and use, it is important that staff support the idea in order to expose members to performance reporting.

The legislators we interviewed commented enthusiastically on performance information and said that it can be used for allocation decisions, although it is not an easy transition to make from an input focus. One member said that the system can work but to increase use of performance reports, agencies should present information that is based on outcomes and establish a trusting relationship with the legislature. Legislative Auditor staff commented because reporting is a statutorily mandated process, that the Legislature should be leading the effort by determining what type of information and reporting structure would assist them in budget and policy decisions.

North Carolina

The model

The emphasis of the North Carolina performance/program budgeting (p/pb) system appears to be on program budgeting, not performance-based budgeting. There is no formal flexibility or incentive and disincentive structure—generally, it appears to be accountability for its intrinsic value. Interviewees report that neither the line-item focused budgeting process nor the existing budget entities have changed. The General Assembly reportedly did not use the first major p/pb budget for decision-making for the 1995-1997 biennium. The General Assembly is presently in session, so use of the 1997-99 p/pb budget remains to be seen.

Performance/program budgeting was first piloted in the 1991-93 biennium and has been expanded to all of state government for the 1997-99 biennium. The primary implementation effort has been to devise a taxonomy of programs. The planning office reviewed the statutes to develop a framework of ten program areas that reflect the range of government policy activity.[16] Under each of these program areas is a classification of goals, programs, subprograms, and elements into which budget funds are placed. There is no apparent change in budget entities as there is with Florida's PB^2 programs.

The performance budget document includes performance objectives, associated outcome measures, and other performance measures such as output and activity measures. One restriction of the system is that only one outcome measure is permitted for each objective. Output measures apparently are not required to mesh with outcome measures to display linkage of government activities with outcomes. There has been no effort so far to look at performance measurement reliability and validity, and there is not an ongoing evaluation component of this system.

There is no formal element of a performance contract: the exchange of flexibility for performance and accountability. Agencies are expected to submit performance budgets and measures, but there is no mechanism for increased flexibility. Interviewees reported that the General Assembly's focus on line items in budgeting imposes significant restrictions on funds in the budget. The incentive for agencies to do p/pb appears an intrinsic one: to identify and improve expected outcomes and provide accountability as a management practice. There also are no formal sanctions.

Experiences with the system

Executive and legislative branch staff reported that one problem with making the p/pb document workable has been its structural conflict with the present appropriations subcommittee structure. The ten program areas cross present legislative committee lines, as committees have jurisdiction over departments. Thus, a committee considering an agency's budget might have to look at two or more performance budget documents if the agency appears in more than one program area. This makes performance budget review unworkable, and committees reportedly return to the line item budget because it shows all the funds for their particular agencies in one place. This problem is being addressed for the 1997-99 biennium by including all program

[16] The ten program areas are Corrections, Cultural Resources, Economic Development and Commerce, Education, Environment, General Government, Health, Justice and Public Safety, Human Services, and Transportation

areas in two volumes following the six volumes that currently compose the budget request.

Agencies appeared to have had better or worse experiences in adapting to the new system related to whether they had histories of measurement and agency cultures receptive to the idea of measurement. As in Florida, collection and analysis of data is not at a consistent quality level throughout departments. Staff commented on compressed timing of the process, conflicts between the planning and the budgeting offices, and limited agencies involvement in developing the taxonomy as weaknesses of the system. Managers fear being held accountable, through budget reductions, for outcomes not under an agency's complete control.

Generally, legislative staff management described the program taxonomy as a logical program structure and a key for better description of what the state spends in different areas. It puts pressure on agencies to manage better and on the Legislature to reduce micromanaging. This effort is seen on a ten-year development schedule, with the first five years to set the system in place in terms of program design and understanding of performance measures. Then, an incentive system can be established to reward agencies and hold them accountable for performance.

Persons interviewed suggested that the North Carolina system does embody the value of improved management of programs and budgets through greater accountability. It offers important information for decision-making. Through the process, agencies ought to eventually realize from the Legislature some flexibility in management. It also may allow increased governmental efficiency through identifying duplication in services for greater scrutiny to eliminate unneeded redundancy in the system. Fundamentally, the system may serve to foster improved outcomes for government clients.

Iowa

The model

The organizing principle for reconstructing the budget in Iowa for Budgeting for Results (BFR) is to bring together all budget units that work toward the same result. The effort is to build the budget on the foundation of public benchmarks, rather than linking to benchmarks after the fact. The system is described as a comprehensive performance management initiative because it is built on benchmarks, includes budgeting for outcomes/results, and is intended to eventually allow calculation of return on investment in state programs so that "investment budgeting" (choices between investments) can occur. However, the Legislature apparently has not embraced the concept and has been little involved, and agencies are aware that there is not a measures infrastructure to support them as this system is put into place beyond the first six pilot agencies that submitted BFR materials for their fiscal year 1996-97 budgets.

Legislative staff reported that Iowa has been working with basic output measures since the early 1980s. In 1993 the Department of Management began asking for outcome-based budgeting for the entire budget, based on performance measures. A statutorily-created Council on Human Investment identified the key areas of public concern through survey methods.[17] The result was an identification of five priority areas. [18]

For budget preparation purposes, a benchmark and state policy goal are identified that relate to each result to be achieved, and all the budget units that are working to achieve that result are presented together. Their fund streams are all displayed together to show the true cost of achieving that result. However, the funding is not blended together, so the actual allocation of resources is to the same budget units as it was before BFR. Nonetheless, the logical progression that Department of Management staff see under BFR is to allocate funds to a result. In the 1998 budget, they intend to display the funding unit as a result that is jointly achieved by different programs within an agency; by 1999, funding units or results will be constructed by the efforts of programs from multiple agencies.

Measurement is to be focused on outcomes and results, with an added element of unit-cost measurement for results. As a beginning phase of what is termed Investment Budgeting, the workforce development agency is working on a model that will quantify the value of an outcome against the cost and time to achieve it, so that legislators can choose which outcomes to invest in. This model is in the beginning stages. We noted that Iowa reportedly does not have a cost accounting system that will allow attribution of costs to a result, and so the development of this model may be complicated by data limitations.

The system has no incentive/disincentive structure. The primary spokesperson indicated that incentives distract from performance as an end in itself. Disincentives would bring fear as an inappropriate motivation: they encourage

[17] The Council on Human Investment membership was the Lt. Governor, eight citizens, and four legislators from each party and each house.

[18] These priority areas are Economic Development, Workforce Development, Strategies for Strong Families, Strong Communities, and Healthy Iowans.

conservatism in measures (agencies measure only outputs to ensure success on a production level), and in behavior (so that agencies do not fail by trying untested strategies). There is no exchange of flexibility for performance and accountability in BFR; theoretically this will evolve as a natural progression when the discussion is no longer about inputs but about how strategies are working and how they should be changed.

Experiences with the system

Development of performance measurement in Iowa has been added by a task force of senior staff of 12 agencies and the non-partisan Legislative Fiscal Bureau. This task force took some of the priority areas identified with their benchmarks and policy goals, put them in measurement terms, and identified data sources. The task force now advises agencies on measures and offers orientation training, and it appears to be key to quality measurement in the system. There is a reported research and methodological emphasis that may bring a certain rigor to the measurement system. We observed that because this group operationalized the benchmarks and is also providing measures training, the agencies are likely receiving the message that linking benchmarks to agency objectives and measures is important.

However, legislative staff expressed concern that the premise of Budgeting for Results is the assumption that the present resource allocation methods are ineffective. Iowa does not have some of the problems of larger states and has general public satisfaction with existing services, so changed allocation to get different results may not be necessary. Staff also commented that basing the budget on public benchmarks does not focus on legislative policies that are to represent the will of the public. Legislators reportedly were not widely involved in creating the benchmarks or design of BFR, so legislative focus may be missing. Staff commented that a mechanistic system that specifies the legislative response to performance on a limited set of measures will likely not be successful.

Staff had mixed perspectives on the purposes of Budgeting for Results. Some agency staff commented that BFR is a method of reporting what expenditures were made to achieve an outcome, so that legislators can determine whether a given amount of expenditure for an outcome is desirable. It is an accounting of yesterday's activities rather than a plan for the future. However, other agency and legislative staff commented that Budgeting for Results could have a long-range element as well. It should be driven by agency strategic planning in which the agency shows its long-range plans and immediate goals for budget purposes. But staff commented that even with measures of achievement of immediate goals, it is unrealistic to expect an evaluation on success on outcomes on an annual basis because government responds to long-term issues.

Iowa interviewees noted important benefits of such a system. Executive branch staff see organizational structure change as one effect of the system; in five years, results budgeting may be a force for change towards the best form to achieve results. The system tries to reorient government culture to focus on results, long-term thinking in resource allocation, and data-based decision-making, away from short-term and anecdotal decision-making.

Texas

The model

Texas has a long history of working with performance measures, so performance-based budget reform was a logical progression that began in 1991. The state had used program budgets in the 1970s and had required outcome measures in the appropriations bill by 1989. In the early 1990s, strong legislative leadership and gubernatorial support existed for a process linking strategic planning and performance-based budgeting. Thus, strategic planning and performance-based budgeting became one process in Texas. Strategic plans produce goals, objectives, strategies, and measures, and the budget is built on goals, strategies, and measures (objectives are excluded to keep down the size of the appropriations bill). Strategies have replaced programs as the budget entity, although agencies have maintained their organizational program structure.

Agencies submit what are termed “key” measures in the budget request, and only key outcome measures are incorporated into the appropriations bill. Agencies may classify outcome measures as explanatory measures if necessary, which means that they are not held responsible for the measure results in cases where they contribute to, but do not control, outcomes. Agencies maintain non-key measures as well. Agencies report on key non-outcome measures on a quarterly basis to the nonpartisan Legislative Budget Board (LBB), and the LBB issues a report on these measures semi-annually. Annually, the LBB evaluates and reports on both non-key and key measures, including outcome measures.

Incentives and disincentives are authorized but not used in the Texas system. Agencies indicate that they do not expect monetary incentives for performance since the current trend in Texas is to give agencies less money. The reward agencies cite is more credibility and less micro-management and reporting, and the penalty they see is being called into a hearing for heavy criticism.

There are several organizations that contribute to maintaining the Strategic Planning and Budgeting process. First, the nonpartisan LBB is central to the effort in its analytical role to review agency measures, its agency-coach role to improve measures, and its persuasive role with the Legislature. Agencies cite a cultural shift in the legislature away from micro-managing and credit the LBB with fostering this change.

Second, the Governor's Office of Planning and Budgeting is largely responsible for the planning function of the process. Staff have developed training for agency and LBB staff. They now are working to educate the Legislature on how legislative information needs can be met through the system and helping agencies understand how Strategic Planning and Budgeting will help to improve internal management.

Third, the State Auditor's Office certifies agency measures for validity and reliability; their involvement forces agencies to ensure that measurement data is accurate, as lack of certification may subject agencies to censure. Appropriations staff commented that having the SAO certify measures gives them the level of confidence they need to use the measures for budget decision-making, thus adding an aspect of the evaluation component that seems critical for success.

Experiences with the system

As with agencies in other states, Texas agencies started with measures that were primarily activity-based. Early problems with inaccurate reporting, poorly-defined measures, and insufficient controls have been reduced, and the focus of critique has apparently moved to meaningfulness of measures and quality of performance. Legislative Budget Board staff commented that although measures still need to be more comprehensive, there are fairly elastic measures that show resource-dependent change. They said that more emphasis is needed on outcome measures, but measures have become a very basic part of what the Budget Board does in performance analysis and preparing the budget.

LBB staff commented that they have not figured out how to tie resource allocation to measures. However, Appropriations staff, who do the political elements of budget construction, commented that performance measures are very useful in making allocations; they think about what the measures say about performance when they make decisions. They said that while analysts continue to look at object of expense data for their daily analysis work, this does not appear to be inconsistent with the idea of bringing all information to bear on decision-making.

Agency, LBB, and Governor's Office staff all cited agency management improvement as a critically important by-product of the system. They also recognized accountability as the true focus of the system, while recognizing that a rigorous accountability and measurement system requires time to develop and improve.

The system does have some weaknesses related to its size and level of detail. Governor's staff cited the rigidity of the system as somewhat problematic—each objective might not necessarily need a measure, but all must have one. We noted that the electronic support systems are impressive in that they are massive and comprehensive, but they also have problems. Cost center accounting is possible but somewhat cumbersome, and the tracking of the history of measures appears to be very difficult if measures changes definition or association to a given objective. Finally, agencies found that the futurist orientation appropriate for long-range strategic planning does not work well as a basis for a biennial budget within existing limited resources, so they have had to change the orientation of their strategic plan. Staff commented that the strategic plan in Texas may be less a vision document than might be ideal because of its use as the budget foundation.

Among the states we studied, Texas has the most well-developed and institutionalized system. Interviewees cited several factors as key to initial implementation and sustained success. Close collaboration between legislative and gubernatorial staff was essential in creating new processes required. The long interim between the biennial 1991 and 1993 legislative sessions also allowed staff to build new accounting and budgeting computer systems. Legislative resistance was low because the old systems had been abandoned and could not be returned to, and as all agencies went on the system at once, resistant agencies could not create inertia. Most fundamentally, powerful elected leadership promoted and supported the process, including a lieutenant governor who is both an executive officer and legislative leader as president of the Senate. There appears to have been a confluence of factors supporting Strategic Planning and Budgeting that may have been unique to the early 1990s and Texas' legislative and administrative structure.

Colorado

The model

There is an ad-hoc effort in Colorado to implement some components of a performance-based budgeting system, but no coherent initiative exists. A 1994 audit report recommended that the Office of State Planning and Budgeting and the Joint Budget Committee conduct a study of performance-based budgeting. The study was to evaluate performance-based budgeting advantages and disadvantages and its applicability to Colorado, pilot such an effort in several agencies, and suggest legislation for wider implementation. However, budget staff noted that there was little response to the performance budgeting pilot and that legislators did not support the proposed legislation.

Even without a formal performance-based budgeting initiative, Colorado reportedly utilizes a combination of practices characteristic of performance-based budgets. Strategic planning, program budgeting, reinvestment and transfer authority, and performance measurement and reporting are all used to varying degrees.

Experiences with the system

Budget staff acknowledge that flexibility efforts still contain significant legislative control. Agencies are required to break out lump sums into detailed allotments. Any agency movement of funds is subject to review by the legislative and executive budget offices, and agencies must formally request fund transfers. As some agencies reportedly have not successfully managed their lump-sum appropriations, budget staff carefully examine these budgets and require more detail. Memoranda of Understanding (MOUs) have been used as a way for agencies to gain resource flexibility. MOUs require agencies to produce a certain performance level in exchange for flexibility in resource use. Despite the reported success of one agency in improving performance, legislative staff reported that use of MOUs may be eliminated. Legislative staff indicate that the Legislature is focused on line-item expenditure control.

All agency budget submissions include goals, objectives, and performance measures, but Governor's office staff indicate that the usefulness of these measures for budgetary decision-making has not yet been determined. Budget staff acknowledge that the budget process is input-focused and measures are thus workload or activity ones; although staff attempt to examine performance and results. Prior attempts at performance budgeting have been successful up to the point of measures development, and staff commented that the art of performance budgeting is in the development of the measures.

No incentive/disincentive system has been implemented since a performance budgeting system has not been formally established. However, agencies are held accountable for how appropriations are administered and could possibly face penalties for mismanagement of their lump-sums. Budget staff continue to grapple with the issue of how to sanction agencies for poor performance. There is no formal measures evaluation component to increase legislative confidence in measures describing performance.

Budget staff recognize several barriers to performance-based budgeting. Measures development involves increased administrative overhead costs that are especially high when the measures developed are inadequate. Both the legislative and executive branches must offer policy commitment and experience cultural change, including acceptance of the exchange of increased agency flexibility for better performance and accountability information. Third, problems resulting in the mismanagement of lump-sum appropriations need to be controlled to foster legislative trust of the executive branch. Budget staff commented that using performance reporting to facilitate discussion is the direction the state should take to successfully implement performance budgeting.

APPENDIX E PERFORMANCE INFORMATION REFORMS IN THE STATES

State	Performance information as budget decision tool	Performance information as policy and budget influence tool	Performance information as management tool	Has performance measures	Measures shown in a budget document	Targets on measures in a budget document[5]
Alabama	X[1]			X	Planned	
Alaska	X[1]			X	Planned	Planned
Arizona				X	Other[2]	
Arkansas				X	Other[2]	
California			X[1]	X	Other[2]	
Colorado				X	X	
Connecticut[3]						
Delaware		X		X	X	X
Florida	X[1]			X	X	X
Georgia	X[1]			X	Planned	Planned
Hawaii		X		X	X	
Idaho				X	X	
Illinois				X	X	
Indiana				X	X	
Iowa	X[1]			X	X	
Kansas	X			X	X	X
Kentucky[3]						
Louisiana	X			X	X	
Maine	X[1]			X	X	
Maryland				X	X	
Massachusetts		X[1]		X	X	X
Michigan		X[1]		X	X	X
Minnesota		X		X[4]	Other[2]	
Mississippi		X[1]		X[4]	X	X
Missouri	X[1]			X	X	X
Montana		X[1]		X	X	X
Nebraska	X[1]			X	X	
Nevada	X			X	X	
New Hampshire	X			X	X	X
New Jersey				X	X	
New Mexico[3]						
New York[3]						
North Carolina		X		X	X	
North Dakota	X[1]			X[4]	X	
Ohio			X[1]	X	X	X
Oklahoma		X[1]		Planned	Planned	

State	Performance information as budget decision tool	Performance information as policy and budget influence tool	Performance information as management tool	Has performance measures	Measures shown in a budget document	Targets on measures in a budget document[5]
Oregon				X	X	
Pennsylvania			X	X	X	
Rhode Island		X[1]		X	X	
South Carolina				X	Other[2]	
South Dakota				X	X	
Tennessee				X	X	
Texas	X			X[4]	X	
Utah				X	Other[2]	
Vermont		X		X	X	
Virginia	X			X[4]	X	X
Washington	X[1]			X	X	
West Virginia				X	Other[2]	
Wisconsin				X	Other[2]	
Wyoming		X[1]		X	Other[2]	

[1] These states report that their initiative is in an early or pilot implementation phase or is in limited usage.
[2] "Other" signifies that measures are published in a document other than a budget schedule.
[3] These states report having no performance measures for performance management or budgeting purposes.
[4] These states have an electronic database to house measures and supporting data.
[5] No state has formally implemented provisions for incentives and disincentives.

Source: Office of Program Policy Analysis and Government Accountability October 1996 telephone survey and August 1996 site visits.

Appendix F Executive Transfer Authority Over Appropriations in the States

State	Departments	Programs Within a Department	Object Classes Within a Department	Additional Criteria
Alabama	Not allowed[1]	Unlimited	Unlimited	
Alaska	Not allowed[1]	Not allowed[1]	Unlimited	
Arizona	Not allowed[1]	Limited	Limited	Requires legislative approval for transfers relating to employee wages
Arkansas	Not allowed	Limited	Limited	Requires specific authority in appropriations act
California	Not allowed[1]	Limited	Limited	Based on detailed criteria
Colorado	Not allowed[1]	Not allowed[1]	Not allowed[1]	Limited transfers to close books permitted
Connecticut	Not allowed[1]	Not applicable	Limited	Legislative-executive decision required for transfers within department more than $50,000 or 10%, whichever is greater
Delaware	Limited	Limited	Limited	Appropriations for salaries and wages cannot receive transfers from non-salary appropriations
Florida	Not allowed	Up to 5% or $25,000 maximum	Up to 5% or $25,000 maximum	Agencies awarded a performance budget may not transfer between programs
Georgia	Not allowed	Limited only by restrictions in appropriations act	Unlimited	
Hawaii	Not allowed[1]	Unlimited	Unlimited	Transfer process being reviewed by Legislature
Idaho	Not allowed[1]	Up to 10%	Limited	Limitations on transfer of personal services and capital outlay funds
Illinois	Not allowed[1]	Up to 2% of most operating budgets	Up to 2% of most budgets	For programs, legislative decision required for transfers exceeding 2% of operating budget item
Indiana	Unlimited	Unlimited	Unlimited	
Iowa	Unlimited	Unlimited	Unlimited	
Kansas	Not allowed	Limited	Limited	Between departments with special legislative permission; between programs, limited to line items within a single agency and fund; between object classes, limited to single fund
Kentucky	Not allowed[1]	Unlimited	Unlimited, excluding debt service	
Louisiana	Not allowed	Up to 1%	Up to $50,000	Legislative approval required for transfers between programs and between items exceeding $50,000; transfers for salaries prohibited
Maine	Not allowed	Limited	Limited	No transfer of federally funded positions to state funding
Maryland	Limited	Unlimited	Unlimited	Inter-departmental transfers allowed if specifically authorized

State	Departments	Programs Within a Department	Object Classes Within a Department	Additional Criteria
Massachusetts	Not available	Not available	Not available	
Michigan	Not allowed[1]	Legislative approval required	Legislative approval required	
Minnesota	Not allowed	Limited	Unlimited	Program transfers must be within the same fund
Mississippi	Not allowed[1]	Requires legislative approval in appropriations bill	Limited by provisions of appropriations act	
Missouri	Not allowed[1]	Not allowed[1]	Not allowed[1]	
Montana	Not allowed	Up to 5% of appropriation total unless specified	Transfers out of personal services prohibited	
Nebraska	Not allowed[1]	Not allowed[1]	Limited by ceiling on personal services expenditures	
Nevada	Not allowed[1]	Limited by appropriations act	$25,000 or 10% of an expenditure category without legislative approval	
New Hampshire	Not allowed	Requires legislative approval	Limited. Not authorized for personal services, employee benefits, out-of-state travel expenses	
New Jersey	May be authorized by provisions in appropriations act	May be authorized by provisions in appropriations act	May be authorized by provisions in appropriations act	
New Mexico	Not allowed	Limited to 7.5% cumulative across divisions	Limited	
New York	Not allowed[1]	Limited. Sliding percent from 5% of $5 million to 3% of more than $10 million	Unlimited	
North Carolina	Not allowed[1]	Limited	Unlimited within programs; excluding salaries and wages	
North Dakota	Not allowed	Requires approval by Emergency Commission	Requires approval by Emergency Commission	
Ohio	Not allowed[1]	Not allowed	Limited	Intra-department transfers require approval of controlling board unless transfer is within lump sum
Oklahoma	Not allowed[1]	Up to 25%	Up to 25%	Department can transfer an additional 15% upon Legislative approval
Oregon	Not allowed[1]	Limited	Limited	Transfers between object classes binding by Legislative Emergency Board

State	Departments	Programs Within a Department	Object Classes Within a Department	Additional Criteria
Pennsylvania	Not allowed unless funds to be used for original intent	Not allowed unless funds to be used for original intent	Not applicable	Funds to be used for original purpose can be moved on contractual basis or through reorganization plan that moves entity to another department
Rhode Island	Not allowed[1]	Limited	Unlimited	For programs, transfers between line items not authorized
South Carolina	Unlimited	Up to 20%	Unlimited	Subject to restrictions by proviso language; requires unanimous approval of Budget and Control Board and two legislative members
South Dakota	Unlimited	Unlimited	Unlimited	
Tennessee	Not allowed[1]	Requires legislative approval	Unlimited	Transfers between departmental divisions binding by committee of Senate and House Speakers and Comptroller
Texas	Requires Budget Board approval	Requires Budget Board approval	Requires Budget Board approval	
Utah	Not allowed	Limited	Unlimited	Requires filing of new work program with legislature
Vermont	Not allowed[1]	Up to $25,000	Unlimited	Transfers exceeding $25,000 require approval of Emergency Board over intra-departmental transfers
Virginia	Up to 15% with restrictions	Limited	Unlimited	Transfers from second to first year of biennium permitted in special circumstances
Washington	Not allowed	Not allowed	Unlimited except by proviso language	
West Virginia	Not allowed	Up to 10% of funds appropriated to agency	Limited	
Wisconsin	Requires legislative approval	Requires legislative approval	Unlimited	
Wyoming	Up to 10%	Up to 50%	Unlimited	

[1] The Legislature must amend the appropriations act for this type of transfer.

Source: Legislative Authority Over the Enacted Budget. National Conference of State Legislatures, 1992; and 1996 update by NCSL staff.

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