

GAO

Report to the Chairman, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

February 2005

PERFORMANCE BUDGETING

States' Experiences Can Inform Federal Efforts





Highlights of [GAO-05-215](#), a report to the Chairman, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

With a number of challenges facing the nation—including a long-term fiscal imbalance—agencies need to maximize their performance and leverage available resources and authorities to achieve maximum value while managing risk.

Examining state efforts to increase the focus on performance and their experiences in responding to recent fiscal stress can offer insights into practices that may assist federal decision makers in addressing the challenges ahead.

GAO described for five selected states—Arizona, Maryland, Texas, Virginia, and Washington—legislators' use of performance information in budget deliberations, how performance information helped to inform choices during fiscal stress, challenges these states face in implementing and sustaining their efforts, and the potential for state experiences to inform initiatives to improve the use of performance information at the federal level. Among other factors, these states were selected because they have established histories of performance budgeting efforts and represent a variety of approaches to implementing those efforts.

www.gao.gov/cgi-bin/getrpt?GAO-05-215.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Paul L. Posner at (202) 512-9573 or posnerp@gao.gov.

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What GAO Found

Performance measures and the reporting of program performance are regularly included in the budget processes of the five states GAO visited. Legislators' expectations that this information will be collected and reported are supported through both statutory requirements and executive initiatives. GAO found that the continuing efforts to improve data collection and to relate this information to structures and processes used to make resource decisions were reinforced by the increasing capacity of staff to analyze, synthesize, and incorporate performance information in ways that make this information more accessible and useful to decision makers.

State officials described ways in which performance information, including outcome measures and performance evaluations, was used in budget deliberations to identify potential impacts of a proposed policy change, make policy decisions that reduced costs while maintaining effectiveness, and make changes to improve program effectiveness. However, when determining funding levels and defining desired levels of service relative to funding, legislators currently rely most on workload and output measures.

In addition to using some traditional tools or approaches to address budgetary shortfalls, such as across-the-board cuts or tax increases, most states GAO visited also developed new initiatives that considered existing performance information among other factors to respond to revenue shortfalls. For example, three states created prioritization initiatives that framed trade-offs according to how programs contributed to achieving statewide goals. Three of the states also established efficiency commissions to identify opportunities for cost savings by improving the structure and function of state government.

Although the states GAO visited all demonstrated ways in which performance information was used in budget deliberations, officials in every state described challenges in developing and presenting performance information that is both credible and useful. Despite these challenges, these states have demonstrated a commitment to performance budgeting efforts by continuing to refine their approaches in response to those challenges. Success in performance budgeting requires time, agreement on the selection of measures reported, and understanding of different perspectives. The states are working toward this success.

GAO convened a panel to discuss the implications of our state findings for the federal government. Panelists were encouraged that performance information has influenced legislative budget decisions in the states, but advised that demand for performance information in Congress may take longer because of the complexity of its processes and committee structures. Most also agreed that the federal government will need to transcend agency borders and take a more crosscutting view of performance to address fiscal challenges, but did not reach consensus on a model or method for doing so.

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Abbreviations

BRAC	Base Realignment and Closure
CPS	Child Protective Services
DBM	Department of Budget and Management
DLS	Department of Legislative Services
DPB	Department of Planning and Budget
GASB	Government Accounting Standards Board
GOBPP	Governor's Office of Budget, Planning, and Policy
GPRA	Government Performance and Results Act of 1993
JLAC	Joint Legislative Audit Committee
JLARC	Joint Legislative Audit and Review Committee
JLBC	Joint Legislative Budget Committee
LBB	Legislative Budget Board
MFR	Managing for Results
NASBO	National Association of State Budget Officers
NCSL	National Conference of State Legislatures
OAG	Office of the Auditor General
OFM	Office of Financial Management
OLA	Office of Legislative Audits
OMB	Office of Management and Budget
OSPB	Office of Strategic Planning and Budget
PAR	program area review
PART	Program Assessment Rating Tool
POG	Priorities of Government
SAC	Sunset Advisory Commission
SAO	State Auditor's Office
SPAR	strategic program area review

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United States Government Accountability Office
Washington, D.C. 20548

February 28, 2005

The Honorable George V. Voinovich
Chairman, Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Chairman:

With a number of challenges facing the nation—including a growing long-term fiscal imbalance—it is critical to reexamine the relevancy of federal programs and their fit with national goals, while maximizing program performance within current and expected resource levels.¹ The implementation of performance budgeting efforts is an important step in doing so.² Although federal performance and accountability reforms have given much attention to increasing the supply of performance information over the past several decades, the promise of any performance budgeting initiative lies in its potential to infuse that information into budget deliberations. As attention in the federal government shifts to increasing the demand for and use of performance information in budget deliberations, we look to the states—which have also put in place structures for the collection and use of performance information—to identify practices that may be useful if applied at the federal level. Because states have recently faced fiscal stress,³ insights into their use of performance information in budget deliberations may also offer lessons for the federal government as it addresses its fiscal challenges.

To better understand the progress states have made in using performance information in the budget process, you asked us to examine some performance budgeting tools and initiatives employed by state governments with the goal of understanding what lessons can be learned at

¹ For more information on reexamination of federal programs, see GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 2005).

² In this report, the term performance budgeting refers to any linkage between budgeting and expected or actual evidence-based performance information.

³ According to the National Association of State Budget Officers' *Fiscal Survey of the States* (April 2004), since 2001, states have had to respond to decreasing revenues and rising mandatory costs.

the federal level. As discussed with your staff, the objectives of this report were to describe for selected states (1) whether and, if so, how legislators are using performance information in budget deliberations; (2) whether performance information helped to inform budgetary choices during fiscal stress and, if so, how; (3) challenges states face in implementing and sustaining performance budgeting efforts; and (4) the potential for state experiences to inform initiatives to improve the use of performance information in budget deliberations at the federal level.

To address these objectives, we selected Arizona, Maryland, Texas, Virginia, and Washington for site visits based on the results of a literature search, review of state documents, consultation with experts on state government, and initial phone interviews with state officials. There were a number of factors that we considered in our selection of states, but most important we sought to choose states that had established histories of performance budgeting efforts and that represented a variety of approaches to implementing those efforts.

In the selected states, we interviewed central budget and planning staff, their legislative counterparts, senior officials from the governors' offices, and—in some instances—members of the general assembly to get their perspectives. We also interviewed staff members from executive and legislative oversight entities, such as audit and sunset review staff, that analyze and provide performance information to decision makers. Because the states selected are not a representative sample, our findings and conclusions are not generalizable to the experiences of other states.

As part of our effort to identify how state experiences could inform initiatives to improve the use of performance information in budget deliberations at the federal level, we convened a panel of federal officials and academics familiar with the federal budget process and performance budgeting concepts to review a summary of our findings and conclusions and to identify the potential relevance of what we found for federal performance budgeting efforts. Each state was given an opportunity to review and confirm statements made and examples used about its experiences. Any technical or clarifying comments that were provided as part of that review have been incorporated where appropriate. We conducted our work from February 2004 through January 2005 in accordance with generally accepted government auditing standards. See appendix I for more details on our scope and methodology.

Results in Brief

We found that performance information has influenced legislative budget deliberations in the states examined. Although a number of factors, including political choice, influence budget decisions, when legislators do use performance information they find specific types of performance information useful in performing different functions. They use outcome measures and performance evaluations in budget deliberations to identify potential impacts of a proposed policy change, make policy decisions that reduce costs while maintaining effectiveness, and make changes to improve program effectiveness. However, when determining funding levels and defining desired levels of service relative to funding, legislators currently rely most on workload and output measures.⁴

Since 2001, states have faced severely constrained budget conditions due to declining revenues and rising costs. In the past when revenues declined, states relied heavily on several tools or approaches to address shortfalls, such as across-the-board cuts, tapping rainy day funds, delaying expenditures, and in some cases increasing taxes and fees. However, during recent periods of fiscal stress, most of the states we examined did not rely solely on these tools. In addition to using some of the traditional tools, states also developed new initiatives that considered performance information among other factors to make additional spending adjustments. For example, Maryland, Virginia, and Washington developed prioritization efforts that frame trade-offs according to how programs contribute to achieving statewide goals. However, their impact or long-term viability cannot be assessed because they are either too new—as is the case in Washington—or not yet fully implemented. Arizona, Maryland, and Virginia also formed efficiency commissions that were tasked with identifying opportunities for cost savings by improving the structure and function of state government. Although each of these commissions did result in some improvements, the extent to which the commissions' efforts assisted in addressing budget shortfalls was somewhat limited because most recommendations were not implemented.

⁴ Output measures refer to the products and services that a program delivers, while outcome measures reflect the results of delivering a program's products and services. In measuring the performance of a job-training program, for example, an output measure could be the number or percentage of program participants who completed the training. An outcome measure, on the other hand, could be the number or percentage of program participants employed 1 year after the training.

The states examined face challenges in developing and presenting credible and useful performance information. For example, state officials said data reliability concerns and a lack of consensus by stakeholders on the selection of measures that are reported detract from the credibility of performance information. Several states have taken steps to address these issues, including having state auditors or legislative oversight entities audit selected measures and attempting to more actively involve stakeholders in shaping performance budgeting efforts. In addition, some state officials said that the large quantity of performance information that is reported limits its use in budget deliberations because it is difficult for decision makers to quickly identify the most relevant information; although we were told that budget and planning staff have grown increasingly important in distilling the most useful information and presenting it to decision makers. Officials from several states also said that their states are taking steps to be more selective in the measures that are reported. States were less optimistic about their efforts to address difficulties in aligning budget and planning structures because such efforts represent more than structural or technical changes. They also involve important trade-offs among different and valid perspectives, including the needs of legislators and different levels of executive branch management. Only one of the states examined has fully implemented such a structural alignment, but officials in that state reported that challenges remain in satisfying the needs of various stakeholders. Despite facing challenges, the states we examined have also demonstrated a commitment to performance budgeting efforts by continuing to refine their approaches in response to those challenges.

We convened an expert panel to discuss the implications of state performance budgeting experiences for the federal government. Many members of our panel were encouraged that performance information has influenced legislative budget decisions in the states we examined. Some saw this as a promising bellwether of things to come at the federal level but advised that developing demand for performance information in Congress will take more time than it has in the states because of the complexity of congressional processes and committee structures. The panelists pointed to a number of long-standing challenges—many of which were similar to those in the states—that, if addressed, could promote legislative use of performance information. Perhaps most important, several panelists said that legislators need an incentive to use performance information and that as budget constraints become more difficult, the federal government—like the states—may well find ways to use performance information in considering budgetary trade-offs. To make performance information useful in addressing federal fiscal challenges, most of the panelists agreed that the

states' experiences demonstrate that the federal government will need to transcend agency boundaries and take a more crosscutting view of performance. However, there was no consensus on a model or method for doing so. While several panelists felt that rather than develop a new process for prioritizing government activities, the federal government should work within existing systems and prioritization processes, others thought that extraordinary measures would be necessary to effectively use performance information in addressing fiscal stress.

Background

For many years, reform efforts in federal, state, and local governments have attempted to change the emphasis of budgeting from its traditional focus on incremental changes in inputs to the allocation of resources based on program goals and measured results. Many refer to this linkage between resources and results as performance budgeting. Although that term can be used narrowly to describe mechanistic linkages between formal performance metrics and resource allocations, in this report we use performance budgeting to refer generally to any linkage between budgeting and expected or actual evidence-based performance information, including information from stand-alone performance audits and evaluations as well as formal performance metrics. Thus, we use the term performance budgeting to describe a process that encourages the routine collection, reporting, and consideration of performance information from a variety of sources in resource decision making, and not to any particular approach.

Federal interest in performance information and its potential relationship to budgeting practices has existed to varying degrees for over 50 years.⁵ More recently, this interest culminated in the passage of the Government Performance and Results Act of 1993 (GPRA).⁶ This legislation mandates

⁵ For a detailed examination of previous federal performance budgeting initiatives, see GAO, *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, GAO/AIMD-97-46 (Washington, D.C.: Mar. 27, 1997).

⁶ Pub. L. No. 103-62 (1993).

that federal agencies develop performance information describing the relative effectiveness and efficiency of federal programs as a means of improving the congressional decision-making process. Among other statutory obligations, GPRA requires federal agencies to publish strategic and annual plans describing specific program activities with the intention of establishing a more tangible link between performance information for these programs and agency budget requests.⁷ Furthermore, the current administration has made budget and performance integration one of its top five management priorities. As part of this initiative, beginning in fiscal year 2005 the Office of Management and Budget (OMB) required agencies to submit what it describes as performance budgets linking each agency's strategic goals with related long-term and annual performance goals and include the costs of specific activities that contribute to the achievement of these goals.⁸ Also central to the budget and performance integration initiative is OMB's Program Assessment Rating Tool (PART), which rates programs on their purpose/design, strategic planning, management, and results using a diagnostic tool comprised of a series of questions.⁹ These assessments are done in conjunction with OMB's review of agency budget requests and the results are reported in the President's budget submission to Congress. Using PART as a diagnostic tool, the administration expects to assess all federal programs by 2007 when the president transmits his fiscal year 2008 budget proposal to Congress.

The landscape of performance budgeting at the state level has also changed over the last decade. We last reviewed state performance budgeting efforts in 1993.¹⁰ In that study we found that states that were considered to be

⁷ For more information on federal efforts to implement GPRA, see GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004).

⁸ For a detailed examination of this effort, see GAO, *Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources with Performance*, [GAO-05-117SP](#) (Washington, D.C.: February 2005).

⁹ For a detailed examination of the use of PART, see GAO, *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, [GAO-04-174](#) (Washington, D.C.: Jan. 30, 2004).

¹⁰ GAO, *Performance Budgeting: State Experiences and Implications for the Federal Government*, [GAO/AFMD-93-41](#) (Washington, D.C.: Feb. 17, 1993). The states examined were Connecticut, Hawaii, Iowa, Louisiana, and North Carolina.

among the leaders in performance budgeting had begun to create a supply of performance information that program managers were using as a management tool. However, at that time performance measures and statewide performance budgeting efforts had not attained sufficient credibility to influence resource allocation decisions. Since then states have had more time to establish performance budgeting requirements, to develop or refine performance measures, and to evaluate and report on program results. According to a recent study,¹¹ the use of performance measurement is pervasive across the states—with all 50 states now having performance budgeting requirements that include both strategic planning and the regular collection and reporting of performance information. That study also found that performance measurement systems in the states have evolved rather than withered in the last decade.

The five states we visited—Arizona, Maryland, Texas, Virginia, and Washington—have had performance budgeting requirements, systems, and processes in place for 7 or more years. Table 1 summarizes these processes. For more details, see appendixes II through VI.

¹¹ Julia Melkers and Katherine Willoughby, *Staying the Course: The Use of Performance Measurements in State Governments* (Washington, D.C.: IBM Center for the Business of Government, 2004).

Table 1: Summary of State Performance Budgeting Processes

State	Performance budgeting legislation?	Alignment between planning and budget structures?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Arizona	Yes	No	Program	Annual program operating plans	Yes	Appropriation act
Maryland	Yes	No	Agency and program	Annual budget requests	Yes	Executive budget document
Texas	Yes	Yes	Strategies (by agency)	Strategic plans and electronic quarterly updates	Yes	Appropriation act
Virginia	Yes	No	Agency	Internet	No	Virginia Results Web site
Washington	Yes	No	Agency and program	Biennial budget requests	Yes	Executive budget document

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

As of 2004, all of the states we examined had enacted legislation that at a minimum requires agencies to define their missions and strategic goals and integrate performance measures that can be used to determine whether a program has achieved its goals. See section II of appendixes II through VI for additional information on each state’s statutory requirements. Although several of the states we examined have undertaken efforts to better align their budget and planning structures, only Texas has fully implemented this effort. In Texas, funds are appropriated by agency goals and strategies, which are defined in the agency’s strategic plan. Strategies set forth actions to be taken by an agency to achieve its goals. There may be multiple strategies under one goal. Funding is provided at the strategy level. For more information about the states’ budget structures, see section I of appendixes II through VI.

Although there are some commonalities in each state’s approaches to collecting, reporting, and reviewing performance information, such as requiring agencies to develop performance measures as part of a strategic planning process, no two states have taken an identical approach. For example, among the states examined legislative and executive budget and planning staff are involved to varying degrees in agency efforts to select and define measures for reporting. Most of the states allow agencies to

independently choose the measures they report, but in Texas agencies work with legislative and executive budget staff throughout the strategic planning and budgeting processes to determine the measures they will report in the next biennial budget. States also have different methods for publicly reporting the performance information that they collect. Most of the states report performance information in executive budget documents, as well as strategic and annual performance plans. Some also have this information available on Web sites. Of the states we examined, Texas and Arizona are the only two that present performance measures in their general appropriation acts. See section III of appendixes II through VI for additional information on the states' systems and processes.

External parties—including the federal government, bond rating companies, and national organizations—have influenced the development and sustainability of state performance budgeting efforts. Many federal grant programs, for example, require states to report on program performance in order to receive funding. Bond rating companies, whose ratings affect a state's ability to finance government projects, include the public reporting of performance information as a criterion for assessment in the rating process. In addition, efforts by organizations such as the Government Performance Project, National Association of State Budget Officers, Governmental Accounting Standards Board, and National Conference of State Legislatures, which track and compare the progress of state governments in developing and using performance information, have advanced state performance budgeting efforts by setting the expectation that states have performance budgeting efforts in place and creating interstate competition to drive those efforts forward.

Performance Information Has Influenced Legislative Budget Deliberations in the States Examined

States' performance budgeting efforts have evolved over the last decade by increasing the supply of performance information and its infusion into executive budget formulation. We found that performance information has also influenced legislative budget deliberations in the states examined. Although a number of factors, including political choice, influence budget decisions, when legislators do use performance information they find specific types of performance information useful in performing different functions. They use outcome measures and performance evaluations in budget deliberations to identify potential impacts of a proposed policy change, make policy decisions that reduce costs while maintaining effectiveness, and make changes to improve program effectiveness. However, when determining funding levels and defining desired levels of service relative to funding, legislators rely most on workload and output

measures. None of this information, however, led to automatic budget decisions. Instead, it helped to inform budget deliberations by highlighting problems, supporting claims, or enriching the debate.

Legislators Sometimes Draw on Outcome Measures and Performance Evaluations in Budget Decision Making

Officials from most of the states examined were able to describe instances in which outcome measures and performance evaluations were useful in budget deliberations. Information about programmatic outcomes can help legislators discern the potential impacts of proposed policy changes. When presented convincingly, this information can even lead legislators to change previously established positions on policy proposals. In Arizona, for example, one executive branch official said that performance information was used in the fiscal year 2004–05 budget debate to prevent the elimination of a nearly \$10.8 million drug treatment program that supplies psychotropic drugs to the seriously mentally ill. The chairmen of both the House and Senate Appropriation Committees had supported elimination of this program. However, the program’s director was able to retain legislative support by describing how the 9,000 participants were benefiting from the program and the potential social and economic impacts of its termination. For example, without the program, many of its participants are at risk of becoming involved in illegal activities and entering hospitals or jails—costing the state as much as \$450 a day.

Legislators have also used outcome measures to change policy when the results showed that a program could be just as effective at lower cost. For example, a legislative official in Virginia said that legislators regularly use performance information published by the Virginia Criminal Sentencing Commission, a judicial branch agency, in making funding decisions for prisons, jails, and community-based alternatives to incarceration. This official provided a specific example in which performance information was key to a policy decision that affected the politically sensitive area of criminal sentencing guidelines. During the 2003 session, the General Assembly used the commission’s analysis of recidivism rates to increase the number of low-risk, nonviolent offenders who are recommended for diversion from jail under the sentencing guidelines, based on the commission’s finding that this step would not substantially affect the overall rate of recidivism. This policy change may lead to cost savings by reducing the need for future prison construction.

In addition, legislators used performance information to identify opportunities to improve program effectiveness. According to one state official, performance evaluations can be particularly useful to legislators in

assessing program effectiveness because they can provide greater insight into the impact of programs than performance measures alone, which are often inconclusive. This official also said performance evaluations provide context for performance measures and can help create viable recommendations for legislators to consider. In all of the states examined, oversight entities, such as state or legislative auditors, produce performance evaluation reports that serve as a source of performance information for legislators. Although the recommendations in these reports typically focus on nonfinancial operational improvements that can be made at the agency level, implementation of some of these recommendations can have a budgetary impact. In Maryland, for example, after several audits revealed performance issues, including instances of abuse and poor conditions within at least two juvenile corrections facilities, the General Assembly introduced legislation requiring the Department of Juvenile Services to develop a master facilities plan. This plan is to be based on a set of principles established in the legislation and should include outcome measures that are to be used to assess service delivery. This legislation also included a provision requiring the state to take control of one of the facilities from a third-party vendor, even though, according to the Maryland Department of Legislative Services, the costs associated with taking control were likely to be higher than they had been with the vendor.

Legislators Currently Use Workload and Output Measures More Often Than Other Types of Performance Information in Making Budget Decisions

Although most states were able to point to instances in which outcome measures and evaluations were useful in budget deliberations, state officials said that workload and output measures are currently more directly linked to budget decisions than other types of performance information. Workload and output measures lend themselves to the budget process because workload measures, in combination with cost per unit information, can be used to help develop appropriation levels and legislators can more easily relate output information to a funding level to help define or support a desired level of service.

In most of the states examined, we were told that legislators expect agencies to produce and present information about workload and output measures in their budget submissions and during budget hearings. Legislators sometimes use performance measures to determine how agencies' service levels would change in response to increases or decreases in funding. Legislators can also relate these measures to funding levels in a straightforward way. For example, legislative officials in Virginia said that information about the number of students in the education system is used

in combination with information about costs per pupil to help determine education appropriations.

Legislators also sometimes used performance information more directly to link appropriations to expected results by setting performance targets for service delivery. For example, during its 2003 special session, the Arizona legislature established a set of performance targets for the Child Protective Services (CPS) and tied portions of the CPS appropriation to those targets. The legislature appropriated nearly \$2 million in staffing salaries “to meet national staffing standards for child protective service caseloads,” and another approximately \$1.7 million in an effort “to fund a one hundred per cent investigation rate.”

Legislative involvement in target setting can be important in motivating agencies to perform better. For example, when legislators set targets that are higher than what agencies would establish on their own, it can push agencies to more closely scrutinize their operations and funding allocations in an effort to achieve those targets. Legislative officials told us that absent legislative scrutiny of performance targets, agencies may deflate them to look as if they are exceeding expectations.

During Periods of Fiscal Stress, States Supplemented Existing Tools with Priority-Setting and Efficiency Initiatives to Respond to Revenue Shortfalls

Since 2001, states have faced severely constrained budget conditions due to declining revenues and rising costs. In the past when revenues declined, states relied heavily on several tools or approaches to address shortfalls, such as across-the-board cuts, tapping rainy day funds, delaying expenditures, and in some cases increasing taxes and fees. However, one of the arguments for focusing on results is that in times of fiscal stress, performance information can help decision makers make more informed budgetary trade-offs, even if it cannot be expected to provide a single budgetary answer or replace considered judgment and political choice. In fact, one official reported that in periods of fiscal stress even agencies that perform well may receive significant cuts. During recent periods of fiscal stress in the states we visited, neither past tools and approaches nor information from performance measurement systems alone was sufficient to address actual or expected downturns in their fiscal conditions. In addition to using more traditional approaches, several of the states developed prioritization initiatives that consider performance information among other factors to frame trade-offs according to how programs contribute to achieving statewide goals. Some states also formed efficiency commissions that were tasked with identifying opportunities for cost savings by improving the structure and function of state government.

Several States Developed Statewide Prioritization Initiatives during Periods of Fiscal Stress

Although all of the states we visited continued to rely on available tools and approaches to address budgetary shortfalls, Maryland and Washington also developed new prioritization initiatives that consider performance among other factors to help make trade-offs between service provision and resource constraints. Virginia also developed an effort to align decision making and agency operations with long-term statewide priorities, but this effort was not developed specifically to address the state's fiscal stress. However, the impact or long-term viability of these states' initiatives cannot be assessed because they are either too new—as is the case in Washington—or not yet fully implemented. Washington's next budget cycle will provide an opportunity to assess whether their prioritization approach can be routinized and better adapted to its normal budget process. Maryland and Virginia have yet to fully implement their efforts. See section IV of appendixes III, V, and VI for more information on each state's prioritization initiative.

The prioritization approaches used by these states vary in language, formality, and structure, but the general premise is the same—identify several statewide goals and prioritize programs according to how critical they are to achieving these goals. For example, Washington's Priorities of Government (POG) initiative—which was designed to prioritize state government services and develop a budget reduction strategy when the state faced a potential budgetary shortfall of approximately \$2.4 billion for the 2003–05 biennial budget—categorizes all state programs and services into 11 results areas. A guidance team and 11 results teams that correspond with each of the results areas were developed to implement the POG process. The results teams were led by Office of Financial Management (OFM) budget or policy staff and consisted of six to eight subject-matter experts from executive branch agencies with knowledge and background in the particular results area. Each of the results teams was tasked with evaluating and “mapping” the factors that influence or drive the result that it wanted to achieve. Based on this map, they were asked to transcend agency silos to identify ways to better and more efficiently achieve the desired outcomes in their respective areas and recommend high-level purchase strategies to agencies to inform the development of their budget proposals. To develop their strategies, the teams used whatever information was available, including existing research and internal analyses, not just information from the existing performance measurement system. Ultimately, POG helped OFM to develop the 2003–05 executive budget proposal. Budget activities were ranked by contribution to the results, and a line was drawn at the dollar amount allocated to the result.

Activities below the line were listed in order to identify how changes in revenue might affect service provision.

According to Washington's OFM, the POG framework is meant to provide several benefits, including (1) helping to keep the focus on contribution to results—getting out of agency silos; (2) making performance information more relevant to budget choices; (3) facilitating thinking about trade-offs above and below the line and across results areas; and (4) helping to frame broad questions like, “Why does the line have to be drawn here?” One Washington legislator said that POG provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. POG allowed the governor to reframe the budget discussion by highlighting priorities and what would be funded in the governor's budget proposal rather than just showing what would be cut. Legislative officials said that the greatest contribution of POG was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.

One of the principal criticisms that officials in Washington expressed about POG was its lack of alignment and integration with formal planning, performance, and budgeting systems. Officials said that this limited the usefulness of POG because, in the end, the budget process was conducted in much the same way as it had been in past years. However, POG was created late in the budget process for the 2003–05 biennium, and Washington is attempting to address this issue in the next budget cycle. In developing their budget requests for the 2005–07 biennium, agencies will submit both performance measures and budget requests at the activity level to more clearly link expected performance to the budget. In addition, agencies are expected to submit performance measures that link budget activities to the POG results areas. According to the Joint Legislative Audit and Review Committee, these and other efforts to better integrate POG into the 2005-07 budget development process will make it easier for decision makers to use performance measures in budget deliberations.

The other states' initiatives are not yet fully implemented and thus cannot currently provide detailed lessons learned. Maryland's initiative—called Strategic Budgeting—will be used to develop the fiscal year 2006 budget, for which the state has projected a significant shortfall. To implement Strategic Budgeting, Maryland's Department of Budget and Management has asked agencies to prioritize their fiscal year 2006 funding requests according to how they address key outcomes related to the administration's five pillars—Education, Health and the Environment,

Public Safety, Commerce, and Fiscal Responsibility—as well as agency and program missions. This initiative is expected to help decision makers understand the trade-offs of funding one program over another within and across multiple agencies and the impact those trade-offs can have on achieving goals. Virginia’s prioritization initiative—the Council on Virginia’s Future—is a long-term restructuring effort that is expected to better integrate long-term goals and performance information into the budget decision-making process. Specifically, the council is charged by legislation with developing a road map for Virginia’s future that includes long-term goals and objectives as well as key progress indicators to help direct decision making and guide agency operations in delivering services. It is intended to identify priority issues for the long term, create an environment for improved policy and budget decision making, and improve citizen knowledge and understanding. According to one legislative official, the council has the potential to significantly improve the state’s budget process by shifting funding priorities toward those efforts that support the achievement of broader strategies. This official said that effective and consistent leadership would be key to sustaining this effort because of the council’s broad mandate and extensive time line for implementation.

Several of the States Examined also Developed Efficiency Commissions during Fiscal Stress to Supplement Existing Tools

During the recent period of fiscal stress that began in 2001, the governors of Arizona, Maryland, and Virginia formed commissions tasked with improving the efficiency and effectiveness of state government. There was variation in each commission’s approach, but all of them were intended to help improve state services. Maryland’s and Virginia’s commissions were short term, existing a year or less, and both developed a broad range of recommendations. Arizona’s Efficiency Review is a long-term effort that attempts to identify crosscutting strategic issues affecting many agencies and developing enterprisewide approaches for delivering services. Arizona’s review also solicits, prioritizes, and helps implement agency-specific efficiency ideas generated from state employees.

All three commissions examined a wide range of issues to identify redundant and ineffective services. Officials in each of these states said that the commissions’ efforts did result in some improvements, most of which were managerial or operational. For example, Arizona’s Efficiency Review found that multiple departments in the state were offering their employees many of the same or similar types of training courses. In response, some of the duplicative courses have been consolidated, thus reducing the overall training costs in the state. Virginia’s commission recommended that the state establish an enterprisewide approach to

acquiring technology services. This recommendation was implemented by establishing the Virginia Information Technologies Agency.

According to state officials, the extent to which the commissions' efforts assisted these states in addressing budget shortfalls was somewhat limited because most recommendations were not implemented. In Maryland, for example, state officials said the commission generated 54 recommendations, but only a few of these have been implemented. An official in this state attributed the low rate of implementation to the fact that the efforts lacked credibility with decision makers and presented few recommendations that were politically feasible to enact. In Virginia, an official said that decision makers had little trust and support for that state's commission because of a lack of transparency in the commission's methodology for developing recommendations.

States Face Challenges but Continue to Demonstrate a Commitment to Performance Budgeting Efforts

The states we examined face a range of challenges in developing and presenting credible and useful performance information. However, the states have demonstrated a commitment to performance budgeting efforts by continuing to refine their approaches in response to those challenges.

Officials in some states said that concerns regarding the reliability of agency-reported performance measures detract from the credibility of such performance information, causing decision makers to distrust and sometimes discount it. Although audits of agency-reported performance information can help address this issue, the amount of time and effort needed to exhaustively review the measures reported by all state agencies may be prohibitive. However, state auditors or legislative oversight entities in all of the states we visited periodically review selected agency performance measures. The Texas State Auditor's Office, for example, conducts periodic reviews to determine whether selected agencies have adequate control systems for the collection of performance measures and whether these measures are accurately reported.¹²

State officials also reported that a lack of consensus by stakeholders on the selection of measures that are reported detracts from the credibility of performance information. To address this issue, several states are taking

¹² In its last review of performance measures, which was done in 2002, the Texas State Auditor's Office found serious deficiencies in the collection, calculation, and reporting of key measures in 12 of the 14 entities that were audited.

steps to more actively involve budget and planning staff in assisting agencies with identifying and selecting those performance measures that will be most helpful to decision makers. This involvement can help improve the credibility of performance information by ensuring agencies present a balanced picture of performance and do not simply choose measures that highlight good performance. In addition, at least one state has attempted to broaden buy-in. The Council on Virginia's Future involves stakeholders from both the executive and legislative branches as well as the public. According to one legislative official, any performance management initiative has to have a certain level of transparency and agreement among all interested parties, including the legislature, the executive branch, citizens, and community leaders. According to this official, a past performance measurement initiative failed because it was executive driven, with all measures selected by the state's executive budget and planning office with little buy-in from other stakeholders.

Another challenge that officials in every state we visited described was effectively using the large quantities of performance information generated by state agencies. According to some of these officials, decision makers are overwhelmed with the quantity of information available to them, and they find it difficult to locate what would be most useful in addressing their particular needs. However, as they have become more familiar with performance information over the years, state officials said that legislative and executive budget and planning staff have become more effective at analyzing performance information, distilling the most useful information, and presenting it to decision makers. To help inform budget deliberations in Maryland, for example, staff from the Department of Legislative Services develop and provide legislators with program summaries that outline recent budget and performance trends. Several states we visited also described efforts to reduce the number of performance measures that are collected and reported. These states are attempting to get agencies to focus on reporting only a key set of measures that will be most relevant and useful to decision makers when making budget decisions. Texas, for example, continually attempts to reduce the number of measures that are reported in its budget document. Texas has been collecting performance information for over 10 years and, over time, has been able to reduce the total number of measures reported by state agencies. According to a state official, Texas used to report over 3,000 key measures in its biennial budget document, and an additional 8,000 nonkey measures were maintained in the state's performance information system. Currently, it has reduced these numbers to 2,100 key measures and 4,000 nonkey measures. Texas officials said that they still have too many measures but that they continue to try to

find ways to reduce the quantity of measures that are reported to make the system more manageable and useful.

One of the biggest challenges state officials described is aligning and integrating planning and budget structures in a way that meets the needs of all the stakeholders involved in the process. Efforts to align and integrate budget structures involve more than structural or technical changes. They also involve important trade-offs among different perspectives, including those of legislators, and different entities and levels of executive branch management.¹³ Three of the states we examined have undertaken efforts to better align and integrate their budget and planning structures, but only Texas has already fully implemented this effort. However, Texas's experience illustrates that structural alignment and integration is not a panacea. In Texas, funds are appropriated by agency goals and strategies, which are defined in an agency's strategic plan. Strategies set forth actions to be taken by an agency to achieve its goals. There may be multiple strategies under one goal. Strategies in larger agencies can be as large as \$500 million and contain multiple programs, whereas strategies in very small agencies can be as small as a few thousand dollars. Officials in Texas expressed frustration with the existing structure because they have found it difficult to identify specific cost-accounting line items, particularly when the state needed to make spending cuts. When the state faced a budgetary shortfall of \$1.8 billion in fiscal year 2003, prior to the development of the 2004–06 biennial budget, the Legislative Budget Board created greater transparency in agency budget requests by asking agencies to identify and rank essential services—referred to as building blocks—up to an identified spending limit. An executive branch official said the building blocks approach was useful because it provided a level of program and funding visibility that is lacking in its current budget format, which lays out appropriations according to strategies within agencies as opposed to programs or line items. Although officials said the building blocks approach would likely be helpful in developing future budgets, they said that the state does not plan to make immediate wholesale changes to the way the budget is currently presented in the General Appropriation Act. However, they also said that the legislative and executive branches continue to work together to adjust the budget structure to better meet stakeholder needs.

¹³ For more information about federal efforts to align and integrate budget and performance information, see [GAO-05-117SP](#).

Implications of State Performance Budgeting Experiences for the Federal Government

Many members of our panel were encouraged that performance information has influenced legislative budget decisions in the states we examined. Some saw this as a promising bellwether of things to come at the federal level but advised that developing demand for performance information in Congress will take more time than it has in the states because of the complexity of congressional processes and committee structures. We have previously reported that challenges confronting federal agencies in developing performance information that is useful to congressional decision makers will take time to resolve.¹⁴ Several panelists noted that unlike many states, the federal government separates its appropriations and authorization functions, which they viewed as a significant difference in governance. Based on the states' experiences, several panelists thought that structural reform of congressional committees may contribute to increased legislative use of performance information at the federal level. Panelists also noted that at the federal level, research institutions, trade associations, and "good government" organizations have a significant role in influencing policy. Several panelists suggested that such organizations should be involved in promoting legislative use of performance information.

Despite their general optimism about the potential for performance information to inform decision making at the federal level, the panelists cautioned against having unrealistic expectations for legislative use. There was general agreement that it is a mistake to measure success in performance budgeting only by appropriators' use of performance information. In 1997, we noted that success or failure should not be judged on whether contentious budget and other policy issues are fully resolved; rather, it will likely turn on the extent to which the information produced helps Congress and the executive branch make informed policy decisions and improve program management.¹⁵ Moreover, panelists said that this information was just as important for authorization, budget, and government oversight committees and that authorization committees may actually be the best place to begin cultivating demand. Most of the panelists agreed that even in the best case, budgeting will be performance-informed not performance-based because a number of factors affect

¹⁴ GAO, *The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven*, [GAO/GGD-97-109](#) (Washington, D.C.: June 1997), pp. 74-5.

¹⁵ [GAO/GGD-97-109](#), p. 90.

decision making, not the least of which is political choice.¹⁶ One panelist noted that the greatest impact of our state findings could be the implications they may have for intergovernmental relations. As states continue to increase their use of performance information in making budget decisions, he believes the federal government could arguably consider giving states more authority to make decisions about how to spend federal dollars.

The panelists pointed to a number of long-standing challenges that, if addressed, could promote legislative use of performance information. A number of these challenges have been identified in our work over the past decade.¹⁷ Many were also similar to those we found in the states. One panelist attributed the current lack of legislative demand to perceptions that performance information (1) is not timely and reliable, (2) displaces information that appropriators and their staff value, and (3) is viewed as representing “the administration’s” perspective. Pointing to the important roles that legislative and audit staff have played in legislators’ use of performance information in the states, several panelists suggested that greater involvement by federal legislative branch entities in analyzing and presenting performance information could lead to increased trust and use of the information. Consistent with a challenge we have cited since 1992, another panelist suggested that legislators are not using performance information because agencies have not provided them with reliable cost data. To help address this, he said, and we have also suggested,¹⁸ that in accordance with the CFO Act and subsequent related legislation, agencies should develop financial management systems that integrate budget, performance, and cost information.¹⁹ Perhaps most important, several

¹⁶ Dr. Philip Joyce, Associate Professor of Public Policy and Public Administration at George Washington University, coined the term “performance-informed budgeting” to better characterize the role of performance information in the budget process.

¹⁷ We have previously highlighted a number of these challenges and provided guidance on approaches for addressing them. See, for example, [GAO-04-38](#); *Results-Oriented Budget Practices in Federal Agencies*, [GAO-01-1084SP](#) (Washington, D.C.: August 2001); [GAO/GGD-97-109](#); and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

¹⁸ See [GAO/GGD-97-109](#), p. 93.

¹⁹ For information about federal agencies’ efforts to link performance, budget, and financial information, see GAO, *Managing for Results: Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, [GAO-02-236](#) (Washington, D.C.: Jan. 4, 2002).

panelists said that legislators need an incentive to use performance information and that as budget constraints become more difficult, the federal government—like the states—may well find ways to use performance information in considering budgetary trade-offs.

To make performance information useful in addressing federal fiscal challenges, most of the panelists agreed that the states' experiences demonstrate that the federal government will need to transcend agency boundaries and take a more crosscutting view of performance. However, there was no consensus on a model or method for doing so.²⁰ Several panelists felt that rather than develop a new process for prioritizing government activities, the federal government should work within existing systems and prioritization processes. Some expressed concern that developing an effort similar to the state prioritization initiatives would detract from efforts to further implement existing initiatives, such as GPRA.²¹ Another panelist thought continued attention to existing initiatives that examine performance at a micro level might eventually lead to macro reforms, such as prioritization. Panelists also said that decision makers already have means to lay out their priorities through the President's Budget and the Congressional Budget Resolution.²² However, several panelists noted that the budget resolution process has not been effective for several years. One panelist said that Congress should use the authorizations and appropriations processes to prioritize, but others said that the authorizations process does not receive sufficient attention—about 40 percent of current programs are not authorized—and the appropriations committees are not structured to make crosscutting trade-offs.

In contrast to those who thought the federal government should work within existing processes to prioritize programs and make budgetary trade-offs, some thought that extraordinary measures would be necessary

²⁰ We have identified several tools and approaches that may assist the federal government in making crosscutting trade-offs to address fiscal challenges. For information, see [GAO-05-325SP](#), pp. 77-90.

²¹ For more information on federal efforts to implement GPRA, see [GAO-04-38](#).

²² In the past, we have also suggested that Congress could develop a performance resolution tied to the budget resolution to establish its oversight priorities. For more details see [GAO-05-325SP](#), pp. 86-7 and *Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus*, [GAO/T-AIMD-00-73](#) (Washington, D.C.: Feb. 1, 2000).

to effectively use performance information in addressing fiscal stress. One panelist advocated an initiative—much like the Council on Virginia’s Future—that establishes governmentwide priorities, relates indicators of progress to the priorities, and requires agencies to tie their individual plans and performance measures to those priorities and indicators.²³ Others agreed that there may be benefits to this approach, but thought that unlike the council, a federal initiative should be housed in either the executive or legislative branch (or both, but not as one effort) and that it should not involve participants from outside the government. Another panelist suggested that the federal government could develop a process—similar to the federal Base Realignment and Closure (BRAC) process—that would establish a commission to develop governmentwide priorities, analyze performance information, and develop a set of funding recommendations to be considered in its entirety by Congress.²⁴ Several panelists thought that such a model would help to make politically sensitive funding trade-offs more palatable.

Observations

Performance language and tools have become part of the culture of governance. Ten years ago, we concluded that performance information had not reached the point where it was regarded as credible for resource decision making in states that were considered leaders at the time. Ten years later, performance measurement and reporting of information in state budget presentations has become the expectation rather than the exception in the states we visited. Unlike 10 years ago, when it looked as if statewide performance budgeting initiatives would change with each administration, the states we visited have not only sustained but also institutionalized their systems and most are now taking steps to refine

²³ Our work examining indicators systems developed by individuals and institutions at the local, state, and regional levels across the United States—as well as in some other nations and the European Union—revealed that indicators systems have shown evidence of positive effects, such as improving decision making, enhancing collaborations on issues, and increasing the availability of knowledge. For more information on these indicator systems, see GAO, *Informing Our Nation: Improving How to Understand and Assess the USA’s Position and Progress*, [GAO-05-1](#) (Washington, D.C.: Nov. 10, 2004). For more information on efforts to develop a national key indicators system in the United States, See GAO, *Forum on Key National Indicators: Assessing the Nation’s Position and Progress*, [GAO-03-672SP](#) (Washington, D.C.: May 2003).

²⁴ The BRAC process uses a nine-member commission appointed by the President and confirmed by the Senate to develop a package of recommendations that is considered, in its entirety, by the President and Congress.

them in response to ongoing challenges. There is a similar trend at the federal level. Our recent retrospective of GPRA and its effect on federal programs revealed that GPRA has laid a solid foundation for results-oriented agency planning, measurement, and reporting and increasingly has become a part of agencies' cultures.²⁵ In addition, OMB, through its development and use of PART, has more explicitly infused performance information into the budget formulation process and increased the attention paid to evaluation and performance information.

Over the intervening years, as data collections and processes have become more robust in states' executive branches, greater attention has been given to increasing legislative demand. An important element to building demand has been the role that states' legislative staff have played in analyzing performance information and infusing it into the structures and processes used by legislators. States have also taken steps to increase communication both within and across branches of government to broaden buy-in on what is measured and how. To some degree, these efforts have paid off. In the states we visited, we found that legislators are interested in and use performance information to meet their needs, primarily to define or diagnose a problem or to support a position or decision. Similarly, congressional committees have used information generated by GPRA for reauthorization hearings and increasingly public laws and committee reports show references to GPRA and PART provisions, but our expert panel participants indicated that more could be done to cultivate higher demand for and use of performance information, including in congressional budget deliberations. As the federal government moves forward with implementation of new or existing initiatives, the states' experiences suggest that increased use of performance in decision making is facilitated when the goals and measures are supported by a diverse group of stakeholders.

Under the crucible of fiscal stress, several states went beyond existing performance and budgeting frameworks. Faced with the need to reexamine existing programs to address daunting fiscal shortfalls, states did not rely solely on traditional budget-cutting strategies, such as across-the-board reductions. They recast the decision-making framework itself by creating new outcome-oriented frameworks to help set priorities and look across agencies and programs in making budgetary trade-offs. Performance information helped states understand the relationship among programs and

²⁵ [GAO-04-38](#), pp. 6-7.

their relative contributions to outcome priorities. These state experiences illustrate how performance information can potentially help refocus the nature of the trade-offs and discussions in the decision-making process itself.

The federal government is also facing large fiscal shortfalls—both in the near and the long term. As we have recently reported, the size of the fiscal gaps will prompt the need to reexamine what the federal government should do, how it does business, and how it should be financed.²⁶ Like the states, a more outcome-oriented approach may assist the federal government in rethinking how its existing base of programs addresses these national goals. We previously have suggested that fully developing the governmentwide performance plan provided for under GPRA would help us better focus on the relative contribution of portfolios of programs cutting across agencies to broader outcomes or goals.²⁷ Congress could also consider focusing its oversight and review on these important overarching goals and missions by considering adopting a performance agenda of its own. One approach we have suggested is a performance resolution that could be included as part of the annual budget resolution to help target congressional activity on key program areas or performance problems.²⁸ Regardless of the specific combination of reexamination approaches adopted, the ultimate success of this process will depend on several important overarching conditions, including sustained leadership to champion changes and reforms through the many stages of the policy process, broad-based input by a wide range of stakeholders, reliable data and credible analysis from a broad range of sources, and clear and transparent processes for engaging the broader public in the debate over the recommended changes.

²⁶ See [GAO-05-325SP](#).

²⁷ See [GAO-05-325SP](#); *Results-Oriented Government: Using GPRA to Address 21st Century Challenges*, [GAO-03-1166T](#) (Washington, D.C.: Sept. 18, 2003); *Results-Oriented Government: Shaping the Government for the 21st Century*, [GAO-03-1168T](#) (Washington, D.C.: Sept. 17, 2003); *Performance Budgeting: Opportunities and Challenges*, [GAO-02-1106T](#) (Washington, D.C.: Sept. 19, 2002); and *Office of Management and Budget: Future Challenges to Management*, [GAO/T-GGD/AIMD-00-141](#) (Washington, D.C.: Apr. 7, 2000).

²⁸ See [GAO-05-325SP](#) and [GAO/T-AIMD-00-73](#).

As agreed with your staff, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. At that time, we will provide copies to other interested parties and make additional copies available upon request. This report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9573 or posnerp@gao.gov or Denise Fantone at (202) 512-4997 or fantoned@gao.gov. Additional key contributors to this report are listed in appendix VII.

Sincerely yours,

A handwritten signature in black ink that reads "Paul L. Posner". The signature is written in a cursive style with a large initial "P".

Paul L. Posner
Managing Director
Federal Budget Issues, Strategic Issues

Objectives, Scope, and Methodology

The objectives of this report were to describe for selected states

1. whether and, if so, how legislators are using performance information in budget deliberations;
2. whether performance information helped to inform choices during fiscal stress and, if so, how;
3. challenges states face in implementing and sustaining performance budgeting efforts; and
4. the potential for state experiences to inform initiatives to improve the use of performance information in budget deliberations at the federal level.

In order to address the first three objectives, we sought to study states that had established histories with performance budgeting, including executive or legislative requirements, and represented a variety of approaches to implementing those efforts. We also sought states that had demonstrated legislative interest in performance budgeting by involving legislative staff or offices in analyzing and using performance information, as well as states that in addition to having formal performance measurement systems, had other means of generating and analyzing performance information, such as systematic reviews or program analyses or special commissions, like those for efficiency reviews.

To identify states with these characteristics, we asked knowledgeable academics from the performance management and budgeting fields, as well as relevant officials at the National Conference of State Legislatures (NCSL), the National Association of State Budget Officers (NASBO), the Government Accounting Standards Board (GASB), and the Urban Institute for recommendations on states to consider including in our study. We also identified and reviewed relevant literature, including studies, reports, and state government Web sites. Based on our research and analysis, as well as the input from academics, NCSL, NASBO, GASB, and the Urban Institute, we selected a preliminary group of nine states for more in-depth consideration. In each of these states, we conducted a series of teleconference interviews with senior budget officials, budget and policy analysts, or both in the legislative and executive branches. From the information gathered in these interviews, we determined that five states—

Arizona, Maryland, Texas, Virginia, and Washington—met our selection criteria and selected all five of these states for site visits.

In each of the states we visited, we conducted semistructured interviews of central budget and planning staff; their legislative counterparts; senior officials from the governors' offices; staff members from executive and legislative oversight entities that analyze and provide performance information to decision makers, such as audit and sunset review staff; and—in some instances—members of the general assembly to obtain a range of perspectives on the relationship between performance information and the budgeting process. In these interviews, we asked about the role of that office in the budget process and decision making, the availability and use of performance information, perceptions of the quality and usefulness of the information, and use of performance information during fiscal stress. We also collected documentary evidence from these officials to supplement testimonial evidence, where available. We analyzed and summarized the information collected from the selected states in an effort to identify common themes and practices in performance budgeting at the state government level.

Because the states selected are not a representative sample, our findings and conclusions are not generalizable to the experiences of other states that have engaged in performance budgeting efforts. Because it was not directly relevant to our objectives, we did not independently evaluate the relevancy, reliability, or timeliness of states' performance information, but instead relied upon state auditor reviews for such information, as well as state officials' perspectives on these issues. Similarly, we did not independently verify the quality assurance processes used by states to monitor the establishment and review of performance measures, but instead relied upon testimonial evidence and state-authored documentation of these processes.

To examine ways in which these state experiences could potentially be used to improve the use of performance information in budget deliberations at the federal level, we hosted an expert roundtable discussion where participants discussed the potential relevancy and applicability to the federal government of the reported state experiences with performance budgeting. To identify potential participants with recognized expertise in performance-related budgeting practices at the federal level, we relied on sources we had used in state selection, as well as our experience in this area, to compile a list of individuals with diverse backgrounds in the field. From this pool of potential participants, we

selected six individuals who represented a cross section of knowledge and experiences from academia and government—five of whom accepted our invitation to participate on the panel.

Each state was given an opportunity to review and confirm statements made and examples used about its experiences. Any technical or clarifying comments that states provided have been incorporated where appropriate. We conducted our work from February 2004 through January 2005 in accordance with generally accepted government auditing standards.

Overview of Arizona's Budget Process and Performance-Related Requirements, Processes, and Initiatives

Section I: Overview of Budget Process and Structure

Table 2: Summary of Arizona's Budget Process

Frequency of budget cycle	Frequency of legislative cycle	Budget guidelines sent to agencies	Agency requests submitted to governor	Agency hearings held	Governor submits budget to legislature	Legislature adopts budget	Fiscal year begins
Annual/biennial	Annual	June	September	January-February	January	January-April	July

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

In 1997, Arizona enacted legislation that established a biennial budgeting process.¹ However, more recent legislation,² passed in 2002, requires 16 of the state's larger agencies to submit annual budgets and allows the governor to request budget estimates more often than every 2 years from all state agencies. Despite the bifurcated budget cycle, the budget process time line is the same for all agencies, regardless of whether they function on an annual or biennial cycle. However, biennial agencies have fewer reporting requirements midbiennium.

Arizona's budget process begins on or before June 1, when the Office of Strategic Planning and Budget (OSPB), an executive branch agency, issues instructions to guide agencies in preparing their budget requests. Agency requests are submitted to OSPB and its legislative counterpart, the Joint Legislative Budget Committee (JLBC), by September 1, unless an agency was granted an extension from OSPB. From September through January, OSPB reviews agency budget requests and prepares the governor's Executive Budget Recommendation, which must be submitted to the legislature in early January. JLBC staff also review agency requests and the governor's budget recommendation to prepare an alternative budget for the legislature. Legislative review and deliberation of the two budgets begins

¹ 1997 Ariz. Sess. Laws ch. 210, §7.

² 2002 Ariz. Sess. Laws ch. 210, §2.

shortly after the regular session convenes. Both the Senate and House appropriation committees hold public hearings. The committees may adopt the executive budget, the JLBC staff budget, a budget containing elements of both budgets, or an entirely new budget. Once adopted, the bill is then presented to the governor for approval. The governor holds the right to both a full veto and line-item veto. The legislature may override any veto with a two-thirds vote.

Arizona is transitioning to a program budgeting structure. In 1997, the state passed legislation that established program budgeting to allow the format of the General Appropriation Act to be converted from line items of expenditure to a list of programs representing the most important activities of each agency.³ The legislation allowed for a phased approach to implementation. By fiscal year 2006, all agencies will be required to submit their requests using their program list structure. When Arizona completes the transition to program-based budgeting, it expects to align the planning and budgeting functions so that performance and budget information can be reported in the same system.

Section II: Overview of Performance and Accountability Requirements

According to JLBC, Arizona passed legislation in 1993 to establish a program review process for state government. This law required each agency to develop a strategic plan that included a mission statement, goals, objectives, and performance measures. It also required OSPB to develop a master list of state agency programs and created a 4-year pilot program to complete 75 program area reviews (PAR). Under these reviews, agencies completed self-assessments of designated programs. OSPB and JLBC staff analyzed the self-assessments to develop findings on the efficiency and effectiveness of the programs' operations and then made recommendations on whether to retain, eliminate, or modify the programs.

In 1995, Arizona amended the PAR process by updating the list of PAR programs.⁴ This legislation also requires agencies to submit 3-year strategic plans for each program and subprogram and performance measures in both agency and program operating plans. OSPB publishes this information in the *Master List of State Government Programs*. The 1997 legislation

³ 1997 Ariz. Sess. Laws ch. 210, §14.

⁴ 1995 Ariz. Sess. Laws ch. 283.

Appendix II
Overview of Arizona's Budget Process and
Performance-Related Requirements,
Processes, and Initiatives

further amended the PAR process to make it permanent and to require that PARs be conducted in even-numbered years (the second year of the 2-year legislative term) to avoid legislator and staff time conflicts with the budget. The legislation also required the speaker of the House of Representatives and the president of the Senate to appoint sufficient joint PAR committees to evaluate the OSPB and JLBC staff findings. Each committee was required to have three appointed private citizens, in addition to legislative members representing both parties, and to hold at least one public hearing. In 1999, the PAR process was replaced with the strategic program area review (SPAR) process.⁵ SPAR is similar to PAR in that it is based on OSPB and JLBC findings derived, in part, from agency-authored self-assessments and culminates in the decision to retain, eliminate, or modify a program area. However, SPARs focus on program areas addressed by multiple agencies.

Legislation passed in 2002 further changed the planning process by distinguishing between long-range planning (strategic) and short-range planning (operational) tied to budget cycles and performance measures.⁶ This legislation requires each of the 16 annual budget agencies to develop and post on its Web site a 5-year strategic plan for the entire agency and to update this plan annually as necessary. In addition, this legislation modified the requirements for agency-level operating plans to require agencies to submit mission statements, descriptions, and strategic issues in lieu of goals and measures, which are no longer required at the agency level.

⁵ 1999 Ariz. Sess. Laws ch. 210.

⁶ 2002 Ariz. Sess. Laws ch. 210 §10.

Section III: Overview of Performance Measurement System and Processes

Table 3: Summary of Arizona's Performance Budgeting Process

Performance budgeting legislation?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Yes	Program	Annual program operating plans	Yes	Appropriation act

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

In Arizona, agencies submit performance information to OSPB at the program level through program operating plans that contain mission statements, descriptions, goals, performance measures, and budgetary data. Agencies also develop and annually submit to OSPB and JLBC agencywide operating plans, which are to contain mission statements, descriptions, and strategic issues. In addition, annual budget agencies are required to annually submit 5-year strategic plans that must contain strategic issues, mission statements, descriptions, goals, strategies, and resource assumptions.

Agencies are given some latitude in how they define both programs and the measures they use in tracking the performance of those programs. However, once OSPB concurs with the program structures, changes cannot be made without its consent and JLBC staff consultation. Similarly, once OSPB and an agency agree to a set of key measures for each of these programs, the agency cannot change them without OSPB's consent. Arizona does not have a formal process for validating agency-reported performance information. However, some agency performance audits conducted by the Arizona Office of the Auditor General (OAG) include an examination of the adequacy of agency-reported goals and performance measures. As appropriate, the auditor general will recommend changes to the performance measures that agencies use to improve their quality and relevance.

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Every 2 years, OSPB compiles the program operating plan submissions into the *Master List of State Government Programs*. This master list is meant to provide decision makers and citizens with one complete document for tracking state program budgets and recent and expected performance. OSPB also uses the program performance information to develop the executive budget, which includes recommended funding levels and recent and expected performance goals based on funding. Figure 1 provides an example of how performance information is presented in the governor's executive budget.

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Figure 1: Example of Performance Information Presented in Arizona's Executive Budget

Arizona Commission on the Arts					Executive Recommendations						
Mission: To enhance the artistic development of all Arizona communities, arts organizations, and artists through innovative partnerships and stewardship of public funds.					Standard Adjustments						
Description The Arizona Commission on the Arts' (ACA) vision is an Arizona where all citizens experience the arts as integral to their lives. The Commission's knowledge and experience equips it to take a leadership role in the formation of partnerships from the public and private sectors, the arts community, and academia to make Arizona a richer, more stimulating place to live, work, and operate a business. The 15 Governor-appointed Commissioners and agency staff work in key areas to serve communities, arts organizations, artists, and schools statewide. 1) Convening/Facilitating -- the gathering of arts professionals, educators, artists, volunteers, and the public in formal conferences and workshops and grassroots community forums; 2) Information/Referral -- serving as a nexus of information on local, state, regional, and national information, resources, and trends in the arts; 3) Professional/Staff Assistance -- the provision of professional consultations and expert staff technical assistance in artistic, administrative, and educational areas; 4) Research -- responding to constituent requests, providing referrals and proactively making available current research and findings; 5) Technology -- increasing and enhancing the use of technology and electronic communication to increase access to all Commission services and programs; and 6) Funding -- providing grants to communities, arts organizations, schools, and artists statewide which increase access to high-quality arts experiences for all Arizona citizens. The Arizona Commission on the Arts uses appropriated funds in the Community Services Projects line-item, the Arizona Arts Trust Fund, and the income from Arizona ArtShare to support these statewide endeavors. Arizona ArtShare (the arts endowment) appropriated principal (not expended by the Commission) is documented in the General Funds line below.					<u>FY 2004</u>		<u>FY 2005</u>				
					ERE Standard Adjustment		9.4		9.5		
					General Fund		9.4		9.5		
					Risk Standard Adjustment		0.7		0.7		
					General Fund		0.7		0.7		
					Performance Measures						
					<u>FY 2002</u>		<u>FY 2003</u>		<u>FY 2004</u>		<u>FY 2005</u>
					Actual		Expected		Expected		Expected
Number community-driven project applications received/number funded.					632/557		589/535		600/530		610/540
Individuals benefiting from programs sponsored by agency (in thousands).					8,500		8,500		8,500		8,500
Constituent satisfaction ratings (0-8 scale).					7.5		7.5		7.5		7.5
The cumulative contributions to Arizona ArtShare increase in both non-designated funds and contributions to arts organization endowments (in thousands).					24,000.0		25,000.0		25,000.0		25,000.0
					Administrative Costs						
					<u>FY 2004</u>		<u>FY 2005</u>				
Administrative Costs					342.5		342.5				
Agency Request					5,437.6		5,437.6				
Administrative Cost Percentage					6.30%		6.30%				
					<i>The Executive recommends a lump-sum appropriation to the agency with special line items.</i>						
Agency Summary											
<u>Program/Cost Center</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>							
	Actual	Appropriation	Exec Rec	Exec Rec							
Arts Support	2,372.2	2,305.6	2,315.7	2,315.8							
Lump Sum Reductions	0.0	(232.3)	(232.3)	(232.3)							
Agency Total	2,372.2	2,073.3	2,083.4	2,083.5							

Source: State of Arizona.

Note: Information from Arizona's fiscal year 2003-05 executive budget.

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In addition to publicly reporting program performance measures through the *Master List of State Government Programs* and the executive budget proposal, Arizona reports performance information in the General Appropriation Act, which contains funding recommendations along with performance targets for selected measures. Figure 2 provides an example of how performance information is presented in the Arizona General Appropriation Act.

Figure 2: Example of Performance Information Presented in Arizona's General Appropriation Act

Sec. 6. ARIZONA COMMISSION ON THE ARTS		2004-05
FTE positions		11.5
Operating lump sum appropriation	\$	536,900
Community service projects		1,263,100
Arts endowment fund		<u>2,000,000</u>
Total appropriation - Arizona commission on the arts	\$	3,800,000
Fund sources:		
State general fund	\$	3,800,000
Performance measures:		
Audiences reached by programs sponsored by agency		8,500,000
Number of grants awarded		560
Cumulative private funds raised to match state arts endowment fund	\$	26,700,000
Customer satisfaction rating (Scale 1-8)		7.5
Administration as a per cent of total cost		2.2

Source: State of Arizona.

Note: Information from Arizona's fiscal year 2004-05 General Appropriation Act.

Another aspect of Arizona's performance measurement process is the SPAR process. Through SPARs, JLBC and OSPB assess the performance of state government programs and determine whether they are achieving the desired results. The SPARs are a permanent part of the biennial budget process and result in decisions to retain, eliminate, or modify particular programs. The SPAR process undertakes crosscutting performance reviews of government services that span several programs and agencies. In 2001, the SPAR process produced three reports examining state funding

assistance provided to counties, state special education programs, and children's case management services. Because of resource constraints during the recent period of fiscal stress, the SPAR process has been suspended since 2002. However, officials from both OSPB and JLBC expect to reinstate SPARs as part of future budget processes.

Arizona also has a sunset review process through which existing state agencies are reviewed for potential elimination.⁷ Sunset processes work by setting a date on which an agency will be abolished unless legislation is passed to continue its functions. The OAG, which is responsible for coordinating, and in many cases conducting, the state's sunset reviews, provides the Joint Legislative Audit Committee (JLAC) with a list of agencies scheduled for termination in the upcoming biennium. JLAC decides which agencies will undergo sunset reviews by the auditor general and which agencies will be reviewed by the committees with jurisdiction in the legislature. At least one public hearing is held to discuss the agency or program under review. When the reviews are complete, the OAG makes recommendations in a public report and presents its findings and recommendations to the committees in the legislature, which then consider a number of factors in deciding whether to recommend to the full legislature that an agency be continued, eliminated, or modified.

Section IV: **Overview of Other** **Performance-Related** **Initiatives**

In January 2003, Governor Janet Napolitano established an Efficiency Review program and team to improve the performance and efficiency of Arizona state government. The review attempts to identify ways for agencies, and the government as a whole, to reduce costs, cut bureaucracy, eliminate duplication, and improve customer service using a two-pronged approach: (1) identify individual agency cost saving and cost avoidance opportunities and (2) develop crosscutting, statewide projects that will generate additional savings.

The Efficiency Review team developed recommendations in a number of areas. The recommendations ranged from changing agency travel and training policies to ensuring more efficient and effective use of electronic resources. The Efficiency Review team examined several agencies individually to identify areas for potential savings. Specifically, it reviewed and developed a number of recommendations for the Arizona Departments

⁷ A.R.S. §§41-2951-41-2958.

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of Health Services, Juvenile Corrections, Public Safety, Transportation, and Game and Fish, as well as the Health Care Cost Containment System. The Efficiency Review team also developed recommendations for crosscutting, statewide projects to generate cost savings.

Overview of Maryland's Budget Process and Performance-Related Requirements, Processes, and Initiatives

Section I: Overview of Budget Process and Structure

Table 4: Summary of Maryland's Budget Process

Frequency of budget cycle	Frequency of legislative cycle	Budget guidelines sent to agencies	Agency requests submitted to governor	Agency hearings held	Governor submits budget to legislature	Legislature adopts budget	Fiscal year begins
Annual	Annual	June	August	October-November	January	April	July

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

Maryland operates on annual budget and legislative cycles. The Department of Budget and Management (DBM) issues budget instructions to agencies in June. Agencies then develop their budget requests and submit them to DBM for review by August 31. The governor reviews DBM's recommended budget and submits the executive budget to the General Assembly in January. From January through April, the General Assembly, primarily through the Senate Committee on Budget and Taxation and the House Committee on Appropriations, reviews the executive budget, holds hearings, and passes budget bills. By constitutional provision,¹ the General Assembly may only concur with or reduce the budget of the executive branch unless it establishes a means for supporting the increased spending with additional revenue. However, the General Assembly may reduce, concur, or increase the appropriations for the legislative and judicial branches. The governor has no veto authority over the enacted fiscal year budget.

Maryland's General Appropriation Act is structured by agencies and programs. There are variations in the structure depending on the level at which appropriations are made. Some agencies have broader spending authority than others.

¹ Md. Const. art. III, §52.

Section II: Overview of Performance and Accountability Requirements

Maryland's performance and accountability requirements were originally established under DBM's budget and planning process in 1997 but were not codified in law or under executive order until the 2004 legislative session when the Managing for Results (MFR) legislation was passed unanimously by both the House and Senate and signed by the governor.² This legislation requires DBM to develop a comprehensive state MFR plan with objectives and performance measures. Additionally, it requires state agencies, in conjunction with DBM, to select no more than six goals per agency that are either compatible with the statewide MFR plan or are otherwise consistent with the agency's mission if the goals identified in the comprehensive plan do not apply to the agency. As part of the budget process, each agency must develop and submit an agencywide MFR strategic plan to DBM. Agencies must also maintain documentation of the internal controls they use to ensure the accuracy of the performance information they collect and report. Both state agency measures and the internal controls are subject to review by the state legislative auditor. Beginning in January 2005, DBM must provide a report to the House and Senate budget committees in January of each year on the contents of the statewide MFR plan and the state's progress toward the goals outlined therein.

Section III: Overview of Performance Measurement System and Processes

Table 5: Summary of Maryland's Performance Budgeting Process

Performance budgeting legislation?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Yes	Agency and program	Annual budget requests	Yes	Executive budget document

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

² 2004 Md. Laws ch. 452.

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Maryland's MFR initiative is principally a strategic planning process that is intended to set organizational direction, determine priorities, and establish desired program results and outcomes. Agencies and programs are expected to develop outcome measures that are based on customer needs and expectations. Agencies and departments are also expected to develop performance measures to track the progress of programs in achieving the organizational mission, goals, and objectives. This performance information is intended to improve agency and program planning and inform budget decisions.

As part of their annual budget request, DBM requires agencies to submit missions, key goals, and performance measures at both the agency and program levels. Agencies independently select and report the performance information that is included in their budget requests. DBM does not have a formal role in this process. However, the Office of Budget Analysis within DBM reviews these submissions and considers the performance information in developing the executive budget. DBM publicly reports performance information in the executive budget, which contains the mission, vision, strategic goals, objectives, and performance measures for each agency. Figure 3 provides an example of this information.

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Figure 3: Example of Performance Information Presented in Maryland's Executive Budget

DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONAL SERVICES

MISSION

The Department of Public Safety and Correctional Services (DPSCS) helps to keep Maryland communities safe and provides services to the victims of crime. We ensure the security, safety and well-being of defendants and offenders under our supervision. We provide criminal justice agencies with timely access to accurate information about defendants and offenders.

VISION

The Department of Public Safety and Correctional Services will be an integrated, well-managed, and technologically progressive organization. Our well-trained work force will achieve excellence in providing effective and efficient programs that offer opportunities for offenders to change. We will continue to promote community partnerships for a safer Maryland.

KEY GOALS, OBJECTIVES, AND PERFORMANCE MEASURES

Goal 1. Safe Communities. Help to keep Maryland communities safe.

Objective 1.1 During fiscal year 2005, the percentage of offenders returned to Department supervision for a new offense within one year of their release¹ from the Division of Correction will not exceed fiscal year 2001 levels.

Performance Measures	2002 Actual	2003 Actual	2004 Estimated	2005 Estimated
Outcome²: Percentage (number) of offenders returned to Department supervision for a new offense within one year of their release from the Division of Correction:				
All releasees	23.2% (3,031)	**	≤ 23.9%	≤ 23.9%

Source: State of Maryland.

Note: Information from Maryland's fiscal year 2005 Executive Budget.

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In 2000 the Maryland Office of Legislative Audits (OLA) in the Department of Legislative Services (DLS) began auditing agency performance measures. OLA conducts selective reviews of agency performance measures to determine their accuracy. OLA also determines whether adequate control systems are in place for collecting, summarizing, and reporting the performance measures.

Maryland also has a sunset review process.³ Nearly 70 agencies or other state entities are subject to a sunset review because they have termination dates in their authorizing statutes, which typically means legislative action must be taken to reauthorize them. The sunset reviews are intended to determine whether there is a continued need for state regulation or involvement in an area and to ensure legislative review takes place. These evaluations also determine the accountability, efficiency, and effectiveness of agency operations and finances. Agencies subject to sunset review typically undergo preliminary evaluation 2 years before their scheduled termination dates. DLS conducts these evaluations and makes recommendations to the Legislative Policy Committee. That leadership body determines whether a full evaluation should be undertaken. If an agency is chosen for a full evaluation, it is assigned to committees of the General Assembly. DLS then undertakes a full evaluation on behalf of these committees and issues a report. The designated committee holds a public hearing at which DLS presents the findings and recommendations of the evaluation. The committees report their recommendations to the full General Assembly along with the legislation necessary to implement the desired changes and reauthorize the entity.

**Section IV:
Overview of Other
Performance-Related
Initiatives**

**Maryland Strategic
Budgeting**

According to state estimates, Maryland faces a significant structural budget shortfall for fiscal year 2006. To address this potential shortfall, DBM

³ Maryland Program Evaluation Act, Md. Code Ann., state gov't §§8-401-8-413 (2004).

introduced a new approach to developing the state's budget, called Strategic Budgeting. Strategic Budgeting attempts to more directly link agency and program priorities with funding priorities. The administration has selected five pillars—Education, Health and the Environment, Public Safety, Commerce, and Fiscal Responsibility—to frame budget priorities. Agencies are expected to prioritize and fund programs in fiscal year 2006 according to how they address agency and program missions, as well as key outcomes that reflect the administration's five pillars.

In the budget instructions that describe the Strategic Budgeting approach, DBM encourages agency heads to think of their agencies not as collections of programs but as vehicles that deliver services to customers. The instructions say, for example, that to deliver the outcome of safer streets and highways, agencies have to provide services through a number of avenues—law enforcement, the prison system, and the judicial system. The outcome is a result of several programs in several agencies. Some of these programs also support the delivery of other outcomes. The budget for fiscal year 2006 will be the first to focus on these outcomes, the most effective ways the agencies can deliver the outcomes, and the processes that maintain and build the capacity to deliver outcomes in future years. After assessing all programs and the outcomes they deliver, agency heads are expected to assign a ranking to each program based on both the importance of those outcomes in comparison to other agency programs.

Maryland Commission on the Structure and Efficiency of State Government

In January 2003, Maryland's governor created the Governor's Commission on the Structure and Efficiency of State Government to examine and make recommendations concerning state government operations and the reorganization of independent agencies and commissions. The goal of the commission was to improve Maryland's ability to provide necessary services to its citizens as effectively and economically as possible. The commission was asked to evaluate independent state programs and agencies and to recommend to the governor the elimination, consolidation, or streamlining of programs and agencies. The commission was also asked to examine and analyze staffing patterns in state agencies and recommend changes that would lead to the elimination of wasteful practices and duplication of services.

The commission first met in August 2003 and was given approximately 4 months to complete its reviews. To do so, the commission established four committees to examine particular areas of state government operation—the Committee to Evaluate Independent Agencies, the

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Committee to Evaluate Adjudicatory Agencies, the Committee to Evaluate Law Enforcement Agencies, and the Committee to Evaluate Environmental Agencies. The commission generated 54 recommendations, including changing statewide service-contracting and procurement practices, conducting more in-depth reviews of some agencies and programs, and changing the structure of certain programs and agencies. Examples of these recommendations included creation of a Department of Disabilities, consolidation of the Natural Resources Police with the State Park Rangers, and an increase in certain fees imposed by the Office of Administrative Hearings.

Overview of Texas's Budget Process and Performance-Related Requirements, Processes, and Initiatives

Section I: Overview of Budget Process and Structure

Table 6: Summary of Texas's Budget Process

Frequency of budget cycle	Frequency of legislative cycle	Budget guidelines sent to agencies	Agency requests submitted to governor/ legislature	Agency hearings held	Governor/ LBB submit budgets to legislature	Legislature adopts budget	Fiscal year begins
Biennial	Biennial	April	July-September	July-September	January	May	September

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

Texas operates on both biennial budget and legislative cycles. Unlike many other states where the budget process begins in the executive branch, Texas's process is driven mostly by the legislature, namely the state's Legislative Budget Board (LBB).¹ The LBB is a 10-member legislative body that consists of the lieutenant governor, the speaker of the House, the chairman of the House Appropriations Committee, chairman of the House Ways and Means Committee, chairman of the Senate Finance Committee, and 5 additional appointed members from the House and Senate. The primary purpose of the LBB is to develop recommended appropriations for all state government agencies. The LBB also has the authority, in conjunction with the governor, to make budget adjustments when the legislature is not in session.

In the spring of even-numbered years, the Governor's Office and the LBB jointly issue budget instructions, which state agencies use to develop their budget requests. During the summer months, the LBB and Governor's Office of Budget, Planning, and Policy (GOBPP) hold hearings with each agency to discuss these requests. In the fall, the LBB drafts the legislative budget estimates and the general appropriations bill and submits them to the legislature at the beginning of the legislative session in January.

¹ See generally Tex. Gov't Code Ann. §322.001-§322.001 (Vernon 2004) (Provides general information regarding budget process and role of LBB).

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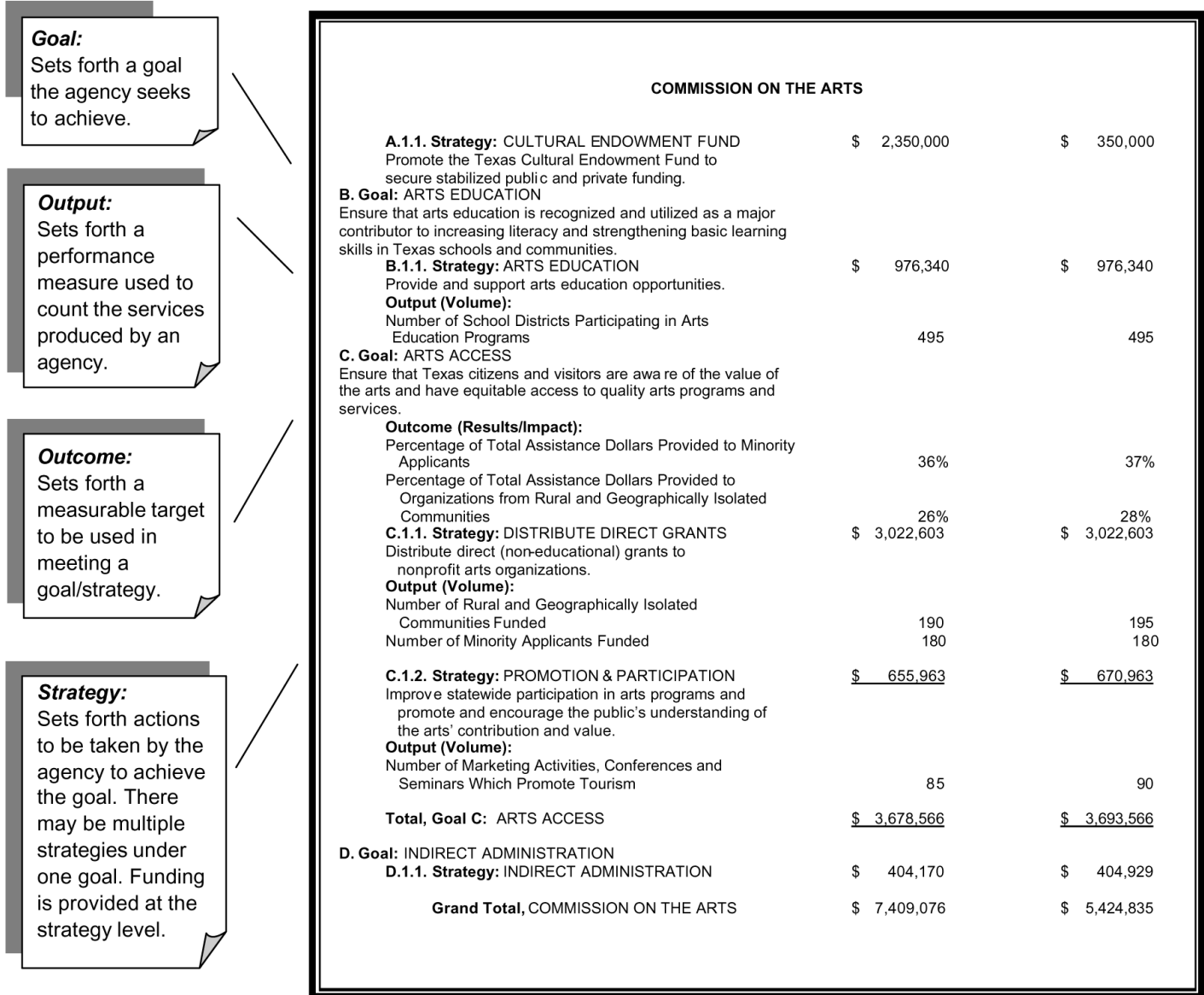
In addition to funding amounts, the legislative budget estimates and general appropriations bill also include other budget-related information, such as performance measures and targets, financing procedures, and historical summaries of previous funding requests and approved agency budgets. The Governor’s Office also provides its budget proposal at the beginning of the legislative session using a similar format as the LBB. The House and Senate consider their versions of the appropriation bill separately and hold a conference committee review to reconcile any differences between the two versions of the bill. The revised bill is sent to both houses for approval. After approval by both houses, the bill is sent to the state comptroller for certification, ensuring that the approved budget remains within the constitutionally established funding limits. The governor has line-item veto authority.² However, the legislature has the ability to override the veto with a two-thirds majority vote in both houses, as long as the veto occurs while the legislature is in session. The signed appropriation act becomes effective on September 1 of every odd-numbered year. Agreement by both the governor and the LBB allow for funds to be shifted between agency programs or between agencies during the fiscal year.

Texas’s General Appropriation Act is structured by goals and strategies. In general, an agency will have three to five substantive strategies, sometimes referred to as “direct strategies,” as well as one or more strategies labeled “indirect administration” for functions shared among strategies, such as accounting, human resources, information technology, reporting, and overall administration in the higher executive offices. Strategies within the larger agencies can be as large as \$500 million and contain multiple programs, whereas strategies in very small agencies can be as small as a few thousand dollars. As figure 4 demonstrates, the act shows high-level goals for each agency, and funding is appropriated according to the strategies that are established to achieve those goals. Texas also includes outcome, output, and efficiency targets to show what level of performance is expected for each goal and strategy based on the appropriation level each receives.

² Tex. Const. art. IV §14.

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Figure 4: Example of Texas's General Appropriation Act Structure



Source: Texas's Legislative Budget Board.

Section II: Performance and Accountability Requirements

In 1991, the Texas General Assembly passed a law to establish the Strategic Planning and Budgeting system.³ In 1993, the law was amended to consolidate planning requirements and change the minimum planning time line from 6 to 5 years.⁴ Agencies are required to complete and submit formal plans every 2 years. These plans include agency mission, goals, objectives, outcome measures, strategies, output measures, and efficiency measures. The LBB and the governor have the statutory responsibility for providing agencies with guidance in developing their strategic plans as well as for reviewing and finalizing those plans.

Section III: Overview of Performance Measurement System and Processes

Table 7: Summary of Texas's Performance Budgeting Process

Performance budgeting legislation?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Yes	Strategies (by agency)	Strategic plans and electronic quarterly updates	Yes	Appropriation act

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

Texas's 5-year strategic planning process provides the framework for both performance reporting and the budget structure. Under this aligned planning and budgeting structure, agencies are required to develop strategic plans that are organized by goals and objectives with outcome measures that should be used to assess their achievement. The strategic plans also include strategies for achieving the goals and objectives as well as output, efficiency, and explanatory measures to quantify the results of

³ Acts 1991, 72nd Leg., ch. 384.

⁴ Acts 1993, 74th Leg., ch. 76, §529(b).

those strategies. In the budget process, these strategies also provide the basis for the allocation of budgetary resources. Agencies work with the governor and the LBB throughout the strategic planning process to identify and select key measures that provide a quantifiable assessment of service provision.

The LBB and GOBPP approve the strategic plans and the measures selected by the agencies. After the strategic plans are approved by the GOBPP and LBB, agencies prepare their biennial budget requests using the framework of their approved goals, strategies, and performance measures. According to the LBB, once the general appropriation bill has been enacted, agencies submit reports electronically to the LBB every 3 months on their success in achieving performance targets included in the General Appropriation Act via the Automated Budget and Evaluation System of Texas. Agencies are required to explain the variance between their targets and their actual performance if that variance is greater than 5 percent.

The Texas State Auditor's Office (SAO) conducts periodic audits of performance measures in selected agencies to determine whether they have adequate control systems for the collection of performance information and whether they are accurately reporting selected measures. The SAO and LBB work together to identify and select agencies and measures for these performance measure audits.

In Texas, performance information is publicly reported as part of the budget process in the General Appropriation Act and in the LBB's annual *Budget and Performance Assessments* report. According to the LBB, performance measures and targets have been included in the appropriation act since 1991.

Texas has a regular sunset review process by which legislatively established programs and agencies are reviewed approximately every 10 years.⁵ Sunset processes work by setting a date on which an agency will be abolished unless legislation is passed to continue its functions. The Texas sunset review process is guided by the Sunset Advisory Commission (SAC), a 12-member body of legislators and public members appointed by the lieutenant governor and the speaker of the House of Representatives. SAC reviews 20 to 30 agencies per cycle and typically reviews each agency on a 10-year cycle. SAC does not have a standard methodology for its

⁵ See generally Tex. Gov't Code Ann. §325.003 (Vernon 2004).

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reviews, but each review generally results in a decision to continue, modify, or eliminate an agency. The decision to continue or modify an agency requires legislative action and gubernatorial approval. Failure to pass and sign legislation discontinues the agency. Figure 5 describes the number of agencies that have been continued, modified, or eliminated as a result of sunset reviews from 1979 to 2003. As the figure demonstrates, the majority of reviewed agencies were continued following the sunset process.

Figure 5: History of Texas Sunset Advisory Commission Action, 1979–2003

History of Sunset Commission Action - 1979 to 2003															
Legislative Session	1979 66th	1981 67th	1983 68th	1985 69th	1987 70th	1989 71st	1991 72nd	1993 73rd	1995 74th	1997 75th	1999 76th	2001 77th	2003 ² 78th	Total	Percent
Agencies Continued	12	22	29	24	18	25	23	27	16	19	22	21	24	282	81%
Agencies Abolished Outright	8	2	3	6	1	3	3	1	0	0	1	1	2 ³	31	9%
Agencies Abolished & Functions Transferred	1	3	0	0	1	2	3	1	2	2	0	0	1	16	5%
Agencies Combined	4	1	0	0	0	0	1	2	0	0	2	1	0	11	3%
Agencies Separated	1	0	0	1	0	0	0	0	0	0	0	0	0	2	1%
Agencies Reviewed	26	28	32	31	20	30	30	31	18	21	25	25 ¹	29 ¹	346	

¹ Some agencies reviewed were not subject to continuation or abolishment.

² Based on Sunset Commission recommendations.

³ Two statutes.

Source: State of Texas.

Note: Information from the Texas Sunset Advisory Commission, *Sunset Process Report Card* (Austin, Tex.: December 2002, revised February 2003), 2.

Overview of Virginia's Budget Process and Performance-Related Requirements, Processes, and Initiatives

Section I: Overview of Budget Process and Structure

Table 8: Summary of Virginia's Budget Process

Frequency of budget cycle	Frequency of legislative cycle	Budget guidelines sent to agencies	Agency requests submitted to governor	Agency hearings held	Governor submits budget to legislature	Legislature adopts budget	Fiscal year begins
Biennial	Annual	April-August	June-October	September-October	December	March-April	July

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

Virginia operates on a biennial budget system. The budget is enacted during even-numbered years and amendments are made during odd-numbered years. In the early fall of odd-numbered years, state agencies are required to develop funding requests for the upcoming fiscal cycle and submit these requests to the Department of Planning and Budget (DPB). In the fall, DPB reviews the agency requests and develops a proposed budget for the governor's consideration. The governor submits the executive budget to the state legislature by December 20. Each house refers the proposed budget bill to a committee, which holds public hearings and considers amendments. After being reported by the committees, the amended bills are brought to the floor of each house for further consideration and amendments. Upon approval in the two houses, the bills are "exchanged" between the houses, where they are again reviewed and adjusted. A conference committee composed of members of both houses reviews the two budget bills, reconciles the differences, and submits the final proposed budget to the General Assembly for final legislative approval. Following approval from each house, the proposed budget is submitted to the governor. The governor may sign the bill as presented, veto the entire bill, veto certain portions of the bill via a line-item veto authority, or recommend amendments. If any portion of the bill is vetoed or amended, the bill is resubmitted to the General Assembly for additional review and revision. The approved budget is enacted into law effective July 1 of even-numbered years.

Virginia's general appropriation bill is organized by function, primary agency, and proposed appropriation according to programs. Provisions and other amendments relating to the statutory purpose and responsibilities of an agency or agency program may be included within the enrolled appropriation act. There are variations in the structure depending on the level at which appropriations are made. Some agencies have broader spending authority than others.

Section II: Overview of Performance and Accountability Requirements

Virginia established its performance measurement system in 1995.¹ The governor required agencies to develop strategic plans and report on performance. Legislation enacted in 2001 required DPB to submit to legislators an annual report comparing expected results and expenditures for state agencies during the previous fiscal cycle to actual performance during the previous fiscal year.² However, this requirement was later rescinded.

Virginia expanded on its performance and accountability requirements with legislation enacted in 2003, known as the Virginia Government Performance and Results Act,³ which expanded on performance-related efforts in the state by mandating that each state agency develop and continuously review a strategic plan identifying long-term agency goals and objectives as well as specific outcome measures reflecting the relative achievement of established goals. These plans are to cover a 3-year period from the point of submission and are reviewed on a staggered basis by the Office of the Governor. Approximately one-third of all state agencies are to be reviewed over the course of 1 year. The provisions of this act are scheduled to expire in 2008. The Virginia Government Performance and Results Act also established the Council on Virginia's Future, an advisory council in the executive branch of state government that was charged with advising the governor and the General Assembly on the implementation of a long-term state planning process—known as the Roadmap for Virginia's Future. Figure 6 summarizes the key components of this legislation.

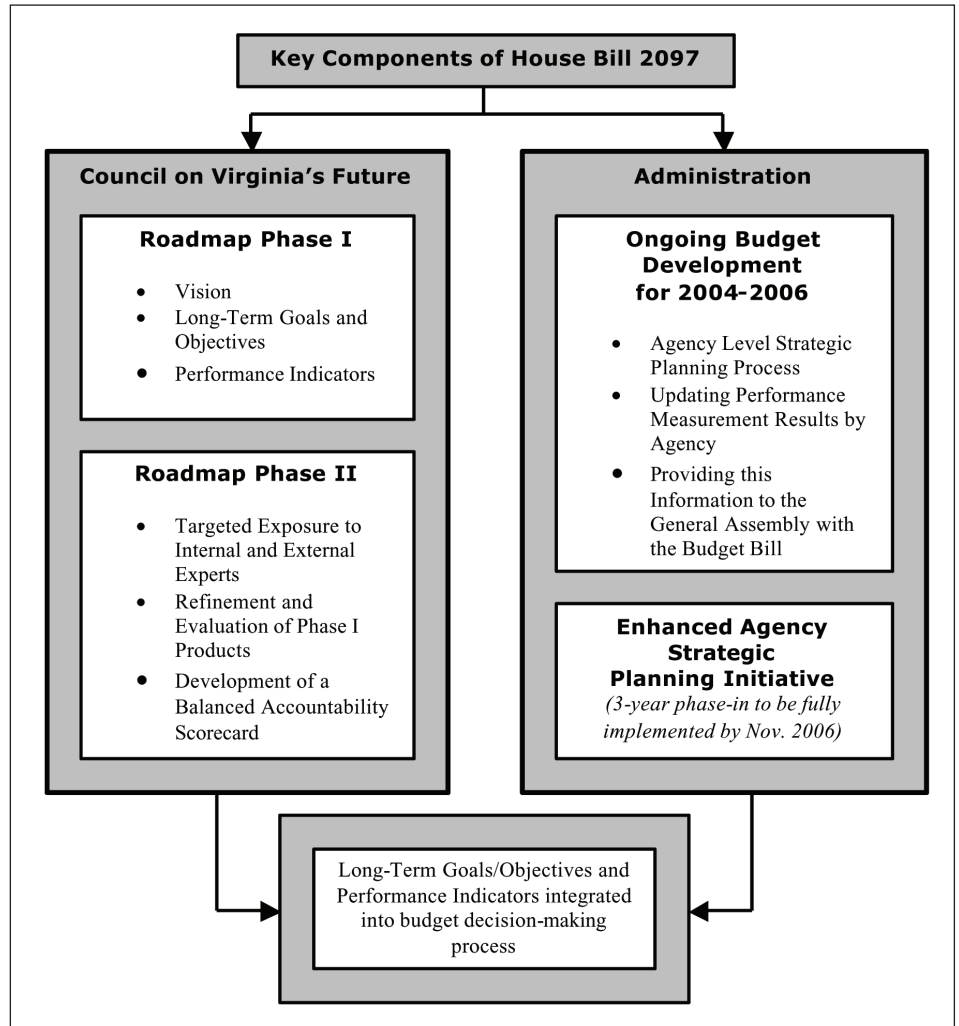
¹ 1995 VA Acts ch. 51.

² 2001 VA Acts ch. 43.

³ 2003 VA Acts ch. 900.

**Appendix V
Overview of Virginia's Budget Process and
Performance-Related Requirements,
Processes, and Initiatives**

Figure 6: Summary of Key Components of Virginia's Government Performance and Results Act



Source: State of Virginia.

Note: Information from the Council on Virginia's Future, *Interim Report* (Richmond, Va.: January 2004).

Appendix V
Overview of Virginia's Budget Process and
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Most recently, in 2004, legislation was enacted that requires agencies to develop a series of performance outcome measures for any new state programs or services as part of the budget request. These measures are intended to gauge program or service effectiveness and are to be incorporated into the budgeting process.

Section III: Overview
of Performance
Measurement Systems
and Processes

Table 9: Summary of Virginia's Performance Budgeting Process

Performance budgeting legislation?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Yes	Agency	Internet	No	Virginia Results Web site

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

In Virginia, state agencies develop and submit strategic plans describing the intended goals and objectives as well as corresponding performance measures to DPB for approval prior to the start of each fiscal cycle. State agencies are responsible for the regular collection and reporting of performance information, a responsibility they carry out by submitting performance information through Virginia Results—a publicly available Internet-based system. This information is benchmarked with previous agency performance and compared to established performance targets.

The Virginia Auditor of Public Accounts periodically assesses the accuracy of the performance measures submitted by state agencies. The results of these audits are reported to the General Assembly along with any recommendations for revisions to agency collection and reporting systems.

Performance information is publicly available on the Virginia Results Web site. However, performance information is not published in either the executive or legislative budget documents.

Section IV: Overview of Other Performance-Related Initiatives

Council on Virginia's Future

The Council on Virginia's Future was created by legislation enacted during the 2003 session of the General Assembly.⁴ The council—which is led by the governor and includes members from the Virginia General Assembly, executive branch agencies, and private sector organizations—was charged with, among other things, identifying long-term strategic issues facing the state. The council is subdivided into several “workgroups” which focus on specific issue areas, such as public safety and transportation. An interagency staff from both the executive and legislative branches assists the council.

The legislation creating the council assigns specific tasks to the group. Initial tasks include developing and refining the framework for the state's strategic decision-making process. Long-term council objectives include the development and regular publication of a “scorecard” reflecting the relative performance of state services and recommendations for performance improvement. Ultimately, the council is expected to develop high-level goals and align the strategic planning, performance management, and budgeting systems in an effort to improve decision making in the state. As the council's work progresses, it is expected to develop and propose legislation designed to achieve these objectives. Much of the preliminary work of the council has focused on developing and identifying appropriate indicators and other benchmarks that will provide an accurate assessment of the progress of the state in developing its strategic planning and decision-making processes.

⁴ 2003 Va. Acts ch. 900.

Governor's Commission on
Efficiency and Effectiveness

Initiated by Executive Order in 2001, the Commission on Efficiency and Effectiveness was charged by Governor Mark Warner with developing strategies and initiatives that would allow Virginia to serve its citizens more effectively and to manage its resources more efficiently. The commission was composed of a group of both public and private sector officials as well as academics.

According to the commission's final report, issued in December 2002, the group recommended several initiatives that would streamline Virginia government operations and generate substantial savings. Examples of these recommendations include adjustments to procurement procedures, such as researching state spending patterns, combining currently separated information technology centers, and reducing vacancy rates in state-owned office space.

Overview of Washington State's Budget Process and Performance-Related Requirements, Processes, and Initiatives

Section I: Overview of Budget Process and Structure

Table 10: Summary of Washington's Budget Process

Frequency of budget cycle	Frequency of legislative cycle	Budget guidelines sent to agencies	Agency requests submitted to governor	Agency hearings held	Governor submits budget to legislature	Legislature adopts budget	Fiscal year begins
Biennial	Annual	April	September	—	December	April-May	July

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

Washington operates on a biennial budget cycle, with each fiscal cycle beginning on July 1 of odd-numbered years. In the summer and fall of even-numbered years, state agencies submit budget requests to the Office of Financial Management (OFM). These requests are reviewed by OFM and the governor and serve as the basis for the governor's proposed budget. State law mandates that the governor submit a proposed biennial budget to the legislature in December.¹ In the spring, the legislature reviews the proposed budget separately in committees within both houses. After each house develops its version of the budget, a conference committee is called to reconcile the differences between the two proposed budgets. The reconciled budget is returned to both houses, where it must receive a majority vote before it is submitted to the governor for final approval and signature. By law, the governor may veto all or some provisions of the budget approved by legislators. The legislature reconsiders the biennial budget during the second year of the fiscal cycle.

Washington's general appropriation bill is structured by agency and fund. Provisos or amendments relating to the statutory purpose and responsibilities of an agency also may be included within the enrolled appropriation act. There are variations in the structure depending on the level at which appropriations are made. Some agencies have broader spending authority than others.

¹ Wash. Rev. Code §43.88.060 (2004).

Section II: Overview of Performance and Accountability Requirements

According to the Joint Legislative Audit and Review Committee (JLARC), legislators amended Washington's Budgeting and Accounting Act in 1996 to require state agencies to engage in strategic planning and related performance activities,² including the development of an agency mission and measurable goals, program objectives, and budget proposals that incorporate performance measures indicating the relative success in achieving program objectives and goals. This legislation was followed by an Executive Order issued in 1997, which provided a similar mandate to state agencies by requiring the use of "the tools of strategic business planning and performance measures to establish their priorities and measure their progress toward their stated goals." This order established a series of "quality management" activities for state agencies, including the establishment of a quality-improvement representative for individual agencies, as well as quality steering committees, which were to report to the governor on each quarter.

Section III: Overview of Performance Measurement Systems and Processes

Table 11: Summary of Washington's Performance Budgeting Process

Performance budgeting legislation?	Level that measures are submitted	Method used to submit measures	Required as part of agency budget request?	Primary method of publicly reporting measures
Yes	Agency and program	Biennial budget requests	Yes	Executive budget document

Source: GAO.

Note: Based on analysis of testimonial evidence, documentation collected, or both.

In Washington all state agencies are required to engage in strategic planning and related performance activities. State agencies develop strategic plans to establish their missions and purposes, as well as

² 1996 Wash. Laws ch. 317, *codified in*, Wash. Rev. Code §43.88.090.

Appendix VI
Overview of Washington State's Budget
Process and Performance-Related
Requirements, Processes, and Initiatives

measurable goals and objectives. Agencies are not required to regularly revise established goals and measures, but must ensure that agency mission, goals, and measures adhere appropriately to state law. For every major program administered by an agency, program objectives are reported with measurable outputs and outcomes to the extent possible. Agencies can develop their measures and data collection procedures with or without assistance from OFM.

In addition to OFM, JLARC is directed to facilitate the implementation of effective performance measures throughout state government. JLARC consists of 16 legislators, equally divided by House and Senate, with not more than 4 members from each house being of the same political party. With staff assistance, JLARC conducts policy and fiscal research, including performance audits and program evaluations.³ In recent years, JLARC has conducted selective performance outcome measurement reviews and developed recommendations to improve the quality of performance information reported by state agencies.

Performance information is publicly reported in the biennial executive budget document. This information is reported at the agency level and includes the agency mission, performance goals, and output or outcome measures.

Washington has a sunset review process that is used to determine whether certain state entities should be reauthorized, modified, or eliminated. Washington's reviews are also intended to determine the accountability, efficiency, and effectiveness of agency operations and finances. The entities that are subject to sunset reviews are required to develop performance measures and data collection plans and submit these to JLARC for review and comment. These measures are intended to serve as part of the framework for evaluating overall program effectiveness in conducting sunset reviews.

³ Wash. Rev. Code §44.88.010.

Section IV: Overview of Other Performance-Related Initiatives

Washington Priorities of Government

The Priorities of Government (POG) approach was created during the development of the budget for fiscal year 2003–05 when the state had to address a potential budgetary shortfall of approximately \$2.4 billion. The POG initiative was designed to rank and prioritize state government services and develop a budget strategy from the results of these exercises. POG categorizes all state programs in services into one of the following 11 results areas:

- Improve student achievement in elementary, middle, and high schools
- Improve quality and productivity of our workforce
- Improve value of a state college or university education
- Improve health of Washington citizens
- Improve security of Washington's vulnerable children and adults
- Improve economic vitality of business and individuals
- Improve statewide mobility of people, goods, information, and energy
- Improve safety of people and property
- Improve quality of Washington's natural resources
- Improve cultural and recreational opportunities throughout the state
- Strengthen government's ability to achieve its results efficiently and effectively

For each results area, there are several high-level indicators to describe the progress that the state has made. For example, the result area related to

Appendix VI
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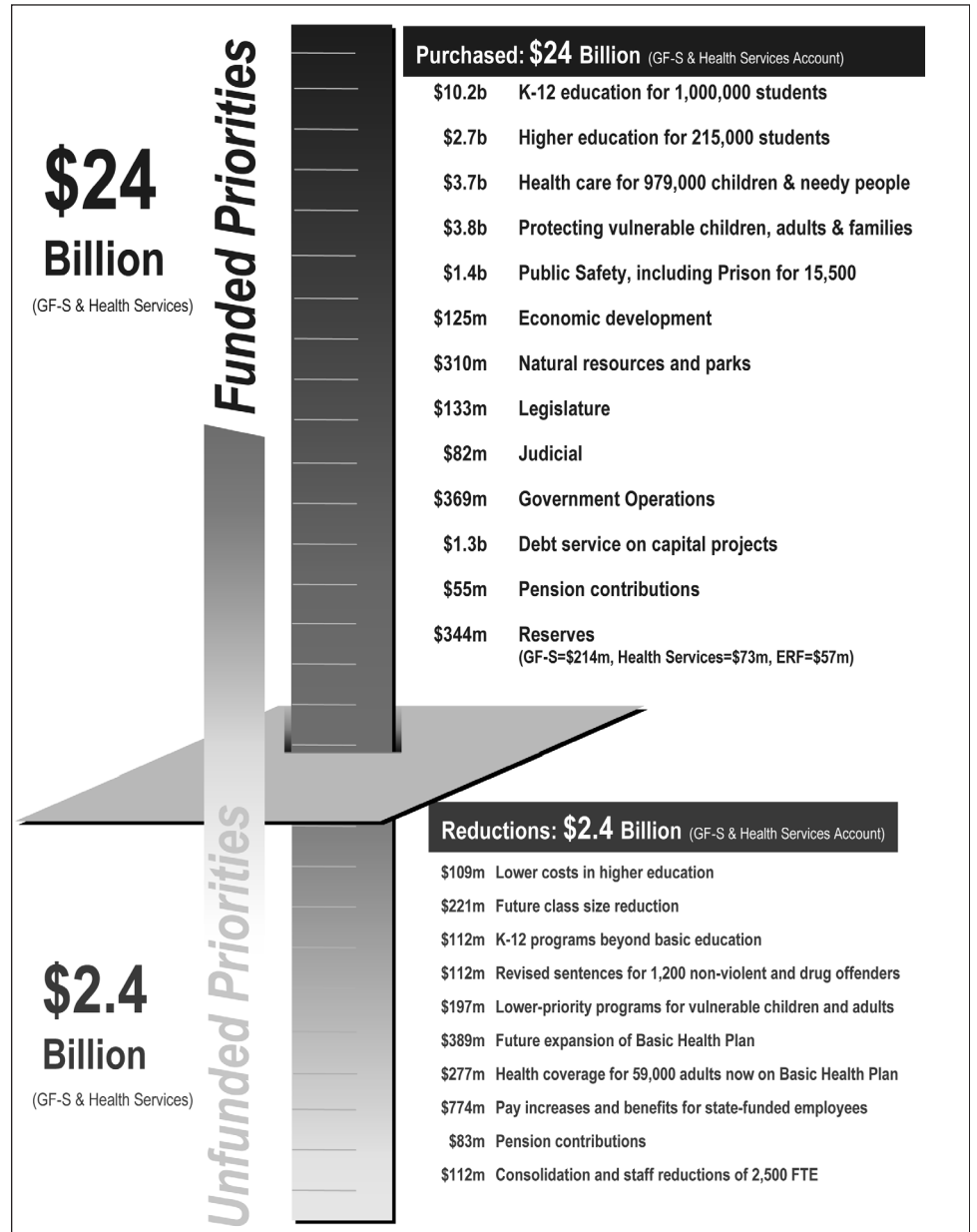
improving the quality of Washington's natural resources had indicators of progress in reducing impacts on the environment, maintaining habitat to support natural systems, and maintaining healthy fish and wildlife populations. Measures under these indicators included trends in water quality and carbon dioxide emissions; the conversion rate of resource lands to urban use; and number of wildlife species classified as endangered, threatened, or sensitive.

A guidance team and 11 results teams that corresponded with each of the results areas were developed to implement the POG process. The guidance team consisted of about 10 members from the public, private, and nonprofit sectors and was principally tasked with overseeing the prioritization process and reviewing the work of the results teams. Each results team was led by OFM budget or policy staff and consisted of six to eight subject-matter experts from executive branch agencies with knowledge and background in the particular results area. Each of the results teams was tasked with evaluating and "mapping" the factors that influence or drive the result that it wanted to achieve. Based on these maps, they were asked to identify ways to better and more efficiently achieve the desired outcomes in their respective areas and recommend high-level purchase strategies to agencies to inform the development of their budget proposals.

Ultimately, the POG approach also informed the governor's proposed budget for the 2003–05 biennium. Budget activities were ranked by contribution to the results, and a line was drawn at the dollar amount allocated to the result. Activities below the line were listed in order to identify how changes in funding might affect service provision. Figure 7 illustrates the POG framework.

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Figure 7: Example of Washington's Priorities of Government Framework



Source: Washington Office of Financial Management.

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The POG framework was helpful in communicating the administration's highest priorities and presenting the key activities that it thought the state could afford to fund to address those priorities without increasing taxes, as well as those activities that the administration considered of lower priority and did not recommend funding. Detailing which activities were funded and which were not was a unique approach that helped both the legislature and Washington citizens understand what the state could and could not afford from the administration's perspective. For example, in its proposed budget the administration recommended not funding two education-related voter initiatives because of fiscal constraints. Although it is usually difficult for the legislature to coalesce support for overturning a voter initiative, it was able to do so in this case. The POG framework helped to communicate that there were no other alternatives.

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GAO Contacts

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