



# Performance-Based Budgeting: Concepts and Examples

Research Report No. 302

*Prepared by:*  
Greg Hager, Ph.D.  
Alice Hobson  
Ginny Wilson, Ph.D., Committee Staff Administrator



**PERFORMANCE-BASED BUDGETING:  
CONCEPTS AND EXAMPLES**

**Adopted by Program Review and Investigations**

**PROGRAM REVIEW & INVESTIGATIONS COMMITTEE  
STAFF REPORT**

**Ginny Wilson, Ph.D.**  
Committee Staff Administrator

**PROJECT STAFF:**

**Greg Hager, Ph.D**  
**Alice Hobson**  
**Ginny Wilson, Ph.D.**

**Research Report No. 302**

**LEGISLATIVE RESEARCH COMMISSION**

Frankfort, Kentucky

**Committee for Program Review and Investigations**

Adopted: June 14, 2001



## **FOREWORD**

On September 20, 2000, the Program Review and Investigations Committee directed staff to prepare a general primer on performance-based budgeting. The Committee instructed staff to provide a general guide to budgeting systems, consider how different budgeting systems incorporate information on off-budget funds, and discuss budgeting systems used in selected other states.

The Program Review and Investigations Committee adopted the staff report on June 14, 2001.

This report is the result of dedicated time and effort by Program Review staff, Ginny Wilson, Ph.D., Committee Staff Administrator, Greg Hager, Ph.D., and Alice Hobson.

Robert Sherman  
Director

Frankfort, Kentucky  
June 14, 2001



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**MEMORANDUM**

**TO:** The Honorable Paul E. Patton, Governor  
The Legislative Research Commission, and  
Interested Individuals

**FROM:** Senator Katie Stine, Co-Chair  
Representative H. "Gippy" Graham, Co-Chair  
Program Review and Investigations Committee

**SUBJECT:** Adopted Committee Report: Performance-Based Budgeting:  
Concepts and Examples

**DATE:** June 14, 2001

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On September 20, 2000, the Program Review and Investigations Committee voted to have staff prepare a general primer on performance-based budgeting. The Committee instructed staff to provide a general guide to budgeting systems, consider how different budgeting systems incorporate information on off-budget funds, and discuss budgeting systems used in selected other states.

The Program Review and Investigations Committee staff reviewed literature and selected case studies on states' use of performance budgeting. Based on all the information that formed the basis for this report, it was clear that performance budgeting had many compelling arguments in its favor. Its stress on accountability for results achieved by programs could produce a more effective government that concentrates on the problems that Kentucky residents most care about. Unfortunately, since so few states have implemented performance budgeting, there are no model states with long term success that Kentucky can emulate. At this point, there is evidence that performance budgeting can be implemented; the jury is still out—and may be for some time—on whether the reform accomplishes its mission of making government more accountable and effective.

This quality is not unique to proposed changes in the budgetary system. Public policy reforms are usually adopted based on the quality of the arguments behind them and with a less than ideal amount of practical experience for support. Even though performance budgeting does not have a long track record, it is possible to review the budgeting literature and the efforts at implementing PBB so far to help clarify the theory behind it and learn from what other states have done. The following conclusions were drawn from the review:

1. Legislators must determine whether they want to hold agencies accountable for what they *spend* or what they *achieve*. They must also decide if they want to focus primarily on changes to the base budget or regularly review current spending as well as requests for changes.
2. Performance budgeting is a tool that can improve *accountability* in the use of public resources. To date, it has not been shown to be a good tool for improving *efficiency* in the use of public resources.
3. If a state is to implement performance budgeting successfully, a key decision maker in the budget process—either the governor or a leader in the House or Senate—must take a strong advocacy role in promoting the change.
4. There should be widespread agreement among decision makers on the objectives they wish programs to achieve.
5. Performance measures should be carefully defined to accurately capture outcomes due to program activities.
6. Sufficient technical and staff resources should be devoted to initial training and ongoing maintenance of the system.
7. Performance measures should be independently validated on a regular basis.
8. Careful planning should limit the number of performance measures to a small set of well-crafted indicators.
9. If they want agencies to take performance monitoring and reporting seriously, legislators must demonstrate that *they* take it seriously.
10. It should be acknowledged that performance budgeting, or any other so-called “rational” budgeting system, provides only part of the information policy makers use to allocate funds among competing needs.

Questions or requests for additional information should be directed to Dr. Ginny Wilson, Committee Staff Administrator for the Program Review and Investigations Committee.



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## EXECUTIVE SUMMARY

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**The Program Review & Investigations Committee requested a primer on performance budgeting.**

At its September 2000 meeting, the Program Review and Investigations Committee voted to have staff prepare a general primer on performance-based budgeting. The Committee instructed staff to provide a general guide to budgeting systems, consider how different budgeting systems incorporate information on off-budget funds, and discuss budgeting systems used in selected other states.

### Overview of Budgeting

The simplest definition of budgeting is that it is a systematic way to allocate resources. Various types of government budgeting systems have been developed to serve multiple purposes, including financial control, management, planning, priority setting for scarce funds, and accountability in the use of public resources.

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**Line-item budgets hold agencies accountable for what they spend on inputs.**

The traditional line-item budget, wherein legislators specify allowable spending on *inputs* (salaries, supplies, travel), was first developed to guard against the misuse of public funds. *Incremental budgeting*, often used with line-item budgets, assumes that funding for existing programs will continue at about the same level as in the past. Most attention is given to considering requests for changes in agency base budgets.

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**Performance budgets hold agencies accountable for what they achieve.**

Line-item budgeting has been criticized for holding public agencies accountable only for what they spend. Therefore, some budget reformers have recommended the adoption of *performance-based budgeting*, which is intended to hold agencies accountable for what they achieve. The basics of performance-based budgeting are as follows:

1. *Objectives*. Agencies should develop strategic plans of what they intend to accomplish. These plans should contain objectives based on outcomes that the public values.
2. *Performance measures*. Based on their strategic plans, agencies should develop specific, systematic measures of outcomes that can be used to determine how well agencies are meeting their objectives. Examples: student test scores for education programs; mortality rates for health programs.

3. *Linkage*. Objectives and performance measures are integral parts of the budgetary process. Appropriations are linked to agencies' results: how well they are meeting their objectives as indicated by performance measures.

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**Various types of performance measures can be defined.**

One of the most difficult aspects of performance-based budgeting is the definition of agency performance targets that can be reliably measured on a regular basis. Measures can be developed to track several aspects of agency performance, as follows:

1. **Inputs: resources used to provide government services.**

*Inputs*—also called objects of expenditure—are the resources used to provide government services, such as personnel, operating expenses, and capital. Inputs have the advantage of being relatively easy to measure, usually in dollars. Since inputs are measured in dollars, it is also easy to make comparisons of the costs of inputs across diverse public programs.

2. **Activities: work an agency performs.**

*Activities*—also called outputs—measure what an agency does. Examples would include such things as the number of mines inspected, miles of highway paved, number of applications processed, number of classes taught, or number of prisoners housed.

3. **Efficiency: relationship of cost to a unit of activity.**

An *efficiency* measure relates costs to a unit of activity. Examples include annual cost per prisoner, cost of filling a pothole, or cost per child vaccination. Relating costs to activities is not always straightforward. Consider a university's days of instruction—defined as days of teaching multiplied by the number of students. If the university served any functions other than instruction, it would be necessary to determine what percentage of costs should be allocated to instruction. That might be easy for an item such as classroom construction and maintenance. It would be more difficult to determine instruction's share of staff costs or buildings not used as classrooms.

4. **Outcome: how well a program is meeting an objective.**

An *outcome* indicator is a measure of how well a program is meeting an objective. Objectives are usually the ends of government, things that the public values such as safety, health, or educational improvement. To cite some examples, for a police department, reductions in crime could be an outcome indicator. For health programs, reductions in the rates of particular diseases or increases in life expectancy are feasible outcome measures.

Outcome indicators measure progress toward achieving objectives. A problem is that objectives are often not under the control of the agency. For instance, the state police could initiate a new program to reduce fatalities in automobile accidents by encouraging more use of seat belts. Seat belt use could go up and fatalities would go down as expected. Another possibility is that seat belt use could go up but fatalities could still increase because so many other factors affect accident fatalities, such as road conditions, rates of drunken driving and speeding, or the kinds of vehicles that people drive. Conversely, it is possible that if other factors were favorable, a program's outcome would be good even if the program is not effective.

**5. Effectiveness:  
Attainment of the  
objective due only to  
the program.**

To deal with this problem, a measure of a program's *effectiveness* should determine how much of the attainment of the objective is due only to the program. Effectiveness is the most difficult measure because it requires ruling out the other feasible reasons for why a program succeeded or failed in attaining an objective.

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**Most states budget  
incrementally.**

The choice of a budgeting approach (line-item or performance-based) is separate from the choice of the budget base. Under variations of zero-based budgeting, legislators require agencies to justify some portion of their spending on current services. In practice, significant reevaluation of current spending in each budget cycle is a huge task for both agencies and legislators. Therefore, whether they use line-item budgeting or performance-based budgeting, most states budget incrementally. Unless some special condition focuses their attention on an aspect of funding for current services, legislators generally give most of their attention to requests for changes in the base budget.

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**The choice of budget  
system does not affect  
the designation of off-  
budget funds.**

Deciding which programs or functions are "*off budget*" is another decision that is separate from the choice of budgetary system. For the purposes of this discussion, "off-budget" funds are defined as those included in a government's Comprehensive Annual Financial Report, but not appropriated by the legislature. By definition, changing the budget system does not affect items that are not in the budget. Virtually all governments in the United States place some programs off budget, but governments are not uniform in defining the programs that are off-budget and those that are on-budget.

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**Most states, including Kentucky, follow GASB recommendations for fund structure.**

The Governmental Accounting Standards Board (GASB) established a recommended fund structure for state governments. GASB designates three major categories of funds:

- *Governmental* funds track basic government activities (e.g., General Fund, Road Fund).
- *Proprietary* funds track government activities generally financed and operated like a private business either for others (e.g., state parks) or for costing support services for state agencies (e.g., computer services).
- *Fiduciary* funds track assets held for others and cannot be used to support the government's own programs (e.g., employee retirement funds).

Under generally accepted accounting principles, most governmental funds are on-budget, while some proprietary funds and virtually all fiduciary funds are off-budget.

### **Budgeting in Practice: State Examples**

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**Programs for the elderly were selected for a comparison of budget information from four comparison states.**

To make differences in the types of information usually provided by different budgeting systems more concrete to legislators, staff obtained budget request and briefing materials from states with a variety of budgeting systems. In addition to Kentucky, the states are Iowa, Massachusetts, Texas, and Louisiana. In order to provide examples that were comparable across states, budgets for state departments for elderly services are reviewed.

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**Kentucky legislators primarily review line-item information to make incremental budget decisions.**

**Kentucky.** Although legislators in Kentucky make incremental appropriations by program, budget decisions are based primarily on a review of line-item expenditure data. Agencies are not required to submit performance indicators, so they cannot be held accountable for not meeting specified performance targets. Budget documents present agency funding requests by fund source and object of expenditures. The base, or current services, budget is presented without detail. Requests for additional items must be itemized and prioritized by cabinet.

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**The Iowa executive branch implemented performance budgeting, but it has not been adopted by the legislature.**

**Iowa.** The executive branch in Iowa instituted "Budgeting for Results" in 1997. Agencies must include performance goals and targets in budget requests to the governor. Budget requests are by program activities, such as case management, rather than by department or unit. A review of the performance

indicators reported for the Iowa Department for Elder Affairs raised questions about whether they have been appropriately defined to capture program effectiveness. The performance budgeting format has not been adopted by the Iowa legislature, which requires its budget staff to prepare agency information in the traditional line-item format.

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**A Massachusetts attempt to implement performance budgeting failed to win legislative approval.**

**Massachusetts.** The governor of Massachusetts required agencies to submit performance budgets in FY 1993, partly in reaction to a serious budget shortfall brought on by the national recession. The Governor's recommended budget reduced 731 line-item expense categories in the budget to 128. The number of accounting funds fell from 35 to 5. Within these five funds, 342 service delivery groups were identified. A total of 758 outcome targets were specified for all programs in state government. Agencies were to be allowed to transfer up to 10 percent of total funds among programs to better achieve outcome targets. Outcome measures and fund transfers would have been reported quarterly to legislative committees. The legislature did not adopt the proposed budget reforms, largely because of resistance on the part of the Chair of the Senate Ways and Means Committee. Insufficient planning of the effort and inadequate training for agencies and legislators were cited as impediments to successful implementation.

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**Texas has an advanced performance budgeting system.**

**Texas.** This state has an advanced performance budgeting system. Texas had a long history with the development and use of performance measures at the agency level, and began to formally incorporate these in its biennial budgeting process in 1991. Performance budgeting was implemented in all state agencies and universities simultaneously, rather than being phased-in. Approximately 3,000 indicators are designated as "key performance measures" to be used by policy makers as they make budgeting decisions. The State Auditor reviews the validity of agency performance measures.

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**The Texas executive and legislative branches work closely together to make the system work.**

Both the executive and legislature are significantly involved in the performance budgeting system and work together to impose uniform requirements on agencies, who must explain a significant failure (10 percent or more) to meet required performance targets. Managers are allowed to transfer up to 35 percent of their funds between programs and are subject to incentives and penalties for their results. Agency heads and legislators who responded to a survey preferred performance budgeting to line-item budgeting.

**Louisiana has a system similar to Texas, but has had more problems with coordination.**

**Louisiana.** The performance budgeting system in Louisiana was implemented largely due to the efforts of the Chair of the House Appropriations Committee. The system shares many similarities with that used in Texas. However, coordination between the executive branch, House, and Senate has not been as consistent, allowing some problems to arise. Agency heads complain that no one has been given the final authority to define performance measures, so agencies get conflicting decisions from the key players about what they must report. In addition to performance information, agencies in Louisiana are also required to submit extensive line-item information in their budget requests. This results in a large amount of information for review. Legislators indicated that they were frequently overwhelmed by the amount of data they received, which was often in a format that was difficult to understand.

### **Conclusions**

Even though performance budgeting does not have a long track record, it is possible to review the budgeting literature and the implementation efforts to help clarify the theory behind it and learn from what other states have done. The following conclusions are drawn from that review.

- 1. Legislators must determine whether they want to hold agencies accountable for what they *spend* or what they *achieve*. They must also decide if they want to focus primarily on changes to the base budget or regularly review current spending as well as requests for changes.**
- 2. Performance budgeting is a tool that can improve *accountability* in the use of public resources. To date, it has not been a good tool for improving *efficiency* in the use of public resources.**
- 3. If a state is to implement performance budgeting successfully, a key decision maker in the budget process—either the governor or a leader in the House or Senate—must take a strong advocacy role in promoting the change.**
- 4. There should be widespread agreement among decision makers on the objectives they wish programs to achieve.**
- 5. Performance measures should be carefully defined to accurately capture outcomes due to program activities.**



- 6. Sufficient technical and staff resources should be devoted to initial training and ongoing maintenance of the system.**
- 7. Performance measures should be independently validated on a regular basis.**
- 8. Careful planning should limit the number of performance measures to a small set of well-crafted indicators.**
- 9. If they want agencies to take performance monitoring and reporting seriously, legislators must demonstrate that *they* take it seriously.**
- 10. It should be acknowledged that performance budgeting, or any other so-called “rational” budgeting system, provides only part of the information policy makers use to allocate funds among competing needs.**



## INTRODUCTION

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### **Performance-based budgeting ties appropriations to the outcomes of programs.**

Performance-based budgeting (PBB) is a budgeting method that links appropriations ultimately to the outcomes of programs. Agencies create strategic plans that include broad goals and more specific objectives for achieving those goals. For example, an agency's goal may be to improve the health of poor children. Its objectives might be to reduce rates of particular diseases or poor health conditions by specific, measurable amounts over a certain period of time. Outcomes would be the measurable reductions in the incidence of the specified diseases. Agency personnel have more flexibility in allocating budgeted resources than under the traditional budget system but are held responsible for how well their agency meets performance targets.

Elements of performance budgeting have been around for decades and almost all states use some aspects of PBB, such as developing performance measures for strategic planning and evaluation. The current method for a budgeting system based on performance is fairly recent, however. Because PBB is relatively new and—like any new system—difficult to implement, only a handful of states use performance-based budgeting predominantly (Appendix A).

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### **The 2000 General Assembly funded a Performance Budget Pilot Project.**

As part of House Bill 502, the 2000 Kentucky General Assembly appropriated \$750,000 for the State Budget Director to fund a Performance Budgeting Pilot Project. The 2000 Executive Branch Budget established the following requirements:

- Each cabinet must develop a four-year strategic plan to submit with its next budget request.
- The State Budget Director will design and implement a state performance budgeting pilot program for three to six budget units.
- The Auditor of Public Accounts must monitor the implementation of the pilot project and make recommendations by February 1, 2002, about whether it should be continued, expanded, or abandoned.

**This report is a  
background primer on  
budgeting information.**

At its September 2000 meeting, the Program Review and Investigations Committee voted to have its staff prepare a primer on performance-based budgeting. The approved study proposal identified three topics for inclusion:

- A general discussion of budgeting systems,
- Consideration of how different budgeting systems incorporate information on off-budget funds, and
- Specific examples of the budgeting systems used in selected other states.

The first section of this report presents a general overview of the characteristics of state budgeting systems, with a particular focus on performance budgeting, including information on the functions of budgeting, a discussion of budgeting reform proposals, and definitions of different measures of budgetary base and performance. The overview section concludes with a discussion of off-budget accounts.

The second section attempts to make the general budgeting topics concrete by presenting examples of state budget briefing documents prepared under different budget systems for a similar set of programs for the elderly in Kentucky and four other states: Iowa, Louisiana, Massachusetts, and Texas. States chosen for comparison incorporate different amounts of performance information in their budgeting processes. Massachusetts abandoned its attempt at performance budgeting; the other three states are engaged in continuing efforts to increase the role of performance information in budget decision-making. Kentucky does not currently have a formal structure for incorporating performance information into its budgeting process.

## AN OVERVIEW OF BUDGETING

### Functions of Budgeting

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#### **Budgeting systems serve multiple purposes.**

The simplest definition of budgeting is that it is a systematic way to allocate resources. One reason that budgeting is so complicated is that there is no widespread agreement about exactly how government funds should be allocated through the budget—the great “who gets what?” question. Some of those disagreements are political; decision makers may have different values and favor different groups. There also has been debate about how a budgeting system can best serve those making decisions. A system for budgeting serves many functions. Though these functions are not necessarily mutually exclusive, it has been very difficult to come up with a budgeting system that serves every function well enough to please everyone. Budgeting systems that have been implemented and proposed emphasize different functions, and the information provided to decision makers reflects those different emphases.

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#### **FUNCTIONS OF BUDGETING:**

##### **1. Financial control of inputs**

One function of a budgeting system is to facilitate *financial control*.<sup>1</sup> To quote from a budgeting textbook: “the most traditional and fundamental function is control of expenditures to make certain that they are legal, valid, appropriate, accurate, and honest.”<sup>2</sup> In practice, this has usually meant control over the inputs of budgeting: the resources, such as salaries and supplies, necessary to provide government services. The information that decision makers receive centers on inputs: the amounts and categories of money to be spent. Because money is easy to measure, once spending is allocated, it is relatively simple to verify that it was spent as decision makers intended. Budget systems that maximize financial control, however, may yield little information on the relationship between resources and outcomes.<sup>3</sup> For example, knowing that a university spent its appropriation within prescribed categories does not necessarily explain how effective it is in preparing students for the

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<sup>1</sup>This section describes five major functions of budgeting. Control, management, and planning are described in Allen Schick, “The Road to PPB: The Stages of Budget Reform,” *Public Administration Review* 26 (1966), 243-58. Prioritizing and accountability are described in Irene Rubin, “Budgeting for Accountability: Municipal Budgeting for the 1990s,” *Public Budgeting and Finance* 16 (1996), 112-32.

<sup>2</sup> Donald Axelrod, *Budgeting for Modern Government* (New York: St. Martin’s Press, 1995), p. 10.

<sup>3</sup> Philip Joyce “Performance-Based Budgeting” in Roy T. Myers (ed.), *Handbook of Government Budgeting* (San Francisco: Jossey-Bass, 1999).

workplace and society in general, much less how changes in resources would alter effectiveness.

## **2. Management of ongoing activities**

A budget system can also aid in the *management* of ongoing activities to improve effectiveness and efficiency. Administrators can use information on costs, activities, and—if available—results to evaluate how well programs are working. For example, determining the most efficient and effective way to repair roads might first require measuring how much it costs to fill a pothole and repave a mile of road. Using budget information for management addresses such questions as: “What is the best way to organize for the accomplishment of a prescribed task? Of the various grants and projects proposed, which should be approved?”<sup>4</sup>

## **3. Planning**

A budgeting system can be relevant to *planning* for the future in two ways. First, the budget may require agencies to forecast how much programs will cost, and possibly to relate those costs to activity levels for some number of years into the future. Second, the budget system may require agencies, programs, or even the entire government to engage in strategic planning. Budget proposals, appropriations, and implementation should then be consistent with those plans.

## **4. Setting priorities**

Since every conceivable program cannot be funded, budgeting by its very nature involves setting priorities. Budgeting systems differ though in the extent that they facilitate prioritizing by different criteria. Prioritizing based on costs per unit of work or program results requires information on activities and outcomes, not just costs of providing services. Requiring agencies to provide multiple proposals for providing services could be helpful in setting priorities. Grouping proposals from different agencies that deal with a common objective (e.g., adult education) could provide useful information to decision makers allocating scarce resources.

## **5. Accountability**

All budget systems provide for accountability; the question is, accountable to whom and for what. A budget system that focuses only on inputs allows decision makers to hold administrators accountable for how the money was spent. For example, did the highway repair department spend money appropriated for highway repair supplies on employee travel instead? Budget

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<sup>4</sup> Schick, p. 26.

systems that require information on activity levels allow accountability based on efficiency. How much did it cost to repair each mile of highway? A system that mandates information on how well an agency is meeting particular objectives may allow accountability based on measures of outcomes. How did highway repairs affect commuting time, damage to automobiles, and the number of accidents?

### A Brief History of Budgetary Reform

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**The traditional budget used by most states is based on the line-item format and incremental decision making.**

This section serves as background for the most recent reform effort: performance budgeting. As will be seen, the first task of budgeting in the United States was to gain better control over how money was spent. Specifically, budgeting helped guard against fraud and misuse of public funds. This concern remains, but budget reformers have long argued that a budget system should address other functions as well, such as better management and planning, particularly since most states now have sophisticated accounting and auditing systems to protect against misuse of funds. Efforts to change the budgeting system and the results of those efforts have exhibited a common pattern. First, a new budget system is proposed that purports to serve particular functions of budgeting better than the method in use. Some governments adopt variations of the new system and keep using them. Other jurisdictions adopt new systems but then revert back to their previous systems. The most common outcome though is that governments adopt parts of the new approach but keep most of what they were using already. After a century of use and study of budgeting methods, significant changes have occurred in the way budgeting is done. Change has been gradual, however, usually not because a government quickly adopted and retained a new system.

History shows that the success of a new budgeting system is not guaranteed. This does not mean performance budgeting must repeat the past. Past reform efforts have sometimes not lived up to expectations because the technology of the time was not sufficient to meet the needs of the new system. Advances in computer hardware and software have since made processing, analyzing, and presenting large amounts of information much easier. Today's reformers have the benefit of past efforts from which to draw lessons in implementing a new system. Performance budgeting also has the advantage of intuitive appeal to a public whose ultimate concern is the results of programs, not the nuts and bolts of how programs operate.

After decades of reform efforts, the budgeting systems used by most governments in the U.S. are hybrids. Budget documents often provide information relevant to all functions of budgeting. Still, the typical approach to budgeting has been and remains financial control through the use of the *line-item budget* that focuses on the costs of inputs to programs such as personnel or operating expenses. Decision makers do request and use information on other aspects of programs, such as how programs contribute to society. The provision and use of such information is usually informal and unsystematic though. In short, the line-item budget facilitates analysis of the costs of resources necessary to provide programs for the public. The line-item budget does not preclude other kinds of information, but it does not require or effectively facilitate analysis beyond control of how money is spent. This perceived weakness is one of the rationales for moving to a performance budgeting system.

In making spending decisions, legislators and other decision makers have usually focused their attention on proposed changes to programs rather than fully evaluating entire programs each budget period. Because government revenues have increased for most budget periods, most agencies have been able to maintain their base programs—the activities that they were doing already—and often have gained support for additional initiatives. This practice of budgeting is often cited as an example of incremental decision making, accepting much of what was decided in the previous budget and concentrating on proposed changes. Incrementalism is compatible with line-item budgeting, and the two have so often been used together that they are sometimes assumed to be synonymous, but this is not the case.<sup>5</sup> The line-item format does not require incremental budgeting and incrementalism does not necessitate using the line-item budget.

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**Public budgeting emerged early in this century to provide financial control and coordination.**

A century ago, what we think of as government budgeting did not exist in the United States. Typically, at the local, state, and national level, public agencies made their requests for funds directly to the appropriate legislative body. Legislators then made lump-sum appropriations for agencies or programs. Often there were few or no conditions as to how the money was to be used. Administrative reformers focused on two major problems

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<sup>5</sup> Analysts at the National Conference of State Legislatures use the term traditional/incremental to describe the typical, current state budgeting system. *Legislative Budget Procedures* (<http://www.ncsl.org/programs/fiscal/lbptabls/lbpc3t1.htm>), accessed February 12, 2001.



with this system of appropriations: financial control and coordination.

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**The line-item budget provides *financial control* by focusing on the inputs purchased to provide government programs.**

The first problem was the lack of financial control. With nonexistent or loose spending requirements, it was often difficult to determine how public funds were spent. The perception—often accurate—was that corruption was rampant. The solution was the adoption of the *line-item budget*. The “line items” were amounts of spending for different categories of inputs such as personnel, operating expenses, and capital equipment used to provide services. The items could be categorized in as much detail for as many governmental units (agencies, departments within agencies, subunits of departments) as decision makers wanted. If they wished, legislators could impose strict rules about transferring money from one item to another. Among the line-item budget’s strengths was that it allowed legislators and other budget makers to achieve effective *financial control* over public funds. Legislators could now allocate specified amounts of money for specified inputs for specified periods of time and verify that the money was spent as directed.

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**The adoption of the executive system increased the coordination of government spending.**

The second problem was the lack of coordination. Agencies or departments made their requests for funds independently of one another, and there was usually not much effort within legislatures to consolidate them. Reformers argued that the executive was the logical institution to impose some fiscal discipline on agencies’ requests and assemble them into a coherent package to be submitted to the legislature. Over time, states moved to the now familiar *executive budget*. Budget centralization and coordination increased, as did the influence of governors in the budgetary process. The executive, line-item budget format is an essential part of what is considered the traditional budgeting system in the U.S.

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**The second phase of budget reform stressed *management* of resources by focusing on agencies’ activities.**

There are elements of budgeting other than financial control, of course. As early as the 1910s, some argued that the budget system should change to make the *management* of government programs more effective. This would be accomplished by focusing on the *activities* of agencies rather than on their inputs.<sup>6</sup> For example, a transportation agency could project how many miles of roads it would pave or potholes it would fill in the future. It could also try to determine how much it costs to pave a mile of road or fill a pothole. Based on reports of cost per unit of output and whether outputs were meeting target levels, agency managers could

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<sup>6</sup> John Mikesell, *Fiscal Administration* (Fort Worth, TX: Harcourt Brace, 1999), p. 186.

determine how to manage resources and services better. A plus for legislators would be the inclusion of additional useful information in budget documents. In practice, this information did not often live up to potential; statistics usually summarized the amount of governmental activity but failed to relate it to costs.<sup>7</sup> Governments, especially at the local level, did gradually incorporate more information on governmental activities into the budgetary process but reliance on the traditional line-item budget persisted.<sup>8</sup>

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**A major rationale for program budgeting is to make *planning* easier.**

Program budgeting emerged in the 1950s as a sophisticated system designed to increase the efficiency of resource allocation and facilitate more long range *planning*. The national government emphasized program budgeting in the 1960s, and some national agencies, states, and localities use elements of the system now. The major budgetary unit in the program budget is—as the name would suggest—a broad program area. Each program is defined based on an objective of government. Typical program areas include “Health Services” “Intellectual Development and Education,” and “Economic Development.” Each program could consist of all or parts of diverse departments and agencies. For example, in Pennsylvania, the “Protection of Persons and Property” program includes over twenty agencies ranging from the State Police to the Milk Marketing Board.<sup>9</sup>

An advantage of program budgeting is that the grouping of similar alternatives into a program may encourage competition among them to meet the program’s objectives. Using Pennsylvania’s “Protection of Persons and Property” as an example again, contributing agencies may address the program’s objectives through employment policies (Department of Labor and Industry), punishment (Department of Corrections), or dealing with a contributing factor (Liquor Control Board). Usually, governments are not reorganized along program lines, requiring that information from different agencies and subunits be linked in the budget system through a process called crosswalking. Improved software, computing, and accounting systems have made this task easier than when program budgeting began. A remaining technical problem with the measurement of inputs is figuring out how shares of a particular agency’s budget should be allocated among different programs.

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<sup>7</sup> Allen Schick, *Budget Innovation in the States* (Washington, D.C.: Brookings, 1971).

<sup>8</sup> Charlie Tyler and Jennifer Willand “Public Budgeting in America: A Twentieth Century Retrospective,” *Journal of Public Budgeting, Accounting and Financial Management* 9 (1997), 189-219.

<sup>9</sup> Mikesell, p. 190.

**Zero-based budgeting was introduced to help set priorities and to foster accountability.**

Zero-based budgeting (ZBB) was implemented by some governments in the 1970s as a way to prioritize among different programs and to increase accountability. It is important to distinguish between what ZBB is in theory and what it is in practice. In theory, ZBB means—as its name would suggest—that every budgeting unit is looked at anew each budgeting period. There is no assumption that a program will maintain its base budget with attention focused only on changes to be made; each program has to justify its existence. So instead of asking why a transportation department is asking for a five percent increase in highway repair, the logic of ZBB is that the entire highway repair program has to be justified. Officials are accountable for the performance of their entire program, not just for proposed changes. This is the opposite of incremental decision making where funding for existing programs is assumed to continue at existing levels unless some specific reason indicates change is needed.

In practice, ZBB means that each budgeting unit makes proposals for what it could accomplish with different levels of funding called decision packages, usually percentages of its current budget. Each unit may be required to propose what it would accomplish with different percentages of its current level of funding: 90 percent, 95 percent, 100 percent, and 105 percent, for example. Each unit might also be asked to propose what would be the minimal level of funding necessary to serve its basic function. Decision makers can then rank all the proposed spending packages and make judgments given the constraint of how much they wish to spend in a given period of time. This means that each budgetary unit competes against itself (“Should we spend 95 percent of last year’s budget for road repair or 105 percent?”) and other units (choosing one unit’s 95-percent package may allow funding of another’s 105-percent package).

ZBB has not been widely adopted. The main criticisms have concerned the amount of paperwork and time involved in the process. Developing multiple budget proposals for an agency takes a lot of time, as does choosing among them. Agencies have an incentive to make their higher funding proposals more appealing than proposals involving no growth or decreases. Presented with an overload of information via the zero-based budget format, legislators often reacted by making appropriations decisions using the traditional method of accepting most of an agency’s base budget and concentrating on proposed changes.

## Performance Budgeting

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**Though not a new idea, performance budgeting became more popular in the 1990s.**

Beginning in the 1990s, reform efforts have centered on performance-based budgeting (PBB).<sup>10</sup> More so than earlier efforts, PBB focuses on the outcomes of programs—the things that citizens want government to accomplish, such as safer neighborhoods, better health, or effective schools. Budgeting based on results got a big push from the popularity of Osborne and Gaebler’s 1992 book *Reinventing Government*, but the logic behind performance budgeting was already well known.<sup>11</sup> The basic idea of PBB is almost as old as modern budgeting itself; even early critics of line-item budgeting argued that the budget should focus more on outcomes.<sup>12</sup> At the national level, the Chief Financial Officers Act of 1990 mandated the use of performance measures for many federal agencies. The Governmental Accounting Standards Board began recommending in the 1980s that governments report on service outcomes.<sup>13</sup> Almost all states now make use of some kind of performance measurement.<sup>14</sup>

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**The major elements of PBB are defining objectives, developing measures of performance, linking spending decisions to results, and accountability based on outcomes.**

The details of performance budgeting systems differ but the basics of PBB are as follows:

1. *Objectives.* Agencies should develop strategic plans of what they intend to accomplish. These plans should contain objectives based on outcomes that the public values.

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<sup>10</sup> Performance-based budgeting has also been referred to as the new performance budgeting (to distinguish it from a similarly named proposal from decades ago), “entrepreneurial budgeting, results-oriented budgeting, mission budgeting, and outcome-based budgeting, among others.” Mikesell, p. 202.

<sup>11</sup> David Osborne and Ted Gaebler, *Reinventing Government, How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley, 1992).

<sup>12</sup> Published in 1924, the following quote could be inserted into any recent argument for performance budgeting: “The budget should present a complete picture of what is hoped to accomplish ultimately by governmental means. Few know whether departments are doing 100 percent of the task assigned to them. . . . a request should be accompanied by a statement of exactly what ideal is to be anticipated in that particular service; what percentage of that ideal can be achieved through the appropriation requested, and leave the ideal open to criticism by those who may not be as enthusiastic about the project as the specialist in charge.” Lent D. Upson, “Half-Time Budget Methods,” *The Annals of the American Academy of Political and Social Science*, 113 (1924), p. 73.

<sup>13</sup> Tyler and Willand, p. 203.

<sup>14</sup> Julia Melkers and Katherine G. Willoughby, “The State of the States: Performance Based Budgeting in 47 out of 50,” *Public Administration Review* 58 (1998), 66-73.

2. *Performance measures.* Based on their strategic plans, agencies should develop specific, systematic measures of outcomes that can be used to determine how well that agencies are meeting their objectives. Examples: student test scores for education programs, mortality rates for health programs.
3. *Linkage.* Objectives and performance measures are integral parts of the budgetary process. Appropriations are linked to agencies' results: how well they are meeting their objectives as indicated by performance measures.
4. *Accountability.* Agencies are responsible for and are held accountable for outcomes. Budget proposals and reports will stress outcomes, not inputs. Because accountability is now based on what agencies accomplish, agency managers are given greater leeway in how resources are allocated to address agency objectives.

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**Key issues in implementing PBB include the broad agreement necessary to define objectives, the difficulty of performance measurement, and fostering accountability based on outcomes.**

Performance budgeting has great promise but there has been limited experience in using it. As with any major change in the way important decisions are made, PBB raises some difficult questions. Each of the above elements of performance budgeting requires that decision makers address some key issues if implementation is to be successful.

1. *Objectives.* There must be broad agreement among legislators and relevant executive branch personnel on what the objectives of an agency are. If objectives are unclear or are in conflict, then the rest of the performance budgeting process will be unsuccessful.
2. *Performance measures.* Measuring performance is difficult, to say the least. Accounting systems must be able to link cost information to specific outcomes. Constructing outcome measures is even tougher. The results that the public values are often very complicated and costly—in terms of time and money—to gauge. Agencies in jurisdictions with performance budgeting have often resorted to measures of government activities instead.
3. *Linkage.* Linking appropriations to how well agencies perform is appealing, but it is not a straightforward process. If a program does not meet its objectives, should it be held accountable by having its budget cut? What if a lack of funds is the reason its objectives were not met in the first place? Should a program that meets or exceeds its objectives be

rewarded with more funds, or should excess funds be diverted to other uses? A problem with this carrot and stick approach is that most objectives are affected by forces outside the agency's control. An agency may be making effective use of resources and still not be able to meet its objectives. An agency meeting its objectives may be doing so only because other forces are at work to alleviate the problems the agency is addressing. To avoid being judged for factors they cannot control, program administrators may try to devise objectives that are relatively easy to reach.

4. *Accountability.* Accountability based on results is PBB's strongest selling point, and it is hard to conceive of an argument against this concept. In practice, results-oriented budgeting does raise potential difficulties for program administrators and elected officials. A key problem for administrators has already been mentioned: the lack of complete control over outcomes. The problems the agency is designed to alleviate may get worse for reasons outside the managers' control. For elected officials, program budgeting requires that they have substantially more trust of administrators. If program managers are to be held responsible for results, they should be given more flexibility in allocating resources among inputs. Legislative oversight would still take place, "but the detailed use of ... appropriations, within the normal laws of financial propriety, would no longer be an oversight concern."<sup>15</sup>

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**The use of outcome-based measures of performance may be valuable even if a full performance budgeting system is not adopted.**

It is worth noting that greater use of outcome-based measures may improve the budget process, administration, and accountability even if a complete performance budgeting system is not adopted.<sup>16</sup> First, the use of such measures may encourage government officials to think more about outcomes when they are making decisions. As part of the bill drafting process in the General Assembly, staff are required to estimate the costs that the bill would impose on local governments. This does not mean that legislation that imposes unfunded mandates on localities is off limits, but it does mean that such costs are now documented and can become part of the debate on the merits of bills. The availability of outcome measures can serve a similar function. If information on program outcomes is readily available, this kind of information is more likely to be considered in decision making. Government can go further in encouraging the use of information on outcomes. For instance, agencies could be

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<sup>15</sup> Mikesell, p. 209.

<sup>16</sup> Much of this section is based on material from Joyce, pp. 614-15.

eligible for extra funding based on their contribution to achieving particular objectives in a state's strategic plan.

Increased attention to outcomes may also offer benefits to government administrators and citizens. When elected officials grant at least some discretion to administrators, managers can use measures of results to allocate resources more effectively within particular programs. Agencies may also be encouraged to study and understand how their actions are related to real changes in society, such as fewer traffic accidents or better reading ability among elementary school students. A focus on results may also improve government accountability to its citizens. Setting priorities in the first place opens public debate on the issues that citizens want government to address and in what order. Giving residents ready access to information on the results of programs lets them know what government is achieving with its resources and lets them hold government accountable based on those results.

### Measures of Performance

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**There are different levels of performance measurement.**

In the current discussion of performance budgeting, it is often implied that "performance" has a specific meaning: a program's contribution to a stated objective, such as a specific increase in the high school graduation rate. Just as with accountability though, almost any budget system measures performance. The issue is what kind of performance is being measured. The following levels of performance measurement range from those that are easiest to construct to those that are most complicated.<sup>17</sup> Not coincidentally, the measures also range from a measure focusing on inputs to those measuring how well a program helps solve some societal problem.

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**1. Inputs: resources used to provide government services. Example: money spent on personnel.**

*Inputs*—also called objects of expenditure—are the resources (such as personnel, operating expenses, and capital) used to provide government services. Inputs have the advantage of being relatively easy to measure, usually in dollars. Since inputs are measured in dollars, it is also easy to make comparisons of the costs of inputs across diverse public programs.

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<sup>17</sup> There is broad agreement on what the measures of performance are, but researchers and officials do not always agree on what to call each measure. The names and definitions used here are adapted from Joyce, and Haoran Lu, "Performance Budgeting Resuscitated: Why Is It Still Inviolate?" *Journal of Public Budgeting, Accounting and Financial Management*, 10 (1998), 151-72.

- 2. Activities: work an agency performs.**  
**Example: number of mines inspected.**

*Activities*—also called outputs—measure what an agency does. Examples would include such things as the number of mines inspected, miles of highway paved, the number of applications processed, the number of classes taught, and the number of prisoners housed. A measure of activity level could be taken a step further to include more information. For example, a university could measure days of instruction by multiplying days of teaching by the number of students in classes.
  
- 3. Efficiency: relationship of cost to a unit of activity.**  
**Example: cost per child vaccination.**

An *efficiency* measure relates costs to a unit of activity. Examples include the annual cost per prisoner, the cost of filling a pothole, or the cost per child vaccination. Relating costs to activities is not always straightforward. Consider the previous activity measure of a university's days of instruction. If the university served any functions other than instruction, it would be necessary to determine what percentage of costs should be allocated to instruction. That might be easy for an item such as classroom construction and maintenance. It would be more difficult to determine instruction's share of staff costs or buildings not used as classrooms.
  
- 4. Outcome: how well a program is meeting an objective.**  
**Example: a reduction in the crime rate.**

An *outcome* indicator is a measure of how well a program is meeting an objective. Objectives are usually the ends of government, things that the public values such as safety, health, or educational improvement. To cite some examples, an outcome measure for a highway snow removal program could be reductions in the accident rate or commuting time on snowy days. For a police department, reductions in crime could be an outcome indicator. For health programs, reductions in the rates of particular diseases or increases in life expectancy are feasible outcome measures.

Outcome indicators measure progress toward achieving objectives. A problem is that objectives are often not under the control of the agency. For instance, the state police could initiate a new program to reduce fatalities in automobile accidents by encouraging more use of seat belts. Seat belt use could go up and fatalities would go down as expected. Another possibility is that seat belt use could go up but fatalities could still increase because so many other factors affect accident fatalities, such as road conditions, rates of drunken driving and speeding, or the kinds of vehicles that people drive. Conversely, it is possible that if other factors were favorable, a program's outcome would be good even if the program is not effective.



**5. Effectiveness:  
Attainment of the  
objective due only to the  
program.**

To deal with this problem, a measure of a program's *effectiveness* should determine how much of the attainment of the objective is due only to the program. Effectiveness is the most difficult measure because it requires ruling out the other feasible reasons for why a program succeeded or failed in attaining an objective.

**Example: job training  
program.**

To clarify the different measures of performance, consider how the performance of a jobs training program could be measured. An input measure would delineate the costs of running the program and would assume that the spending of inputs achieves the goal of the program. An activities measure would indicate the number of trainees in the program. An efficiency measure would provide the cost per trainee. An outcome measure might be the percentage of trainees who had jobs at a specified time after training. An effectiveness measure would determine the number and percentage of trainees who became employed after participating in the program but who would not have gotten jobs without the program.

### Choosing the Base

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**The base budget is the  
starting point for  
deciding a program's  
new budget.**

A key issue in budgeting is the definition of the base budget. The base is the starting point for deciding what should be funded in the upcoming budget period. Typically, programs and amounts of funding in the base budget receive proportionally less attention than changes to the base. Another way to think about the base is as the fallback position—official or unofficial—if decision makers could not agree on what the new budget should be.

**There are  
multiple  
definitions of  
base.**

What is the base? In theory, the base can be whatever decision makers want it to be. If it were decided that a given agency's base budget was zero, this would mean that the agency had to effectively justify every dollar in its proposed budget and decision makers would take the time to scrutinize every dollar appropriated for the agency. In practice, it has proved impractical to assume a zero base for every program for every budget period. Typically, decision makers identify what the base should be in practice and concentrate their attention on proposed program changes outside the base. What is considered the base may be official policy or the traditional "way things are done."

**1. Zero base: every item  
has to be fully justified.**

**2. Continuation budget:  
cost of providing same  
level of services as in  
previous budget period.**

An agency's base may be its *continuation budget* (also called a current services budget). This is what it would cost in the upcoming budget period to provide the same level of services as before. If the costs of the resources an agency needs to provide the same level of services have increased and the agency has not become more efficient, then the budget for the agency will

increase even though services have not increased. For entitlement programs that must serve anyone meeting eligibility requirements, the continuation budget will also depend on the number of people who are eligible.

**3. Inflation-adjusted based on one or more price indices.**

Budget bases may be *inflation-adjusted* using one or more measures of price changes, typically the U.S. Consumer Price Index (CPI). Some programs may be adjusted by more specialized indices. For example, inflation for health care has usually outpaced the general inflation rate so the base for health programs could be adjusted using the Medical CPI. Adjusting the base for inflation is similar but not identical to a continuation budget. The resources required by different programs would not all be subject to the same changes in prices. For example, agencies that are labor intensive will be more affected by changes in the cost of labor. Other programs may be more affected by the price of energy. Aside from entitlement programs, the overall inflation-adjusted base may be quite close to the continuation budget; this is not necessarily true for individual programs.

**4. Freeze at previous amount of appropriations.**

Programs may also be *frozen* at the appropriations levels from the previous budget period. If the programs' resources costs rise, the programs will not be able to provide the same level of services unless program managers can increase the efficiency of how those services are provided.

**5. Percentage target based on the previous budget.**

A program's budgetary base can also be a specific *percentage target* based on its previous budget. In theory, this percentage can be anything above zero. In practice, targets are usually close to 100 percent of the previous budget, either above or below. Targets below 100 percent—95 percent for example—mean that services will likely be reduced. Depending on changes in the costs of resources, targets just above 100 percent also may not guarantee the same level of services as before.

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**Choosing a budget system and choosing a base are usually separate choices.**

Usually, the choice of the kind of base to use can be separate from the choice of what kind of budgeting system to use.<sup>18</sup> It is sometimes assumed that a particular system necessitates a particular measure of the budgetary base, but this is not necessarily true. For example, the line-item budget has been the traditional budget system in the U.S. The budgetary base, decided either formally or informally, has usually been something close to the continuation or inflation-adjusted budget. These bases and the line-item format share some advantages;

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<sup>18</sup> Zero-based budgeting, which is usually based on percentage targets, is an exception.

they reduce conflict and the time required to make decisions. It is not, however, required that they be used together. A line-item budget can be used with a different kind of base, even a base of zero if decision makers so choose. With the possible exception of zero-based budgeting, other types of budgets are compatible with any standard meanings of budgetary base. Changing from one budgeting system to another does not guarantee that a particular base will be used.

### Deciding What Is Off-Budget

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**The choice of budget system does not affect the designation of off-budget items.**

Deciding which programs or functions are “off budget” is another decision that is separate from the choice of budgetary system. For the purposes of this discussion, “off-budget” funds are defined as those included in a government’s Comprehensive Annual Financial Report (CAFR) but not appropriated by the legislature. A program that is off-budget has its own budget and is subject to financial controls, but it is not included in the general budget’s totals. By definition, changing the budget system does not affect items that are not in the budget. Virtually all governments in the United States place some programs off budget but governments are not uniform in defining the programs that are off-budget and those that are on-budget. Usually, off-budget functions are “performed by entities termed public enterprises, public authorities, special districts, or government corporations.”<sup>19</sup> Off-budget programs usually have their own sources of revenue and may be directed by statute as to how that revenue may be used.

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**Most states, including Kentucky, follow GASB recommendations for fund structure.**

The Governmental Accounting Standards Board (GASB) established a recommended fund structure for state governments to comply with generally accepted accounting principles. Under these principles, the state’s CAFR must include all funds, account groups and component units for which the state is financially accountable. GASB indicates that the state’s CAFR would be misleading or incomplete without inclusion of certain off-budget funds. GASB designates three major categories of funds:

- *Governmental* funds track basic government activities (e.g., General Fund, Road Fund).
- *Proprietary* funds track government activities generally financed and operated like a private business either for others (e.g., state parks) or for costing support services for state agencies (e.g., computer services).

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<sup>19</sup> Axelrod, p. 16.

- *Fiduciary* funds track assets held for others and cannot be used to support the government's own programs (e.g., employee retirement funds).

Under generally accepted accounting principles, most governmental funds are on-budget, while some proprietary funds and virtually all fiduciary funds are off-budget.

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**In Kentucky most governmental and enterprise funds are on-budget, while most fiduciary funds are off-budget.**

Table 1 shows the fund structure used in Kentucky. Note that funds are divided into the three major groups identified by GASB: governmental, proprietary, and fiduciary. The two columns to the right indicate whether the funds are on-budget or off-budget. With a few exceptions, governmental and proprietary funds are on-budget and fiduciary funds are off-budget.

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**Both on-budget and off-budget funds are tracked in the Kentucky accounting system.**

According to the Kentucky Controller, both off-budget funds and on-budget funds are tracked in the same way in the state's accounting system. The same type of information is available from the state accounting system for on-budget as well as off-budget funds, with the exception of the university funds. University funds, such as the foundations, are reported in the university's accounting system, which is independent of the state accounting system. The Finance Cabinet tracks each university foundation through the audited financial statement that is submitted annually.

As in most states, the Kentucky state budget does not generally include information on off-budget funds, but there are exceptions. For example, the Budget Reserve Trust Fund, the state's rainy day fund, is included in the budget because the budget contains a mechanism for how these funds are to be appropriated.

**Table 1  
 Fund Structure Used by Kentucky**

	On-Budget	Off-Budget
<b>Governmental Funds - track basic government activities</b>		
0100 General Fund	X	
0200 Capital Projects Fund	X	
0300 Debt Service		X
<b>Special Revenues Funds – dedicated to specific operations other than expendable trusts or major capital projects</b>		
1100 Road (Transportation) Fund	X	
1200 Federal Fund	X	
1300 Agency Revenue Fund	X	
1400 Other Special Revenues Fund		X
<b>Proprietary Funds - track government activities generally financed and operated like a private business</b>		
<b>Enterprise Funds – public corporations and state agencies providing services to the general on user-charge basis, and state risk management pools</b>		
2100 State Park Fund	X	
2200 State Fair Board Fund	X	
2400 Insurance Administration Fund	X	X
2900 Kentucky Horse Park Fund	X	
<b>Internal Service Funds - inter-agency/government services</b>		
3100 Fleet Management Fund	X	
3200 Computer Services Fund	X	
3500 Prison Industries Fund	X	
3600 Central Printing	X	
3700 Property Management	X	
3800 Risk Management Fund	X	X
<b>Fiduciary Funds - track assets held for others; cannot be used to support the government's own programs.</b>		
<b>Pension Trust Funds – retirement systems</b>		
5100 Kentucky Employees' Retirement System Fund		X
5200 State Police Retirement System Fund		X
5300 Teachers' Retirement System Fund		X
5400 Judicial Retirement System Fund		X
5500 Legislators' Retirement System Fund		X
5600 County Retirement System Fund		X
5700 Kentucky Retirement System Insurance Fund		X
<b>Expendable Trust Funds - held as a legal trustee, expendable for designated purposes</b>		
6200 Unemployment Compensation Fund (Federal Benefits)	X	
6210 Unemployment Compensation Fund (Tax Receipts)		X
6300 Other Expendable Trust Fund		X
6310 SSDI Fund		X
6350 Tobacco Settlement Fund		
<b>Agency Funds - held for custodial purposes only</b>		
7100 County Sinking Fund		X
7200 Special Deposit Trust Fund		X



## BUDGETING IN PRACTICE: STATE EXAMPLES

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**Different budgeting systems yield different decision information for legislators.**

A primary function of any budgeting system is to collect and organize information on program expenditures and spending requests so that legislators can make decisions about the amount of funds to appropriate to particular programs. The previous section of the report explained the major conceptual differences in various budgeting approaches, such as line-item budgeting and performance budgeting. The manner in which the difference in budgeting systems may be most apparent to legislators is in the types of information provided in briefing documents to support agency funding requests, because different budgeting systems yield different types of decision support information for legislators.

Legislators are free to base appropriation decisions on any factors they choose. However, it is likely that the nature of the background information they receive in budget request briefing documents will both inform and constrain their understanding of a particular program and their assessment of its needs for funds. In other words, how budget information is provided can affect the budgeting decisions legislators make.

To make differences in the types of information usually provided by different budgeting systems more concrete to legislators, staff obtained budget requests and briefing materials from states with a variety of budgeting systems. These materials were used to develop examples of differences in the information provided to legislative decision-makers.

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**Programs for the elderly were selected for a comparison of budget information.**

To provide examples that were comparable across states, budgets for state departments for elderly services were reviewed. It was expected that programs for the elderly would be fairly uniform because of the large federal involvement in such programs.

Five states were chosen for the comparison examples. The states and their predominant budgeting system are shown below. Because these states utilize a variety of budgeting systems, they provide an opportunity for concrete comparisons of the types of budget information legislators receive from the different systems.

State	Predominant Budgeting System
Kentucky	Incremental program budgeting based on line-item expenditure information.
Iowa	Combination – Modified zero-based budget with some performance information.
Louisiana	Performance-based budgeting now under implementation.
Massachusetts	Combination – Abandoned most elements of performance-based budgeting.
Texas	Performance-based budgeting system under continuous development since 1993.

Source: National Conference of State Legislatures, “Legislative Budget Procedures,” March 1999, and information obtained from each state.

### Kentucky

**Kentucky budget information provides the basis for comparison**

Although legislators in Kentucky appropriate at the broad program level, the budget information they receive is presented in the traditional line-item format.<sup>20</sup> As noted in the previous section, this means that budget information is focused on fund source and general categories of inputs, such as personnel. Budget decisions reflect an incremental approach, with the base budget for a program reviewed as one total. Detailed descriptions of intended program activities are only included for amounts and activities that represent a change from the base budget. Some performance information is required for education programs; however, there is no structure in place to systematically incorporate performance information into budget deliberations.

According to the *2000-02 Branch Budget Request Manual*, in preparing budget requests, Kentucky agencies are to take the following steps.

1. Submit a Current Services budget for existing activities or those that can be funded within the allowable Current Services budget amount.
  - a. The allowable Current Services budget amount is the budgeted amount of the previous fiscal year plus a specified inflation adjustment (2.4% per year in FY 2001–2002).
  - b. Agencies are instructed to review existing program funding, determine if any can be reduced or

<sup>20</sup> Note that the discussion of the budgeting system in Kentucky contained in this document is limited mostly to the example programs. The Auditor of Public Accounts is required by HB 502 to prepare a complete description of the current flow of budget information and how it would need to change to support performance-based budgeting, so this report does not address these issues.



eliminated, and reduce the Current Services budget request accordingly.

2. Submit detailed Additional Budget Requests for new program expenditures or expenditures for existing programs that exceed the allowable Current Services budget amount.
  - a. New expenditures are to be thoroughly documented and justified, both fiscally and programmatically.
  - b. The Current Services Budget must be assigned the top priority of the Cabinet. Each Additional Budget Request is to carry a Cabinet-wide priority ranking. All Additional Budget Requests are to be ranked below the Current Services Budget.
3. Submit a Capital Budget Request with projects assigned a Cabinet-wide priority ranking.

The major implications of these instructions can be observed in the example budget briefing documents from the Office of Aging Services.<sup>21</sup>

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**The initial information Kentucky legislators receive is about the base budget.**

**Base Budget.** Exhibit KY-1 shows a portion of the initial briefing document prepared for Kentucky legislators regarding the amount requested by the Cabinet for Health Services for the Office of Aging Services. The initial display of information breaks out the base, or current services, budget by fund source and expenditure category. This highlights the source of funding for the program and the amount spent on program inputs. A detailed report on personnel trends is also provided to legislators. In this case, the report indicates that total full and part-time positions in the Office of Aging Services increased from 30 in FY 1999 to 32 in FY 2000 and FY 2001.

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<sup>21</sup> This discussion relies on examples from the operating budget. The complexity of the capital budget was considered excessive for the purposes of these examples.

**Exhibit KY-1  
 Kentucky Office of Aging Services  
 Current Services Budget Summary**

	<b>FY 1999 Actual</b>	<b>FY 2000 Budget</b>	<b>FY 2001 Budget</b>
<b>Modified Current Services Budget</b>			
<b>By Fund Source</b>			
General Fund	23,241,655	23,337,000	24,021,100
Restricted Funds	122,140	12,640,300	4,965,500
Federal Funds	15,984,549	17,158,500	17,153,800
<b>Total</b>	<b>39,348,344</b>	<b>53,135,800</b>	<b>46,140,400</b>
<b>By Expenditure Category</b>			
Personnel Costs	1,489,565	1,724,300	1,829,300
Operating Expenses	188,378	207,700	211,600
Grants, Loans, Benefits	37,667,822	51,198,800	44,094,500
Capital Outlay	2,570	5,000	5,000
<b>Total</b>	<b>39,348,344</b>	<b>53,135,800</b>	<b>46,140,400</b>

Source: Cabinet/Agency Request, 2000 General Assembly Operating Budget Summary, BR-10A, obtained from LRC Budget Review staff.

**Base budget amounts are not tied to particular program activities or outcomes.**

While an overall program description is provided to legislators (Exhibit KY-2), funding amounts in the base budget are not shown by either the particular program activities they fund or by any measure of program achievements.

**Exhibit KY-2  
 Kentucky Office of Aging Services  
 Program Narrative**

Aging services are carried out by the Office of Aging Services, designated as the State Unit on Aging (SUA) by the Federal Administration on Aging. Under the Older Americans Act, the SUA is responsible for aging issues on behalf of all older persons in Kentucky. The SUA is required to carry out a wide range of functions related to service delivery, advocacy, planning, coordination, interagency linkages, information-sharing, brokering, and evaluation. These functions are to focus on the development or enhancement of comprehensive and coordinated community-based systems designed to help elderly and adult Kentuckians maintain independence and dignity in their own homes and communities. Programs include the following:	
Nutrition Services	Supportive Services
Senior Community Service Employment	Elder Rights
Long-Term Care Ombud	Homecare Program
Adult Day and Alzheimer's Respite	Personal Care Attendant Program
State Health Insurance Assistance	In-Home Management

Source: Staff summary of "2000-02 Kentucky Branch Budget – Current Services Budget Request: Program Narrative/Documentation Record. Operating Budget Report A-4."

**KY agencies are encouraged to submit measures of performance.**

As part of the required program narrative, agencies are instructed to submit information that justifies current services expenditures. Agencies are encouraged to submit quantitative data on performance or outcome measures. Examples of the performance data submitted by the Kentucky Office of Aging Services are shown in Exhibit KY-3.

**Exhibit KY-3  
 Kentucky Office of Aging Services  
 Reported Performance Measures**

Quantitative Data	FY 1999 Actual	FY 2000 Budget	FY 2001 Budget
<b>Nutrition Services</b>			
Total congregate and home-delivered meals	3,291,700	3,258,800	3,258,800
Persons who received meals for nutritional needs	38,200	37,900	37,900
<b>Supportive Services</b>			
1-hr. units of service	1,778,000	1,760,300	1,760,300
Persons receiving services encouraging independence	113,500	112,300	112,300
<b>Long-term Care Ombudsman</b>			
Number of complaints investigated	6,100	6,200	6,200
<b>Adult Day/Alzheimer's Respite</b>			
½ hour units of service provided	1,069,200	1,059,000	1,042,800
Persons prevented from early institutionalization	1,400	1,400	1,400
<b>State Health Insurance Program</b>			
Clients receiving benefits counseling and assistance	8,000	15,000	15,000

Source: Staff summary of "2000-02 Kentucky Branch Budget – Current Services Budget Request: Program Narrative/Documentation Record. Operating Budget Report A-4."

**Reported performance measures are mostly for outputs rather than outcomes...**

The reported performance indicators do not meet the usual standard for performance budgeting for three major reasons. First, the measures are primarily for program outputs (number of meals served, number of complaints investigated) rather than program outcomes (reductions in incidence of nutritional deficiencies, improvements in measures of long-term care quality).

**...are not independently verified...**

Second, the indicators that may be taken as a measure of outcome or achievement (persons prevented from early institutionalization) are not substantiated or independently verified. Thus, it is unclear whether the number reported is for *all* persons who received service units, or whether there is some specific count of individuals for whom the likelihood of institutionalization was demonstrably changed because of the services received. It would be difficult to believe that *every* unit of service delivered was equally successful in preventing institutionalization.

**...and are not tied to specific funding amounts**

Finally, the reported performance measures are not linked to funding amounts in the base budget. They are reported to provide overall support for the base budget, but do not allow legislators to tie direct funding amounts to particular current programs that appear to be more, or less, successful in achieving prioritized policy goals established for the whole Office.

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**Additional budget items are reported in priority order with itemized dollar amounts but without performance measures.**

**Additional Funding Requests.** In contrast to the base budget, which is shown as a single total amount, requests for budget increases must be itemized and prioritized (Exhibit KY-4). Items in this category generally account for a major portion of legislative discussion of agency budget requests. In this example, funding above the allowable current services increase is requested to cover costs above the allowable increase for certain current services (Priority 1), to expand services to a new population (Priority 2), and to institute a new program (Priority 3). Although the funding requests for these activities are itemized, the budget documents do not include a statement of performance goals for the new spending, nor a definition of performance measures that will be used to evaluate progress toward program goals. Legislators must judge the competing additional funding requests for all programs on the basis of the narrative descriptions rather than on projections of what outcomes are expected to be achieved with the new funding. Without such initial information, legislators have reduced ability to later judge whether the new funding was effectively used.

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**Additional funding items approved in one budget become part of the base in subsequent budgets.**

The Kentucky budgeting system does not have a regular mechanism to track the performance of new program activities. For example, if legislators decide to fund the new family respite and support program in the upcoming budget, then the subsequent budget for that program becomes part of the current services request. The agency would not have to separately document the achievements of that particular program. Thus, legislators are not regularly presented information that would allow them to track and compare the success of the new programs for elderly services and make subsequent priority funding decisions on that basis.

**Exhibit KY-4  
 Kentucky Office of Aging Services  
 Additional Operating Budget Items**

<b>Additional Budget Item</b>	<b>Priority</b>	<b>Description</b>	<b>FY 2001 Request</b>
In-Home Management	1	Maintain current services for 130 clients	130,000
Community-Based Services	2	Expand current services to 2,480 Homecare clients, 196 Respite clients, and 488 Personal Care Attendant clients	6,685,300
Family Caregiver Support Program	3	Establish new program to provide family respite and support services for 1,600 clients, and client information and support services for 2,500 clients	1,043,300
<b>Total Additional</b>			<b>7,858,300</b>

Source: Cabinet/Agency Request, 2000 General Assembly – Operating Budget Summary, BR-10A.

**Iowa**

**The Iowa Executive Branch instituted “Budgeting for Results” in 1997.**

In the early 1980s, the executive branch in Iowa began requesting that agencies develop and report measures of output. In FY 1997, the executive branch Department of Management instituted “Budgeting for Results.” Under this structure, agencies are to include performance goals and measures in all budget requests submitted to the Governor.

Overall state goals for human services are developed by the Council on Human Investment, a citizens group appointed by the Governor and chaired by the Governor’s designee. The Council is to define policy goals and benchmarks for state human services expenditures. One of the Council’s activities is an annual survey of Iowans that attempts, in part, to gather opinions about the effectiveness of specific state programs.

**Agencies must include performance measures in funding requests to the Governor.**

Under the Budgeting for Results approach, agencies develop their own performance measures and include them with funding requests in their submissions to the Governor.<sup>22</sup> Funding requests are made by program activities rather than by organizational unit. Exhibit IA-1 displays the mission statement and goals for the Iowa Department of Elder Affairs.

<sup>22</sup> Paul Epstein and Wilson Campbell, “GASB SEA Research Case Study: Iowa,” in *State and Local Government Case Studies on Use and the Effects of Using Performance Measures for Budgeting, Management, and Reporting*, Governmental Accounting Standards Board, April 2000.

**Exhibit IA-1**  
**Iowa Department for Elder Affairs**  
**Mission Statement and Policy Goals**

- **Mission Statement** – The Iowa Department of Elder Affairs exists to respond to the needs and opportunities of an aging society by promoting the development of opportunities and comprehensive service systems for older individuals.
- **Vision Statement** – To establish Iowa as the recognized leader in promoting and providing quality services, helping to make Iowa unsurpassed as a place for older people to live, work, retire, and pursue individual, family and community goals.
- **Critical Issue** – As Iowa’s aging population continues to increase, we must be prepared to meet the changing needs of an older population and the effect it will have on all other systems including families and communities.
- **Policy Statement** – To actively support the enterprise-wide planning initiative to build strong, self-sufficient families and strong, safe, healthy communities for people of all ages. The Department of Elder Affairs will support communities in developing a flexible infrastructure of improved services that support quality of life for older people.
- **Policy Goals in support of the enterprise-wide planning initiatives regarding strong families and strong communities.**
  1. Increase state capacity for effectively and flexibly addressing the changing needs of an aging society from a wide perspective, including economic, health, and social issues.
  2. Increase planning behaviors and sharing responsibility by individuals for their own aging as well as the freedom to manage their own lives, protection against abuse, neglect, and exploitation.
  3. Increase societal recognition of aging issues and the contributions of senior citizens.
  4. Enhance opportunities for older Americans to remain productive and active citizens throughout their lives.
  5. Increase awareness among people of all ages of the choices involved in planning for a healthy life.
  6. Increase employment opportunities for older adults.
  7. Assure elders have access to housing suitable to their needs.
  8. Assure adequate services and resources to meet older Iowans changing needs.
  9. Implement a set of strategies to meet these goals by working collaboratively with the public and private sectors.

Source: Iowa Legislative Fiscal Bureau, State of Iowa FY 1997-98 Annual Budget forms for the Department of Elder Affairs, P.1-2.

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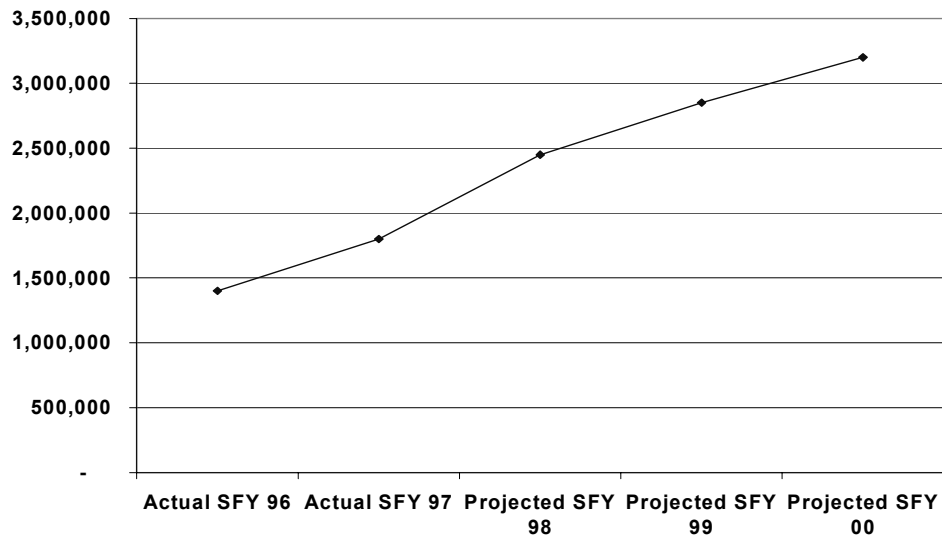
**Budget requests are by program rather than by budget unit.**

The administrative units within the Iowa department are Advocacy, Senior Employment, Protective Services, and Ombudsman. However, the agency’s budget request to the Governor is stated in terms of funding for particular program activities, without regard to the unit in which spending occurs. An example of the information included in the Budgeting for Results forms is presented for the Case Management Program for the Frail Elderly (CMPFE). Exhibit IA-2 shows information the agency reported about Case Management.

**Exhibit IA-2  
 Iowa Department for Elder Affairs  
 Performance Measures**

- **State Policy Objective-** Length of time older Iowans are independent.
- **Program Purpose** – Increase time that older Iowans stay in communities independent, productive and safe.
- **Performance Measures** – Number of days elderly Iowans are supported on CMPFE before accessing nursing facility Medicaid.

**Total Client Days on CMPFE**



Source: LRC staff replication of chart from Iowa Department of Department of Elder Affairs, FY 99–00.

Performance Measures	FY 97 Actual	FY 98 Estimate	FY 99 Request Base	FY 99 Request Additional
Case Management				
Number Screened	7,329	10,172	8,918	2,313
Number Assessed	3,403	4,272	3,653	1,064
Number of Clients	6,315	8,115	8,115	1,157

Source: Iowa Department of Management Budget Worksheets, FY 1999, Budget Unit Performance Measures, Department of Elder Affairs, Aging Programs & Services.

Funding Request by Program Area

Program Purpose	FY 98 GF Actual	FY 99 - 00 GF Request	Difference	Program Result	Impact on State Policy Objective and Program Result	Data Supporting Request
Case Management Increase time that older Iowans are able to stay in communities independent, productive & safe.	\$2,274,307	\$2,728,233	\$507,926	# of days elderly Iowans are supported on CMPFE before accessing nursing facility Medicaid.	Length of time older Iowans are independent.	
Expand Statewide		\$500,000	\$500,000	Full state coverage.	Make service available to all older Iowans who need help to remain in their homes.	Implement final phase of statewide coverage plan.
Restore funding for insufficient federal funding		\$6,332	\$6,332	Restore service level.	Continue to provide service at current level.	Federal administrative funding is formula driven based on total program funding. It is independent of salary annualization & increased support cost and has remained virtually static.
Internal Department Reallocation		\$368	\$368			
Salary Annualization		\$1,259	\$1,259			

Source: Iowa Governor/Department Budget Work Session documents, Department for Elder Affairs.

**The reported indicator illustrates several concerns about use of performance measures.**

Examination of the performance measure for CMPFE highlights several issues of concern for legislators who might be asked to use it as a basis for funding allocations. First, the performance measure was developed solely by the agency and may not reflect the priorities of legislators. Also, it was not independently verified. This may be particularly important because only two points of actual data are presented, then projected for three years—at a 77% increase.

**Absence of a causal link is the greatest concern.**

The most significant issue of concern is causality. The purpose of performance measures is to demonstrate the effectiveness of the program in question. In this particular example, the stated objective of the program is to increase the number of days that elderly Iowans avoid nursing home Medicaid. The most useful performance measure would be the number of days elderly Iowans avoided nursing home Medicaid *because of program services*. In other words, the true performance measure of the program is the number of nursing home Medicaid days actually saved by the CMPFE. This



is not measured by the total number of days that clients spend on CMPFE before they access nursing home Medicaid.

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**Coupled with incentives or sanctions, the performance measure could impede achievement of the program objective.**

In fact, such a measure, particularly if coupled with incentives or sanctions for program managers, could cause a result opposite to the one desired. For example, one means to increase the number of days on CMPFE is for the program to recruit, within eligibility guidelines, those who are relatively younger and healthier and avoid those who are older and sicker, and therefore closer to needing nursing home care.<sup>23</sup>

Simple expansion of the program could also increase the number of days on CPMFE. If the program is already serving those in most critical need, then expansion is likely to bring in healthier individuals—thus increasing the average number of days recipients receive services. The point is that care should be taken to ensure that performance measures are valid, adequately capture program effects, and reflect achievements of stated objectives.

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**Budgeting for Results has not been embraced by the Iowa legislature.**

Performance budgeting in Iowa has been almost entirely an executive branch exercise. According to staff of the Iowa Legislative Fiscal Bureau, the legislature has not incorporated the Budgeting for Results forms into its deliberations. Legislators find the separate set of forms confusing, and the combination of funding streams into crosscutting programs, justified by one or two measures, inadequate. At this point none of the appropriations subcommittees base budgeting decisions on the Budgeting for Results information. Instead, legislators require the Legislative Fiscal Bureau to prepare traditional budget forms for their review. Exhibit IA-3 is an example of the legislative budget-briefing document for the Department for Elder Affairs. In a manner similar to Kentucky, the base budget request is shown by fund source and expenditure category, with only additional requests itemized and justified.

### Massachusetts

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**In 1993 the governor proposed performance budgeting to help address a budget shortfall.**

Like many states, Massachusetts faced severe budget pressures in the early 1990s due to a national economic recession. In crafting budget recommendations for FY 1993, state policymakers were facing a projected \$1.6 billion shortfall.<sup>24</sup> As one strategy for addressing budget pressures, Governor William Weld proposed the immediate statewide institution of a new system of “program/performance budgeting.” Governor Weld articulated the

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<sup>23</sup>This is not to imply that the program in Iowa has taken such action, just to illustrate the possibility for such action to occur.

<sup>24</sup>Peter J. Howe, “Weld Budget to Stress Goals for Agencies,” *Boston Globe*, January 6, 1992, Metro section, p.15.

principles of his suggested system in his FY 1993 budget message (Exhibit MA-1).

**Exhibit IA-3  
 Legislative Budget-Briefing Document  
 Department for Elder Affairs**

Rank	Description	Funding Source	FY 2000 Department Request
Base		State Federal Support Intra State Fees, Licenses Other Total FTE	3,574,349 14,635,212 703,371 130,650 60,110 19,103,692 25.00
001	Restore funds for 3.0 FTEs, responsible for a variety of activities including Money Mgmt, data analysis & GCOA.	State FTE	139,367 3.00
002	Restore funds for Elderly Services for a variety of services to older Iowans such as adult day care & respite care provided by Area Agencies on Aging.	State	312,373
003	Restore funding for local RSVP projects utilizing the knowledge, experience and availability of older Iowans.	State	24,840

Source: LRC staff replication of "State of Iowa FY 2000 Annual Budget, Department of Elder Affairs, Aging Programs, Schedule I," from the Iowa Legislative Fiscal Bureau, January 2000.

**Exhibit MA-1  
 Excerpt from FY 1993 Massachusetts Budget Message  
 Governor William F. Weld**

**A "no stone unturned" approach to budgeting** – Traditionally, we added to a base that was rarely examined. Now, we are asking our managers to build their budgets from the bottom up, to look hard at their operations and to describe, in great detail, the services they provide.

**Management Flexibility** – Program budgeting brings service cost and service delivery face to face. With the ability to judge which programs and services are working and which are not, and the flexibility to move resources, as needed, among programs, managers will be empowered, and made accountable, to meet their service delivery goals.

**A four-year financial plan** – We are introducing a four-year financial plan that for the first time will provide more than a 12-month vision of the direction and cost of state programs. While we cannot bind future Legislatures with this plan, it is a first step to help us understand how decisions made today affect future spending.

**Appropriation at a higher organizational level of responsibility** – Appropriating funds at the current level of detail frustrates managerial flexibility, stifles creativity, and distracts management from its proper focus. We propose to replace the current appropriation items with agency-based appropriations, and to establish service delivery groups for which each agency head will be held accountable. While appropriations as we know them will change, the new service delivery groups (SDGs) will provide more usable information than ever before, without interfering with the Legislature's ability to amend the proposed agency appropriation.

**Fiscal and performance accountability** – Claiming success without providing the means to measure success is a hollow assertion. Program budgeting provides the tools for a real assessment of performance, with quantitative goals for the dollars to be spent and the services to be delivered. Based on such an assessment, we can reward good management, provide incentives for innovation and creativity, and hold bad management accountable.

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**Line-items would have been reduced from 731 to 128, and funds would have been reduced from 35 to 5.**

The Governor's recommended budget reduced 731 line-item expense categories in the budget to 128. The number of accounting funds fell from 35 to 5. Within these five funds, 342 service delivery groups were identified. A service delivery group was defined as units organized to perform complementary functions, such as all programs for early childhood education, or all services to the elderly. A total of 758 outcome targets were specified for all service delivery groups. For example, the Department of Elder Affairs was to report "the number of elders it is able to redirect from inappropriate nursing home settings to long-term care." Its target for the year was 483. Agencies were to be allowed to transfer up to 10 percent of total funds among service delivery groups to better achieve outcome targets. Outcome measures and fund transfers would have been reported quarterly to legislative committees.

The recommendation for the reduction in the number of funds was based on the rationale that over 97 percent of appropriations were made from a very small number of funds. Exhibit MA-2 shows the change in the number of funds that the Governor proposed for inclusion in the budget. In addition to fund consolidation, the Governor also proposed that the legislature appropriate lump sums to agencies, rather than making line-item designations of spending. An example of this is the fact that eight FY 1992 appropriation categories were reduced by the Governor to a single total recommended amount in FY 1993 for the Executive Office of Elder Affairs (Exhibit MA-3).

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**The proposed structure also combined all revenue sources and reflected indirect program costs.**

Additionally, the FY 1993 performance budgeting structure proposed by Governor Weld and used in the preparation of his budget recommendations incorporated two other major changes. First, both receipts and spending from all fund sources (general funds, federal funds, and trust and special revenue funds) were reported for each service delivery group. The existing system had presented separate reports for each fund type. Second, the cost of fringe benefits, such as health insurance or retirement system contributions, was reported as a line item for each service delivery group rather than aggregated as a lump sum amount for all employees in state government. Also, indirect costs, such as the value of office space in government-owned buildings, were reflected in the agency's budget. This was done in an attempt to identify the full cost of each service delivery group as an aid to priority setting and efficiency reviews. Examples of how these changes were reflected in budget documents for the Executive Office of Elder Affairs are presented in Exhibit MA-4<sup>25</sup>

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<sup>25</sup> Fiscal Year 1993 Investments in Success: A Framework for Growth. House No. 1, Budget Submission of Governor William F. Weld and Lieutenant Governor Paul Cellucci, Volume III – Supporting Schedule, January 22, 1992.

**Exhibit MA -2**  
**Excerpt from FY 1993 Massachusetts Budget Submission**  
**Volume II - Line Items**  
**Report of Budgetary Accounts**

**Table of Budgetary Funds**

Fund Name	Fund Number	
	<u>FY92</u>	<u>FY93 (3)</u>
General Fund	010	010
Commonwealth Stabilization Fund (1)	011	011
Commonwealth Tax Reduction Fund (1)	012	012
Intragovernmental Service Fund (2)	015	015
Revenue Maximization Fund	016	
Highway Fund	101	101
Local Aid Fund	102	
Anti-Trust Law Enforcement Fund	106	
National Heritage and Endangered Species Fund	108	
Victim and Witness Assistance Fund	110	
Inter-City Bus Capital Assistance Fund	111	
Mosquito and Greenhead Fly Control Fund	113	
Inland Fisheries and Game Fund	114	
State Transportation Fund	119	
Springfield Transportation Fund	120	
Housing Partnership Fund	121	
Motorcycle Safety Fund	132	
Environmental Challenge Fund	134	
Job Replacement Fund	146	
Toxic Use Reduction Fund	149	
Clean Environment Fund	151	
New Permitting and Compliance Fund	152	
Underground Storage Tank Fund	154	
Child Care Fund	155	
Environmental Law Enforcement Fund	156	
Public Access Fund	157	
Harbor and Waterways Fund	158	
Marine Fisheries Fund	159	
Watershed Management Fund	160	
Low Level Radioactive Fund	161	
Head Injured Fund	162	
Tourism Fund	163	
Health Care Access Fund	164	
Ponkapoag Golf Course Recreational Fund	165	
Commonwealth Fiscal Recovery Fund (2)	702	

(1) Budgetary subfunds of the General Fund in FY91 and FY92. Stand -alone budgetary funds in FY93

(2) Stand-alone budgetary funds in FY91 and FY92. Budgetary subfunds of the General Fund in FY93.

(3) FY93 fund structure is based on legislative changes recommended as part of House 1.

Exhibit MA-3

Secretariat/Department Account Number and Description	Fiscal Year 1991 Expenditures	Fiscal Year 1992 Appropriation	Fiscal Year 1993 Governor's Appropriation Recommendation
<b>EXECUTIVE OFFICE OF ELDER AFFAIRS</b>			
<b>Office of the Secretary of Elder Affairs</b>			
91000000 Office of the Secretary of Elder Affairs Services and Operations			121,031,824
91100100 Elder Affairs Administration	2,169,486	2,144,143	
91100101 Elder Affairs Retained Revenue Planning and Administration	187,388		
91100200 Coordination of Care (Alloc of 4402-5000)	941,905		
91101603 Home Care Reserve		8,276,000	
91101630 Home Care Services for the Elderly	71,795,097	72,002,305	
91001632 Retained Revenue for Home Care, Respite Care and Home Health Services	1,606,539		
91101633 Home Care Program Administration Contracts	37,869,054	30,977,000	
91101634 Home Care Administration Retained Revenue	4,238		
91101635 Demo Grant Program in Fall River	110,548	123,198	
91101640 Demonstration Projects and Studies on Alternative Care Programs for Elderly	325,176		
91101645 Reserve for Development of Long Term Care Insurance and Database	23,736		
91101660 Program of Congregate and Shared Housing Services of the Elderly	766,845	755,734	
91101900 Programs Providing Local Services to the Elderly Including Volunteer Program	3,752,787	4,554,771	
91109002 Grants to Councils on Aging	2,154,603	2,046,873	
<b>Department Total</b>	<b>121,707,402</b>	<b>120,880,024</b>	<b>121,031,824</b>
<b>Secretariat Total</b>	<b>121,704,402</b>	<b>120,880,024</b>	<b>121,031,824</b>

**Exhibit MA-4**

**Fiscal Year 1993 Resources (\$000)**

<b>Secretariat Department Budgetary Appropriation Number and Description* Service Delivery Group Number and Description</b>	<b>Budgetary Appropriation</b>	<b>Federal Grant Spending</b>	<b>Trust &amp; Other Spending</b>	<b>FY93 Total Spending</b>	<b>Fringe &amp; Indirect Cost Est.</b>
Executive Office of Elder Affairs Office of the Secretary of Elder Affairs					
9100-000 Office of the Secretary of Elder Affairs Services and Operation					
ELD-0001 Long-Term Care for Frail Elders to Prevent Institutionalization	114,291			114,291	409
ELD-0002 Activities Planned/Managed at Local Level to Meet Unique Needs of Elders	2,093	8,692		10,785	21
ELD-0003 Congregate and Home-Delivered Meals to Elders Across the State	3,717	14,271	60	18,048	21
ELD-0004 Elder Volunteer and Employment Programs	<u>931</u>	<u>1,770</u>	<u>70</u>	<u>2,770</u>	<u>10</u>
<b>Appropriation Total</b>	<b><u>121,032</u></b>				
<b>Department Total</b>	<b><u>121,032</u></b>	<b><u>24,733</u></b>	<b><u>130</u></b>	<b><u>145,894</u></b>	<b><u>461</u></b>
<b>Secretariat Total</b>	<b>121,032</b>	<b>26,503</b>	<b>130</b>	<b>145,894</b>	<b>461</b>

\*Figures Include Federal, Trust and Special Revenue Accounts. For listings of non-budgetary accounts in those Service Delivery Groups, see Volume 2.

**Exhibit MA-4 Cont'd**  
**Fiscal Year 1993 Output Measures**

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<b>Secretariat Department</b>	<b>Budgetary Appropriation Number and Description*</b>	<b>Output Description</b>	<b>Output Goal</b>
<b>Service Delivery Group Number and Description</b>			<b>Goal</b>
<b>EXECUTIVE OFFICE OF ELDER AFFAIRS</b>			
Office of the Secretary of Elder Affairs			
9100-000 Office of the Secretary of Elder Affairs Services and Operations			
ELD-001	Long Term Care for Frail Elders to Prevent Institutionalization	Number of Clients receiving home care, respite care and managed care	<b>35,404</b>
		care	<b>483</b>
		Percentage of elderly Protective Service cases that are successfully resolved	<b>65</b>
ELD-0002	Activities Planned/Managed at Local Level to Meet Unique Needs of Elders	Number of elders served by Municipal Councils on Aging	<b>400,000</b>
		Number of communities served by Serving Health Information needs of Elders	
ELD-0003	Congregate and Home-Delivered Meals to Elders Across the State	Number of meals (in thousands) served to elders at congregate meal sites and through home delivery to homebound seniors	<b>7,000</b>
ELD-0004	Elder Volunteer and Employment Programs	Number of nursing home and home care clients visited monthly by Elder Services	<b>13,100</b>
		Number of special needs children served monthly by Foster Grandparents	<b>140</b>

**The legislature did not implement the proposed performance budgeting structure, but established a pilot program.**

Governor Weld's performance budgeting system for Massachusetts was never actually implemented by the legislature. House leaders agreed with the basic idea, but differed with the Governor on the specifics of defining service delivery groups and outcome measures. The Chair of the House Ways and Means Committee had committee staff develop an alternate performance budgeting approach. In contrast, the Chair of the Senate Ways and Means Committee refused to use either set of performance budgeting documents, so all Senate decisions were based on the traditional line-item information. The Free Conference Committee on the budget rejected statewide performance budgeting, but retained it as a pilot project in five agencies. According to legislative budget staff, even that effort faltered when the two major officials interested in performance budgeting, the Governor and the Speaker of the House, left office.

Another impediment to successful implementation in Massachusetts was the lack of time and training for agency personnel responsible for quickly reorienting their program information to a whole new budget format. A 1992 *Boston Globe* story quoted an administration source on the topic:

“They [Cabinet secretaries] don't seem to be catching on too well. Some of them are not thinking about everything from scratch but just tinkering around the margins of last year's budget,” the source said. “[Weld's chief fiscal aide Peter] Nessen may have to make a lot of them go back and do it over again.”<sup>26</sup>

Another article provides an example of the frustration agency heads experienced from their involvement in the failed effort. This highlights a cost of attempting to implement a new budgeting system without adequate planning.

[Middlesex District Attorney Thomas] Reilly also said he is disappointed in the appropriation because his office is one of a few state agencies that actually tried Weld's new concept of performance-based budgeting. Under that system, line items are eliminated and dollars are linked to stated goals and output.

Initially, Reilly said he was enthusiastic about performance budgeting, but says his staff wasted time

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<sup>26</sup>Howe, p. 15.



working round-the-clock on a document he believes ultimately was ignored.<sup>27</sup>

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**The effort failed due to a lack of broad support and a lack of training.**

According to staff of the National Conference of State Legislatures, the Massachusetts experiment in performance budgeting failed because there was not broad agreement between the Governor, the legislature, and agency heads about whether, or how, it should be implemented. Little interest in the approach remained after Governor Weld left office, partly because no strong institutional base of procedures and related skills was developed in either the executive or legislative budget staffs.<sup>28</sup>

The degree to which the Massachusetts legislature has moved away from the proposed format is illustrated in the following e-mail response from a House Ways and Means staff member to an LRC request for a copy of current legislative budget briefing papers.

The short answer to the question of whether ... Elderly Affairs briefing papers are readily available for distribution is "No." This information used in our budget process is generated primarily for the use of the Committee Chairman and a few other legislative leaders. Consequently, it is produced for a highly informed audience, in an obscure budget format, with little narrative support, and consequently is not intuitively obvious nor of much assistance to the general reader.

### Texas

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**Texas has an advanced performance budgeting system.**

Texas has the most advanced performance budgeting system of any state. The government had a long history with the development and use of performance measures at the agency level, and began to formally incorporate these in its biennial budgeting process in 1991. Performance budgeting was implemented in all state agencies and universities simultaneously rather than being phased in. After initially allowing the number of state-agency performance measures to balloon to over 11,000, the number has been trimmed to about 6,000. Approximately half of those are designated as "key

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<sup>27</sup> Toni Locy "Middlesex DA Says Weld Budget is Insufficient," *Boston Globe*, January 27, 1992, Metro Section, p.14.

<sup>28</sup> E-mail from Ron Snell of National Conference of State Legislatures, January 4, 2001

performance measures” to be used by policy makers as they make budgeting decisions.<sup>29</sup>

Among the stated objectives of the Texas legislature in adopting a system for strategic planning and performance budgeting were to:

- Focus the appropriations process on outcomes,
- Strengthen monitoring of budgets and performance,
- Establish standardized unit-cost measures,
- Simplify the budget process, and
- Provide rewards and penalties for agency success and failure.

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**The Texas legislature has extensive budgeting responsibilities.**

A key feature of performance budgeting in the state is the extensive cooperation between the governor and legislature in reviewing agency performance measures and using them as a basis for funding decisions. Although the governor is statutorily designated as the chief budget officer, the legislature has responsibility for major features of the budgeting process.<sup>30</sup> In order to support its extensive budgeting involvement, the legislature created the Legislative Budget Board (LBB) in 1949 with the following members:

- Lieutenant Governor – Chair,
- Speaker of the House – Vice Chair,
- Chair of the House Appropriations Committee,
- Chair of the House Committee on Ways and Means,
- Chair of the Senate State Affairs Committee,
- Two additional members of the Senate appointed by the Lieutenant Governor, and
- Two additional members of the House appointed by the Speaker of the House.<sup>31</sup>

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<sup>29</sup> Laura Tucker, “GASB SEA Research Case Study: Texas,” in *State and Local Government Case Studies on Use and the Effects of Using Performance Measures for Budgeting, Management, and Reporting*, Governmental Accounting Standards Board, 2000.

<sup>30</sup> Texas House of Representatives, House Research Organization, *Writing the State Budget*, State Finance Report No. 77-1, February 1, 2001.

<sup>31</sup> Texas Legislative Budget Board, “Legislative Budget Board Description,” <http://www.lbb.state.tx.us/WEB.NSF> (Accessed January 22, 2001).

Members are supported by a staff of approximately 140 employees. The LBB was given statutory authority for an extensive set of budget responsibilities. These include the responsibility to:

- Adopt a constitutional spending limit,
- Prepare a general appropriations draft bill,
- Prepare official budget estimates,
- Prepare a performance report,
- Guide, review, and finalize agency strategic plans,
- Prepare fiscal notes, impact statements, and
- Take necessary budget execution actions.<sup>32</sup>

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**The legislature and governor jointly develop performance measures for each agency.**

One result of the extensive shared budgeting responsibility in Texas is the major involvement of both the Executive Office of Budget and Planning and LBB in developing and mandating agency reporting of performance measures in their budget requests to both the governor and legislature. Since the early 1990s, the two branches have worked jointly to produce a single set of performance measures for each agency, reported in a uniform format, that is used throughout the budgeting process—from agency request through final budget enactment. At the beginning of each budget cycle, LBB and the Office of Budget and Planning jointly produce detailed instructions for agency preparation of budget request forms. Agencies are required to report the set of performance measures authorized by the LBB and governor and can only change an authorized measure with approval.

To make the process manageable, LBB developed and administers an extensive electronic performance budgeting information system. Agencies are required to submit funding requests and the associated performance measures electronically to the Automated Budget and Evaluation System for Texas (ABEST). The system replaced the former budgeting system based on input costs and contains all data on agency strategic plans, appropriations requests, executive and legislative staff appropriation recommendations, appropriation bill versions (throughout the legislative process), and all performance measures. Output and efficiency performance measures are reported quarterly, while outcome measures are reported annually. The LBB has not published an estimate of what it cost to establish the ABEST system.

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<sup>32</sup> Texas Legislative Budget Board, “Current Responsibilities,” <http://www.lbb.state.tx.us/WEB.NSF> (Accessed January 22, 2001).

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**Agencies must explain any failure to achieve performance targets by 10 percent or greater.**

Once the budget is adopted, agencies have the responsibility to meet their performance targets and must explain a significant (10 percent or more) failure to do so in the next budget request. Although rewards for exceeding targets, and penalties for not meeting targets, are authorized under the Texas system, they have been used infrequently. Examples of allowable rewards include increased funding, increased program flexibility, reduced reporting requirements, and expanded responsibility. Penalties are generally the opposite of allowable rewards. Beginning in 1998, agencies with “outstanding” performance could be rewarded with salary enhancements. In order to be eligible for the reward, agencies must meet two criteria: achieve or exceed 80 percent of key performance targets for the fiscal year, and have at least 70 percent of their performance measures certified as valid and reliable by the State Auditor’s Office.

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**Agencies are given the flexibility to transfer up to 35 percent of their budgets from one use to another.**

To improve managers’ ability to meet their performance targets, the legislature allows them the flexibility to transfer up to 35 percent of the funds appropriated from one strategy to another. This degree of flexibility has been increased from an earlier 10 percent. Legislators have less control over how funds are spent, but the rationale is that they gain in their ability to hold agencies accountable for promised results.<sup>33</sup>

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**The State Auditor reviews and certifies agency performance data.**

Another key player in the Texas performance budgeting system is the Office of the State Auditor. The office is attached to the legislative branch and is charged with responsibility for auditing and certifying the validity of reported agency performance measures. This is done to let policy makers know the extent to which they can rely on the information submitted by agencies. Performance measures can receive one of four possible ratings:

- Certified without qualification,
- Certified with qualification,
- Factors prevent certification, or
- Inaccurate.

Additionally, the agency system for data collection is reviewed to ensure that sufficient internal quality controls are in place. Another issue reviewed is whether the agency actually incorporates the measures into management decisions. However, the Auditor does not comment on whether the

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<sup>33</sup> Maria Pilar Aristigueta, *Managing for Results in State Government*. (Westport, CT: Quorum Books, 1999), p. 174.

performance measures mandated by LBB and the Office of Budget and Planning are adequate or appropriate for measuring desired agency outcomes.

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**The Department on Aging budgets by four strategies:**

1. *Connections*
2. *Nutrition*
3. *Independence*
4. *Administration*

**Texas Department on Aging.** The Texas Department on Aging is used to provide an example of how performance information is incorporated in the state's budgeting process. The Department states as its goal:

...to enable older Texans to live dignified, independent, and productive lives within a safe living environment through an accessible, locally based, comprehensive and coordinated continuum of services and opportunities.<sup>34</sup>

Four program strategies were defined to achieve the goal. The *connections* strategy incorporates resources devoted to information provision, benefits counseling, case management and ombud services. The *nutrition* strategy centers on providing meals, along with nutrition counseling and education. The *independence/productivity* strategy provides assistance with transportation and services for independent living. *Administration* is broken out as a separate component.

All budget information for the Department is stated in terms of these four components rather than in the traditional line-item statement of inputs, such as personnel, operating expenses, and capital purchases. Exhibit TX-1 shows the breakdown for FY 1999.

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**Performance measures are included in budget documents, with associated request amounts in the base budget.**

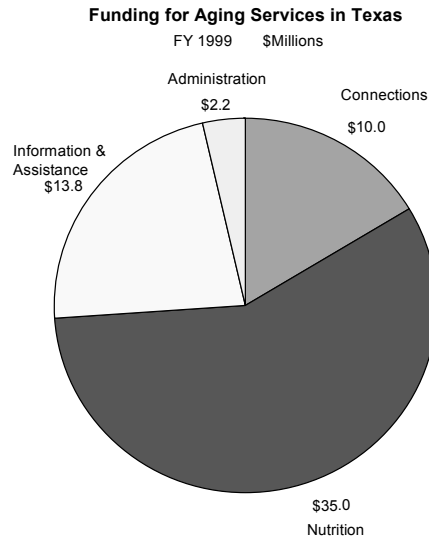
LBB and the Office of Budget and Planning developed 19 performance measures for the Department on Aging. They are broken down into three major categories: overall outcomes, outputs, and efficiencies. Budget requests and appropriations are stated in terms of these performance categories. Exhibit TX-2 replicates a portion of the LBB 2000-01 budget recommendations for the Department. A feature to note is that the total recommended funding amount is \$6 million less than requested, but the recommendation does not reflect an associated reduction from the target in any of the performance measures. According to staff of the LBB, this is because the affected outcome measures were stated in percentages, such as

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<sup>34</sup> Texas Legislative Budget Board, *Fiscal Size-Up 2000-01 Biennium: Texas State Services*, January 2000.

percent of clients served who are low-income.<sup>35</sup> These percentages would not necessarily change even if fewer clients are served.

**Exhibit TX-1**



Source: LRC staff replication of chart titled "Funding for Aging Services in Texas FY 1999," provided by the Texas Department of Aging.

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**Base budget strategies are prioritized.**

The budget request amounts shown in Exhibit TX-2 are for the base, or continuation, budget. Although not shown in this particular form, agencies are also required to submit a priority ranking of all strategies contained in the base budget. This information is used in the event that reductions to the base budget are made. It also allows legislators to shift dollars from one strategy to another.

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<sup>35</sup> Telephone conversation with Texas Legislative Budget Board analyst assigned to performance measures for the Department on Aging, April 16, 2001.

Exhibit TX-2

<b>Legislative Budget Board: Legislative Budget Estimates for the 2000-2001 Biennium</b>			
<b>DEPARTMENT ON AGING</b>			
<b>Mission:</b> The Department on Aging is the state's visible advocate and leader in providing for a comprehensive and coordinated continuum of services and opportunities so that older people can live dignified lives.			
		<b>Requested 2002</b>	<b>Recommended 2002</b>
<b>A. GOAL: Services Distribution</b>			
To enable older Texans to live dignified, independent, and productive lives within a safe living environment through an accessible, locally-based, comprehensive and coordinated continuum of services and opportunities.			
<b>Outcome (Results/Impact):</b>			
Percent of Older Population Receiving Services Who are low-income.		81%	81%
Percent of Older Population Receiving Services Who Are Moderately to Severely Impaired		25%	25%
Percent of Old Population Receiving Services Who Remained Independent Due to Services		85%	85%
Percent of Nursing Homes with a Certified Ombudsman			73%
<b>A.1.1 Strategy: Connections</b>		<b>\$12,348,031</b>	<b>\$11,123,031</b>
Provide a statewide, locally-based system that connects people with the services and benefits they need through ombudsman services, Options case management, information and legal assistance			
<b>Output (Volume):</b>			
Number of Certified Ombudsmen		860	860
Number of Persons Receiving Options Case Management		8,730	8,730
Number of Unlicensed Assisted Living Facilities Identified		300	300
<b>Efficiencies:</b>			
TDOA Cost Per Certified Ombudsman		2,864	2,864
TDOA Cost Per Options Case Management Client		256	256
<b>A.1.2. Strategy: Nutrition Services</b>		<b>\$37,431,654</b>	<b>\$37,431,654</b>
Provide a statewide, locally-based system of nutrition services that includes meals, counseling, and education designed to promote good health and to prevent illness.			
<b>Output (Volume):</b>			
Number of Congregate Meals Served		4,170,000	4,182,000
Number of Home Delivered Meals Served		4,497,800	4,497,800
Number of Meals Reimbursed by USDA		15,130,000	15,130,000
<b>Efficiencies:</b>			
TDOA Cost per Congregate Meal		3.25	3.25
TDOA Cost Per Home-delivered Meal		2.95	2.95
<b>Explanatory</b>			
Unit Cost Per Congregate Meal		3.61	3.61
Unit Cost Per Home-delivered Meal		3.28	3.28

<b>Exhibit TX-2 (Continued)</b>			
<b>DEPARTMENT ON AGING</b>		<b>Requested 2002</b>	<b>Recommended 2002</b>
<b>A.1.3. Strategy: Independence/Productivity</b>		<b>\$16,346,292</b>	<b>\$11,476,292</b>
Provide a statewide, locally-based system of services designed to maintain person independence through the provision of supportive services, transportation, and senior center activities; and provide opportunities for increased personal productivity through community service volunteering.			
<b>Output (Volume):</b>			
Number of Persons Receiving Homemaker Services		4,026	4,026
Number of One-way Trips (Demand-response Transportation Services)		1,391,465	1,391,465
<b>Efficiencies:</b>			
TDOA Cost Per Person Receiving Homemaker Services		416	416
TDOA Cost Per Person One-way Trip		3.24	3.32
<b>Total, Goal A: Services and Opportunities</b>		<b>\$66,125,977</b>	<b>\$60,030,977</b>
<b>Efficiencies:</b>			
TDOA Cost Per Person Receiving Homemaker Services		416	416
TDOA Cost Per Person One-way Trip		3.24	3.32
<b>Total, Goal A: Services and Opportunities</b>		<b>\$66,125,977</b>	<b>\$60,030,977</b>
<b>B. Goal: DIRECT AND INDIRECT ADMINISTRATION</b>			
Direct and Indirect administrative and support costs			
<b>B.1.1. Strategy: Direct and Indirect Administration</b>			
Direct and Indirect administrative and support costs			
		\$ 3,003,504	\$ 3,003,504
<b>Grand Total, Department on Aging</b>		<b>\$69,129,481</b>	<b>\$63,034,481</b>
<b>Method of Financing</b>			
<b>Subtotal, General Revenue Fund</b>		\$13,631,221	\$7,536,221
<b>Federal Funds</b>		\$55,498,260	\$55,498,260
<b>Total, Method of Financing</b>		<b>\$69,129,481</b>	<b>\$63,034,481</b>
<b>Number of Full-Time-Equivalent Positions (FTE):</b>			
		35	35
<b>Schedule of Exempt Positions:</b>			
Executive Director, Group 2		\$65,000	\$65,000
Board Member Per Diem		4,400	4,400

**New proposed strategies are itemized and prioritized.**

The Department on Aging requested funding for two additional program strategies in the FY 2002-03 request. According to budget instructions, each exceptional (or additional) item beyond those in the base must be itemized and prioritized (Exhibit TX-3).



**Exhibit TX-3**  
**Summary of Exceptional Items Request**  
**Texas Department on Aging FY 2002**

<b>Priority</b>	<b>Item</b>	<b>All Funds</b>	<b>FTEs</b>
1	Volunteer Programs Expansion	\$3,465,000	0.0
2	Texas Caregiver Initiative	\$2,500,000	0.0
	<b>Total</b>	<b>\$5,965,000</b>	<b>0.0</b>
Source: Texas Department on Aging, Exceptional Item Request Schedule, 77 <sup>th</sup> Regular Session, Agency Submission, Version 1, 9/12/2000.			

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**Legislators receive trend information on performance measures.**

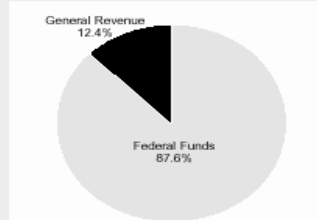
In addition to the current information presented in the budget request, the LBB publishes a summary of key agency budget and performance indicators for the preceding five years (Exhibit TX-4). This allows policy makers to quickly see trends in agency performance on selected measures. In this summary, it is reported that in FY 2000 the Department attained its four outcome targets and eight of the 15 output/efficiency targets.

Exhibit TX-4

**Department on Aging**

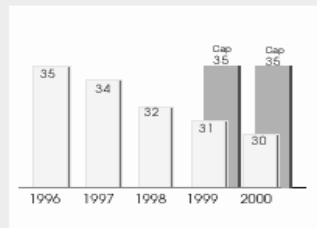
**Selected Budget Information**

**All Funds  
 2000 Expended**



Total \$61,909,525

**Full-time-equivalent Positions**



**Major Contracts**

- Kay Ferris \***  
Professional services  
\$49,100
- Jansen & Gregorczyk, CPAs \***  
Auditing services  
\$45,900
- Linda Fulmer \***  
Consulting services  
\$27,750

\* Known multi-year contract

**Lawsuits**

None reported.

**BUDGET HIGHLIGHTS**

General Revenue Funds accounted for 12 percent of the agency's expenditures in fiscal year 2000. Federal Funds constituted 88 percent of the agency's expenditures. Most of the agency's federal funding is derived from grants authorized by the Older Americans Act. These grants require a state/local match ranging from 15 to 25 percent. Agency services are provided to persons aged 60 and older.

The Nutrition Services program was the agency's largest program in fiscal year 2000, with expenditures totalling \$36.3 million in All Funds, which was approximately 59 percent of the agency's total budget.

**Full-time-equivalent Positions**

The agency **did not** exceed its cap for full-time-equivalent positions in fiscal year 2000. The agency's turnover rate reached 38 percent in fiscal year 2000, which resulted in lower than projected levels of full-time equivalents.

**Related Reports and Reviews**

A June 2000 *Audit on Financial and Compliance Issues* by the State Auditor's Office (SAO) found that the agency needed to ensure that contractors comply with federal cash management requirements and improve controls over automated systems.

An August 1997 *Audit on Performance Measures* issued by the SAO did not certify any of the six performance measures reviewed.

## Department on Aging

### Selected Performance Measures

#### PERFORMANCE HIGHLIGHTS

During fiscal year 2000, the agency attained (within 5 percent) or exceeded 63 percent of its 19 established key performance targets.

The agency attained or exceeded all four of its outcome targets and eight of its 15 output/efficiency targets.

The agency attained its target for *Percent of Older Population Receiving Services Who Are Low Income*. The agency has consistently met or exceeded the target for this measure for five consecutive years. An individual is considered "low income" if their income is at or below 300 percent of the Supplemental Security Income limit, approximately \$18,400 in fiscal year 2000.

Neither the target for *Number of Congregate Meals Served* nor for *Number of Home-delivered Meals Served* was met in fiscal year 2000. Fifty-one percent (3.8 million) of the meals purchased by the agency were delivered at congregate settings and 49 percent (3.7 million) were delivered to clients in their homes. The number of meals served appears to have decreased because of a change in counting methodology.

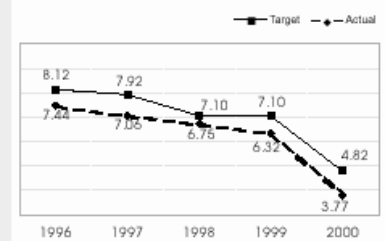
*Number of One-way Trips* provided by the agency was less than projected in fiscal year 2000, continuing a trend that began in 1997. A change in counting methodology makes comparing performance across years problematic. The agency provides clients with transportation to and from senior centers, health clinics, grocery stores and other locations.

The General Appropriations Act appropriated \$250,000 per year to the agency to expand the Ombudsman Program to residents of unlicensed assisted living facilities. During fiscal year 2000, the agency identified 592 unlicensed facilities, far exceeding the anticipated target of 200 facilities. The Ombudsman Program provides information and advocacy services to residents of nursing facilities and assisted living facilities.

Percent of Older Population Receiving Services Who Are Low Income



Number of Congregate Meals Served (in Millions)



Number of Home-delivered Meals Served (in Millions)



Number of One-way Trips (in Millions)



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**The state auditor found most Dept. of Aging performance measures to be inaccurate.**

The most recent audit of the performance measures reported by the Department indicated that most of them were inaccurate because of weak data control systems (Exhibit TX-5). However, in theory, some of the measures represent a serious attempt to isolate the effect of program activities. For example, in Iowa, a major performance measure was the number of days the frail elderly received case management services before they accessed Medicaid long-term care, which does not isolate the effects of the services. In contrast, the similar measure in Texas is the percent of older population receiving services who remained independent *due to the services received*.

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**Legislators on budget committees and agency heads were surveyed.**

**Satisfaction with the System.** To assess users' satisfaction with the performance budgeting system, staff of the House Appropriations and Senate Finance Committees conducted two surveys in 1998. First, they surveyed agency heads and received 176 responses. Key findings of the survey were that most agency heads found the strategic planning process to be helpful to their agency (88%), while somewhat fewer thought that appropriations should be made only on the basis of program strategies (69%). However, only 17% were in favor of including input information (salaries, operating expenses) in the budget.

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**Most agency heads preferred performance budgeting, but believed the performance measures do not accurately represent their agencies.**

A major complaint of agency heads is that the measures defined by LBB and the Office of Budget and Planning do not accurately capture the most important indicators of agency performance (54%). Perhaps because of that, most (69%) were opposed to rewards and penalties based on the measures. Their most frequent suggestions for improvement were to allow agencies greater involvement and flexibility in the definition of performance measures.<sup>36</sup>

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**Only seventeen budgeting legislators responded to the survey.**

A second survey was sent to the 40 members of the House Appropriations and Senate Finance Committees. Since only 17 of the 40 members of the Committees responded to the survey, results should not be interpreted to reflect the opinions of all legislators with budgeting responsibility or of all legislators in general. Of those who chose to respond to the survey, just over half (53%) thought that information on performance measures was always, or almost always, useful. A slightly larger

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<sup>36</sup> Texas State Auditor's Office, *Performance-Based Budgeting Survey Results*, March 1998.

percentage (65%) believed that performance budgeting significantly improved accountability in the use of public resources.

**Exhibit TX-5**  
**Results of Performance Measures Review**  
**Department on Aging**

**Agency 340**  
**Department on Aging**

**Fiscal Year 1996**

Description	Classification	Results	Certification	Comments
Percent of Older Population Receiving at Least One Service	Outcome	9.23%	inaccurate	Since the performance measures "Number of People Assisted Through the Options for independent Living," "Number of Congregate Meals Provided," and "Number of Home Delivered Meals Served" were determined to be inaccurate, this measure was also inaccurate.
Number of People Assisted Through the Options for independent Living Program	Output	4,990	inaccurate	Numerous sampling errors were found. Errors were due to discrepancies in the date of services received.
Number of Congregate Meals Provided	Output	7,443,702	inaccurate	Based on the sample, the amounts reported to ABEST could be verified. However, numerous errors in reporting existed in the database of at least two of the Area Agencies on Aging.
Number of Home Delivered Meals Served	Output	6,546,578	inaccurate	Based on the sample, the amounts reported to ABEST could be verified. However, numerous errors in reporting existed in the database of at least two of the Area Agencies on Aging.
Cost per Congregate Meal	Efficiency	\$2.18	inaccurate	The actual result is \$2.55. The 14.5 percent error rate was due to a data-entry error. Since the "Number of Congregate Meals provided" was determined to be inaccurate, this measure was also inaccurate.
Cost Per Home Delivered Meal	Efficiency	\$1.93	inaccurate	The actual result is \$2.06. The 6.3 percent error rate was due to a data entry error. Since the performance measure "Number of Home Delivered Meals" was determined to be inaccurate, this measure was also inaccurate.

Source: Office of the Texas State Auditor, An Audit Report on Performance Measures in 26 State Agencies: Phase 11 of the Performance Measures Reviews August 1977, p.12.

As would be expected, approximately three-fourths of legislators responding said that they get budget information from a variety of sources, including agency testimony, public testimony, staff, and constituents. This indicates that performance measures represent only one of several types of information used to make budgeting decisions. However, nearly all (94%) said they found the explicit statement of agency missions and goals to be useful. A higher percentage of legislators (35%) than agency heads (17%) said they would like information on input categories included in the budget information packet. The responding legislators also differed from agency heads in that a much higher percentage (76% compared to 31%) believed that penalties and rewards should be tied to performance measures. In their general comments, legislators suggested that the sheer volume of performance information should be reduced and that it be displayed in a more user-friendly fashion.<sup>37</sup>

### **Louisiana**

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**The Chair of the House Appropriations Committee led the effort to adopt performance budgeting in Louisiana.**

Louisiana developed a performance budgeting system that is structured much like that of Texas, although the process of how it came to a similar structure was very different. In Texas, the performance budgeting initiative was driven by a succession of governors, with support provided by the Legislative Budget Board. In Louisiana, performance budgeting has been implemented almost entirely through the efforts of the Chairman of the House Appropriations Committee.

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**Legislators thought agencies had too much flexibility and too little accountability.**

Texas had a long history with the use of performance measures by agencies, but replaced line-item appropriations by object of expenditure, with appropriations by broad program strategy, only in the early 1990s. In contrast, Louisiana adopted program budgeting in 1987. Under program budgeting, legislators appropriated agency budgets by broad program categories and agencies were given great flexibility in moving dollars from one program area to another. Yet an effective system for monitoring agency performance was not implemented at the same time. Legislators came to believe that they had little actual control over state government spending patterns, and no real way to hold agencies accountable, either for what they bought or what they accomplished.

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<sup>37</sup> House Appropriations and Senate Finance Committees, *Member Perception of the Performance-Based Budgeting System*, October 1998.

**In response, the legislature adopted performance budgeting legislation in 1997.**

In response to this lack of control, the legislature adopted Act 1465: The Louisiana Government Performance Accountability Act of 1997. The Act mandated four major agency requirements:

- 1. Long-Term Strategic Planning** – Agencies are required to develop five-year strategic plans and update those plans no less than every three years. The plans must specify broad visions, agency mission, specific goals to implement the mission, objectives for meeting the goals, strategies for achieving the objectives, and suggestions of key indicators for evaluating the success of chosen strategies.
- 2. Short-Term Operational Planning** – Agencies are also required to develop an annual plan that specifies exactly what actions they intend to take to implement that year’s portion of the long-term strategic plan. The operational plan is supposed to identify annual performance targets and explain exactly how achievement of those targets will facilitate achievement of the agency’s long-term goals. The annual operational plan must be submitted with the annual budget request.
- 3. Submission of Annual Performance Budget** – Agency budget requests to the governor, the governor’s budget recommendation to the legislature, and the budget enacted by the legislature in appropriation bills must all be organized by program. At each stage, budget documents must identify the program objective and include annual performance targets directed toward its achievement.
- 4. Regular Reporting of Performance Indicators** – Each quarter, agencies are required to report the current status of the performance indicators identified in the budget. These reports are submitted electronically to the Louisiana Performance Accountability System (LaPAS). As an Internet-based system, all reports can be reviewed by anyone with Internet access, including members of the public and press. With each new budget submission, agencies must explain a failure of five percent or more in achieving any performance target in the previous year.

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**Legislative and executive budget staffs define performance measures for agencies and the Legislative Audit Office evaluates their validity.**

As in Texas, Louisiana executive and legislative budget and auditing staff play key roles in guiding the development of agency performance budgets and performance measures. Budget staffs in both states impose both a general structure and specific performance indicator definitions on agencies. In Texas, the executive Office of Budget and Planning and LBB work together to come to such decisions jointly before they are imposed on agencies. Then the staff of the Office of the State Auditor evaluates the reliability and accuracy of each indicator reported, without commenting on whether the indicator is optimal for measuring agency performance. In Louisiana, the executive Office of Planning and Budget and legislative staff of the House Appropriations Committee work more independently of each other and, to date, the Senate has not been much involved in the process. Also, as a standing request of the Chair of the House Appropriations Committee, two branches of the Legislative Audit Office review agency performance measures. The financial audit branch evaluates the reliability and accuracy of each indicator, while the performance audit branch evaluates whether the measure is an appropriate indicator of agency achievement.

Exhibit LA-1 shows how the FY 2001 governor's performance budget recommendation was displayed for the program to provide subsidized part-time employment for the elderly by the Governor's Office of Elderly Affairs. Included are total funding by fund source, a statement of program objectives, and associated performance targets. Similar information is displayed in the actual appropriations bill.

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**Budget request packets also include extensive information on objects of expenditure.**

While the information displayed in the actual budget documents is fairly limited, the total budget request packet that must be prepared by agencies for submission to the executive Office of Planning and Budget and legislative fiscal staff is much more detailed. Budget instructions identify a total of 112 forms that must be included, if relevant to the program. With FY 2000 state funding of \$25 million and a total of 66 staff, the Office of Elderly Affairs could be considered a relatively small program. Yet its budget request packet incorporated 90 required budget request documents for a total packet size of approximately 175 pages. Included in these forms are detailed line-item listings of spending within each program for objects such as salaries, printing, travel, and specific categories of office supplies. The forms even list the individual salary of each employee (by name), along with the dollar amount of suggested raises. Thus, while Texas abandoned its line-item



listing of objects of expenditure to focus only on performance information, Louisiana displays the budget documents in performance terms, but maintains extensive line-item information on planned expenditures for inputs in background documents.<sup>38</sup>

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<sup>38</sup> Louisiana Office of Elderly Affairs, Budget Request Forms for the Fiscal Year Ending June 30, 2001, submitted November 10, 1999.

Exhibit LA-1

**EXCERPT OF DOCUMENTS PREPARED BY THE LOUISIANA  
OFFICE OF PLANNING AND BUDGET 3/22/00**

1	Means of Financing & Table of Organization	As of 12/3/99		Total Recommended 2000-2001	Total Recommended Over/(Under) E.O.B.
		Existing	Operating		
<b>EXECUTIVE</b>					
<b>COMPARISON OF BUDGETED FISCAL YEAR 1999-2000 TO TOTAL RECOMMENDED FISCAL YEAR 2000-2001 (Inclusive of Double Counted Expenditures)</b>					
Title III, Title V, Title VII and USDA Program: Fosters and assists in the development of cooperative agreements with federal, state, and area agencies and organizations to provide subsidized part-time employment opportunities for older workers.					
	<b>General Fund</b>	<b>\$98,228,642</b>		<b>\$8,239,945</b>	<b>\$11,303</b>
	Interagency Transfers	\$0		\$0	\$0
	Fees and Self Gen.	\$0		\$0	\$0
	Statutory Dedications	\$0		\$0	\$0
	Interim Emergency Bd.	\$0		\$0	\$0
	Federal	\$17,514,751		\$17,489,858	(\$24,893)
	<b>TOTAL</b>	<b>\$25,743,393</b>		<b>\$24,729,803</b>	<b>(\$13,590)</b>
	<b>T.O.</b>	<b>3</b>		<b>3</b>	<b>0</b>
OBJECTIVE: Through Title III and USDA, to provide for a broad array of home and community -based supportive and nutrition services to 75,000 eligible participants.					
PERFORMANCE INDICATORS:					
	Number of recipients receiving services from the home and community based programs	75,000		75,000	0
	Percentage of the state elderly population served	0		0	0%
OBJECTIVE: Through Title VII, to resolve at least 87% of long-term care ombudsman reported to or initiated by by observations by long term ombudsman.					
PERFORMANCE INDICATORS:					
	Number of complaints received	2,267		2,267	0
	Percentage of complaints resolved	87%		87%	0%

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**Spending requests for the base budget are neither itemized nor prioritized. Requests for new services are itemized.**

Although program objectives and performance targets are reported for the continuation budget, the specific funding amounts are not tied to particular objectives, nor are the objectives assigned priority rankings. Requests for funding of new or expanded services must be itemized and justified. The expected impact on performance measures must also be noted. New service requests do not have to be prioritized.<sup>39</sup>

Agency heads in both Texas and Louisiana express frustration that the structure and measures imposed by the executive and legislative budget staffs do not always accurately reflect the essential nature of their programs or give them the flexibility to meet changing conditions. They were also concerned that some indicators measure factors outside their control.<sup>40</sup>

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**Agency heads complained about a lack of coordination in the definition of required performance measures.**

An additional frustration expressed by agency officials in Louisiana is that they get conflicting decisions from the four groups involved in directing their budget preparation. Examples of this frustration were reported in the GASB review of the Louisiana system:

We are kind of in a Catch-22, trying to make everybody happy because we don't want our budget cut...One of them [legislative and executive planning staff] would call us and...would say, 'Yes that sounds good and reasonable.' A week later, the other one would call us and tell us, 'Why don't we do this?' And they weren't talking to each other. In the process, one gets mad because their stuff didn't get in; we have four bosses we are trying to satisfy. Nobody wants to take the responsibility. That has never been told to us. Whose responsibility is it as to what goes in? So we have had meetings after meetings trying to put this together." Another department manager said, "One problem in Louisiana is there are so many control agencies that different people were giving different instructions. That irked me to death. I got audited and they told me to do it differently than the budget office told me. That is not fair.

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<sup>39</sup> Memo from Ray L. Stockstill, Director of Office of Planning and Budget, "Preparation of Fiscal Year 2001 – 2002 Budget Documents," September 1, 2000.

<sup>40</sup> Paul D. Epstein and Wilson Campbell, "GASB SEA Research Case Study: Louisiana," in *State and Local Government Case Studies on Use and the Effects of Using Performance Measures for Budgeting, Management, and Reporting*, Governmental Accounting Standards Board, 2000.

Executive planning staff also expressed frustration at reaching agreement on plans and indicators: It is very difficult to get five or six key players to speak with a common voice. Each of them has their own agenda, or his own perception. We have tried to have working groups of representatives from the oversight groups: the auditors, the legislative fiscal office, our office, the house and senate staff. We still run into situations where the agency will call and say, “Well, the analyst over at the [legislative] fiscal office told me I have to do this.” That will continue until we really hone this to a good working process.<sup>41</sup>

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**Many state officials said there were too many measures reported and they were not reported in a user-friendly manner.**

The GASB review also indicated the frequent comment by budget participants that, with over 6,000 required performance indicators defined, there are simply too many for legislators to adequately review. That volume, coupled with even more extensive background documentation, results in a massive amount of information for budget committees to assess.

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**Use of the measures by legislators caused agencies to take their development seriously.**

The ability to distill budget information and display it in ways that make it useful to legislators, who must ultimately make all budget decisions, is apparently critical. Many comments in the GASB interviews indicate that the single most important factor causing agencies to take their preparation and implementation of performance targets seriously was a demonstrated interest on the part of legislators.

Executive planning staff described a dramatic change in appropriations hearings before and after Act 1465 was implemented to bring performance information into the budget process: “Before 1997-98, when our office presented an executive budget in the appropriations bill to the legislature, the budget analyst would go to the table, and we would start a detailed presentation of what we added or subtracted from the budget. The questions from the committee would revolve around things like, “Why are you getting these new cars? Are we spending too much on paper clips or travel?” They were all input and resource oriented. As soon as we started doing real performance based budgeting, that changed. Now the budget analyst goes to the table and gives a brief overview at a high level on what has changed in the budget, what has changed at the total expenditure

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<sup>41</sup> Epstein and Campbell, “Louisiana.” p. 30.

level, and a few of the items that caused that. Then, our performance analyst goes to the table and gives an overview of the program structure, talks about major changes in performance, and the major factors affecting that performance. And then we bring the agency program manager to the table. The questions that the committee asks revolve not around dollars but revolve around performance: “You mean to tell me that you are only going to do X in one year?” That program manager has to sit there and defend performance; that has resulted in a true change in how the budget is reviewed by the legislature.<sup>42</sup>

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<sup>42</sup> Epstein and Campbell, “Louisiana.” pp. 10-11.



## CONCLUSIONS

At the request of the Program Review and Investigations Committee, staff reviewed the literature and selected case studies on states' use of performance budgeting. Based on all the information that forms the basis for this report, it is clear that performance budgeting has many compelling arguments in its favor. Its stress on accountability for results achieved by programs could produce a more effective government that concentrates on the problems that Kentucky residents most care about. Unfortunately, so few states have implemented performance budgeting so recently that there are no model states with long-term success that Kentucky can emulate. At this point, there is evidence that performance budgeting can be implemented; the jury is still out—and may be for some time—on whether the reform accomplishes its mission of making government more accountable and effective.

This quality is not unique to proposed changes in the budgetary system. Public policy reforms are usually adopted based on the quality of the arguments behind them and with a less than ideal amount of practical experience for support. So even though performance budgeting does not have a long track record, it is possible to review the budgeting literature and the efforts at implementing PBB so far to help clarify the theory behind it and learn from what other states have done. The following conclusions are drawn from that review.

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**Legislators must decide how thoroughly they want to review each agency's base budget.**

- 1. Legislators must determine the budget decisions they want to make and the information they need to make those decisions.** First, legislators must decide whether they want to fully revisit each element of an agency's *base budget*, or whether they want to assume that the base budget amounts will be reauthorized unless special information warrants a change. If legislators want to completely review existing spending patterns, then they would need more detailed information about current programs. Adequate development and review of such information on the base budget would require a major time commitment on the part of agency staff, executive budget staff, and legislative budget staff. It would also represent a major additional time commitment by legislators on budget committees.

**Legislators must decide if they want to control spending on *inputs* or hold agencies accountable for *results*.**

Second, legislators must decide whether they want to control agency spending on categories of inputs (e.g., salaries for elder case workers) or whether they want to hold agencies more accountable for results (e.g., reduction in cases of elder abuse). If legislators want to make budgeting decisions on the basis of what agencies achieve rather than what they purchase, then they will need to require that agencies begin to track and report indicators of what they achieve. While it is possible to track both what is purchased and what is achieved, it is really only possible for legislators to hold agencies to strict limits for one or the other. If spending categories are fixed by the budget, then agencies' achievements may be constrained. If performance targets are specified in the budget, then agencies must be given some spending flexibility to shift resources to achieve those targets.

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**Performance budgeting is more a tool for improving *accountability*, rather than *efficiency*, in the use of public resources**

2. **It should be understood that performance budgeting is a tool that can improve *accountability* in the use of public resources. To date it has not been shown to be a good tool for improving *efficiency* in the use of public resources.** In some cases performance budgeting has been adopted in a time of budget shortfalls on the theory that better performance monitoring can result in lower costs. There are three major reasons that this is not necessarily the case. First, states with extensive performance budgeting systems have focused on demonstrating results desired by the public. Examples might be a reduction in substandard reading scores by low-income elementary students or increases in the length of time that elders avoid nursing home care. Such results are not likely to come cheap. Under a line-item budget, decision makers can demonstrate a commitment to a program by counting the input resources allocated to the program. Achieving specific, measurable results may take even more resources.

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**Performance budgeting information systems may be costly to develop and maintain.**

Second, development of extensive systems for data collection, and validation, analysis, and reporting of performance measures can represent a major expense. States that have implemented performance budgeting have apparently not tracked or reported the actual costs of implementation, so there are no good estimates. Also, the full application of performance budgeting is still in its early stages. Complete understanding of program outcomes for many programs could require long-term tracking of those who receive services. For example, the effects of early childhood tutoring programs might not be fully demonstrated until several years after a child left the



program. This type of long-term tracking could be expensive.

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**Choices are stated in terms of different objectives, rather than strategies with different costs for achieving the same objective.**

Finally, most of the performance budgeting systems used by states are geared toward helping decision makers prioritize spending among strategies for meeting various objectives. The greatest attention has been paid to holding agencies accountable for achieving the desired objectives. Materials reviewed did not provide examples of situations where legislators were given information for selecting among various strategies for meeting the same objective, based on the cost (or efficiency) of each strategy. Thus the conclusion is that the current state of performance budgeting has more to do with accountability in achieving objectives than efficiency in spending public resources.

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**Performance budgeting efforts need a strong champion.**

**3. If a state is to implement performance budgeting successfully, a key decision maker in the budget process, either the governor or a leader in the House or Senate, must take a strong advocacy role in promoting the change.** Other key decision makers must offer at least tacit agreement to the change. Leaders must also require that performance budgeting skills and procedures be developed and institutionalized in budget staffs so the system survives when the elected officials championing it leave office.

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**There should be widespread and consistent agreement on the objectives of programs.**

**4. There should be widespread agreement among decision makers on the objectives they wish programs to achieve.** Performance budgeting encourages systematic strategic planning and clear objectives. Conflicting views on what programs are supposed to achieve make it impossible for agencies to effectively implement programs to meet specific objectives. Since developing performance measures is often complex and costly, and many programs may take a long time to achieve results, frequent changes in objectives also make performance budgeting more difficult.

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**Performance measures should be linked to the results caused by the program.**

**5. Performance measures should be carefully defined to accurately capture outcomes due to program activities.** Those who develop measures should attempt to capture the actual effect of program activities in achieving desired outcomes. It is neither fair nor accurate to hold agencies accountable for factors beyond their control. Those who develop performance measures should strive to design measures that capture the important features of the program, rather than those features easiest to count.

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**Adequate technical resources, training, and a clear designation of responsibilities are important.**

**6. Sufficient technical and staff resources should be devoted to initial training and ongoing maintenance of the system.** Most of the work in developing and maintaining a performance budgeting system is done by budget staff of the executive and legislative branches. These staffs must be given adequate training and resources to accomplish the task. There should be clear designation of who has the ultimate responsibility for making decisions about performance measures. Clear designation of responsibility would minimize the problems encountered in Louisiana, where agency officials received conflicting directions and no one had the authority to make the final decision.

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**Measures should be independently validated.**

**7. Performance measures should be independently validated on a regular basis.** A well-defined and pertinent performance measure is useless if it is inaccurate. Data collection and analysis systems should be subject to regular review to inform legislators and the public about the degree of confidence they should have in reported measures. According to a study of performance budgeting by the Urban Institute, “Where the legislature has a strong analytical arm that it calls on to review the data, as in Florida and Texas, more and better use of the performance information appears to have taken place.”<sup>43</sup>

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**The total list of measures should be short, clearly defined, useful, and easy to understand.**

**8. Careful planning should limit the number of performance measures to a small set of well-crafted indicators rather than allowing the number to balloon to an exhaustive listing.** States that have undertaken performance budgeting have often started with the “kitchen sink” approach to developing indicators. Agency officials and legislators can be quickly overwhelmed by the sheer task of reporting and reviewing huge lists of numbers. A shorter list of meaningful indicators, presented in a manner that is friendly to the reader, will likely yield greater acceptance of performance budgeting than an exhaustive list of everything that can be counted.

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**Agencies will only take performance targets seriously if legislators show that they do.**

**9. If they want agencies to take performance monitoring and reporting seriously, legislators must demonstrate that *they* take it seriously.** Agency officials in the states reviewed said that the biggest incentive they had for paying serious attention to their performance indicators was close

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<sup>43</sup> Blaine Liner, Harry P. Hatry, Elisa Vinson, Ryan Allen, Pat Dusenbury, Scott Bryant, and Ron Snell, *Making Results-Based State Government Work* (Washington, D.C.: Urban Institute, 2001), p. 13.

questioning by legislators in budget hearings. If legislators who are making budget decisions do not demonstrate that they care about the performance reports, then agencies will not devote significant resources to efforts to demonstrate that they are meeting performance targets.

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**Performance information will not drive politics out of budgeting.**

**10. It should be acknowledged that performance budgeting, or any other so-called “rational” budgeting system, provides only part of the information that policy makers use to allocate funds among competing needs.** As Irene Rubin noted in her book *The Politics of Public Budgeting*, “public budgets are not merely technical managerial documents; they are also intrinsically and irreducibly political.”<sup>44</sup> No system of budget information will ever replace the balancing that occurs when those with competing interests seek resources from a limited pool. Individual legislators must balance the interests of their constituents with the interests of the state as a whole. Then the whole budgeting process must balance the interests of all the elected officials with decision-making roles. Information from the budgeting system can inform budgeting decisions and make the trade-offs more explicit, but it can never replace the resource allocation decisions that legislators were elected to make.

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<sup>44</sup> Irene Rubin, *The Politics of Public Budgeting*, (Chatham, NJ: Chatham House, 1993), p. 1.



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## **APPENDIX A**





## PREDOMINANT BUDGET APPROACH

State or other Jurisdiction	Traditional/ Incremental	Performance- Based	Program- Based	Zero- Based	Combination	Comments
Alabama			■			
Alaska	■					
Arizona	■					The state is required to convert all agencies to a program-based budget by FY 2006.
Arkansas	■					
California	■					Generally, traditional budgeting is used with program-based presentations, including allocations of funding and personnel by program area.
Colorado					■	The General Assembly can require departments to submit zero-based budget requests. The General Assembly also has entered into performance-based memoranda of understanding with certain departments or agencies.
Connecticut	■					Although the budget is program-based and program measures are displayed in both the governor's document and the Legislative Budget Report, much of the work on the budget is more traditional (major object, line item) than program-based.
Delaware					■	Starts with a zero-based budget, but combines this with performance and traditional approaches.
Florida	■					The state has enacted requirements for performance-based budgeting that are being phased-in. Current practice is more traditional.
Georgia			■			
Hawaii			■			
Idaho			■			
Illinois					■	The budget is traditional with some aspects of program-based.
Indiana	■					Budget instructions require some productivity data.
Iowa					■	The budget is a combination as required by code. Each budget is modified zero-based (75 percent) completed for each program level. Performance measures are to be included at each level.
Kansas	■					Although still largely based on traditional methods, performance measures are requested of agencies and reviewed by the governor and Legislature in formulating the budget.
Kentucky	■					
Louisiana			■			Act 1465 of 1997 mandates performance budgeting.
Maine	■					Current statutory language calls for state government to fully implement performance budgeting for the 2000-2001 biennium.
Maryland					■	The budget is organized into programs. Some attention is paid to performance measures, with a trend toward increased reliance on them.
Massachusetts					■	The legislative budget incorporates program-based budgeting and traditional budgetary analysis methods. A comprehensive overview of each agency's count of full-time employees, programs and their spending levels, and administrative spending is prepared by the governor's Budget Bureau and the House and Senate Ways and Means Committee budget staff.

## PREDOMINANT BUDGET APPROACH

State or other Jurisdiction	Traditional/ Incremental	Performance- Based	Program- Based	Zero- Based	Combination	Comments
Michigan		■				The budget is performance-based, although appropriation bills contain objects of expenditure in some instances.
Minnesota	■					The budget is mostly traditional, but partly program-based. The state is attempting to bring performance measures into consideration.
Mississippi	■					
Missouri	■					
Montana	■					
Nebraska					■	The appropriation structure is program-based. Requests are built in a traditional and modified zero-based structure. The traditional structure is moving toward a performance-based structure.
Nevada	■					
New Hampshire	■					
New Jersey					■	The state has a program-based budget, but it is constructed and displayed by department. Although there are several summary pages showing program allocations across organizational lines, most of the budget is organizationally organized. Also, the budget still displays allocation by spending object (e.g., salaries, materials and supplies, etc.) as well as by program.
New Mexico	■					
New York			■			
North Carolina	■					In 1997, the governor submitted a performance-based budget that the General Assembly did not adopt.
North Dakota	■					
Ohio	■					
Oklahoma	■					The state uses incremental budgeting. However, during the last several years the state has begun to move toward program-based budgeting, with mixed results.
Oregon	■					Budgeting is predominantly traditional, but also has elements of performance-based (application of benchmarks), program-based (subagency level or program identification) and zero-based (includes discussion of 10 percent to 20 percent reduction packages).
Pennsylvania	■					
Rhode Island			■			
South Carolina	■					The House Ways and Means Committee is placing greater emphasis on agency accountability reports for FY 1996-97 in developing budget recommendations for FY 1998-99.
South Dakota			■			
Tennessee	■					Defined by statute, budgeting is zero-based. However, the state practices a continuation of required programs plus essential improvements.
Texas		■				

## PREDOMINANT BUDGET APPROACH

State or other Jurisdiction	Traditional/ Incremental	Performance- Based	Program- Based	Zero- Based	Combination	Comments
Utah			■			
Vermont					■	A combination of traditional and performance-based budgeting is used.
Virginia					■	Program budgets organize the Appropriation Act, and performance measures are coming into use as a way to examine agency activities. Most executive budgets, however, begin with some calculations of a base, i.e., the approximate amounts required to continue current activities and caseloads.
Washington	■					
West Virginia	■					The starting point in considering the request for the next fiscal year is the current level of funding and the additional money necessary to maintain the current level after factoring in inflation, etc. Performance measures are agency or department matters, and programs are ranked within agencies or departments in order of importance. There is little discussion in legislative hearing about these matters. The emphasis is on current levels and whether funds are available to enhance programs or add projects or programs.
Wisconsin			■			
Wyoming			■			
American Samoa	n/r					
District of Columbia	n/r					
Guam	■					
Northern Mariana Island				■		Traditional budgeting is used when information on zero-based budgeting is not submitted by the departments.
Puerto Rico			■			
U.S. Virgin Islands	n/r					
<b>Total: States</b>	<b>27</b>		<b>10</b>	<b>0</b>	<b>10</b>	
<b>Total: States and Territories</b>	<b>28</b>		<b>11</b>	<b>1</b>	<b>10</b>	
Source: National Conference of State Legislatures, December 1997.						
<b>Key:</b>						
<b>n/r = no response</b>						