

Stewardship Series #3



Building an Accountable Budget



Evergreen Freedom Foundation

P.O. Box 552, Olympia, Washington 98507 | (360) 956-3482
fax:(360) 352-1874 | effwa@effwa.org www.effwa.org

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The Authors

Bob Williams

President & Senior Research Analyst

Lynn Harsh

Executive Director & Senior Research Analyst

Amanda Jarrett

Research Analyst

The Evergreen Freedom Foundation

The Evergreen Freedom Foundation (EFF) is a non-profit, educational research organization. The Foundation's mission is to advance individual liberty, free enterprise and responsible government. EFF staff conduct research and publish analysis and policy alternatives in the areas of state budgets; governance and citizenship; and health, education and welfare reform.

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Building an Accountable Budget

Debating, writing and passing a state budget is the primary task legislators must accomplish because *...the budget drives all state policies!* The governor cannot spend one dollar without legislative approval. Agencies cannot spend one dollar without legislative approval. The state budget is the single most important piece of legislation that our lawmakers pass each biennium.

Think about it: If lawmakers are unhappy about the direction of a particular state agency, they can zero out its budget, reduce its budget, or withhold approval until they get needed information.

We do not recommend establishing a budget process based primarily on fear, but this point needs to be stressed: The responsibility to establish efficient, cost-effective government policies belongs to the legislature. They have the power of the purse.

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Good budgets are built around core principles – deciding government’s predetermined functions and responsibilities and making sure those priorities are funded. This is akin to *macroeconomics* and it is the framework for all policy discussions. Unfortunately, our state budgets often begin with the interior decorating – *microeconomics* – before the supporting walls are even built.

In our form of government, legislators only need to control one Chamber, either the House or the Senate, in order to demand fiscal accountability. If the other chamber doesn’t agree, the agency’s budget simply may be zero-funded. A governor cannot veto a zero appropriation. The potential public-relations fallout might be severe if a persuasive case for zero-funding cannot be made. This action, however, would not likely need to happen more than once a decade for the point to be made that lawmakers will not accept sloppy stewardship of taxpayer dollars.

Background

Washington state has a two-year budget that begins on July 1 of each odd-numbered year and ends on June 30 two years later. (The 1999-01 budget is for the period of July 1, 1999 through June 30, 2001.)

Problems:

Bills are passed early in each session, tweaking and twisting policies before any agreement has been reached on defining the core functions of government – those things government is designed and funded to do. In fact that topic rarely, if ever, is discussed. Our corrections department is an illustration. Are we “correcting” or “incarcerating?” Is our aim to protect the public from offenders or to protect offenders from a society that has failed them? Are offenders to be treated “criminals” or “clients?”

When bills are passed prior to core principles being established, legislators are merely propping up or patching up agencies and programs that likely have fundamental design flaws, or may even be contrary to lawmakers' policy values. The programs are not apt to be helping the people for which they were designed.

Even if agencies or programs are accidentally complying with what lawmakers would choose as their core principles, another serious problem exists when lawmakers begin the session passing bills dealing with microeconomic details. ***They can be assured of overspending.***

Our current system of building state budgets virtually guarantees that the microeconomic decisions will be made first insuring an upward-spiraling budget. Prior to determining how much revenue is available and what the top legislative priorities are, attention is focused on individual programs. The early opportunity to consider the total impact of the budget against core principles is lost.

Political parties differ on core principles. This is to be expected. Some say it is impossible to implement policies around core principles unless their particular party is in total control. We do not agree.

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Well in advance of crunch time, both parties should bring their core principles and related programs to the table to determine agreed-upon tenets. Everything else must be negotiated. The party whose leaders have the best handle on where they are heading – on what their core principles really are – and the party who has the numbers will win more in negotiations in the long run. What they lose this year (short run), they come back for next year...and so on. Without agreed-upon core principles, negotiations are schizophrenic from year to year and losses are heavier than necessary.

The current budget writing process is not conducive to writing responsible, negotiated budgets. It can, and should be fixed without delay.

IF IT'S BROKEN, HOW DO WE FIX IT?

It is possible to fix our broken budget process, but it will take serious commitment by lawmakers to do so. With earnest determination, lawmakers can overhaul the system prior to the next budget-writing session.

EFF suggests the following standards be used to accomplish the overhaul:

1. Establish spending limits using the November revenue forecast and Initiative 601 guidelines.

Current system: Lawmakers begin legislative sessions in January with no firm spending ceiling. They hold hearings and pass costly bills prior to adopting a budget. Then, after the March revenue forecast

is unveiled, budget writers draft their spending proposals hoping not to exceed the revenue forecast or the I-601 lid.

In addition to being an inefficient and expensive way to run a government, current practices are also haphazard, lacking focus and priorities. It's a special interest heyday as everybody asks for their piece of the budget pie before lawmakers even know for sure how big the pie is.

Recommendation: By the second Monday in January of each budget-writing year, the house originating the budget should pass a resolution setting the spending limit and the amount of money to be put in reserve (We recommend building to a 5 percent reserve with excess going back to taxpayers.). This would be a short resolution that would require the governor and the legislature to commit together to a simple budget. The overall total would provide the framework for the eleven major functions (*e.g.*, K-12, Higher Ed, Human Services, etc.) into which state spending is now divided. No other legislation authorizing spending tax dollars or appropriating public funds would be considered until the overall budget resolution was passed.

This resolution would bring the House, Senate and Governor into the process right from the beginning. A spending ceiling would be agreed upon for the eleven major categories of spending and could only be overridden by a 2/3 vote of the entire legislature. As policy committees debate programs within the 11 major categories, they would know exactly how much money is available.

2. Build the budget using core principles and decision packages.

The first question when building a budget around core principles is not “Where will we find the money?” but “Does this request or program match our core principles?”

Recommendation: Having asked and answered the core principles question, and having followed suggestion #1, policy committees now have a spending ceiling enabling them to establish priorities in the public hearing process. Currently, many public hearings are a waste of time. Bureaucrats and lobbyists do little more than attempt to justify increased expenditures. If they are doing a good job, they ask for more money and more people. If they are doing a lousy job, they ask for a lot more money and a lot more people. The legislative fiscal staff is rarely directed to dig into agency budgets or to thoroughly examine existing state programs to look at core principles, strategies, and outcome measures.

The transportation budget should be included with the general budget. Currently, the House and Senate Transportation Committees develop their own policy and the transportation budget separate from other legislative business. This is an unhealthy anomaly. The transportation committees should help set policy like every other standing committee, but its budget should be part of the Appropriations and Ways and Means Committees.

No one legislator should be permitted to write the state budget (more or less) singlehandedly as happened in the 1999 session. Most lawmakers were surprised to discover the large spending increases they approved after the 1999-2001 budget. To this day, the principal author of the last budget has been

unable to provide documentation of where the revenue (money) will come from to fund the \$45.2 billion budget approved last session.

When agency directors provide testimony in legislative hearings, their job is to defend the governor's budget request. Anything granted less than the amount requested by the governor is decried as a cut. During hard economic times, when the newspaper headlines say these "cuts" will force senior citizens to street corners with tin cups, it is difficult to remember that a reduction of an increase is not a cut! For example, if the governor requests a 20 percent increase in an agency's budget and only receives 10 percent, that is a 10 percent *increase*, not a 10 percent cut. A "cut" – rare creature that it is – represents an *actual reduction* in spending from the previous year.

During the public hearing process, legislators can easily get lost in the trees and miss the forest. When requests are made for start-up or additional funds to meet a particular need, legislators, members of the public, and agency directors seldom ask the question, **"Is this a proper function of state government?"** If uncertainty exists, or if lawmakers are unhappy with the presentation, the general rule of thumb is to give them less than they asked for instead of saying "no!"

Agency directors should be required to justify their previous spending levels and say specifically how new money requested will be used. This seldom happens now. Budget writers choose to allocate funds to agencies using what is called maintenance level. Here's how the maintenance level works.

Budget writers give agencies two-year budgets. To determine how much money to give agencies for the next two years, budget writers and their staffs look at how much money an agency spent in the *second year* of the previous two years (biennium). They generally double that figure for the next biennium. Creative agency managers, therefore, split their two-year budgets unevenly, making greater expenditures in the second year of the biennium since that amount will be doubled. Few lawmakers analyze inflated second-year budgets and most agencies count on this when formulating their new budget requests. No incentives exist for agencies to do a good job while saving taxpayer dollars.

The majority of legislators are never shown a visible set of realistic options (decision packages) that they could use to set priorities for the state.

Lawmakers are not encouraged to question the maintenance level and most don't. As a result, agencies move right into the next biennium with little in-depth review to see if money was properly spent from the previous budget.

In recent decades, our state has prospered and state coffers have been full. During times like these, little incentive exists for lawmakers to thoroughly examine state spending. As a result, we find very few examples of House or Senate budget hearings in the past eighteen years that have focused on thoroughly examining state spending. Legislators cannot always depend upon the two major oversight committees, LEAP (Legislative Evaluation and Accountability Program) and JLARC (Joint Legislative Accountability and Review Committee) for this type of examination. These committees were formed

to evaluate only what the legislature tells them to do. This often results in studies of single agencies but rarely a comprehensive overview of the full budget.

Most of the major state budget decisions are made by a few legislators and staff behind closed doors. The majority of legislators are never shown a visible set of realistic options (decision packages) that they could use to set priorities for the state. Since the budget is the key piece of legislation that establishes the state's priorities, this is a major opportunity lost. As a result of not being a part of the "big budget picture," lawmakers often spend inordinate amounts of time negotiating matters of little relative importance rather than making significant policy decisions.

EFF recommends a decision-package system be utilized similar to that used by the Department of Social and Health Services (DSHS) in 1981. At that time, DSHS faced budget cuts estimated to be 5 percent to 6 percent of their budget (real cuts, not a reduction of an increase). Top managers decided to highlight 40 percent of the DSHS budget in a "visible bank" of potential cuts. They used a three-point prioritization program to determine where the cuts should be made.

Managers defined the mission for each program, prioritizing major components. These priorities established the guidelines and criteria for budget-cutting decisions. Cuts in "priority three" services were generally acceptable. "Priority two" cuts would reduce the department's effectiveness and "priority one" cuts would destroy its purpose.

EFF recommends this system be used by every major state agency. By bringing the agencies and their managers into the process, budget decisions would be made in a fair, orderly and effective manner. This will not only help reduce any budget imbalance (deficit), but will also force agencies to prioritize the use of limited resources in accomplishing their goals.

3. Establish criteria for drafting all legislation.

Much of the legislation passed each year lacks clear legislative intent and measurable performance standards. This results in misconstrued activity, no activity, or court action as agencies try to determine exactly what the legislature had in mind.

In addition, bills with a fiscal impact should duly note the consequences and should not be passed out of the originating committee until the fiscal impact has been reviewed.

Finally, all bills should be written in legally-binding language. By this we mean the following definition given by the Attorney General's office: "...each sentence [in the budget] should lay down the law in some respect; either authorizing an expenditure amount for a certain purpose or purposes; limiting or conditioning an expenditure; affixing responsibility; or, in certain cases, mandating expenditures."¹

4. Require a super-majority to pass budgets and alter pension enhancements.

The Senate currently requires a super-majority (60 percent vote) on the floor to amend the budget. The House should adopt this rule and both the House and Senate should require a super-majority to pass budgets or pension enhancements.

Why? Past experience has shown that most legislators lack fiscal discipline, and if there is any money available, or if they think more will be forthcoming, they spend it.

Also, since budget writing is left up to committee staff, fiscal analysts and overcommitted legislative leaders, the remainder of the legislative body rarely understands the entire process. Legislative budget leaders ask their members to support whatever position they have taken, including when they tamper with the pension system. Although it expedites the process, it puts a damper on innovative ideas that may come from less “seasoned” members. It inhibits proper prioritization of scarce resources.

Requiring a 60 percent vote to pass budgets or pension enhancements would force more members to understand the budget. Since this is the most important piece of legislation a lawmaker will consider, we think this would be a healthy improvement.

5. Provide for accountability.

Because of the problems already mentioned, the legislature needs to have effective legislative oversight capability. Each major item in the budget should contain clear and precise performance goals stated in measurable terms for various programs. Agencies will then understand legislative expectations and legislators can, and must, hold them accountable for performance. Until this is done, all the talk about legislative oversight is just that – talk.

EFF also recommends a thorough evaluation of the duties of JLARC and LEAP. Their roles have not been examined in years and need to be revised to enhance both the latest in technology training and accountability outcomes.

Fixing the budget process can be accomplished if the above five standards are adopted. They are essential starting points. But several key components still must be employed to end up with a good budget. They are:

- **Make budget cuts wisely – scrape barnacles.** Spending tax dollars wisely will necessitate the elimination or reduction of some state-funded programs. When budget cuts of this nature are made, the temptation is to “ease the pain” through phase-outs, across the board cuts, or incremental decreases. This is a bad idea and will almost always ensure reductions will never be made.

State-funded programs are like weeds; unless the roots are pulled up, they will grow back – with renewed vigor. **When programs are zero-funded, their constituencies disappear or move to another wallet. When programs are reduced, constituencies use the reduction as a**

battle cry to man the torpedoes to restore funding. As long as programs stay on the books, spending cuts can easily be restored.

It has been said that it is more fun to launch a new ship than to scrape barnacles off the sides of an old one. Likewise, it is more fun to unveil a new government program than to scrap an old one. In addition to being hard work, budget cutting can be politically explosive. It is always more powerful to present a child in a wheelchair who will supposedly be helped by a new program than for opponents to show a child in wheelchair who will supposedly be hurt by program cuts.

- **Be aware of tactics that torpedo good budgets.** Following are some of the most common:
 - Essential or beloved services are eliminated first. Recent examples include the threat of closing state parks and rest areas and ignoring desperately needed transportation improvements.
 - More dollars than necessary are requested for popular programs so the funds can be shifted to help pay for less-protected programs.
 - “Accountability” language is used to justify new or extra expenditures. (“An extra \$1.7 million dollars for a statewide student database will help us be more accountable.”)
 - Revenue is produced internally for programs whose budgets have been cut, such as when General Administration charged vendors a fee for doing business with them.
 - Trading up: “I don’t really think this program should exist, but Representative Everyman really needs it, and we don’t want to embarrass him.”
 - It’s only a million dollars!
 - Programs are taken “off budget,” such as student tuition at our higher education institutions or particular K-12 funding.
 - Small start-up costs are highlighted and carry-forward expenses are minimized or not discussed.

We recommend the following budget-cutting principles:

- Do not depend on one-time revenue sources (like selling assets) to pay for core government services. Use that money to close out programs, reduce unfunded pension liability, increase endowment funds, etc.
- Do not dip into cash surpluses to add new programs.
- Provide tax cuts from money saved by reducing the cost of government, not by temporarily shifting real costs elsewhere.

- When the economy expands, invest in productivity improvements that help deliver core services; things like employee training and new equipment.
- Secure legislative approval of unexpected income (Unanticipated Receipts). Each year more than \$100 million in federal and non-general fund dollars (vouchers, etc.) are authorized for expenditure by the governor without the benefit of legislative approval or appropriation. Far too often, these gubernatorial authorizations lock in future expenditures, providing pressure to continue programs not authorized by the legislature. A legislative committee, rather than the governor, should be set up to approve unanticipated receipts, emergency expenditures and appropriations transfers within agencies. The governor should not be allowed to make expenditures of unanticipated revenue if those expenditures have “carry forward” costs or make future commitments.
- Use Competitive Bidding. As a result of a 1978 court ruling, state agencies are forbidden to accept bids or “contract out” for necessary services, even if it would save taxpayer dollars and provide a quality product. The ruling stated that the state civil service statutes require all work traditionally performed by civil service employees to continue to be performed by those employees, even if contracting out for the work would be more cost effective². Those statutes dealing with “outside contracting” should be amended to permit competitive-bidding language. This will enable lawmakers and state employees to spend the public’s money in the most responsible and cost-effective way possible.
- Limit the Number of State Employees. In the early 90’s, under Governor Gardner, more than 23,000 state employees were added to the payroll; a 32 percent growth rate far exceeding the population growth rate of 12 percent during that time³. Governor Lowry stopped this tremendous increase in 1994-96. Now Governor Locke intends to add more than 10,000 employees to the payroll in his first term. To ensure control is maintained no matter who is governor, lawmakers should limit the number of state employees per 1000 population. The American Legislative Exchange Council (ALEC) released a study in 1994 showing Washington State public employees averaged 15.2 percent higher salaries and benefits than the private sector⁴. Lawmakers should review current levels to determine if this is still occurring. State employees (as a category) often receive twice the salary increases the legislature thought they authorized due to step increases, promotions and regrading of positions.
- Take Care of Infrastructure Needs. Rosemary Booth Gallogly, deputy budget officer of Rhode Island says, “It’s more glamorous to do new things than to fix something old. You don’t do a ribbon cutting when you repave your driveway and fix the chimney.”⁵ It’s true, infrastructure maintenance does not lend itself to exciting press releases, but postponing upkeep is dangerous. Failure to take care of the state’s infrastructure will repay _____ legislators with a vengeance.
- Publish an Official State Budget. Legislators are currently spending \$61,800,000 in tax dollars per day.⁶ But believe it or not, a plain English official state budget showing exactly _____
Details such as how many employees the state expects to hire, how many it currently has, or how much the state is paying its employees should be available in a published document.

how this money is being spent is not published. When the legislature finally adopts a budget, they make a sudden rush to adjourn and go home. We can't blame them for being weary and ready to go back to their "real" life. But a result of this mad dash is the absence of a detailed official state budget. A budget document published in legally-binding language that includes the key assumptions used to allocate funds (*e.g.*, caseloads, number of state employees authorized, dollars to be spent on health care) does not surface for months. In the meantime, agencies do not have a clear picture of what they are expected to deliver, in what time frame, and with how much money.

Details such as how many employees the state expects to hire, how many it currently has, or how much the state is paying its employees should be available in a published document. Detailed breakdowns of health care expenditures and expectations should also be available.

One of the best tools to use in developing a responsible and efficient state budget is performance-based budgeting.

BUILDING PERFORMANCE-BASED BUDGETS

It is an understood maxim: Whether in commerce, organizations or institutions, performance improves when accountability is required. But, for some reason, applying meaningful accountability measures to state government operations is viewed as punishment rather than motivation.

Voters have clearly spoken their minds regarding government accountability. They want wasteful spending practices to stop. They want to be assured their money is being spent efficiently by elected officials.

One of these statewide elected offices bears the title of State Auditor, leading one to assume that the primary function of that office is to perform audits on state-related matters. Our State Auditor, however, is prohibited from conducting what are called "performance audits" – assessing the economy, efficiency and effectiveness of state agencies as outlined in their legislatively-directed missions. We are the only state in the nation to levy such a prohibition on our Auditor.

In 1993, State Auditor Brian Sonntag took a detailed and thoughtful look at how we provide – or don't provide – accountability. He noted weaknesses in the current system, most of which have not changed in the intervening years. Some of his findings follow:⁷

- "Policymakers, public officials and program managers lack the information they need to gauge the success of their efforts and to adjust policies and programs when needed.

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- "The state's budgeting system does not link spending with statewide priorities and performance.

- “Systems for assuring accountability in state government are not integrated, do not take advantage of modern management techniques and do not contribute adequately to the optimum use of scarce resources.
- “State government is obsessed with controlling how things should be done – regulating processes and controlling inputs – rather than focusing on outcomes and results.
- “State government does not have an effective means of abandoning obsolete programs and services.
- “Levels of government (federal, state and local) do not work in harmony in delivering programs or services.
- “At the state and local levels mandates are handed down without resources to carry them out.”

We concur with Sonntag’s findings and believe these same weaknesses still exist today.

Sonntag, and his staff do an excellent job of tracking the *accounting practices* of state agencies, boards, and commissions. However, this is a far cry from the *performance audits* they are forbidden to do.

To help provide accountability measures and to satisfy a restless public, the legislature created the Washington Performance Partnership. Their mission is as follows: “...the state of Washington expects to be the most effective and best performing state government in the United States, measured in terms of quality of customer service, accountability for cost effective services and productivity.”⁸

The partnership was intended to bring together public officials, employees and citizens to initiate strategies aimed at dramatically reforming the way state government operates. However, little bipartisan legislative support was offered and as a result, the Partnership followed the path of its highly publicized predecessors – the Efficiency Commissions, Governor’s Blue Ribbon Commissions, etc. – providing lots of fanfare, but few results.

At least two ways exist to demonstrate to the public that taxpayers are getting their money’s worth from state government.

1. Require state government to implement performance-based budgeting as law mandates. Agency directors should issue public reports on how well they have used their budgets to meet performance standards.
2. Permit the State Auditor to conduct performance audits.

To be most effective these recommendations require state government to first define its core functions as discussed in previously in *Stewardship Series #1: Core Governing Principles*. After all, what

difference does it make how well an agency is performing a particular function if that function is not something they are supposed to be doing in the first place!

WHAT ARE PERFORMANCE-BASED BUDGETS?

Each major item in the budget should contain clear and precise goals that are realistic and explicit expectations of outcomes or results. These outcomes or results are called performance measures and specify in quantifiable terms what an agency or program is expected to achieve. They should be easily understood and agreed to by those who will judge the success of agencies and programs, such as legislative standing committees, and by those who will be held accountable, such as agency program managers.

Ideally the process begins with the agency program managers developing performance measures. To accomplish this, managers consider the legislative intent for each program as well as the governor's budget directions. The performance measures must include baseline data for making comparisons, descriptions of how the measures relate to the agency's strategic plan, and identification of outputs produced by, and outcomes resulting from, each program.

These measures must be approved by the head of each agency and the governor, or the governor's budget director. The process is complete when the legislature ratifies or changes each agency's performance measures in the biennial budget.

Performance budgeting must focus on outcomes and should use a few selected indicators for measurement. For example, in social services, the important outcomes are changes in people's lives that occur if a policy or program is working as designed.

In contrast, the current system, too often measures performance based on criteria such as the number of employees, how many phone calls an agency receives, how many miles are driven, the number of children classified in a certain manner, the number of welfare clients, etc. These are essentially "input" measurements and rarely evaluate whether or not the program is working and is worth continuing.

A performance-based budgeting model changes the entire focus of state government. Instead of asking, "How many people are we serving?" the question becomes, "How well are we serving the people?"

Performance-based budgeting makes sense. Even the current law indicates the need for a change. It says, "The current operating budget process for state government has been generally based on the presumption of continuing current service levels and giving careful consideration only to marginal changes. It is not well understood or supported by the public or state government policymakers" (RCW 43.88B.040).

Remember, these comments were made regarding the existing method of state government operations. The law goes on to mandate that, “Beginning no later than the 1997-1999 biennium, the state operating budget and the process used to develop that budget shall, to the fullest extent possible and based on the recommendations of the council [Performance Partnership Council (see above)], be redesigned to reflect an effective state-wide system of performance measurement...”(RCW 43.88B.040).

Unfortunately, the law has not been effectively implemented, so EFF would go one step further and ask the governor to mandate through his 2001-03 Budget Instructions that all agencies **must** develop performance measures to receive continued funding.

Once a performance-based budget system is built, performance audits can be completed.

Once a performance-based budget system is built, performance audits can be completed. Performance audits measure the economy, efficiency and effectiveness of programs. They are an independent third-party review of an agency’s accomplishments and the degree to which they have achieved the predetermined performance measures. There are three types of performance audits:

- *Performance measure audits*, which determine the adequacy of systems used for measuring, reporting and monitoring performance. Such audits also determine whether the agency or program has reported performance measures that are valid and reliable, and whether the reported results are being achieved.
- *Economy and efficiency audits*, which determine whether the agency or program is using its resources economically and efficiently. These audits focus on the causes of any inefficiencies or uneconomical practices as well as whether the agency or program has complied with significant laws and regulations in acquiring, protecting and using its resources.
- *Program audits*, which look at the extent to which desired outcomes or results are being achieved, the causes for not achieving intended outcomes or results, and compliance with significant laws and regulations that apply to the program.
- *Performance audits* are meaningless without performance-based budgeting. Think about the sequence: If agencies do not have performance measures, what is being audited? For example, if legislators are interested in how well OSPI is running the school busing program, they need all three of the above audits, called a comprehensive performance audit, to fully determine results. The state may be very efficient in writing rules and regulations for busing, but the regulations may be totally ineffective, or overly prescriptive, thereby impeding efficiency and driving up costs.

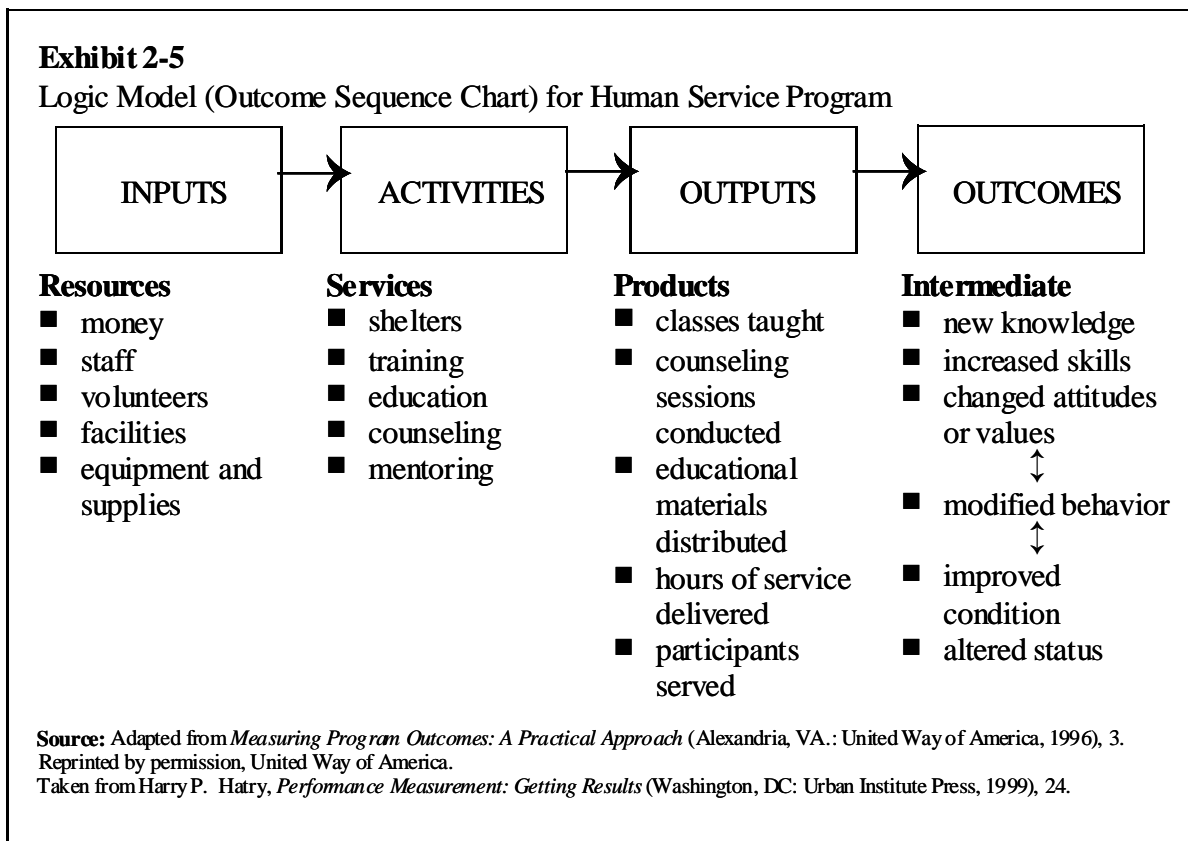
A useful way to diagram relevant factors for performance in a performance measurement system is to use an outcome sequence chart. Exhibit 2-5 is based on material by United Way of America.

Performance budgeting and performance audits would enable taxpayers and legislators to determine what they are receiving for the money spent. Programs failing to live up to their objectives can be altered or terminated. Programs that work can be rewarded and continued.

Performance audits are being conducted in every other state in the nation. The legislature should authorize our State Auditor to begin the process here at home right now.

What we are suggesting is not radical or new. Some of our recommendations merely speed up implementation of current law.

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The U.S. General Accounting Office describes what NOT to do:

“The U.S. General Accounting Office noted in June 1998 that the federal Head Start program provides a number of performance standards that are actually program regulations defining local government activities, *not outcomes*. Grantees must adhere to these regulations in operating their programs. The GAO report goes on to say: ‘HHS ensures local government quality by monitoring and enforcing compliance with these regulations.’ But monitoring for compliance provides incentives for compliance; *it may or may not produce effective services*. To the extent that such a compliance perspective continues to be the primary program emphases, the real intent of managing-by-results and outcome-based performance measurement will be heavily diluted. The GAO report identifies this limitation and notes that HHS ‘in the next few years’ intends to provide information on real program outcomes – such as the gains made by participating children and their families in vocabulary, literacy, and social skills and the extent to which families have become economically and socially self-sufficient.”⁹

Source: U.S. General Accounting Office, *Head Start: Challenges in Monitoring Program Quality and Demonstrating Results* (Washington, D.C., June 1998), GAO/HEHS-96-186, especially 3 and 11
Taken from Harry P. Hatry, *Performance Measurement: Getting Results* (Washington, DC: Urban Institute Press, 1999), 16.

WHAT OTHER STATES ARE DOING

Florida

Former Florida Governor, Bob Graham, created a policy accountability system in 1981. By 1986, performance agreements contained 182 measures spread among 11 agencies. Governor Graham reviewed quarterly reports personally with each agency head. If designated goals had not been met, remedial actions were proposed.

But from 1986 to 1992, things deteriorated. Florida’s agencies developed performance measures on their own. No one paid any attention to whether the targets were realistic or appropriate.

In November 1992, 83 percent of the voters approved a constitutional amendment requiring performance measurement and productivity programs. *Financial World* magazine considers Florida’s performance measurement system the most promising.

The Office of Program Policy Analysis and Government Accountability (OPPAGA) is an office of the Florida Legislature created to provide objective analysis of state policies and to ensure government accountability. The following is taken from their Performance Based Budgeting Report in 1998 and Policy Analysis in 1999.

“Florida is now past the mid-point in a seven-year effort to change the way that it funds government programs. While performance-based program budgeting is being implemented for most state activities, it has not been applied to state agency administrative and support functions.

“Excluding administrative and support functions from performance-based program budgeting is problematic for two reasons. First, it limits government accountability because the Legislature lacks a means to assess whether agencies are being efficient and effective in their administrative and support functions. Second, the Legislature lacks a consistent way of assessing how much money should be appropriated to administrative and support functions.

“Establishing specific performance expectations for agency administrative and support functions through performance-based program budgeting will allow agencies to identify ways to optimize their internal administrative and support resource allocation. Measures could also provide the Legislature with information that it could use to analyze agency operations and assess the potential for shifting resources from indirect administrative and support activities to direct program services.”¹⁰

“Establishing specific performance expectations for agency administrative and support functions through performance-based program budgeting will allow agencies to identify ways to optimize their internal administrative and support resource allocation.”

“In Fiscal Year 1998-99, 55 state programs administered by 20 agencies are operating under [performance-based program budgeting] PB²...OPPGA also has published program evaluation and justification reviews covering the 13 programs that have operated under PB² for at least two years. These evaluations provide the Legislature with independent, unbiased information on the success of these programs in meeting performance expectations and have identified \$57.3 million in potential savings.”¹¹

“The Legislature established a policy to fund all workforce development education programs based on performance. Starting in July 1999, school districts and community colleges will receive at least 15% of their workforce education funds based on performance. The Legislature created “Performance-Based Incentive Funding” in 1994 to provide financial incentives to community colleges and school districts for offering successful training programs in high skill, high wage occupations. During 1996-97, school districts earned approximately \$4.9 million and community colleges earned approximately \$7 million from this incentive funding initiative.”¹²

“The usefulness of PB² information for budgeting decisions could be improved if agencies requesting changes in the resources they receive can show how they anticipate these changes to affect program performance. ...For example, the Department of Highway Safety and Motor Vehicles requested 25 additional positions for the Florida Highway Patrol in Fiscal Year 1998-99 and justified this request on the basis that additional officers were needed to patrol the turnpike. However, the department did not indicate how the new positions would affect its ability to achieve its PB² performance standards for seat belt compliance rates and accident and death rates on patrolled highways. By requiring agencies to link their proposed budget changes to their PB² measures, the Legislature could better assess how the increased investment of public funds would produce more services or better results.”¹³

Oregon

In 1989, Oregon published “Oregon Shines”, a strategic vision of where the state should be in the year 2010. The legislature established the Oregon Progress Board, headed by the governor, and gave it the task of developing a set of tangible measures to gauge whether the state was moving toward these goals.

To track how Oregon is doing in achieving the ‘Oregon Shines’ goals, the Progress Board has adopted 92 measures of success called Oregon Benchmarks. Examples of these benchmarks include measures such as per capita infant mortality, vehicle miles traveled and water quality. The 92 benchmarks are divided into seven categories: Economy, Education, Civic Engagement, Social Support, Public Safety, Community Development and Environment.¹⁴

“For the first time, the Progress Board is assigning an overall grade for each benchmark category. Generally, these grades are low. ...These low grades do not mean that the Progress Board believes Oregon is headed in the wrong direction. Clearly, in certain areas, like employment dispersion and teen substance abuse, Oregon is heading away from the year 2000 targets. For the most part, however, the grades indicate that the pace of change is simply slower than hoped for.”¹⁵

It is important to note that Oregon has not tied its benchmarks to its budget system.

Texas

Several Washington state legislators have followed the progress of the Texas Performance Review (TPR) over the past few years. The first Texas performance review, *Breaking the Mold* arose from a \$4.6 billion gap between state revenues available for the 1992-93 biennium and the cost of maintaining current services. The review was completed in July 1991 and examined 195 areas of state government operations making 975 recommendations to improve its effectiveness and efficiency. It ultimately saved the state \$2.4 billion.

In 1993, TPR complete its second major review of Texas state government and released *Against the Grain: High Quality, Low-Cost Government for Texas*. This report, which analyzed nearly 200 different subject areas within state government and offered about 460 specific recommendations for the Legislature, consisted of about 95 percent new proposals that were not discussed in *Breaking the Mold*. *Against the Grain* generated nearly 130 related bills in the 1993 legislative session, and legislation enacted as a result of *Against the Grain* increased Texas’ general revenue by more than \$3.8 billion (about 85 percent of TPR’s suggested savings) during fiscal 1994 and 1995.

TPR’s third major report, *Gaining Ground: Progress and Reform in Texas Government*, was issued in November 1994. *Gaining Ground*’s complete package of recommendations was expected to generate \$1.9 billion in general revenue and \$2.1 billion in all funds over fiscal 1996 and 1997.

In their performance review manual, Texas officials say, “The usefulness of TPR’s methods is not limited to Texas state government. In the years since its creation, TPR has served as a model for

review efforts in other Texas agencies and other state governments. In addition, TPR provided guidance and support to the National Performance Review headed by Vice President Al Gore. [Members of the Texas Performance Review team are] convinced that any government can adapt TPR's methods and procedures to make its operation more cost-efficient and more effective."¹⁶

"In 1991, the Texas Legislature passed a 'Strategic Budgeting' law, which requires statewide strategic planning on a five-year basis, including individual plans for each agency. The 1993 Legislature approved the use of strategic planning requirements (including goals, objectives, and strategies) as the basis for state budgeting, resulting in the present system of performance budgeting. Appropriations are tied directly to agency goals. Program outcomes, outputs, and efficiencies are measured and reported. Expected performance levels are included in the General Appropriations Act. Performance rewards and penalties are authorized to encourage the achievement and maintenance of the performance measures."¹⁷

"In 1991, the Texas Legislature passed a 'Strategic Budgeting' law, which requires statewide strategic planning on a five-year basis, including individual plans for each agency. ...Appropriations are tied directly to agency goals."

Now, five performance reviews later, "The Texas Legislature has adopted proposals from the five statewide reviews which have freed up a total of \$8.6 billion in state general funds since 1991. This total represents nearly 70 percent of all amounts proposed by the five statewide reviews."¹⁸

Minnesota

Beginning in FY 94-95 Minnesota's budget has been developed around a performance-based model. State budget decisions are determined, in part, by measurable outcomes and results. The state measures progress by issuing an annual report on Minnesota Milestones. Following are a few descriptive quotes from the report.

"Minnesota Milestones was created in 1991 by Governor Arne H. Carlson as an early model for outcome measurement to hold government accountable for results. It is used by government agencies, businesses, nonprofit organizations, local communities and individuals to understand where the state is headed. Some organizations use it for developing their own performance measurement systems."¹⁹

"The report uses 70 progress indicators to determine whether the state has moved closer to 19 wide-ranging goals for Minnesota's people, economy, community life, government and environment. For example, progress toward the goal of health is gauged by such indicators as health insurance coverage, life expectancy, premature death and infant mortality. The 1998 report shows that Minnesota has outpaced the nation in economic growth and standard of living, has improved academic achievement, multiplied outdoor recreational opportunities, improved the health of its people and expanded support for those in need.

“However, on some goals the state has not fared as well in the 1990s. The environment, while generally of good quality, is under mounting pressure. More families are facing acute problems. The economies of some urban and rural areas remain under stress. Fewer people are exercising their right to vote.”²⁰

The first series of well-documented performance reports were issued in 1994 and had a strong impact on the 1996-97 biennial budget. A recent state survey found that 86 percent of senior managers are using the state’s program-measurement systems to manage their operations.²¹

Note: In our opinion, some of the criteria used to create the performance measures listed in this section are inappropriate roles for government to assume. Still, lawmakers, agency officials and the public can see expectations and debate the relevance of each. This surpasses most states where lawmakers, agency directors and the public frequently haven’t a clue about what is going on and why.

CONCLUSION

Accountability in state government operations is essential not only for fiscal integrity, but also to ensure that the various missions of state agencies are realized. However, accountability measures will be relatively meaningless unless they are wrapped around core principles.

It should also be remembered that front-line employees can help drive change or frustrate it. Legislative standing committees need to work closely with state employees and other public and private interest groups in establishing meaningful performance measures.

Endnotes

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3. WA State Office of Financial Management, *The 1993 Data Book*, 46.
4. Wendell Cox and Sam Brunelli, *America’s Protected Class III*, American Legislative Exchange Council (April 1994), 10.
5. Katherine Barrett & Richard Greene, “State of the States 1995, Tick, Tick, Tick,” *Financial World* (September 26, 1995), 39.
6. Total WA state budget for 1999-01 of \$45.2 billion divided by 731 days equals \$61.8 million dollars per day.
7. Brian Sonntag, WA State Auditor, *State of WA Plan For Reengineering State Government* (November 22, 1993), 3,4.
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9. Harry P. Hatry, *Performance Measurement: Getting Results* (Washington, DC: Urban Institute Press, 1999), 16
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12. Ibid, 6.
13. Ibid, 10-11.
14. Oregon Progress Board, *Achieving the Oregon Shines Vision: The 1999 Benchmark Performance Report Highlights*, (March 1999), 2.

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18. Andy Liebler, Texas Comptroller of Public Accounts, December 14, 1999.
19. Minnesota Milestones 1998: Measures that Matter, introduction, www.mnplan.state.mn.us/press/
20. Ibid.
21. Brian Sonntag, WA State Auditor, *Advocating Accountability* (1993 report), 23