

## Testimony for Hearing on Performance-Based Budgeting

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Good afternoon Chairs Browne, Hughes, Argall and Boscola. Thank you for the opportunity to testify today. For my brief comments, I will focus on a report that my office released yesterday that discusses using performance measures in the state budget.

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

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

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

I should note that the report only considers performance measures, since those measures were specified in statute. The report does not consider various efficiency initiatives such as Continuous Improvement or Total Quality Management. It also does not consider cost-benefit analysis, such as the Pew Charitable Trust Results First model.

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

Currently, Pennsylvania executive agencies submit 686 performance measures to assess progress towards their stated goals and objectives. However, the system is underutilized for various reasons, and performance measures rarely impact the allocation of funds across agencies and programs.

## Background on Performance Measures

As discussed in the IFO report, 31 states currently have a statutory requirement that compels agencies to report performance measures. Moreover, 40 states require agencies to include performance measures as part of their budget submission. However, only 3 states characterize PBB as their primary budget approach. For most states, performance measures are not fully integrated into the budget process, and many use what is known as an incremental budget approach, where funding is largely based on the amount from the prior year.

The IFO report considers 6 states that have extensive experience with PBB. Since that material is covered in the report, I will not discuss it here. The report also discusses attributes that increase the effectiveness of performance measure reports. They are as follows:

- Reports should be concise. All states have noted that users can be overwhelmed with too much data that lack context.
- Reports should have the ability to be integrated quickly into the budget process. A lengthy start-up process risks failure of ever getting started.
- Reports should include agency comments, to allow explanation of current trends and expectations.
- Reports should include more outcome and benchmark measures, or comparisons to other states.

## Prototype Performance Measures Report

The IFO report lays out what is referred to as a “prototype performance measures report” that could be used during budget hearings. (See pages 37 to 41 of the main report.) The report is not a recommendation, but rather a method to solicit feedback and comments regarding the form and content of a performance measures report and how it could be used. As constructed, it is assumed that the report would be used for a few agencies during the Spring 2017 budget hearings, and certain fields that are now missing would be filled in after the release of the Executive Budget.

The report is posted on the IFO website, so I will only make brief comments about each table. We use the Department of Corrections (DOC) as a template agency because they are a large agency that publishes extensive data, similar to its counterparts in other states.

Page One shows the agency mission statement, goals and objectives, the source of agency funds and the purpose for which they are used. For example, the data show that Pension Contributions comprised 4.6% of DOC General Funds in FY 2011-12, but now comprise 13.6%.

Page Two displays a dollar breakdown of agency inputs, or the cost structure. The amounts represent actual spending for historical years, and appropriated amounts for the current and budget years. The data show a breakdown by type of spending and major program. These first two tables provide data that illustrate recent agency cost drivers.

Page Three contains the performance measures. The first group is output measures. In the current report, we have measures of DOC workload such as number of inmates, number of receptions and releases, and number of inmates enrolled in treatment or academic programs.

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

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

Page Four presents benchmark comparisons to surrounding states. The current metrics include two efficiency measures (average cost per inmate, average healthcare cost) and an outcome measure (re-incarceration rate). These data allow a comparison of trends between the PA DOC and agencies in surrounding states. As noted in the table, the data are preliminary and are best used for illustrative purposes only. These comparisons can be very informative, but it is essential that the office that compiles these metrics ensures they are indeed comparable.

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

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

As discussed in the report, there is already significant reporting of performance measures in Pennsylvania, but they are not used in the budget process. The report attempts to place those data in front of policymakers for use in the budget process in a manner that is concise, relevant and informative. Once the reports have been established, then new measures could be added or the structure could be enhanced or expanded.

In order to move the process forward, the report identifies five key issues that should be considered regarding the reporting of performance measures and PBB generally:

- First, what office or agency would compile standardized performance measure reports? In other states, both executive and legislative offices have performed this duty.
- Second, what agencies would be subject to reports and how would they be phased-in? Some states apply reporting to all agencies, while others only include key agencies.
- Third, should the reports include explicit performance targets, as used by many other states. If targets are used, how would they be set, and what would be the penalties and rewards? This is a major enhancement of any system.
- Fourth, when would reports be used in the budget process?
- Finally, there is a clear lack of outcome measures. It will likely require additional resources from the executive and legislative branches to develop more informative measures.

Thank you. That concludes my brief comments and I would be happy to try to answer any questions you have.