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PB^2 Status Report

Fiscal Year 1998-99 **Report No. 98-45**

Performance-Based Budgeting Has Produced Benefits But Its Usefulness Can Be Improved

at a glance

Florida's PB^2 experience shows that focusing on performance has improved accountability for state programs, has led to better public services, and has produced cost savings. However, agencies need to develop more comprehensive performance measurement systems, improve data quality, and develop more reasonable standards.

In addition, the Legislature could make PB^2 more useful for policy and budget decisions if it

- **improved the presentation of PB^2 information in the budget,**
- **required agencies to identify how requests for budget changes would affect performance on PB^2 measures,**
- **required agencies to develop unit cost measures,**
- **better aligned the budget structure with the PB^2 program structure, and**
- **encouraged agencies to develop higher-level performance measures to improve usefulness of PB^2 information for policy and budgeting decisions.**

Background

Florida is now past the mid-point in a seven-year effort to change the way that it funds government programs. This reform effort, called performance-based program budgeting (PB^2), is part of a nation-wide movement in which governments at all levels are focusing attention on program results.[1]

This paper discusses the status of Florida's PB^2 budget reform effort and presents broad strategies for making it more useful to the Legislature, state agencies, and Florida's citizens. This is the third in a series of OPPAGA reports that have addressed Florida's PB^2 initiative.[2]

The desire to reform government accountability and budgeting processes is not new. A long-perceived weakness in government has been that public entities focus more on bureaucratic processes rather than the results they achieve for citizens.

The budget process has been criticized for aggravating this weakness. Critics have claimed that the budget process assumes that agencies generally

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[1] Performance-based program budgeting in Florida was established by the Government Performance and Accountability Act of 1994 (Ch. 94-249, Laws of Florida).

[2] *Performance-Based Program Budgeting in Context: History and Comparison*, Report No. 96-77A, April 1997, described prior budget reform efforts and compared PB^2 to budget reforms at the national level and in other states. *Performance-Based Program Budgeting in Florida: Current Status and Next Steps*, Report No. 96-77B, April 1997, assessed the implementation of PB^2 and suggested ways to strengthen this reform effort.

need the same amount of money each year as they received in the past (plus increases for inflation and workload), rather than assessing how much money each agency needs to achieve desired public outcomes.

Local, state, and federal governments have attempted many reforms to shift the budgeting and management of public programs towards a focus on results. However, at best, the success of these reforms was limited due to problems such as insufficient planning, inadequate systems to collect performance data, and limited institutional support for the reform effort. So far, PB ²has successfully addressed these problems. Thus this budgeting reform has the potential to have a major lasting improvement on Florida government and the services it provides to citizens.

Elements of PB ²

PB ²theory

The theory behind performance-based program budgeting is clear: the amount of resources given to public programs should be influenced by their performance in achieving desired results.

During the performance-based program budgeting process, policymakers specify in advance the level of services each program is expected to provide with the resources it receives, the anticipated outcomes of these services, and how these outcomes will help achieve program goals. Agency managers then track and report program results and, if necessary, provide reasons for performance that does not meet expectations. The Legislature can use this information to make policy and budget decisions. It can also hold managers accountable for program results by awarding incentives to agencies that meet expected performance levels and sanctioning agencies that fail to meet expectations.

Statutory provisions

The Florida Statutes establish the general framework for how PB ²is implemented.

- Legislative appropriations acts specify output and outcome measures for each program. Output measures describe the program's expected products or services while outcomes describe its expected impact or public benefit.
- Appropriations acts also set performance standards for each output and outcome measure. The standards describe the level of performance the Legislature expects programs to attain with the resources it provides to them.
- Program performance is monitored and evaluated. Agencies are to collect data on programs' outcomes and outputs and annually report performance in their Legislative Budget Requests (LBR). After programs have been operating under PB ² for a year, the Office of Program Policy Analysis and Government Accountability (OPPAGA) conducts in-depth assessments of program performance. These "justification reviews" are to determine whether the state needs to continue operating the programs. They also are to identify opportunities to improve program performance and save money.
- The Legislature can award incentives and disincentives based on agency performance. The incentives and disincentives may be financial, such as increases or decreases in appropriations, or non-financial, such as increases or decreases in budget flexibility.

Florida's performance-based budgeting law also provides the opportunity for changing the way with which the Legislature has traditionally appropriated funds for state programs. For example, it allows agencies that are submitting performance-based budgets to propose budget allocation structures that reflect their recommended program structures. This could change the traditional budget practice of allocating funds to organizational units such as divisions or bureaus. In addition, the statutes allow programs to receive funding through one or more lump sums instead of through smaller categories for specific uses such as salaries, expenses, and data processing. Lump sums combine budget categories and give agencies more flexibility on how to use appropriated funds.

PB^2 timeframes

The PB^2 process takes several years. Agencies generally start to prepare for PB^2 at least two years before they initially receive funds through a performance-based budget (see Exhibit 1). During this time, agencies typically establish work groups that review their operations and identify the programs that are conducive to funding under PB^2. Agency staff then work to establish performance measures for these program areas. Several agencies have hired consultants to assist them in these tasks.

After agencies develop their proposed programs and performance measures, they submit them to the Governor's Office. The Governor's Office reviews the proposed programs and measures and forwards them to the Legislature. The Legislature may hold hearings and may require modifications to the programs and measures. The agencies then develop their next year's Legislative Budget Requests around their PB^2 programs. The Governor's Office reviews the LBRs and includes the proposed programs, performance measures, and standards in its Governor's Budget Recommendations.

The Legislature has the final approval authority on PB^2 proposals. Both the House and Senate have established procedures in which substantive committees review and approve proposed PB^2 programs and performance measures. The substantive committees transmit approved programs and measures to the appropriation committees, which can use them in budget deliberations. The Legislature places approved programs, measures, and performance standards in the *General Appropriations Act or* the implementing act. Approved performance measures are maintained in the official *Performance Ledger* maintained by the Governor's Office.

Exhibit 1: Agencies Take Several Years to Implement PB^2: Example: Department of Business and Professional Regulation

Date	Activity
September 1997	DBPR begins process by holding internal workshops to identify PB^2 programs and measures.
September 1998	DBPR proposes programs and measures to Governor's Office, which consults with Legislature and will include proposed programs and measures in budget recommendations.
January – April 1999	Legislative committees will review proposal and provide feedback to DBPR.
September 1999	DBPR will submit PB^2 budget request based on PB^2 programs and measures. The agency must provide one year of actual performance data and recommend a specific level of performance (standard) for each measure.
January 2000	PB^2 proposal will be included in the Governor's FY 2000-01 Budget Recommendation, which will include measures and performance standards for DBPR programs.
March – April 2000	**Legislature will designate approved DBPR programs, measures and standards** in the FY 2000-01 General Appropriations Act or the implementing act.
July 2000	**DBPR will begin to operate under PB^2.** The agency will collect performance data and report its actual performance levels in its next budget request.
July 2001	**OPPAGA will begin evaluation of DBPR programs**. OPPAGA's program evaluation and justification review of DBPR programs will be completed by June 2002.

In subsequent years, agencies must report their performance on the measures in their approved budgets and in the *performance ledger*. To help the Legislature interpret this information, OPPAGA issues annual reports on the measures. OPPAGA also conducts a program evaluation and justification review after each program has operated under PB ² for one year. These examinations assess agency performance and identify options to discontinue program activities, improve performance, or save money. The Legislature can use this information when it considers future policy or budgetary proposals. It can also use the information in determining whether program performance warrants the provision of incentives and disincentives.

Current PB^2 Status

In Fiscal Year 1998-99, 55 state programs administered by 20 agencies are operating under PB ².

As agencies operate PB ² programs, they identify ways to improve the measures for these programs and often request to modify the measures. This is a positive sign that agencies are taking PB ² seriously and trying to make measures more meaningful and valid. As a result, the performance measures and standards used to track program performance have improved. Most of these improvements are made within a year or two after a program first begins to operate under a performance-based budget. After that, the measures for most programs stabilize, which will allow performance trends to be tracked over time.

OPPAGA has undertaken several initiatives to support the Legislature's use of PB ². OPPAGA publishes assessments of each agency's performance measures, standards, and data to inform the Legislature about their strengths and weaknesses. OPPAGA also has published program evaluation and justification reviews covering the 13 programs that have operated under PB ² for at least two years. These evaluations provide the Legislature with independent, unbiased information on the success of these programs in meeting performance expectations and have identified $57.3 million in potential savings.

OPPAGA also developed the *Florida Government Accountability Report* (FGAR) to provide the Legislature and public with in-depth performance information about Florida government.[3] FGAR is an on-line encyclopedia of Florida government. For each state program or subprogram, FGAR provides a profile containing information on why it exists, how it operates, who it serves, and the resources it receives. These profiles, covering almost 400 state programs, are updated at least twice annually.

Through FGAR, OPPAGA also provides commentary to the Legislature about concerns and issues facing the program, the quality of performance measures and performance level achieved, and references to other sources of program information and assessments. FGAR is available at, www.oppaga.state.fl.us/government/.

Effects of PB ²

PB ² has provided Florida with a much stronger mechanism to monitor program results. The process has benefited agencies, the Governor's Office, and the Legislature.

Agencies have used PB ² to improve programs

PB ² continues to be successful in prompting agencies to reexamine and re-engineer their programs to improve efficiency and effectiveness. The process of identifying program goals encourages agencies to examine

[3] See also OPPAGA's gateway site, The Florida Monitor, at www.oppaga.state.fl.us for access to FGAR and all other research.

both what they are trying to accomplish with taxpayer dollars and how they provide program services. This helps to shift agency management away from bureaucratic processes and towards the intended results of programs. Several agencies have used PB² to reorganize in order to focus on key services and outcomes.

For example, the Florida Department of Law Enforcement took advantage of the performance-based program budgeting process to reorganize operations and restructure its delivery of services to improve accountability and effectiveness. The department consolidated its seven organizational units into three divisions that correspond to its three PB² program areas. This enabled the department to become more responsive to local needs and reallocate resources within each program to better achieve program priorities. The department also created a performance-based budgeting office to oversee the development and revision of performance measures.

Agencies that are operating under PB² have also used their new budget flexibility to shift funds within their programs. For example, the Department of Management Services has used its budget flexibility to use excess salary and expense dollars to buy needed equipment and to fund shortfalls. DMS has also shifted positions between program components to improve efficiency. Agencies that have been given this budget flexibility report that it has allowed them to better use resources to meet program goals.

The Governor's Office uses PB² to link state strategic plans to budget priorities

The Governor's Office of Planning and Budgeting has worked to integrate the state planning and budgeting processes through PB². Once agencies receive funding under PB², the Governor's Office expects them to make their strategic plans consistent with the program missions, goals, and performance targets established in their PB² accountability systems. This linkage helps ensure that agencies' long-term priorities are tied to the performance expectations the Legislature establishes through PB².

The Legislature uses PB² information for oversight and budgeting

The Legislature is using the performance information provided by PB² in its oversight of state agencies and, to a lesser extent, in its appropriation decisions. Substantive committees have spent considerable time examining and approving proposed agency programs and measures. For example, the House and Senate substantive committees conducted extensive hearings on the PB² measures proposed by the Department of Children and Families during the 1998 Session. During these hearings, members questioned the department secretary regarding the proposed accountability system and the department's performance on key output and outcome measures. Such legislative hearings enable committees to reexamine and clarify program goals and set clear expectations for agency managers.

The Legislature has also used PB² to establish higher levels of accountability for critical policy areas. For example, the Senate Committee on Children, Families and Seniors required the Department of Children and Families to establish PB² measures that track the percentage of cases in which child protection workers begin their investigation within 24 hours. This will enable the Legislature to readily monitor whether the agency is performing well in this important function.

The Legislature has made more limited use of PB ²information in the budgeting process. PB ²should not be expected to play the central role in budget decisions, which require the Legislature to make value choices among competing priorities. However, the Legislature has held hearings to consider PB ² performance information in its budget deliberations. For example, the House Appropriations Committee on General Government heard the results of OPPAGA's program evaluation and justification reviews in a budget hearing that considered the budget requests of the Departments of Management Services and Revenue.

The Legislature has made greater use of performance information in the budget process for education. The Legislature has changed the method it uses to allocate funding to some education programs by creating incentive funds to be allocated to individual colleges and universities based on specific performance criteria. Several examples of performance-based funding incentives are described below.

- The Legislature established a policy to fund all workforce development education programs based on performance. Starting in July 1999, school districts and community colleges will receive at least 15% of their workforce education funds based on performance.
- The Legislature created "Performance-Based Incentive Funding" in 1994 to provide financial incentives to community colleges and school districts for offering successful training programs in high skill, high wage occupations. During 1996-97, school districts earned approximately $4.9 million and community colleges earned approximately $7 million from this incentive funding initiative.
- In addition, the Legislature established an incentive fund that basically rewards community colleges for students who complete certificate and degree programs. In 1998-99, the Legislature appropriated $ 4.8 million for this incentive fund.
- For the state university system, the Legislature provided $3.3 million in incentive funds to be distributed among the universities based on graduation and retention performance measures. Further, the Legislature appropriated an additional $2.5 million to be distributed among the universities based on performance and degrees awarded.

However, these performance-funding systems tend to be less comprehensive than PB ². For example, with the exception of workforce development, the incentive funds distributed on the basis of performance represent a relatively small proportion of the total funds appropriated to programs receiving incentive funds. Thus, incentive funds comprise less than 1% of the total funds appropriated to the community college and state university systems. In addition, the measures for performance-funded programs are targeted toward specific outcomes and typically are not as comprehensive as the measures for PB ²programs.

The 1998 Legislature also created a performance fund of $1 million that enables specified agencies to compete for additional funding based on their performance on PB ² measures and standards. This performance fund creates a monetary incentive for state agencies to meet legislative goals. However, only one of the agency (the Department of Revenue) has negotiated with the Governor's Office to pursue these funds.

Improving the Usefulness of PB ²Tool

Although PB ² has been reasonably successful to date, it can and should be strengthened to provide greater benefits to Florida. Specifically, agencies can strengthen PB ²by developing more comprehensive accountability systems that cover all their major functions; taking more care to ensure the accuracy of reported performance data; and developing more realistic performance standards.

In addition, PB ²could be more useful if the Legislature

- improved the manner in which PB ² information is presented in the state budget;
- required agencies to identify how requested budget issues would affect their PB ² measures and performance standards;
- required agencies to also establish unit cost measures;
- better aligned the budget structure with the PB² program structure, and
- encouraged agencies to develop higher-level performance measures to improve the usefulness of PB ² information for policy and budgeting decisions.

Enhancing Agency Accountability Systems

Performance measures need to be more comprehensive

Agencies need to establish more comprehensive performance measurement systems that assess all of their major functions, including activities such as administrative services. Our assessments of the PB ² measures being proposed by most agencies have determined that they generally are incomplete. Of the 13 programs that have been funded under PB ²for at least two years, we determined that only 6 had performance measures that were comprehensive enough to enable the Legislature and the public to truly gauge program results. For example, while the Department of Management Services generally has a good accountability system, the PB² measures for its Support Program do not assess some functions such as the oversight of agency purchasing practices.

One factor that has contributed to this problem is a continuing debate on how many performance measures agencies should have. On the one hand, lack of comprehensive measures limits accountability because important state functions are not subject to performance monitoring. On the other hand, too many measures can overload decision-makers with unneeded detail, particularly if all of these measures are included in the budget.

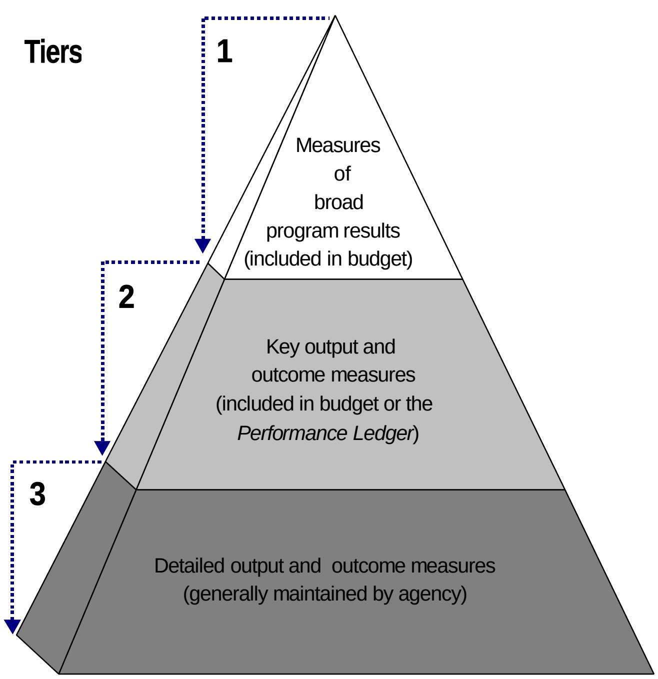

Exhibit 2: Agencies Should Have Comprehensive Performance Measurement Systems

This issue can be resolved if the Legislature requires agencies to have comprehensive accountability systems but to report only some of these measures in the budget document. Exhibit 2 illustrates this approach. Agency performance measures should include a first tier of high-level measures that can be used to monitor the achievement of critical state goals and activities. These measures enable the Legislature and the public to assess the overall results of state programs and should be specified in the appropriations act.

Agencies also should develop a second tier of more detailed measures that can be used to assess key direct program outputs and outcomes. These supplemental measures could be either included in the budget or in the *Performance Ledger*. The *Performance Ledger* , which maintained by the Governor's Office, was created by the 1998 Legislature to be the state's official compilation of information about PB ² programs and measures. It can and should be used to track data on agency performance measures that are not included in the *General Appropriations Act* or the implementing act but are critical to a fuller assessment of agency performance.

Finally, agencies should have a third tier of in-depth output and outcome measures that are key to obtaining higher-level measures to help agency managers manage program processes. These low-level measures would generally be internally maintained by the agency.

This comprehensive approach to PB ² recognizes that performance measures need to meet a variety of information needs. First, the Legislature needs to be able to determine whether programs are solving public problems. For example, if the Legislature chose to invest $50 million in a teen pregnancy reduction program, it needs performance data that indicates the program's effect on teen pregnancy rates. This critical information should be reported in the budget.

In addition, fiscal and substantive committees need more detailed information to help them assess program efficiency and identify resource needs. For example, measures such as the percentage of teen-aged women served by pregnancy prevention services would enable the Legislature to assess the need for the state to provide more services in order to reduce teen pregnancy rates.

Finally, agency managers need measures that assess individual processes, such as the percentage of teenage pregnancy counselors who are receiving the in-service training needed to enable them to perform their jobs effectively.

The Legislature should make decisions on how many and which measures to include in the appropriations act and budgets for each program. The number of measures to be included could change over time. For example, when a program appears to be operating well, the Legislature may determine that it needs to specify relatively few performance measures in the budget. However, if the program's performance becomes more problematic, the Legislature could require additional measures.

Several agencies have developed comprehensive performance measurement systems. For example, the Departments of Revenue and Management Services both maintain detailed internal measures that supplement the PB ² measures reported in the budget. Similarly, the Department of Children and Families has developed internal measures to assist managers identify factors that contribute to program outcomes. However, other agencies have not developed similar comprehensive measurements.

- **Agencies should establish comprehensive PB ² accountability systems. The Legislature should determine each year which measures from these accountability systems should**

be included in the budget and reported in the *Performance Ledger*.

Agencies should improve the quality of reported performance information

While agencies have made great strides in reporting their performance, the usefulness of some PB ² information is limited by incomplete and inaccurate data. Agencies are improving their performance data; however, they need to do more to ensure that the data they report to the Legislature is complete and accurate.

Historically, both agencies and the Legislature have not been as concerned about program performance data as they have about financial data. Consequently performance data generally has been less accurate than financial data. However, with the advent of PB ², greater importance is now being placed on the accuracy of performance data.

For example, agencies are now required to check the performance data for accuracy and completeness. State statutes require agencies to develop performance data monitoring plans in consultation with OPPAGA, and direct agency inspectors general to check the validity and reliability of the performance data.[4,5]

The quality of agency performance data is mixed. In some cases, agencies have established reliable systems to ensure that performance information is complete and accurate. However, other agencies need to establish stronger data reliability systems. As shown in Exhibit 3, agency accountability systems for 8 of the 13 programs we reviewed did not meet our expectations for data reliability.

Most of these agencies had not reviewed their data collection systems 'quality control procedures for all of their PB ² measures. Others had reviewed their data systems, but had not conducted enough testing of the data to ensure its accuracy. The lack of accurate reliable performance data undermines policy makers 'ability to use program results for policy and budgeting decisions and accountability purposes. Agency inspectors general need to recognize that ensuring PB ² data reliability should be one of their primary responsibilities.

Exhibit 3: OPPAGA's Accountability Ratings Found That Most Agencies Need to Improve Performance Data Reliability

Program	Meets Expectations	Needs Modification
Revenue:		
General Tax Administration	X	
Property Tax Administration	X	
Community Colleges		X
Labor and Employment Security:		
Disability Determination	X	
Rehabilitation		X
Law Enforcement:		
Investigations and Forensic Science		X
Information		X
Professionalism		X
Management Services:		
Support		X
Technology		X
Workforce		X
Facilities	X	
Retirement	X	

- **Agency inspectors general should commit the necessary resources to ensure that PB ² performance data is complete and sufficiently error free.**

Agencies should improve their performance standards over time

A critical part of the PB ² process is setting reasonable PB ² performance standards to hold agencies accountable for program results. Agencies have frequently proposed and the Legislature approved standards that

4 Sections 11.513 and 20.055, F.S.

5 OPPAGA defines validity as the extent to which the performance measure and corresponding data provide information on whether the program is achieving its purpose. The U.S. General Accounting Office defines reliability as the extent to which performance data is complete and sufficiently error free for its intended purposes.

were too high or too low to be useful accountability tools. When standards are not realistic expectations of program results, they cannot be used as a basis for judging performance.

Agencies frequently have difficulty proposing and setting standards because they lack the historical data needed to provide a performance baseline. For example, the Department of Children and Families had only one year of incomplete performance data when it proposed standards for alcohol, drug abuse, and mental health program. Consequently, the department had to base its standards on rough estimates about what the program might be able to reasonably achieve.

This situation should improve over time as agency data systems improve and performance trends can be tracked over time. Generally, the Legislature should establish performance standards that encourage agencies to improve performance but are not unattainable given available resources and time frames.

- **Agencies need to pay more attention to standard setting in the PB² process. To encourage better standard setting, the Governor's Office should require agencies to explain the methodology they use to set standards in the PB² documentation they provide when they submit their legislative budget requests.**

Enhancing PB² in the legislative process

The presentation of PB² information in the budget needs improvement

The manner in which PB² performance information is presented to the Legislature does not facilitate its understanding and analysis. PB² data is presented in Exhibit D-2 of agencies' Legislative Budget Requests and in the *General Appropriations Act.* In both cases, the accountability data is presented as a list of unconnected inputs, outputs, and outcome measures rather than in an explanatory manner.

Exhibit 4 shows how PB² information could be reformatted to improve its usefulness. This type of format would make the Legislature's performance expectations more explicit and make it easier to track the relationship between the investment of public funds, the number of service units produced or clients served, and the expected outcomes of these services.

Exhibit 4
Changing the Budget Presentation of PB² Information Will Improve Its Usefulness

Department of Children and Families, adults with disabilities who need assistance to remain in the community

Outputs:
The department, using the funds provided in specific appropriations 340 through 350, shall, at a minimum, provide program services to
2,476 disabled adults in community care;
1,565 disabled adults in home care; and
2,018 Medicaid waiver clients.

Outcomes:
In serving these persons, the Department shall, at a minimum, achieve the following outcomes:
99% of adults with disabilities receiving services will not be placed in a nursing home; and
95% of clients will be satisfied with the services they receive.

- **We recommend that the Legislature change the way that PB² information is presented in the budget to better link input, output, and outcome measures and thereby facilitate understanding and use of performance data.**

Agencies should link proposed budget increases or decreases to measures

The usefulness of PB² information for budgeting decisions could be improved if agencies requesting changes in the resources they receive can show how they anticipate these changes to affect program performance.

Budgeting decisions will never be based entirely on performance information. During the budgeting process, legislators must make choices between competing priorities such as education, human services, criminal justice and corrections, natural resources, and transportation. Legislators make these choices based on their values, the needs of their constituents, and any information they have on the merits of individual programs. PB ² can help in forming these decisions by providing information on program results. However, it will not produce a mechanistic system for allocating available funds among programs that are equally meritorious.

However, PB ²could play a larger role in the budgeting process if agencies were required to link proposals for budget increases or decreases to their PB ² measures. During the appropriations process, legislators generally use last year's budget allocations as a base, and their discussions focus on proposed increases or decreases to this base. Agencies must justify their proposed changes to the budget but are not currently required to explain how these changes would affect program outputs or outcomes.

For example, the Department of Highway Safety and Motor Vehicles requested 25 additional positions for the Florida Highway Patrol in Fiscal Year 1998-99 and justified this request on the basis that additional officers were needed to patrol the turnpike. However, the department did not indicate how the new positions would affect its ability to achieve its PB ²performance standards for seat belt compliance rates and accident and death rates on patrolled highways. By requiring agencies to link their proposed budget changes to their PB ² measures, the Legislature could better assess how the increased investment of public funds would produce more services or better results.

- **We recommend that the Legislature require agencies to specify for each budget issue how the requested funding changes would affect PB ² output and outcome measures.**

Agencies should develop unit cost information for key outcomes

Another way the Legislature could enhance PB ²'s usefulness in the budget process would be to require agencies to report unit costs as part of their PB ² measures. Unit costs identify the resources needed to produce outputs such as providing a single unit of service or providing a set of services to a single individual. The Legislature could use unit cost information to assess the relative efficiency of program operations or to determine the relationship between changes in the cost of program services and the outcomes obtained from these services.

For example, by comparing the unit costs of caring for frail elders in the community and in nursing homes, the Legislature could assess the cost-effectiveness of community services. It also could determine whether increases in the average amount the state spends per client for community services would further decrease or delay nursing home admissions and would be cost-effective.

Unit costs can be calculated in a number of ways. For example, they can be calculated as direct costs, which are the costs directly attributable to the provision of program services. Or they can be calculated as full costs, which include the direct costs of providing program services as well as the indirect costs of administrative services, such as personnel services that serve more than one program. Depending upon the situation, both direct and indirect costs are used in making management and policy decisions. Therefore, agencies should be able to track and report on both their direct and indirect costs.

The state currently has unit cost data for some programs. For example, state funding to public schools is provided on a unit cost basis through the Florida Education Finance Program (FEFP). School districts track the direct and indirect costs associated with providing different types of instructional programs, such as basic education, dropout prevention, or exceptional student education. This allows the Legislature to know how much more funding is needed to pay for an increase in the number of students by type of academic program. However, the Legislature lacks this unit cost information for most state programs.

The Legislature has begun to require agencies to establish unit cost information. During the 1998 Session, the House asked agencies to identify unit costs for all of their major services. However, this information was difficult to use because agencies did not use consistent methods to develop their cost data. Thus, some agencies reported only their direct costs, while others reported only their full costs. This limited policy makers' ability to ensure that they were using comparable cost data when making decisions.

In the long term, the state's accounting system (the Florida Financial Management Information System, FFMIS) will need to be revised to produce unit cost information. At present, agencies generally use FFMIS to track expenditures by organizational units and by appropriation categories.[6] However, FFMIS generally does not allocate spending to individual programs, which makes it difficult to calculate program unit costs or relate costs to program service levels or performance.

The state is now in the early stages of redesigning FFMIS, which should help resolve this problem. A working group, consisting of representatives of the Governor's Office and the Departments of Banking and Finance, Management Services, and Insurance, is in the early planning stages of the redesign effort. This redesign should be required to enable agencies to obtain their direct and full costs of their program outputs. Depending on the circumstances of individual programs, the Legislature could then determine which type of unit costs agencies should report as part of their performance measures.

In the short term, agencies may be able to use the existing capabilities of FFMIS to provide some unit cost data. Agencies could do so by using the organizational and program component codes used in the current FFMIS system to track costs allocated to key program activities and to allocate indirect costs. This approach would require agreement and direction from the Legislature and the Governor's Office to ensure that agencies use consistent systems for allocating costs.

- **We recommend that FFMIS be revised to enable agencies to capture expenditure information for each of their PB ² programs and calculate both direct and full unit costs for key program outputs. The Governor's Office, in coordination with the Legislature, should develop instructions for agencies to use in allocating administrative overhead costs to programs and services. The Legislature should work with agencies to determine whether they should report unit costs, full costs, or both in their Legislative Budget Requests.**

The state's program and budget structures should be better aligned

The PB ² program structure and the budget structure are not fully aligned. This can

[6] An organizational entity could be a formal unit such as a division, bureau, or section or a more informal unit such as a program, initiative, or project.

make it difficult for the Legislature to determine how budget changes may affect program outputs or outcomes.

Historically, the Legislature has appropriated funds to organizational units for specified purposes. For each agency, the Legislature appropriates funds to one or more "budget entities." These budget entities may be departments, divisions, bureaus, or sub-bureaus. For each budget entity, the Legislature further appropriates funds for specified purposes.

For example, the Legislature may make separate line-item appropriations for salaries and benefits, expenses, and operating capital outlay. It also may appropriate funds for specific service delivery systems such as foster homes, group homes, or other settings used for the placement of dependent children who cannot safely stay with their families. The state accounting system (FFMIS) uses this budget structure to track expenditures.

However, these budget structures may or may not match the program structures used under PB². Some agencies had already organized around program areas they later defined as PB² programs. Others changed their organizational structures to match their new PB² program structure, and the Legislature appropriated funds to the newly formed organizational units. In these cases, the organizational and budget structures are aligned with the PB² program structure, and the Legislature knows which program outputs and outcomes will likely be affected if it increases or decreases appropriations.

However, in some agencies, such as the Departments of Transportation and Environmental Protection, aligning their organizational structure with their PB² program structure has been problematic. This occurs because these agencies operate regional offices that administer several programs. Since these regional offices may need to move resources among programs to meet the most pressing local needs, they generally have been appropriated funds as single budget entities. However, this may make it difficult for the Legislature to determine how changes it makes to appropriations to these budget entities will affect the outcomes and outputs of the different programs they administer.

In some cases, the programs and parts of programs are organized one way for performance reporting but another for funding.

For example, the Department of Children and Families' defined its PB² Alcohol, Drug Abuse, and Mental Health Program according to the different types of clients served. However, the budget structure was not aligned to match these client groups, and line-item appropriations continue to be based on different types of services, such as acute care (Baker Act) services, that are used by more than one client group. This makes it difficult for the Legislature to determine how changes in appropriations for these services will affect outcomes for different client groups.

The effect of changes in appropriations on outcomes also can be difficult to predict when more than one program contributes to a common outcome. This occurs when joint federal- and state-funded programs such as Medicaid provide services that benefit clients of other state programs, such as clients in mental health, developmentally disabled, elder affairs, and some health programs. It also may occur when agencies define their programs or subprograms along funding sources that contribute to common outcomes. In these cases, the Legislature may not realize that changes to the appropriations to one program will affect the outcomes of another program.

- **We recommend that the Legislature and the Governor's Office work with state agencies to examine their**

program and budget structures. When possible, these structures should be aligned so that budget entities and line-item appropriations do not cross program lines and that all funds that contribute to common purposes are combined into single programs. This revised structure should then be incorporated into both the Legislative Appropriations System and Planning and Budgeting Subsystem (LAS/PBS) and the state accounting system (FFMIS).

- **When aligning program and budgeting structures is not possible, as with the Medicaid program, agencies will need to cross-walk their Legislative Budget Requests to other programs and funding sources that contribute to the attainment of their programs outcomes. For example, agencies whose programs use Medicaid as a funding source for program services should show the Medicaid expenditures for their clients as part of their unit costs.**

Agencies should be encouraged to develop higher-level measures

In Florida, policy-makers and agencies see PB ² primarily as an accountability tool. Thus, the PB ²law can provide specified incentives and disincentives that the Legislature can use to reward or sanction agencies that exceed or fail to meet performance expectations.

Although the Legislature has made limited use of these tools, the focus on use of performance information to grant incentives and disincentives has made some agencies reluctant to put higher-level outcome measures, such as crime or suicide rates, in their legislative budget requests. Agencies are reluctant to use these measures because they exercise little direct control over higher-level outcomes. When agencies do include higher-level outcome measures in the budget requests, they tend to view them as "informational" measures for which they seek to bear no responsibility.

However, in most instances, the Legislature established programs because it wanted to influence higher-level outcomes such as crime rates. If these higher-level measures are not included in the budget, the Legislature will not know whether the policies it has developed to influence these measures have been effective. Furthermore, if agencies do not feel at least some responsibility for higher-level measures, they may not do everything possible to affect them.

The Legislature may be able to encourage agencies to include higher-level measures in their budget requests and to take responsibility for these measures if it developed criteria for when it would use incentives and disincentives to reward or punish agencies that did not meet performance expectations. These criteria should consider several factors, including whether the agency met its PB ²standards and the quality of its accountability system. Exhibit 4 contains some of the criteria the Legislature should use when it decides whether or not to issue incentives and disincentives for program performance. However, if an agency repeatedly fails to meet these criteria because it does not make reasonable progress in developing the performance measures, standards, and data needed to judge performance, the Legislature should sanction that agency by administering one or more of the disincentives provided for in the PB ²law.

Exhibit 4:The Legislature Could Consider the Following Factors in Decisions to Award Incentives and Disincentives

Are the agency's performance measures and data valid? If no, the measures should not be used to award incentives or disincentives. However, in cases where agencies consistently produce invalid performance measures and data, the Legislature may wish to award disincentives to encourage improvement.

Are the agency's performance standards reasonable? If no (standards were set at a level that was unrealistically low or unattainably high), the measures should not be used to award incentives or disincentives.

Did the agency generally meet its performance standards? If no, incentives should not be awarded; disincentives may be appropriate.

Did factors beyond the agency's control greatly impact program performance? If yes, the measures should not be used to award incentives or disincentives.

Did independent evaluations of the agency's performance recommend incentives or disincentives? If yes, consider these recommendations. OPPAGA's Program Evaluation and Justification Reviews have recommended both incentives and disincentives based on agency performance.[1]

[1] Incentives were recommended for the Departments of Revenue and Management Services. A disincentive was recommended for the Department of Revenue.

- **We recommend that the Legislature develop criteria for when it will administer incentives and disincentives and amend Chapter 216, F.S., to include those criteria. It also should administer disincentives to agencies that repeatedly fail to improve their performance measures, data, and standards. In addition, when practicable, the Legislature should require agencies to place higher-level outcome measures in their Legislative Budget Requests and should not distinguish these from other outcome measures.**

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More information on OPPAGA's Performance-Based Program Budgeting publications is available on the Florida Monitor, OPPAGA's World Wide Website, at www.oppaga.state.fl.us/budget.pb2.html.

For further information, contact Martha Wellman, PB ²Coordinator, at 850/487-2977.

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.