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Performance Based Budgeting:

OPPORTUNITIES AND
CONSIDERATIONS

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Executive Summary

Effective long-term Performance Based Budgeting requires strategic planning and measurable benchmarks

A review of research studies on PBB and a look at other states' experiences with various forms of PBB illuminates key factors and considerations that should be a part of this, or any successful PBB initiative:

1. Start with strategic planning— successful PBB requires that agencies be clear on their missions, goals and objectives.
2. Choose the right activities to measure and the right way to measure them—what an agency decides to measure will depend on what its objectives are and how the day to day activities of program staff contribute to the attainment of those objectives. Measures must assess both efficiency and quality of services to the public.
3. Conduct strategic planning and performance measurements with public needs in mind – the agency goals and objectives that PBB seeks to encourage and measure must be in line with what Californians need and want

Further, SEIU Local 1000's review of PBB in other states shows that it must:

- Include input from affected workers;
- Set realistic timeframes and expectations;
- Budget enough resources;
- Keep the number of performance measures that agencies adopt manageable;
- Use auditors, from outside affected agencies, to oversee compliance with PBB mandates;
- Provide adequate training and resources to improve performance;
- Avoid punitive measures or “disincentives.”

Quality performance indicators make PBB successful

It is difficult to say with certainty when and where an idea as broad as performance based budgeting began. Many date its origins to the post World War II period in the US when the Hoover Commission, a federal body of public administration experts, sought to reform the way executive branch agencies measured and reported department outcomes.¹ During that period the progressive faith that rational, empirical decision making in public administration could trump power politics was alive and well. That faith certainly has been tempered by history. Today support for performance based approaches to budgeting are more modest. They come out of the perennial desire among administrators and legislators to strengthen the link between results and resource allocation and the public's demand for more governmental accountability.

Simply put, performance based budgeting is a system that bases program and agency funding on results or outcomes by measuring performance towards key program objectives that support the overall mission of the agency. The key to any successful PBB initiative is the quality of the performance indicators that are used to measure whether an agency's activities are advancing its objectives and goals. If the indicators are poor, even successful efforts at meeting performance targets won't necessarily bring an agency closer to meeting its goals and fulfilling its mission.

There is considerable debate about the ultimate goal of performance based budgeting. Fiscal conservatives and budget hawks like to emphasize the opportunity that PBB represents to make the provision of government services more efficient by reducing the amount of "inputs" (e.g., dollars, employee hours, etc.) per unit of "output." This reduces the cost of programs and the savings can then be given back to the taxpayers. This version of PBB also saves tax dollars because, in theory, agencies that fail to meet their performance goals can be sanctioned with reductions to their budgets or zeroed out completely. This money presumably goes back to the public in lower taxes and leaner, more efficient government.

In reality PBB has not been a major revenue saver for cities or states. While some states have reported modest savings due to reductions in program redundancies, the most drastic potential cost saving measures- program eliminations and agency lay-offs of people working in programs that don't meet performance measures- are a relatively rare occurrence.²

The fact is that providing quality public services costs money. In order to make those services as responsive and valuable to the public as possible, the government sometimes has to spend more money, not less. This is why Washington State preceded its foray into PBB with what they called the "Priorities of Government" initiative which attempted to identify, price, and rank the top programmatic expectations of the public and make decisions about what the state could afford to provide and what it couldn't.³

What performance based budgeting can do and has done is make agencies more accountable by mandating that they track and report how the money that is appropriated to them is used to meet their objectives and goals. PBB requires managers to examine the cost of day to day activities and think about how those activities contribute to agency objectives. This focuses attention on outcomes and helps to rationalize work output. While increased efficiency may be a valuable by-product of this process, the ultimate goal is more effective and higher quality services for the public.

¹ International Monetary Fund, *From Program to Performance Budgeting: The Challenge for Emerging Market Economies*, <http://www.imf.org/external/pubs/ft/wp/2003/wp03169.pdf>. Also see Janet M. Kelly and William C. Rivenbark, *Performance Budgeting for State and Local Government*. Armonk, New York, : M.E. Sharpe, 2003. P.16

² Only two states with PBB systems have "disincentive" provisions that sanction agencies that don't meet performance targets- Texas and Florida. Since Texas formally adopted PBB in 1991, eight agencies have been abolished. See United States Government Accounting Office, *Performance Budgeting: States Experience Can Inform Federal Effort- GAO-05-215 Appendix IV*, February 2005 P. 50.

³ For more information on how Washington State developed and implemented its Priorities of Government initiative, go to the state's Office of Financial Management website at <http://www.ofm.wa.gov/budget/pog/>.

Four budget formats

There are four major budget formats that governments use to track past expenditures and future agency allotments:

- **Zero based budgeting** – With “zero based budgeting”, an agency receives no money until they account for the previous year’s funding and demonstrate its effective use.
- **Program budgeting** – “Program budgeting” organizes expenditures on the basis of programs or policy issues in an agency and the projected revenues needed to effectively address the problems that the program was put into place to deal with.
- **Line-item/baseline budgeting** – The most common budget approach is line-item, “baseline budgeting.” This method presents each significant budget item for which there’s a cost separately and uses expenditures levels from the previous year as a benchmark for future allocations. Future funding for discretionary programs will generally be comparable to the most recently enacted appropriation, adjusted for inflation. While baseline budgeting builds predictability and stability into the budget process and allows agencies to do more effective long term planning, its critics claim that automatically guaranteeing a comparable amount of funding as the previous year with no accountability for past effectiveness encourages waste and poor performance.
- **Performance based budgeting⁴** – PBB demands that agency objectives and goals be clear, performance measures and targets be put in place and budget appropriations be based on whether the agency is meeting its targets.

⁴ National Conference of State Legislatures, *Budget Procedures*. November 2008, <http://www.ncsl.org/?TabID=12669>.

Strategic planning necessary for success

In order for performance based budgeting to be effective the agency must have a clear sense of its mission, overall goals and objectives and how the programs within the agency propose to reach them. The process of determining what an agency wants to achieve and how it will achieve it is referred to as strategic planning. A strategic planning process is required to identify these baseline elements prior to the implementation of any system of budgetary accountability including PBB. Any PBB initiative that is put in place without a strategic plan is likely to have performance measures that track disparate and unrelated activities that may or may not have anything to do with why the agency and the programs in it were created in the first place.

In states like Louisiana, strategic planning is a statutory mandate for agencies and must take place prior to PBB implementation.⁵ California also requires agencies to go through a strategic planning process periodically in order to realign its mission, goals, and objectives with its day to day programmatic activities.⁶ In fact, most states with a PBB component to their budget process require agencies to go through some sort of strategic planning process.⁷

⁵ Louisiana State Legislature, *Member Orientation Guide 2008-2012*, http://house.louisiana.gov/og/Index_Interim08.htm Also see <http://doa.louisiana.gov/OPB/pbb/pbb.htm>

⁶ California State Department of Finance, *Strategic Planning Guidelines*, May 1998, http://www.cdpr.ca.gov/docs/dept/planning/strg_pln/spguide.pdf.

⁷ Julia Melkers and Katherine G. Willoughby, *Policy Brief: Performance Based Budgeting Requirements in State Governments*, January 1998, [http://www.bb.go.th/Evaluation/Part_in_Foreign/PARTstr/PERFORMANCE percent20BASED percent20BUDGETING percent20REQUIREMENTS percent20IN percent20STATE percent20GOVERNMENTS.htm](http://www.bb.go.th/Evaluation/Part_in_Foreign/PARTstr/PERFORMANCE%20BASED%20BUDGETING%20REQUIREMENTS%20IN%20STATE%20GOVERNMENTS.htm).

How to measure budget performance

The key to successful performance based budgeting is choosing the correct activities to measure and the right way to measure them. What an agency decides to measure will depend on what its objectives are and how the day to day activities of program staff contribute to the attainment of those objectives.

There are five main modes of performance measurement:⁸

- **Outcome indicators** – measure the end results of work activities over a given period. For example, an agency has a retention problem so it institutes a training program to lower its turn-over rate. The outcome measurement would track to what extent the turn-over rate declined- if at all- over a certain period.
- **Output indicators** – track quantifiable agency targets. For instance, an agency has an objective to increase its client intake by 25 percent over the next year. The outcome measurement would count the increase or decrease in the number of clients that the agency processed on a quarterly basis. The targets might be a six percent increase each quarter over 12 months.
- **Efficiency measurements** – follow the cost of inputs-per-outputs (widgets, white papers) with the goal of decreasing the input to output ratio. An example would be a printing agency that has 192,000 labor hours available to it annually and has a goal of increasing production by 15 percent over the next year with the same amount of labor hours.
- **Input indices** – focus solely on the volume of inputs (money, labor hours, raw materials) with the goal of sustaining that level in future years in order to provide enough resources to continue agency programs. This is most often used in revenue generating agencies that to some degree are self financing.
- **Quality measurements** – emphasize the level of end-user or “customer” satisfaction. Indicators may include the number or percent of service recipients at a DMV who indicate on a questionnaire that their wait time was shorter than expected or that employee service was courteous.

⁸ University of Wisconsin- Extension, *Performance Measurement & Performance Based Budgeting (PBB)- Financial Management Series Number 8* PPT. 2008. Also see Richard D. Young, *Performance Based Budgeting Systems*, USC Institute for Public Service and Policy Research, [http://ipspr.sc.edu/ejournal/assets/performance percent20based percent20budgets.pdf](http://ipspr.sc.edu/ejournal/assets/performance%20based%20budgets.pdf). P.13

PBB seeks to include all stakeholders

Before an agency can effectively serve the public it has to know what residents expect from their government for the tax dollars they provide. Measuring program outcomes, and holding agency heads accountable for meeting performance targets, reaching objectives and accomplishing goals only matters if the public wants the services that the agency is providing and values these services over other possible state endeavors. Tying performance based budgeting to a process that seeks to include all of the stakeholders in a dialogue about governmental priorities helps ensure that there's buy-in for state initiatives among the public. This buy in is particularly important when a large scale overhaul of a state's budget process is under consideration.

As indicated earlier, Washington State developed the Priorities of Government project that pulled together industry leaders, and state government officials to develop a list of the top ten government priorities. Then the team identified and priced each activity that state agencies performed that corresponded to one of the chosen priorities. The team then "developed a resulted based prioritization of activities" that "provided the criteria for choosing the activities that most directly accomplished the desired outcome."⁹

Other states have an even more grassroots approach to public participation. In Michigan legislators went straight to the public to ask them what they wanted from state government.¹⁰ Representatives held town halls and focus groups to glean from residents what their priorities were. In Iowa, their PBB statute requires public participation in the development of government budget priorities.¹¹

9 Washington State Office of Financial Management, *Priorities of Government Schematic*, <http://www.ofm.wa.gov/budget/pog/documents/schematic.pdf>

10 The Midwestern Office of the Council of State Governments, *Michigan Hopes New Way of Budgeting Improves Results*, May 2005, <http://www.csgmidwest.org/memberservices/Publications/SLMW/2005/0505/May05.pdf>

11 *Policy Brief: Performance Based Budgeting Requirements in State Governments*, P.3

California's attempts at PBB

During recessionary periods states often begin to fundamentally examine the ways in which they budget. In the early 1990's California was experiencing a dip in tax revenues, rising unemployment, and a fiscal crisis similar to the one the state currently faces. The legislature passed, and Governor Wilson signed, the Government Performance and Results Act of 1993 which set up PBB pilots in five agencies¹²

Three years later the LAO released a review of California's PBB pilot project. While the report did voice support for the concept of performance based budgeting and conceded that it was "too early to determine whether performance based budgeting will meet the primary goals established by the Governor,"¹³ it was highly critical of PBB's poor implementation and somewhat skeptical about the potential for cost savings. According to the report "a significant investment of resources had been made" with no clear assessment of the results.¹⁴ The project also failed to fundamentally change the budget process.¹⁵ The report also indicated that non-uniform tracking and reporting requirements for the pilot agencies were inefficient and confusing.¹⁶

The LAO's most important observation came at the very end:

"Identifying strategic goals, developing priorities, measuring outcomes and allocating budget dollars accordingly may appear to represent fundamental change, but in the end it will be the state government's employees who will be responsible for whether services are delivered in a more responsive and effective manner. In that regard, continuous quality improvement programs will play a key role to ensure that the tools are available to get the job done."¹⁷

The LAO's report addressed many of the same challenges that other PBB initiatives in California have gone on to face in the future. Issues of costs, commitment on the part of state officials and the demand for more accountability on the part of the government all continue to be debated in relation to the way the state budgets its resources.

¹² California Legislative Analyst Office, State Administration- Crosscutting Issues: Performance Budgeting, Costs are Certain Results are Pending, 1995 P. H-16. http://www.lao.ca.gov/analysis_1995/State_Administration_anl95.pdf#page=13. The agencies were the Department of Consumer Affairs, Department of General Services, Department of Parks and Recreation, Department of Toxic Substances Control, California Conservation Corps.

¹³ Ibid. P. H-18

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid. 21

¹⁷ Ibid. P.24

Other PBB Efforts in California

California ended its first official foray into PBB in the late 1990's after the economy picked up. Since then, legislators have introduced a number of bills on performance based budgeting, shown in Table 1 (next page).

Table 1. History of Performance Based Budgeting Bills in the California Legislature

Bill Number	Author(s)	Outcome	Main Provisions
Assembly Bill 1105	Jackson and Reyes	Became law 1999	Required the Dept. of Consumer Affairs to end its participation in PBB.
Senate Bill 1082	Burton and Brulte	Died in committee 2004	Required the Dept. of Finance to pilot PBB in four agencies. Mandated agencies to evaluate PBB pilot and report to Joint Leg. Budget Committee
Senate Bill 1148	McClintock	Died in committee 2004	Would have required the State to adopt PBB.
Senate Bill 777 & Assembly Bill 1382	Wolk and Niello	Died in committee 2010	Both bills required the Governor to submit a PBB and agencies to produce an outcome-oriented performance measure for each activity for which an appropriation was made.

Despite the failure of PBB legislation over the last 10 years there still is considerable interest in PBB coming from government reform groups.¹⁸ The bi-partisan organization California Forward has been working with California Senate President Darrell Steinberg and the newly elected Assembly Speaker John A. Pérez on a package of budgetary and governmental reforms that include a PBB initiative. This PBB measure would require the Governor's budget to contain "performance measurement standards for state agencies and programs" and would mandate that each "state agency in the executive branch for which an appropriation has been made" establish performance based budgeting by 2014-15.¹⁹ This bill, SB 844, is scheduled to come before the Senate Budget Committee in April of 2010 for a vote. If the bill makes it through the committee and passes both houses of the legislature, it will appear on the November 2010 ballot for voter approval.

Our experience from past PBB efforts should tell us a few things about how to proceed in the future. One issue is cost. As noted above, the LAO found PBB to be cost intensive. The limited five agency pilot cost the state over five million dollars and failed to increase savings in those agencies significantly. According to a Legislative analysis of AB 1382 done by Assembly budget staffer Geoff Long in 2009, PBB "implementation estimates by DOF [Department of Finance] are 'at least' \$300 million, primarily for staff and information systems, based on the participation of about 245 departments. ...DOF estimates ongoing GF [general fund] costs of about \$90 million."²⁰ While it's true that the initial costs of SB 777 and AB 1382 would have been significantly lower than this estimate because they were pilot programs, we also know that PBB will be an investment. This time around the question is: is the state willing to pay the up-front costs to reap the benefits in higher quality public services and increased agency accountability?

Another lesson we should keep in mind is that it is more costly for the state to allow agencies to create, track and report on performance measures using their own formats and IT systems. While some may see this approach as necessary to increase the amount of "flexibility" agencies have to tailor PBB implement to their own needs, legislators and the LAO in the past have suggested that a more uniform approach to implementation makes more sense.²¹

18 This list of organizations include the California Association of Non-Profits and California Taxpayers Association

19 California State Legislature, SB 844- Committee on Budget and Fiscal Review, January 2010.

20 Geoff Long, *California Assembly Committee on Appropriations AB 1382 Bill Analysis*, May 2009, http://info.sen.ca.gov/pub/09-10/bill/asm/ab_1351-1400/ab_1382_cfa_20090519_170406_asm_comm.html

21 LAO, Performance Budgeting, Costs are Certain Results are Pending P. H-21

PBB successes and failures

Washington State: a consistent leader

In 1996 Governor Gary Locke led an effort requiring state agencies to submit performance measure data for their programs. This law began a decade long transformation in the way that the state's executive branch developed its funding priorities, monitored agency performance and budgeted the state's resources. Currently, Governor Chris Gregoire uses PBB information from the state's Government Management Accountability and Performance Program, or G-MAP, to see how well agencies are meeting their targets. G-MAP is a performance database that produces periodic reports showing program objectives, timelines, and progress towards targets. These quarterly reports are coupled with testimony from selected agency heads at hearings where the Governor has an opportunity to ask questions about the progress of various programs in a public setting. The G-MAP system is also used by the state's Office of Financial Management to help the Governor construct its budget.

This system has helped Washington State maintain a relatively high level of quality public services during the worse economic downturn since the 1930's. According to *Governing Magazine*, a popular journal of public administration, Washington State "has been a consistent leader in results-based governance...No state in the nation is better at developing and sharing information than Washington."²² They attribute this success to Washington State's ability to track the results of program investments and work with agency heads to find new ways of meeting target outcomes.

In the summer of 2009 Local 1000 went to Washington State and talked to a number of performance based budgeting experts. While they all had somewhat different takes on how PBB had affected the budget process in the state, they all agreed that most of its effects had been seen in the new level of agency accountability in the executive branch. This accountability has demonstrated results. Improvements to social worker response to reports of abuse have created a safer environment for Washington State's children due to performance tracking.²³ According to the State "Social workers now respond to reports of child abuse within 24 hours 96.5 percent of the time, up from 65 percent in 2004. As a result, repeat instances of child abuse have declined by a third."²⁴ The state has also been able to reduce "fatalities per vehicle mile traveled over the last three years to an all-time low of 1 per 100 million" and to "contain costs for prescription drugs" saving more than \$85 million since 2005.²⁵ According to state officials, PBB has been a key aspect in these impressive performance improvements.

There are a number of important lessons to be learned from Washington's experience. Jeffery Showmen, Washington State's main PBB advisor to the Governor, claimed that PBB wouldn't necessarily save California money – particularly at first.²⁶ Instead it should be seen as more of an administrative and management tool for agency accountability for the delivery of services rather than a tool that determines legislative appropriations. Along these lines, Showman has also echoed what other states, including California, have found. PBB systems have substantial start-up costs. IT systems, staff training, shifting budget formats, special PBB consultants, oversight and agency implementation all make PBB an investment in government services rather than a budget cutting solution.

Another observation from Washington State's experience suggests that it's difficult to create effective performance measures from the top down. Staff who actually do the work must be involved. Remy Trupin, Executive Director of the Washington State Budget and Policy Center, was clear about this: "The most important issue with implementing

²² *Governing Magazine*, *Grading the States 2008- Washington*, <http://www.accountability.wa.gov/main/Article1.pdf>

²³ Washington State Office of the Governor, *Council of State Governments Awards Two Washington State Agencies Highest Honors*, October 2008, <http://www.governor.wa.gov/news/news-view.asp?pressRelease=1040&newsType=1>

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ Service International Employees Union Local 1000, *Jeffery Showmen PBB Interview*, June 2009

PBB is how you derive your performance indicators. That process must include input from the rank and file.²⁷ Worker input in the creation of performance measures and targets help to ensure that the right activities are being measured and the targets are reasonable given staffing, workload and agency expertise. This also helps to prevent the kind of perverse incentives that reward the manipulation of performance data.

Arkansas' ambitions fall flat

In 2001 Arkansas adopted PBB. The plan called on agencies to create and submit strategic plans and measure agency progress towards meeting their goals by adopting performance measures and targets. By 2003 it was clear the project was in trouble. By 2005, the state officially repealed PBB.

According to the state, the main IT vendor for the project, SAP Global, failed to deliver the right PBB software components per contract terms and, as a result, was unable to automate the PBB IT system.²⁸ PBB apparently did not accurately reflect state agency goals and objectives and proved to be burdensome to state agencies.²⁹ Arkansas also concluded that resources could be used more efficiently if PBB was eliminated.³⁰ In addition the state generally failed to understand how difficult it would be to bring a PBB system online. According to Kelly Boyd, Governor Mike Huckabee's technology policy adviser:

"We failed to recognize that we were changing the accounting system in the state. We weren't just teaching people how to run computers; we were teaching them accounting all over again."³¹

In fact, a new accounting method wasn't the only thing that employees tasked with implementing PBB in Arkansas needed to learn. They also had to become familiar with IT applications and new reporting requirements. In the end Arkansas decided PBB just wasn't worth all the effort and resources.

In early 2000 SAP Global won a bid to create the Arkansas Administrative Statewide Information System (AASIS)- the place agencies were suppose to call for help with PBB data problems. The state "set an ambitious schedule" and had a target go-live date of July 2001.³² The state gave itself 16 months to develop, implement and train end-users in numerous applications connected to PBB.³³ The state never met its goal.

The Chief Information Officer and the Department of Information Systems variously controlled the AASIS center over time, resulting in an "unnecessary division of labor" and blurred lines of accountability.³⁴ Response time to IT problems also slowed due to lack of training. Training class schedules were poorly published – the first software overview session had a utilization rate of less than 50 percent.³⁵ This training failure also affected managers. There was a weak knowledge base among program administrators, budget personnel and managers about PBB and the IT systems that were to facilitate its operation. As a result, expertise lay with contractors and consultants – not civil service staff, the governor's administration or the legislature.

27 Service International Employees Union Local 1000, *Remy Trupin PBB Interview*, June 2009

28 Louisiana State Legislature, *SB 204: An Act to Eliminate Performance Based Budgeting For State Agencies*, January 2005, <http://www.arkansas.gov/lobbyist/arliab/src/public/bills/2005/html/SB204.html>

29 Ibid.

30 Ibid.

31 Shane Peterson, *Lost Signals, Government Technology*, January 2003, <http://www.govtech.com/gt/39205>

32 Ibid.

33 Ibid.

34 Ibid.

35 Ibid.

Once Arkansas's PBB initiative was in trouble, staffers for Governor Mike Huckabee told the state's CIO not to share information with the legislature and not to talk with the press. This led to frustration among legislative staff, a public that was completely out of the loop and poor press coverage of the PBB project. By contrast, in Washington State "the governor and other key staff communicate results to the citizens" on a regular basis and "the effort includes a regular schedule of town hall meetings and workshops that take place all over the state."³⁶

Oregon shines

Since the early 1990's Oregon has been considered at the forefront in the use of performance measures and "benchmarks" to focus resources on the achievement of agency goals. In 1989 Oregon passed a law instituting "Oregon Shines," a strategic plan that identified three goals for the state and strategies to reach them. In 1990 the state legislature created the Oregon Progress Board in order to monitor and oversee the state's strategic plan. This 12 member panel is chaired by the Governor and made up of citizen stakeholders.

The Progress Board puts out a biennial report called "Oregon Benchmarks" that according to California's Little Hoover Commission is a "publication that is nationally acknowledged as a leader in setting standards and measure criteria...Oregon's state departments are expected to design their programs and their own accountability measurements around the expectations set in Oregon Benchmarks. The benchmarks are derived from community meetings and policy maker input by a permanent state commission."³⁷

Oregon has not escaped the cutbacks that states have experienced due to the recession (the Progress Board itself was zeroed out in 2009 although the state's Department of Administrative Services now performs many of their responsibilities). The state is, nonetheless, widely seen as having one of the most effective public service delivery systems in the U.S. due to the synergy between stakeholder input, strategic plan, performance measures/benchmarks, and, perhaps most important, the high level of ownership among Oregon's civil service of this process.

One example of state workers improving customer service through the use of performance targets or "benchmarks" comes from Oregon's DMV workers out of SEIU's OPEU Local 503. After the introduction of "Oregon Shines," the state's DMV underwent significant changes. Staffing levels increased, service level goals were established, a Monthly Customer Satisfaction Survey was created and customer service became a priority.³⁸ DMV workers across the state largely welcomed the changes.

When budget cutters tried to close DMV field offices in the late 1990's and early 2000's, Local 503 fought to keep these DMV service centers open in order to better serve their local communities. These workers were able to keep all but one office open during the downsizing efforts because they had been successful at delivering quality public service at DMV offices throughout the state and had the political clout to make agency performance mean something to the politicians in Salem. A 2006 Oregon benchmark study demonstrated how in everything from average wait time to customer satisfaction levels, Oregon's DMV workers were outperforming similar DMV workers in other states.³⁹ Once performance targets were clear and fair and workers were given the resources to meet expectations, great things happened.

³⁶ Governing Magazine, *Grading the States 2008- Washington*, <http://www.governing.com/gpp/2008/wa.htm>

³⁷ Little Hoover Commission, *Budgeting Reform: Putting Performance First*, October 1995, <http://www.lhc.ca.gov/earlyreports/135es.html> P. 50

³⁸ Quality Customer Service at Oregon DMV, Service International Employees Union: Local 503 PPT. Available upon request.

³⁹ Ibid.

Key components of PBB

Performance based budgeting can be a useful tool for state governments. If implemented right, it can help to reduce arbitrary work activities that expend resources but don't contribute to agency objectives and better outcomes. It can make clear what performance expectations are for everyone and put line workers, supervisors and managers all on the same page. Most importantly, performance based budgeting and everything that goes into making it possible, encourages rank and file workers, managers and directors to focus on strategies for improving public services that move agencies closer to fulfilling their mission.

SEIU Local 1000-represented state employees are well positioned to play a critical role in the success of performance based budgeting in California state government. Within SEIU, in locals across the country, public employees are taking the lead in spearheading innovations that improve the quality and efficiency of public services. This is, in fact, one of the union's top priorities. Although the financial pressure that state and local governments are currently experiencing will diminish in coming years, it will not go away completely. The important services provided through the public sector can best be protected by committing to perform those services to the highest standards of excellence. Performance-based budgeting is compatible with this goal, if pursued within the following guidelines:

- Include input from impacted workers. This helps to ensure that overall goals, agency objectives and performance indicators are realistic, and take into account workloads and other issues connected to collective bargaining. It also promotes buy-in from agency workers- a crucial component of any successful PBB initiative.
- Set realistic timeframes and expectations. PBB can provide tools for legislators and agency administrators to promote performance accountability and transparency. But its implementation must be deliberate and shouldn't be seen as a panacea for everything that is wrong with the state's fiscal situation. Remember, California tried to implement PBB back in the early 1990's during an economic downturn hoping it would help solve a similar budget shortfall. This time we should adopt PBB with clear eyes and reasonable expectations about what it can accomplish and in what time frame.
- Budget enough resources. Time, money and human capital will be needed to develop and implement IT systems, budget format changes, training, consulting, trouble-shooting and on-going management and oversight.
- Keep the number of performance measures that agencies adopt manageable. Performance measures should have a narrow scope and should be specific and relevant to the agencies' objectives and goals. This will minimize the amount of data that legislative bodies have to absorb when reviewing agency performance and contribute to the overall workability of the PBB agency review process.
- Use an independent auditor to oversee agency compliance with PBB mandates. Budgets are inherently political. Legislative decisions about funding and program priorities will always reflect this. This is why states like Florida rely on auditors to conduct evaluations of how well the PBB model is working and what changes, if any, need to be made in the system rather than having agencies grade themselves. This limits the politicization of the review process and ensures that widely accepted criteria are used to determine whether agency performance measures are a success, a failure or a mixed bag and not strictly political measures or agency self interest.

- Provide adequate training, resources, and opportunities for input rather than punitive measures or “disincentives.” Remember the lesson from Arkansas. Poor IT planning, training and inadequate resources can sink a PBB initiative in the early stages. The main incentives workers need to meet performance targets are clear expectations, opportunities for input, fair workloads and adequate training and resources. It’s also important to note that out of the 47 states with some form of PBB in their budget process only Texas and Florida provide for any “disincentives” or agency sanctions for not meeting performance goals.⁴⁰ Even in these states, they have only rarely been used and to limited effect.

40 *Policy Brief: Performance Based Budgeting Requirements in State Governments*, P.4;

Also see United States Government Accounting Office, *Performance Budgeting: States Experience Can Inform Federal Effort-* GAO-05-215 Appendix IV, February 2005

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