



Performance Budgeting Pilot Project

Presented To

**Senate Budget and Fiscal Review
Subcommittee No. 2**

Senator Quentin L. Kopp, Chair

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LEGISLATIVE ANALYST'S OFFICE



Background

- Pilot program proposed by the Governor in the 1993-94 budget based on the premise that the current budgeting process had become "seriously dysfunctional."**
- Essential elements of performance budgeting, as defined by the Governor, are:**
 - An emphasis on strategic planning
 - Development of performance measures
 - Establishment of benchmarks for measuring improvements in operational efficiency
 - Annual budgetary contracts with the Legislature
 - Operational flexibility
 - Incentives for improving performance
 - Commitment to quality improvement
- Four pilot departments proposed:**
 - Consumer Affairs
 - General Services
 - Parks and Recreation
 - Stephen P. Teale Data Center
- Budget contracts planned for 1993-94, with planning sessions conducted with the Legislature to begin in January 1993.**
- The Department of Finance is assigned responsibility to manage the pilot project.**



Implementation

- Implementation proves more difficult than anticipated.**
 - Planning sessions with the Legislature do not materialize.

- Legislature enacts Ch 641/93 (SB 500, Hill), codifying the Governor's proposal, requiring:**
 - Implementation in the 1994-95 budget year.
 - Budget contracts which require departments to deliver specified outcomes and which include evaluation criteria for determining such outcomes.
 - Fiscal subcommittee review of budget contracts.
 - An evaluation of the pilot program by the Department of Finance, with a report to the Legislature on or before January 1, 1996.

- Additional legislative direction**
 - Chapter 672, Statutes of 1994 (SB 1609, Hill) requires that a draft budget contract be submitted to the fiscal subcommittees by January 31 in order to be effective in the pending fiscal year.

- LAO initial assessment of performance budgeting and the pilot project (October 1993).**



Key Findings LAO 1993 Policy Brief

- The manner in which performance budgeting is applied and the results it produces vary widely among the states.
- In most instances, performance budgeting has *not* fundamentally changed the budget process.
- Implementation costs are significant.
- Performance measures need to focus on *outcomes*, not process.
- Performance needs to be verified independently.
- Performance budgeting requires a change in the Legislatures's perspective towards the budget process.
- The Legislature must be willing to accept a longer-term view of implementation and results.
- California's pilot project lacked sufficient definition.



Pilot Department Accomplishments to Date

	Department				
	California Conservation Corps	Consumer Affairs	General Services	Parks and Recreation	Toxic Substances Control
Strategic Plan in Place	✓	✓	✓	✓	✓ ^a
Quality Assurance Program in Place	✓	—	✓	✓	b
Performance Goals Established	✓	—	—	✓	—
Performance Baseline Established	✓	✓	✓	✓	—
Performance Measures Completed	✓	✓	c	✓ ^d	—
Performance Report Format Defined	✓	✓	✓	✓	—
Budget Contract in Place (1994-95 FY)	—	✓	—	✓	—
Information System(s) in Place	✓	—	b	b	b

^a Draft plan has been completed and is being refined.
^b Partial completion.
^c Final revision pending.
^d Measures relate more to output—not outcomes or goals.

Five pilot departments (California Conservation Corps and Department of Toxic Substances Control added, Teale Data Center dropped).



Characteristics to Date of the Performance Budgeting Pilot Program

- A significant investment of resources has been made (see following page for details).
- There is no common approach to developing a budget contract.
- Administrative flexibility provided by current budget contract appears to be relatively minor.
- Too early to determine whether performance budgeting will meet the primary goals established by the Governor.
- Other than the use of budget contracts, there has been no significant change in the budget process.



Costs of the Pilot Project Through 1995-96

(In Thousands)

	Department				
	California Conservation Corps	Consumer Affairs	General Services	Parks and Recreation	Toxic Substances Control
Consulting Contracts	\$42	\$305 ^{a,b}	\$110	\$8	\$0
Staff Time	498	2,274 ^a	1,070	256	512
Training	0	— ^c	55	0	0
Totals	\$540	\$2,579^a	\$1,235	\$264	\$512

^a Estimated through December 31, 1994.
^b Includes training.
^c Included in "Consulting Contracts."

- Estimates of cost do not include quality improvement efforts or the full cost of computer support.
- Statewide implementation would be costly.
- Costs to date have been absorbed by participating departments.
- Increased administrative flexibility viewed as key, but only relatively minor flexibilities have been provided so far.
- Identifying and measuring meaningful performance outcomes is essential.



Conclusions and Recommendations

- ✓ **Other than the introduction of the budget contract, there has been no significant change in the state's budget process.**
- ✓ **The Legislature's role has been less than what was apparently envisioned.**
- ✓ **Performance budgeting is only *part* of the solution to the problem of reinventing state government.**
- ✓ **We recommend that the Legislature:**
 - **Adopt supplemental report language to:**
 - Limit pilot departments to the current five.
 - Direct the Department of Finance to study the Oregon Benchmarks program to determine whether certain facets of that program can be incorporated into the California program.
 - Require the Department of Finance to provide guidelines to pilot departments to ensure a standard format for reporting performance, and avoid the independent and redundant development of information systems to support performance budgeting.
 - Consider negotiating a performance budget contract with the California Conservation Corps which provides substantially more administrative flexibility than that which has been provided pilot departments to date.
 - Not approve any budget contract which does not include (1) the department's commitment to achieve specified outcomes and (2) the criteria for evaluating outcomes.



Department of Parks and Recreation (DPR) Performance-Based Budgeting Pilot Project

- Strategic plan completed in 1994.
- Memorandum of Understanding with the Legislature for 1994-95 commits department to meeting specified performance-related tasks.
- Draft budget contract for 1995-96 closely resembles the current contract.
- Most of the proposed performance measures relate to *outputs*, rather than *outcomes*.
- Proposed measures do not, for the most part, allow the Legislature to evaluate the DPR's progress from one year to the next with much consistency, because of the absence of baseline data or performance commitments which are good for only one year.
- The administration's 1996-97 goal to have the DPR's entire program expressed in terms of budgeted funds and results is commendable, but not likely to be achieved based on results to date.



California Conservation Corps (CCC) Performance-Based Budgeting Pilot Project

- Performance-budgeting efforts initiated in April 1994.
- Performance measures commit the CCC to annual improvements, thus enabling the Legislature to better evaluate the Corps' performance from year to year.
- In developing performance measures, the CCC has begun to examine the relationship between the funding it receives and the outcomes it achieves with that funding.
- The Legislature should consider negotiating a performance-budgeting contract with the CCC which provides substantially more administrative flexibility than might be approved for other pilot departments, in order to determine whether expanded administrative flexibility can produce substantial performance results.