

Performance Budgeting

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Performance Budgeting

EXECUTIVE SUMMARY

Developing and adopting a budget is perhaps the single most important and time-consuming activity of state government. Ultimately, the budget that is approved by the Legislature and Governor reflects the priorities and preferences that result from a sometimes contentious political process.

Traditionally, budget discussions have focused on the **inputs** of government, such as the amount of funding and staff. Increasingly, however, decision makers and the general public have demanded better information on the results of public programs and policies. This includes information on government's (1) **outputs**, or activities, (2) **outcomes**, or effectiveness, (3) **efficiency** (cost per output), and (4) **cost-effectiveness** (cost per outcome).

In this study we asked:

- **What has been the experience of the federal government, Minnesota, and other states in previous efforts to implement performance-based budgeting?**
- **To what extent did performance-based budgeting have an impact on information, discussions, and decisions in the 1994-95 budget process?**
- **How can information on government performance be used in the budget process?**

PERFORMANCE BUDGETING IN THE FEDERAL GOVERNMENT AND OTHER STATES

The term "performance budgeting" was first widely used in the federal government 45 years ago. At that time, a commission recommended that the federal government develop a budget that presented program accomplishments in addition to program costs. Since that time, there have been several efforts to reform the federal budget in ways that would establish clearer links between outcomes and funding.

In 1965, the federal government implemented the program planning and budgeting system (PPBS). The executive branch required agencies to critically review both their goals and possible strategies for achieving these goals. Using techniques such as cost-benefit analysis, PPBS represented a massive effort to emphasize rational analysis, rather than political consensus, in the budget process. In the 1970s, the federal executive branch tried to implement other budget reforms. It required agencies to implement management by objectives (MBO), which included the measurement of performance against quantifiable objectives, and zero-base budgeting (ZBB), which identified services that could be provided at alternative levels of funding. But most experts agree that:

- **While federal budget reforms have helped bring more systematic analysis into the budget process, their emphasis on performance information has had little direct impact on budget allocations.**

For the most part, these reforms did not outlive the administrations that proposed them. Their failures demonstrated that, for budget reforms to succeed, there must be a shared commitment to the objectives of budget reform within the executive branch, and between the executive and legislative branches. In addition, these reform efforts showed the difficulty of trying to implement major budget changes in a short period of time. They placed enormous burdens on staff to generate budget analyses, and on decision makers to read and use them. By making goals and budget choices more explicit, these reforms heightened the potential for political conflict.

Today the federal government is in the early stages of a new examination of performance budgeting. A 1993 law requires federal agencies to develop annual performance plans starting in federal fiscal year 1999 and annual performance reports starting in federal fiscal year 2000.¹ Several agencies will implement performance budgeting pilot projects during the next five years, and in 2001 the federal Office of Management and Budget must provide recommendations on performance budgeting to Congress.

Several states are also experimenting with performance budgeting. For example, the Texas Legislature included performance measures for all state agencies in its 1993 general appropriations bill. Next year, the California Legislature will establish contracts with several agencies for specified levels of performance and funding.

DEVELOPMENT OF PERFORMANCE BUDGETING IN MINNESOTA

Minnesota's first efforts to develop performance-based budgets occurred at least 25 years ago. At that time, the executive branch started looking at ways to change the focus of state budget formats from "objects of expenditure" (such as personnel, supplies and equipment) to programs and activities. For the 1969-71 biennium

¹ Public Law 103-62, the Government Performance and Results Act of 1993.

The federal government is embarking on new performance budgeting initiatives.

nium, several agencies developed budget proposals "in such a way as to emphasize the purpose (or ends) for which state money is spent."² The 1969 Legislature said that future budgets should "be stated in terms of programs and anticipated accomplishment rather than in terms of objects of expenditure."³

Following several years of experimentation, all state agencies prepared "program budgets" for the 1976-77 biennial budget document. The Department of Finance prepared budget instructions that asked agencies to include measures of "outcomes" and "impacts." We found that:

- **Since 1975, the Department of Finance's biennial budget instructions have continuously encouraged all state agencies to develop and report performance measures.**

Minnesota, like most states, has published agency performance measures in the budget proposals prepared by the Governor. A 1993 report by the Governor's Commission on Reform and Efficiency concluded that Minnesota's budget system was not sufficiently oriented toward agency missions and program outcomes.⁴ Agency staff we talked with said that, over the years, there has been insufficient training to develop good performance measures. They also said that agencies have viewed performance measurement as an idea that was not relevant to decision makers and would not outlive each existing administration.

MINNESOTA'S 1994-95 BUDGET

Most state agencies reported more performance information in their 1994-95 budgets, but the quality was uneven.

The Minnesota Department of Finance instructed agencies in 1992 to include measures of program performance--preferably outcome measures--in their 1994-95 budget proposals. To determine the impact of this most recent emphasis on performance-based budgeting, we reviewed recent executive branch biennial budget proposals and talked with numerous agency staff, Department of Finance staff, legislators, and legislative staff. We found that, for most agencies whose budgets we reviewed, the 1994-95 budget document had more outcome measures than previous budgets. Many agencies reported existing data in new ways to emphasize performance, although agencies usually did not provide outcome-based rationales when making proposals for new spending initiatives.

It will likely take time for agencies to develop a consensus on appropriate measures of performance and collect reliable supporting data. We found that the quality of performance information in the 1994-95 budget was uneven, partly because agencies only had about two months in 1992 to develop performance-based budgets. Although the Department of Finance provided some helpful training for

² Minnesota State Planning Agency and Department of Administration, *Program Budgeting in Minnesota* (St. Paul, February 1969), 3.

³ *Minn. Laws* (1969), Ch. 889, Sec. 1.

⁴ Commission on Reform and Efficiency, *Budgeting and Financial Management in Minnesota State Government* (St. Paul, January 1993).

agencies, officials in several agencies told us this was insufficient. In addition, some agencies had difficulty developing performance measures because their missions had not been adequately defined by state law or by their own internal planning.

While there was some increase in the amount of performance information that was presented in the Governor's budget, we also found that:

- **For the most part, the performance information presented in the Governor's 1994-95 budget proposal had little impact on key discussions or decisions by the executive and legislative branches.**

Department of Finance officials told us that they have viewed performance budgeting as a multi-year effort, and that they did not intend to use performance information to make decisions on the 1994-95 budget. However, the department's budget instructions to agencies stated that Minnesota Milestones, agency objectives, and agency performance indicators would "provide the basis for budget decisions" and that the ability of agencies to retain 95 percent of their base-level funding would depend on the adequacy of this information. We found that there were very limited discussions of performance in executive branch budget meetings convened by the Department of Finance, and there were no instances in which the department reduced agency base funding on the basis of performance information. We concluded that the department's budget instructions were overly ambitious.

Legislators and their staff told us that the performance-based budgeting approach had little impact on public discussion of the proposed budget or on legislative decisions. To some extent, this reflected factors that were unique to the 1993 legislative session, such as the overriding attention given by legislators to the projected shortfall in state revenues. However, it also reflected several more fundamental issues, including: (1) distrust between the legislative and executive branches, (2) the lack of explicit agreement between the legislative and executive branches on agency missions and goals, (3) the disregard of the Governor's budget document during legislative budget hearings by many agency officials and legislators, and (4) the Legislature's lack of confidence in the quality of many agencies' performance measures and supporting data.

Although decision making for the 1994-95 budget was not significantly different from past budgets, we found that:

- **Many agency officials are finding ways to use performance information in their internal management.**

For example, some agencies are starting to assess program effectiveness using measures of customer satisfaction, and others are using performance measures to set goals for individual work units and assess their performance. Efforts such as these have been encouraged by the Department of Finance's recent emphasis on performance budgeting, but they also have been fostered by recent management literature and a law passed by the 1993 Legislature that requires 20 state agencies

Performance information had limited impact on decisions during the 1994-95 budget process.

Development of a performance-based budget should be considered a multi-year process.

to report performance information on an annual basis.⁵ To the extent that the Department of Finance's efforts had an impact on executive branch decisions in the 1994-95 budget process, it was probably on internal agency allocations made to address budget cuts mandated by the Governor. Some observers of the budget process told us that the department's efforts caused agencies to think more about performance and outcomes than they had in the past, especially as they made budget cuts. We found that the budget proposals of several agencies tried to explain the impact of proposed budget cuts in terms of outcomes, although we were unable to quantify whether performance budgeting caused agencies to make different budget choices than they otherwise would have made.

Finally, we examined the budget impacts of Minnesota Milestones, a long-range plan developed by the executive branch following an extensive series of community meetings.⁶ With its 20 state goals and 79 performance indicators, Minnesota Milestones is a serious effort to provide greater focus on the state's well-being and the performance of state government. As noted earlier, the Department of Finance's 1994-95 budget instructions stated that Minnesota Milestones would play an important role in budget decisions. Although agencies usually discussed Minnesota Milestones in their budget narratives, most people we spoke with did not believe that it caused agencies to re-evaluate their fundamental missions, priorities, or activities as they prepared budgets in 1992. Minnesota Milestones had a limited impact on the 1994-95 budget partly because the executive branch proposed using it for budgeting purposes before the document was finalized, before strategies and costs had been considered, and before sufficient outcome data were available. Also, we found that:

- **Decision makers in the executive and legislative branches had difficulty using Minnesota Milestones to make budget choices on specific programs and activities.**

Whether Minnesota Milestones will play a stronger role in future budget discussions depends largely on the executive branch's ability to (1) develop specific strategies (with cost implications) that could improve various aspects of state government's performance, (2) develop a greater sense of "ownership" for Milestones among legislators and state agencies, (3) distinguish Minnesota Milestones from the agency performance measures mandated by the 1993 Legislature, and (4) ensure that the measures are appropriate and based on meaningful, useful data.

Overall, the executive branch's recent focus on performance budgeting has helped to encourage agencies to develop better performance measures and information. This is a useful start, even though the measures and data need considerable improvement. We think that development of a more performance-based budget should be considered a multi-year process. Although performance information had a limited impact on decisions in the 1994-95 budget process, we observed that

⁵ *Minn. Laws* (1993), Ch. 192, Secs. 35, 39-41. The first annual report is due in September 1994, and the law requires the Office of the Legislative Auditor to conduct regular reviews of the measures and supporting data.

⁶ Minnesota Planning, *Minnesota Milestones: A Report Card for the Future* (St. Paul, December 1992).

agency officials are developing more uses for this information in daily management.

LINKING PERFORMANCE INFORMATION TO BUDGETING

There is general agreement among observers of various levels of government that the public sector should do a better job of measuring its performance for purposes of improving policy making, agency management, and public accountability. This consensus is reflected in recent laws enacted by the federal government and several states requiring regular reporting on agency performance. It is also reflected in resolutions by national public administration and accounting bodies, and in management trends such as "total quality management."

Government needs to develop better information on its outcomes, but there are reasons to be cautious when using the information for budgeting purposes.

However, there is considerable debate about whether and how to link performance information to budgeting decisions. On the one hand, some observers believe that performance information will be irrelevant if it does not play a key role in the budget process. The budget process is the primary means by which the executive and legislative branches oversee agency activities and decide how resources should be allocated. But many people have expressed a reluctance to automatically adjust an agency's funding level based on a measurement of its performance. This is because (1) it is unclear whether the appropriate budgetary response to a poorly performing program is to reduce its funding or increase it, (2) program performance may depend on factors that are outside of an agency's control or that are not easily measured, (3) tying funding to performance could create incentives for misreporting, and (4) budgeting is a political process of making choices and tradeoffs, not merely a mechanical process for allocating funds based on data or formulas.

The 1993 Legislature required the Department of Finance to prepare "performance-based" budgets in the future, in addition to requiring annual performance reporting by selected state agencies. We think that performance information can play a useful role in the budget process, but it is only one of many factors that should be considered. Furthermore, national experts and observers of Minnesota's budget process told us that several changes would have to occur before performance information could have a significant impact on budgeting. Agencies would need to recognize performance measurement as a central part of management, not merely a passing fad, and they would have to improve the quality of their performance measures and supporting data. This would enable legislative discussions with executive branch agencies to focus more on policy issues and ways to improve performance and less on questions of fact. In addition, successful implementation of performance budgeting would require greater agreement between the legislative and executive branches on agency and program missions. And, because legislative budget hearings do not always provide enough time to review and discuss agency performance in detail, the Legislature might need to consider other forums for accomplishing this.

CONCLUSIONS AND RECOMMENDATIONS

Performance information can help the Legislature in virtually all aspects of governing, not just budget decisions. It can help the Legislature to develop state policies and goals, monitor policy implementation, communicate with the public, and make budget choices. Likewise, agency officials can use performance information in many aspects of daily management, not just to allocate funds or justify budgets. They can use this information to select goals, priorities, and strategies, to monitor their operations, and to evaluate individual or organizational performance.

Minnesota's 1993 performance reporting act was an important demonstration of the Legislature's commitment to performance measurement. For the first time, performance reporting is required in law, not just in executive branch budget instructions. Furthermore, there are provisions for our office to review the appropriateness, validity, and reliability of agency performance measures and data. Nevertheless, it remains to be seen whether the executive and legislative branches will use this information to help make decisions.

Legislative "performance reviews" might provide a useful forum for discussing agency missions, performance, and objectives.

Many legislators and staff told us that the early part of the budget session could be more useful if legislative committees would conduct agency "performance reviews," using agency performance reports as a focal point for discussions. We think this idea has merit, particularly if agency performance reports can be improved and made responsive to legislative priorities and concerns. We think it would be preferable for this discussion to occur in legislative policy committees, if possible, because these committees consider both policy and budget issues. By conducting these reviews early in the budget session (or even in the months before the session begins), legislators would be better able to consider performance issues when setting budget and policy priorities. The reviews could also provide a better means for legislators and agencies to discuss program goals and objectives, and perhaps arrive at an agreement on reasonable performance expectations.

Many legislators and their staff suggested to us that the Legislature should try to set clearer performance expectations for agencies and programs by adopting statements of mission and priorities into law, where necessary, and by putting performance targets into appropriations bills on a selected basis. We do not recommend having large components of agency budgets or state aid allocations adjusted automatically, in response to the levels of outcomes produced. Rather, performance goals in appropriations bills would provide agencies with clearer statements of legislative expectations, and would provide a benchmark for reviewing subsequent performance.

We also think there are steps that the executive branch should take to improve its use of performance information. We recommend that the Department of Finance:

- **Work with the departments of Administration and Employee Relations to ensure that agencies have sufficient training in performance measurement and its applications to management, and have opportunities to exchange information on these topics.**

- **Publish a consolidated state performance report in November 1994, and every two years thereafter, that highlights key performance information from agency performance reports.**
- **Consider ways to streamline agency budget narratives, highlight performance measures and link them to objectives, and present budget recommendations or options in terms of their expected outcomes.**
- **Convene an ongoing legislative-executive branch work group for the purpose of refining measures and data used in the agency performance reports.**
- **Find ways to more effectively link information on performance with corresponding information on spending, thus enabling better estimates of efficiency and cost-effectiveness.**
- **Work with the Governor to periodically review and discuss agency performance with individual agency heads--either in meetings related to budget development or in separate meetings.**

Performance information is not a panacea for addressing the state's issues. It is a tool that can help decision makers, but it will not make the difficult decisions for them. Knowing how the state is faring on key measures of performance is important, but decision makers will still need to consider reasons for current performance levels, many of which are beyond the control of agencies. It will take time to develop a consensus on what should be measured and to develop credible information.

Introduction

Every two years, the Governor develops a detailed state budget proposal which, after debate and modification, the Legislature adopts. The budget adopted in 1993 represented about \$25 billion in spending, and will influence the state's activities in a wide variety of areas--human services, health care, education, transportation, economic development, and many others.

In June 1993, the Legislative Audit Commission authorized the Program Evaluation Division to study one aspect of Minnesota's complicated budget process--the ways in which performance information has been (or could be) used to make decisions. We asked:

- **What has been the experience of the federal government, Minnesota, and other states in previous efforts to implement performance-based budgeting?**
- **To what extent did performance-based budgeting have an impact on information, discussions, and decisions in the 1994-95 budget process?**
- **How can information on government performance be used effectively in the budget process?**

The audit commission's interest in this topic was closely linked to the 1993 Legislature's passage of an act requiring annual performance reporting by 20 state agencies, starting in September 1994. This legislation requires the Office of the Legislative Auditor, on an ongoing basis, to "review and comment on the appropriateness, validity, and reliability of the outcome measures and data collection efforts" in these performance reports.¹ Our office received drafts of the agencies' first annual reports in November 1993 and will be providing comments to agencies during the first half of 1994. We also intend to issue a report to the Legislature in March 1994 that indicates any changes in the performance reporting legislation or the Department of Finance's instructions to agencies on developing performance reports.

Usually our office would not evaluate an activity in which we have a direct role. In this case, we have tried to provide an objective discussion of efforts to implement performance budgeting in Minnesota that preceded the 1993 Legislature's actions. The basis of the report was numerous interviews with people in the

¹ *Minn. Laws* (1993), Ch. 192, Sec. 35.

executive and legislative branches, as well as interviews with people in other states and careful reviews of past executive branch budget proposals and research literature. Because the 1993 Legislature also mandated that agencies develop future budgets in a performance-based format, we have tried to offer constructive suggestions for ensuring that this information will be more useful to decision makers.

Chapter 1 provides background on performance budgeting, discussing its previous applications in state and federal governments, and summarizing current debates about the need for better performance information and ways to use it in the budget process. Chapter 2 provides a description of Minnesota's process for developing and adopting a state budget. Chapter 3 evaluates Minnesota's development and use of performance information in the 1994-95 budget process, including its use in budget decision making. Chapter 4 evaluates the use of Minnesota Milestones, the state's long-range, performance-based plan, in the 1994-95 budget process. Chapter 5 offers conclusions and recommendations regarding performance budgeting's potential uses in state government.

Background

CHAPTER 1

Public budgeting is "the translation of financial resources into human purposes."¹ Developing and adopting a budget is perhaps the single most important and time-consuming activity of state government. Ultimately, the budget that is approved by the Legislature and Governor reflects the priorities and preferences that result from a sometimes contentious political process.

In this chapter, we discuss the concept of "performance budgeting" and its application in Minnesota and elsewhere. We asked:

- **What efforts have been made to develop performance-based budgets in Minnesota and elsewhere, and what lessons have been learned?**
- **What is performance information, and how could it be used in the state budget process?**

In our reviews of literature and current practices, we found that there are various forms of performance budgeting, ranging from putting performance information in budget documents for information purposes to formally linking a program's funding to its results. Although there is a general consensus that decision makers need better information on government performance, we found considerable reluctance to adopt an automatic link between performance and funding. There is renewed interest in performance budgeting nationally and in Minnesota, but this represents only the latest step in a long history of efforts to bring more systematic analysis into the budget process.

PERFORMANCE BUDGETING IN THE FEDERAL GOVERNMENT

The term "performance budgeting" was first used widely in the federal government 45 years ago. The Hoover Commission on the Organization of the Executive Branch recommended that the federal government adopt a "performance budget," which was subsequently defined as:

¹ Aaron Wildavsky, *The Politics of the Budgetary Process*, 3rd ed. (Boston: Little, Brown and Company, 1979), 1.

Traditionally, budgeting has focused on inputs rather than outcomes.

one which presents the purposes and objectives for which funds are required, the costs of the programs proposed for achieving these objectives, and quantitative data measuring the accomplishments and work performed under each program.²

Traditionally, the budget process has focused on **inputs**, such as the amount of funding or staff that agencies are authorized to have. In the years since the term "performance budgeting" came into widespread use, federal and state budget proposals have provided an increasing amount of information on the **outputs** of programs: for example, the number of people served, number of grants provided, or number of reports produced. However, most budgets have not provided much information on the **outcomes**, or impacts, of government programs or policies.

During the 1950s, federal agencies started collecting and reporting more performance information, generally on their outputs rather than their outcomes. Since that time, there have been at least three significant attempts to reform the federal budget process: the program planning and budgeting system (PPBS) of the 1960s, management by objectives (MBO) in the early 1970s, and zero-base budgeting (ZBB) in the late 1970s.³ Although these budget reforms were different in scope and approach, "each is concerned with showing the linkage between the use of resources and consequent outcomes."⁴

PPBS was, by far, the most ambitious budget reform ever attempted in the United States. President Lyndon Johnson proposed immediate implementation of PPBS throughout the federal government in 1965, following its use in the Department of Defense. The objectives of PPBS were to:

- identify and review goals in each major area of government activity;
- analyze program results in terms of their objectives;
- estimate relevant program costs several years into the future;
- conduct long-range planning for public programs;
- analyze alternative ways of achieving program objectives;

² Executive Office of the President, Bureau of the Budget, *Performance Reporting* (Washington, D.C., 1950).

³ We reviewed numerous publications that discussed these budgeting approaches. Some useful summaries of research are contained in Allen Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review* (March/April 1973), 146-156; James E. Swiss, *Public Management Systems: Monitoring and Managing Government Performance* (Englewood Cliffs, NJ: Prentice Hall, 1991), 204-246; George W. Downs and Patrick D. Larkey, *The Search for Government Efficiency: From Hubris to Helplessness* (New York: Random House, 1986), 144-180; Aaron Wildavsky, *The Politics of the Budgetary Process*, 3rd ed. (Boston: Little, Brown and Company, 1979), 127-144; and Donald Axelrod, *Budgeting for Modern Government* (New York: St. Martin's Press, 1988), 259-308.

⁴ James M. Harkin, "Effectiveness Budgeting: The Limits of Budget Reform," *Policy Studies Review* (August 1982), 115.

- integrate systematic analysis into the budget decision process.⁵

Several federal reforms have tried to develop stronger ties between performance information and budgeting.

The federal government's earlier efforts at performance budgeting had looked for the best ways to accomplish a given objective. In contrast, PPBS encouraged critical reviews of both the ends (goals and objectives) and means (strategies) of public programs. Under PPBS, the federal government required agencies to develop detailed justifications for each program, using techniques such as cost-benefit analysis. PPBS was a massive attempt to emphasize rational analysis, rather than political consensus, in federal budgeting. However, for reasons we discuss later in this section, the federal government abandoned the formal procedures of PPBS by 1971.

In the early 1970s, President Richard Nixon introduced a more limited budget reform, management by objectives, in 21 of the largest federal agencies. The key components of MBO were (1) the definition of quantifiable objectives, (2) the development of annual operating plans that specified how objectives would be achieved, and (3) the measurement of actual performance.⁶ Compared to PPBS, management by objectives required more focus on goals and objectives and less analysis of alternative ways of achieving them, had a shorter-term outlook, and focused less on programs and more on entire organizations. The Nixon administration did not aggressively implement MBO, and this budget reform had little impact after Nixon left office in 1974.

In 1977, President Jimmy Carter required federal agencies to implement zero-base budgeting. Typically, budget discussions had focused on proposed increases or decreases in spending, with less attention on the "base" or current level of spending. However, for each budget activity (including those in the base budget), zero-base budgeting required agencies to develop "decision packages" that indicated services that could be provided at alternative levels of funding. Agencies then assigned priorities to each decision package. In contrast to PPBS and MBO, zero-base budgeting was much more decentralized, and it focused less attention on program objectives and more on finding efficiencies. Although federal agencies implemented ZBB to a much greater degree than either of the previously-discussed budget reforms, observers have concluded that it had little impact on spending levels and agency performance during its four years of existence.

Overall, these attempts to reform the federal budget process failed to live up to initial expectations and did not result in clear links between performance information and budget allocations. There are many reasons that the federal budget reform efforts were not more successful, and these provide lessons that Minnesota should consider as it tries to implement its own forms of performance budgeting. A first lesson is that it is useful to have a shared commitment to the objectives of budget reform within the executive branch, and between the executive and legislative branches. PPBS failed partly because executive branch policy analysis was not integrated into that branch's internal budget process. The analytical staff were separate from the budget staff, and did not understand the process of putting

⁵ Charles Schultze, *The Politics and Economics of Public Spending* (Washington, D.C.: Brookings Institute, 1968), 19-23.

⁶ Downs and Larkey, 166.

together a useful budget. Executive agencies did not fully understand or accept the principles of PPBS. Furthermore, the reforms were initiated by the executive branch, and were viewed with suspicion by the legislative branch. Executive agencies were reluctant to share with Congress the analyses of policy alternatives that were supposed to be the foundation of budget recommendations under PPBS. For the most part, each of the three attempts to reform the federal budget ended when the administration that proposed it left office.

A second lesson is that it is difficult to successfully implement major budget reforms in a short period of time. A federal or state executive branch budget proposal is large and complicated. The existing level of spending--called the base budget--reflects a long history of policy decisions by the executive and legislative branches. There is a considerable amount of power and money at stake in the budget process, so agency and legislative participants are skeptical about budget reforms and the impact they will have. In the case of PPBS, the executive branch lacked the analytical staff and necessary data to make more "rational" budget decisions in a short period of time. Also, many agencies were overwhelmed by the requirements of PPBS because the executive branch tried to implement it without a phase-in period, and with too little internal training.

Third, the federal experiences suggest that budget reforms should not overburden agency staff or legislators. Creating a budget from scratch is more difficult than making incremental budget changes. PPBS and ZBB generated enormous amounts of paperwork because they required agencies to justify portions of their budgets that had not been open to question previously. In some cases, it was difficult for agencies to conduct all of the required analyses in the time they had. When agencies completed their analyses, it was then a difficult challenge to present the results in a concise form that legislators could use.

A final lesson is that rational analysis can be an important part of budgeting, but so is politics. Perhaps the main contribution of these attempted budget reforms was that they have, over time, introduced more systematic analysis into public budgeting. As one recent analysis suggested:

The unprecedented demand for policy analysis that (these budget reforms) created brought large numbers of talented economists, operations researchers, and accountants into the public sector at all levels. While the efforts of these individuals may not have been sufficient to transform the allocation processes of government fundamentally, they did markedly improve the level of discourse that surrounds policy debates, especially at the state and local levels where the tradition of policy analysis was often less well developed and certainly less well funded than it was at the federal level.⁷

But budgeting is a political activity, not merely an analytical exercise. The federal budget reforms did little to reconcile conflicting program and policy goals held by the legislative and executive branches. In fact, by making goals and budget choices more explicit, and by re-examining rather than accepting base budgets, these reforms heightened the potential for political conflict.

Federal reform efforts have brought more analysis into budgeting, but have generally not changed the results of the budget process.

⁷ Downs and Larkey, 179.

Despite the shortcomings of the federal government's attempts at budget reform, some federal agencies have made progress in their efforts to develop performance measures. Recently, the U.S. Congressional Budget Office evaluated six such agencies.⁸ The office found some instances in which agencies have allocated monetary awards to employees or units based on performance. For example, the federal government has established six national outcome measures for the Job Training Partnership Act, and five percent of each state's federal funds must be allocated to local service delivery areas based on federal or state performance measures.⁹ However, the Congressional Budget Office found that performance-based allocations have accounted for very small portions of agency budgets, and measures of outcomes have not been used extensively. Thus, despite gradual improvements in performance measurement and policy analysis, the U.S. federal government has not found many ways to link performance information to budget allocations. Later in this chapter, we discuss recent federal legislation designed to improve performance reporting and explore ways in which this information could be used in budgeting.

Other nations have also had difficulty linking performance information to budgeting.

Like the U.S. federal government, other nations have had difficulty linking performance with funding. As described in Appendix A, several industrialized countries have taken significant steps to institutionalize ongoing performance measurement by public agencies. However, a recent review of these efforts concluded that:

In practice, none of the governments has forged a tight relationship between resources and results, nor is any likely to try.... The state of the art in performance measurement is not so advanced as to warrant precise commitments on what will be accomplished with public funds.

Another reason for the loose relationship is that the measures are intended to have a broad managerial application. The object is to change management styles and cultures, not just to make more rational or defensible budget decisions. It is believed that strong reliance on the measures would generate controversy and discourage managers from cooperating.¹⁰

⁸ U.S. Congressional Budget Office, *Using Performance Measures in the Federal Budget Process* (Washington, D.C., July 1993), 30-37. CBO looked at the Environmental Protection Agency, Internal Revenue Service, Employment and Training Administration, Farmers Home Administration, Department of Defense business operations, and the Public Health Service.

⁹ It is worth noting that the federal government does not use the JTPA performance measures to determine how much funding each state will receive. About 80 percent of state allocations are determined by measures of state poverty and unemployment. The amount of JTPA funding designated for local performance allocations is simply a set portion (five percent) of each state's total allocation.

¹⁰ Allen Schick, "Budgeting for Results: Recent Developments in Five Industrialized Countries," *Public Administration Review* (January/February 1990), 32. Also, Peter N. Dean, "Assessing the Performance Budgeting Experiment in Four Developing Countries," *Financial Accountability and Management* (Spring 1986), 1-24, concludes that the developing countries studied have had "considerable difficulty" implementing performance budgeting.

PERFORMANCE REPORTING AND BUDGETING IN MINNESOTA AND OTHER STATES

As the following section indicates, Minnesota's interest in performance reporting and performance budgeting is not new. In both the legislative and executive branches, there is a long history of efforts to get better information from state agencies on program outcomes. In Minnesota and other states, these efforts have generally not yet resulted in satisfactory measures of outcomes, and the performance information has usually not been linked directly to budget allocations. The 1993 Minnesota Legislature passed a law that reinforces the state's commitment to performance reporting, and outlines new requirements to ensure that the information is useful and appropriate.

Minnesota

Executive Branch Requirements for Performance Measurement

To learn about previous efforts to implement performance budgeting in Minnesota, we reviewed past biennial budget documents and Department of Finance budget instructions. We also interviewed current and former executive branch staff. We found that:

- **The first efforts by Minnesota's executive branch to develop performance-based budgeting occurred at least 25 years ago.**

Until the late 1960s, the Governor's proposed biennial budget (or what we will call the "budget document") resembled a traditional accounting ledger more than a tool for management or planning. The budget document contained information on objects of expenditure--such as salaries, rent, and office supplies--in broad agency accounts that often bore little resemblance to the agency's program structure. Information on individual programs or activities within these accounts was not readily available. The budget document had little or no discussion of the agencies' purposes or objectives.

At the executive branch's initiative, five state departments (or parts of departments) prepared experimental "program budgets" for the 1969-71 biennium. Budgets were arranged by program categories, rather than by objects of expenditure, "in such a way as to emphasize the purpose (or ends) for which state money is spent."¹¹ During the early 1970s, the state gradually shifted to a budget format that was organized by program and included more description of agency activities and purposes. For the 1971-73 and 1973-75 biennia, several agencies prepared two budgets: a traditional budget based on objects of expenditure, and a program budget. The program budgets prepared by six agencies for the 1973-75 biennium

¹¹ Minnesota State Planning Agency and Department of Administration, *Program Budgeting in Minnesota* (St. Paul, February 1969), 3.

There have been long-standing efforts by Minnesota's executive branch to improve reporting on program outcomes.

included a narrative section called "impact and output measures" for each budget activity. For example, to measure the results of its market development and promotion activities, the Department of Agriculture reported the dollar value of sales of Minnesota commodities in various countries, and asked companies to help estimate the sales impact of the department's out-of-state food expositions.

The 1976-77 biennial budget document was the first Minnesota state budget in which all agencies prepared program budgets. Budgets in this biennium (and subsequent ones) were presented at three levels of detail: for the entire **agency**, for each **program** in the agency, and for each **activity** within each program. For this biennium, the Department of Finance prepared budget instructions for agencies that contained extensive discussions of "output" and "impact" measures. Figure 1.1 shows a sample of the department's general 1976-77 instructions to agencies.

This figure also provides samples of Department of Finance budget instructions in subsequent years. We found that:

- **The Department of Finance has encouraged agencies to report performance measures in the biennial budget on a statewide basis since 1975, although there have been differences in the way this information has been presented.**

Over time, the length of budget documents has increased as agencies have provided more discussion of budget issues, policy issues, and contextual information. For example, the Pollution Control Agency's entire 1971-73 budget was six pages, even though the agency was seeking funding for 102 new positions. The 1994-95 budget for this agency was about 100 pages.

Efforts by the executive branch to improve accountability for state programs have not been limited to performance reporting in the budget process. For example, in 1984, Governor Rudy Perpich proposed a "results-oriented management process" for all agencies. For about two years, the Governor asked state agency heads to produce quarterly reports on agency performance. Another important example of executive branch performance measurement was Minnesota Milestones, an outcome-based, long-range state plan issued by the Office of Strategic and Long-Range Planning in 1992. We discuss Minnesota Milestones in Chapter 4.

As indicated by the Department of Finance's renewed emphasis on performance measurement in its 1994-95 budget instructions to agencies (discussed in Chapter 3), the executive branch has not been satisfied with the results of previous efforts to measure performance. Our discussions with current and former executive branch officials indicated several reasons that these efforts have not been more effective. Some said agencies lacked the training and staff to develop good measures, and that agencies did not understand what an "outcome" was. Others told us that agencies viewed performance measurement as an idea that was not relevant to the Legislature, or that would not outlive the existing administration.

Figure 1.1: Examples of Department of Finance Budget Instructions Related to Performance Reporting, 1976-77 to 1992-93 Biennia

- 1976-77.** The budget instructions said that performance indicators should be (1) related to outputs and impacts, rather than inputs; (2) thoroughly defined; (3) measures of the validity of agency objectives; (4) simple and informative; (5) collected on a continuing basis; and (6) related to things that the agency or program activity can influence. The department required agencies' budget narratives to present recommended objectives for all activities, but also to discuss alternative objectives and alternative ways of achieving objectives.
- 1978-79.** The budget instructions said that program budgeting "assists the Governor and legislators in making basic policy decisions by linking costs to services (or benefits) provided. It aims to make agencies more accountable by examining services to people and by evaluating objectives and accomplishments. Within an agency, the program budget process can also serve as a management tool in setting and reviewing objectives and priorities." As in the previous biennium, agencies were asked to provide information on their goals, accomplishments, and alternatives considered.
- 1979-81.** The budget instructions stated: "There will be an increased emphasis on the review of program objectives and identification of quantitative performance indicators at the budget activity level." Agencies were asked to present comparisons of their performance goals for the upcoming biennium to actual accomplishments for the current biennium. This was the first time that agencies presented a statement of their overall purpose (later called "mission") in the budget document.
- 1981-83.** The budget instructions required agencies to state goals and projected accomplishments for a six-year period. Agencies were asked to formally link each performance indicator to an agency objective, and to list the indicators "in order of significance."
- 1983-85.** The budget instructions suggested that agencies present objectives, activity statistics, and performance indicators for each budget **activity**. However, in contrast to previous practices, the instructions also suggested that agencies should consider discussing the accomplishments and statistics of each **program** in their budget narratives.
- 1985-87.** In the budget document, agencies presented "effectiveness measures," which the budget instructions defined as measures of outcome, impact, or quality. Of these measures, the Department of Finance instructed agencies to "place higher priority on completing impact indicators." Agencies were instructed to separately present "activity statistics," including measures of efficiency and workload. According to the budget instructions, the development of objectives and performance measures reflected the administration's efforts to "emphasize accountability and a results-oriented management style..."
- 1987-91.** The budget instructions said that: "The 1987-89 budget process is premised on each agency head being responsible for ensuring that budget materials incorporate appropriate measures enabling policymakers to compare financial costs to expected results.... The use of effectiveness and performance measures on a continuing basis remains the preferred approach for justifying an agency's request.... Difficulty in defining 'measures' does not relieve agency managers of responsibility for effectively demonstrating how resources have been used, or are proposed to be used, in carrying out state programs and policies--and the extent to which the results of the use of state funding is consistent with expectations. A continued focus on a result-oriented budget will help direct discussions within the executive branch as well as within the legislative hearing process." The 1990-91 budget document and instructions were similar to those from the 1987-89 biennium.
- 1992-93.** The budget instructions stated that: "Much of the frustration with development of 'performance' measurement in the past may have come from the lack of clear focus. Thinking about performance measurement needs to be broadened so as to elicit basic questions about the optional strategies available for achieving an objective and the relative costs of those strategies." This budget tried to focus attention on programs, rather than individual budget activities. Agency budgets contained a section on performance for each program--presented in narrative form rather than in tables of performance measures. There were no tables or measures of statistics for individual budget activities.

Source: Minnesota Department of Finance, budget instructions for state biennial budgets.

In 1969, the Legislature expressed a desire for performance-based budgets.

Legislative Requirements for Performance Measurement

As indicated in the previous section, the executive branch developed "program budgets" on a pilot basis in the late 1960s. After reviewing these budgets, the 1969 Legislature said that it preferred "that future budgets and appropriations be stated in terms of programs and anticipated accomplishment rather than in terms of objects of expenditure."¹² The Legislature mandated an expanded program budgeting system that "shall, to the greatest extent practicable, emphasize alternative approaches in the program development and criteria for performance evaluation and measurement."¹³ The 1973 Legislature required departments to develop written objectives for all activities "against which performance may be measured."¹⁴ This law also required the Department of Finance to develop "a system of measuring the effect of fund expenditures which will permit the evaluation and comparisons of the cost of functions or programs."

In 1975, the Legislature developed a new mechanism for monitoring the performance of state government. It created a Program Evaluation Division within the Office of the Legislative Auditor to:

determine the degree to which the activities and programs entered into or funded by the state are accomplishing their goals and objectives, including an evaluation of goals and objectives, measurement of program results and effectiveness, alternative means of achieving the same results, and efficiency in the allocation of resources.¹⁵

Each year, the bi-partisan Legislative Audit Commission identifies five to eight agencies, programs, or other state-funded activities for its staff to review. The reports assist the Legislature in its policy making and oversight functions, but some are also a topic of discussion by budget committees.

Although the Legislature sometimes includes general statements of mission or goals in enabling legislation for state agencies or programs, it usually does not specify numeric performance targets, nor does it usually make funding contingent on specified performance levels. However, the Legislature has, on many occasions, requested the executive branch to prepare reports--either on a one-time or an ongoing basis--on the performance of individual programs. For example, the Legislature has required the Department of Human Services since 1981 to prepare biennial reports evaluating the effectiveness and outcomes of state-funded social service programs.¹⁶ Usually such requirements have reflected the initiative and interests of individual legislative policy or budget committees.

The 1993 Legislature passed a law that requires more widespread and systematic agency performance reporting than previously required in statute. We discuss this

¹² *Minn. Laws* (1969), Ch. 889, Sec. 1.

¹³ *Minn. Laws* (1969), Ch. 889, Sec. 2.

¹⁴ *Minn. Laws* (1973), Ch. 492, Sec. 6.

¹⁵ *Minn. Laws* (1975) Ch. 204, Sec. 91.

¹⁶ *Minn. Stat.* §256E.10.

law in the next section. Some other noteworthy examples of the 1993 Legislature's interest in using performance information for accountability or budgeting were:

- The higher education appropriations bill included "performance measures" for three of the four public higher education systems. For instance, the Legislature indicated that, over a two-year period, individual technical college programs should place at least 60 percent of their graduates in jobs.¹⁷
- The 1993 Legislature required the state board of education to develop a "results-oriented graduation rule" and created a commission to recommend ways to monitor education outcomes and reward progress.¹⁸
- The Legislature provided funding for locally provided collaborative services related to the health, developmental, educational, and family-related needs of children. The law requires that applicants for funding must use outcome-based indicators to measure progress, and it identifies several possible measures.¹⁹
- The Legislature created a Board of Government Innovation and Cooperation that will receive applications from local governments for innovative service projects or waivers of state rules. The board may grant waivers to applicants that specify desired outcomes and the means of measuring them.²⁰

Minnesota's 1993 Performance Reporting Act

It is difficult to conclusively judge how the past efforts to develop performance-based budgeting have affected budget decisions by the executive and legislative branches. In our view, the budget document's narrative is clearly more informative than it was 25 years ago, and most budget observers can cite instances in which the document's performance information has triggered pertinent questions in legislative committees.

Nevertheless, both the executive and legislative branches have expressed dissatisfaction with the quality and utility of the performance measures in the budget. In January 1993, a report by Governor Arne Carlson's Commission on Reform and Efficiency (CORE) concluded that Minnesota's budget system was not very oriented toward agency missions and program outcomes. CORE reviewed about 1,000 performance indicators in the 1992-93 state budget and found that 15 percent were outcome measures, 40 percent were output measures, 6 percent were efficiency measures, and the rest provided explanatory information on the agency or its operating environment. The study said that many measures "were inappropri-

Minnesota's budget has become more informative over time, but its performance measures have often not been satisfactory.

¹⁷ *Minn. Laws* (1993, first special session), Ch. 2, Art. 3, Sec. 14.

¹⁸ *Minn. Laws* (1993), Ch. 224, Art. 12, Sec. 4; *Minn. Laws* (1993), Ch. 224, Art. 1, Sec. 35.

¹⁹ *Minn. Laws* (1993), Ch. 224, Art. 4, Sec. 10.

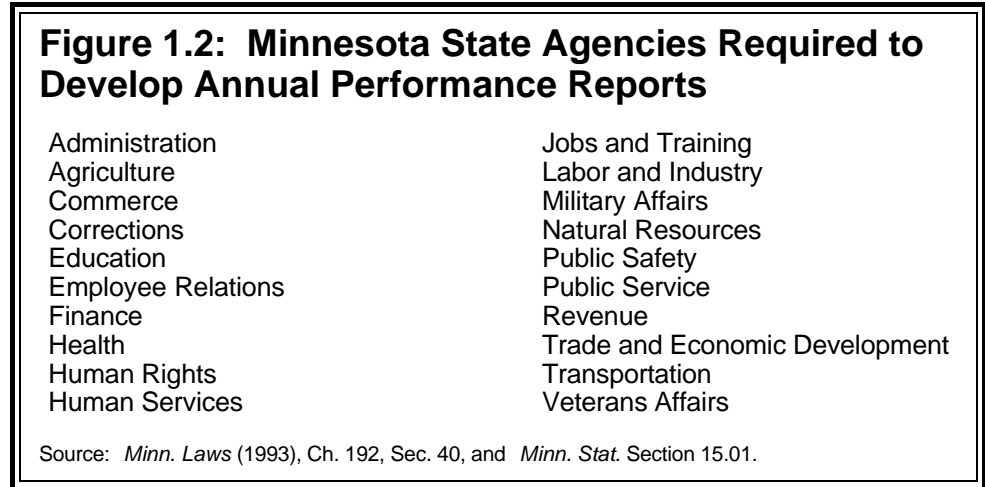
²⁰ *Minn. Laws* (1993), Ch. 375, Art. 15, Sec. 2-3. The board received a \$1.2 million appropriation.

ate or not of high quality." ²¹ CORE concluded that this reflected the lack of agency training in performance measurement or strategic planning, as well as the lack of legislative involvement in development of the budget format.

Partly because of dissatisfaction with performance measures in the 1994-95 budget and previous budgets, the 1993 Legislature passed a bill with executive branch support that outlined new requirements for agency performance reporting. The law mandated that, starting in September 1994, the state agencies shown in Figure 1.2 must annually complete performance reports for their operations. ²² The stated purposes of the law are to:

The 1993 Legislature required 20 agencies to develop annual performance reports.

- Generate information so that the Legislature can determine whether state programs are successful;
- Develop clear goals and priorities for state programs;
- Strengthen accountability to the public by providing a record of state government’s performance in providing efficient and effective services;
- Create appropriate incentives and systems that will allow and encourage the best work by state employees.



The law specifies that agency reports should include (1) statements of mission, goals, and objectives, (2) performance measures, (3) discussions of agency service populations, (4) plans for using outcome information, (5) requests for statutory flexibility needed to achieve goals, (6) discussions of the need for new information systems. Agencies are required to establish worker participation committees to help them develop performance measures and improve services. The law requires the Department of Finance to help agencies develop reports that include appropriate measures of performance, and the Office of the Legislative Auditor to review and comment on agency reports. In July 1993, the department provided

²¹ CORE, *Budgeting and Financial Management in Minnesota State Government: Detailed Report* (St. Paul, January 1993), 17.

²² *Minn. Laws* (1993), Ch. 192, Sec. 35, 39-41, 48, 51, 54.

agencies with instructions and, in September 1993, co-sponsored a conference with the Office of the Legislative Auditor to help agencies understand the basic requirements of the new law. The Legislature also enacted a requirement, proposed by the Department of Finance, for agencies to prepare performance-based budget plans in future biennia.

Recent Efforts in Other States

During the past three decades, many states have implemented variations of the budget reforms that have been tried at the federal level, and with many of the same disappointing results. Although it is difficult to identify states in which reforms such as zero-base budgeting and the program planning and budget system have significantly affected budget allocations, there have been noteworthy changes in state budgeting practices. A recent national survey suggested that 38 of the 50 states (76 percent) now use performance measures of various types in their budget process, typically in the executive branch's proposed budget document rather than a separate report.²³ Another survey indicated that 65 percent of states report effectiveness measures for at least some agencies in their executive branch budget proposals.²⁴ Figure 1.3 shows some of the changes in state budgeting that have occurred over the past 20 years, according to a recent analysis.

Most states present some performance information in their budgets.

Figure 1.3: Characteristics of Budgeting That Are Prevalent Among States Today But Were Not 20 Years Ago

- Executive branch budget instructions include overall spending ceilings;
- Budget instructions require agencies to rank their funding requests;
- Agencies receive written or informal guidance on the Governor's priorities for funding, either by policy area or specific programs;
- The budget document includes performance measures;
- The budget office and agencies use computers to prepare budgets;
- The executive and legislative branches conduct and use analyses of agency productivity and effectiveness during the budget process;
- The accounting system collects information by appropriation, department, organizational unit, program, and activity.
- Budget office staff have master's degrees, mostly in areas other than business and accounting.

Source: Robert D. Lee, Jr., "Developments in State Budgeting: Trends of Two Decades," *Public Administration Review* (May/June 1991), 254-262. The article is based on surveys conducted of states in 1970, 1975, 1980, 1985, and 1990 by Pennsylvania State University.

²³ National Association of State Budget Officers, *Budget Processes in the States* (Washington, D.C., July 1992), 27.

²⁴ Robert D. Lee, Jr., "Developments in State Budgeting: Trends of Two Decades," *Public Administration Review* (May/June 1991), 256, reported that in 24 percent of states, "most agencies" include effectiveness measures in their budget document. In another 41 percent of states, "some agencies" include this information.

In the past three years, many states have initiated new efforts to develop performance reporting or performance budgeting, as discussed in Appendix A. For example:

- In Oregon, the executive branch identified more than 150 performance indicators for state government, and the Legislature approved them. Faced with a sharp reduction in state revenues, Oregon used these benchmarks to help determine priorities during a period of budget cutting.
- The Texas executive and legislative branches have participated in the development of performance measures for all agencies. Agencies have negotiated performance targets with the Legislative Budget Board, and these targets were included in the Texas Legislature's 1993 general appropriations bill (see an example in Figure 1.4).
- Starting in fiscal year 1995, California's legislative and executive branches will develop pilot performance contracts for four agencies. These contracts will specify a level of outcomes that the agency will deliver for a given budget.
- In 1990, Kentucky's Legislature passed fundamental reforms in state funding for elementary and secondary education. Students are being assessed using standardized state tests, and the state will set an objective for a statewide district test average for 20 years into the future. Districts will be expected to make progress toward this goal, and the Legislature appropriated new funding for financial rewards to districts that exceed their biennial goals. Districts that do not meet their goals will receive special assistance from a "distinguished educator," or could be taken over by the state.

Performance information has not yet significantly influenced budget decisions in most states.

Because it may take several years to fundamentally change a budget process and develop credible baseline performance data, many of the state experiments are too new to fully evaluate. The U.S. General Accounting Office recently looked at five states that are "leaders in performance budgeting" and have had long-standing efforts to develop performance measures.²⁵ It concluded that performance information has not yet influenced budget decisions in these states, largely because of lack of consensus on performance measures and incompatibility of the measures with existing accounting systems. However, program managers reported that the measures were useful for internal management purposes.

²⁵ U.S. General Accounting Office, *Performance Budgeting: State Experiences and Implications for the Federal Government* (Washington, D.C., February 1993).

The 1993 Texas Legislature wrote expected levels of outcomes, outputs, and efficiency into its general appropriations bill.

Figure 1.4: Examples of Measurable Performance Expectations in State of Texas Appropriation Act, 1993

DEPARTMENT OF HUMAN SERVICES

B. Goal: FAMILY/INCOME ASSISTANCE

To provide prompt, comprehensive, and effective support and preventive services to low-income families that encourage self-sufficiency and long-term independence from public assistance.

B.2. Objective:

Provide employment and support services to AFDC and food stamp clients

Outcomes:

Length of Time a Household Receives AFDC-Basic Expressed as a Percent - 0-12 Months	29.8%	29.8%
Length of Time a Household Receives AFDC-Basic Expressed as a Percent - Greater Than 12 Months but Less Than 24 Months	16.4%	16.4%
Length of Time a Household Receives AFDC-Basic Expressed as a Percent - 24 Months or Greater	53.8%	53.8%
Percent of Individuals Completing JOBS Training Whose Salary is Above Minimum Wage	70%	72%
Percent of AFDC Caretakers Who Leave AFDC Rolls Because of Increased Earnings due to Employment per Year	12.7%	12.7%
Percent of Food Stamp E and T Participants Who Enter Employment per Year	22.1%	22.1%

B.2.1. Strategy: EMPLOYMENT/RELATED SRVCS

Administer and provide employment services, including case management, education, child care, reimbursement of employment-related transportation expenses, job training, job development, and related supportive services such as health education and life skills training

\$ 86,901,235	\$ 91,995,715
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Outputs:

Number of JOBS Participants Who Complete Component Activity or Become Employed Each Month	32,366	31,863
Number of Children Served Through Child Care Services (E&T and JOBS)	9,879	9,517

Efficiencies:

Average Cost per JOBS Client Leaving AFDC Rolls due to Earnings	4,861	5,065
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B.2.2. Strategy: CHILD CARE SERVICES

Provide access to child care for eligible children in low-income families to enable parents to continue to work

<u>\$ 152,048,961</u>	<u>\$ 153,046,361</u>
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Outputs:

Number of Children Served Through Child Care Services	38,646	37,242
Number of Caretakers Able to Work Because of Use of Child Care Services	21,342	20,581

Efficiencies:

Average Cost per Child per Day for Child Care Services	12.92	13.47
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Note: The columns represent the two years of the 1994-95 biennium.

Source: State of Texas, 73rd Legislature Regular Session, Senate Bill 5.

THE EMERGING CONSENSUS ON PERFORMANCE REPORTING

Ideally, performance budgeting is based on useful, reliable data on the performance of government activities. Performance information can take several forms, including information on:

Performance information can take several forms.

- The **outputs**, or activities, of government programs or services.
- The **outcomes**, or effectiveness, of government programs or policies.
- The **efficiency** (cost per output) or **cost-effectiveness** (cost per outcome) of government programs or services.

Figure 1.5 shows examples of performance measures for several government services. Based on our reviews of literature and interviews with state and national government officials, we found that:

- **There is general agreement among observers of various levels of government that the public sector should do a better job of measuring its performance for purposes of improving policy making, agency management, and public accountability.**

<u>Program/Service</u>	<u>Output Measure</u>	<u>Outcome Measure</u>	<u>Efficiency Measure</u>
Technical college instruction	Number of graduates	Percent of graduates placed in jobs related to training	Student/teacher ratio
Child immunization	Number of children immunized	Number of cases of childhood diseases	Cost per immunization
State custodial services	Square feet of building space cleaned	Percent of building occupants who express satisfaction with custodial services	Square feet of building space per custodian

This consensus is reflected in recent legislation that has been passed by the federal and several state governments (including Minnesota), resolutions by national organizations, and recent management literature. In addition, our own interviews of officials in Minnesota’s legislative and executive branches indicated considerable interest in regular performance reporting. In the following sections, we review recent actions and trends that suggest that the demand for improved performance measurement is widespread and likely to persist.

Chief Financial Officer's (CFO) Act of 1990

This federal act included the most important financial management reforms passed by Congress in 40 years, and it mandated significant changes in planning and reporting by federal agencies.²⁶ The law requires 23 major agencies to have a chief financial officer who, among other duties, must provide for "the systematic measurement of performance." The U.S. Office of Management and Budget (OMB) has been working with agencies to develop performance measures that will be included in their annual financial statements. Most of the measures developed so far have not been outcome measures, and OMB is encouraging agencies to improve their measures in future years.²⁷

Government Performance and Results Act of 1993

This act states that "congressional policymaking, spending decisions, and program oversight are seriously handicapped by insufficient attention to program performance and results," and that federal managers are "seriously disadvantaged" by unclear program goals and inadequate performance data.²⁸ Figure 1.6 lists some of the key provisions of this act, which is scheduled for implementation over the next seven years.

There are some important differences between the federal performance reporting law and Minnesota's.

Three aspects of the federal Government Performance and Results Act of 1993 are notably different from the 1993 Minnesota performance reporting law, discussed earlier. First, Minnesota agencies have less time to prepare their first annual performance reports. The Minnesota law required state agencies to develop draft reports by November 1993, less than six months after the legislation passed, and the final report must be completed by September 1994. In contrast, the federal performance reports will not be due for another six years, following development of agency strategic plans and performance plans. Second, the Minnesota law authorizes the Office of the Legislative Auditor to conduct ongoing reviews of agency performance reports (including the drafts developed in 1993), performance measures, and supporting data. This is intended to help ensure that the performance information is appropriate, valid, and reliable. The federal law contains no provision for ongoing review of performance measures or data by the legislative branch, although the U.S. General Accounting Office must prepare a report on implementation of the act by June 1997. Third, the Minnesota law that requires agency performance reporting also mandates agency development of biennial performance budgets, effective immediately. In contrast, the federal law authorizes several performance budgeting pilot projects, but reserves a decision on widespread application of this approach until 2001.

²⁶ Public Law 101-576.

²⁷ U.S. Office of Management and Budget, *Federal Financial Management Status Report and Five-Year Plan* (Washington, D.C., August 1993), 6-7.

²⁸ Public Law 103-62.

Federal law requires evaluation of performance budgeting on a pilot basis over the next several years.

Figure 1.6: Key Requirements of the Federal Government Performance and Results Act of 1993

- **Strategic five-year plans.** Federal agencies must submit strategic five-year plans to the Office of Management and Budget (OMB) by September 30, 1997. The plans must include comprehensive agency mission statements, "outcome-related goals and objectives," descriptions of how the goals and objectives will be achieved, and a discussion of factors beyond the agency's control that could affect achievement of goals and objectives.
- **Annual performance plans.** Beginning in federal fiscal year 1999, OMB must prepare an annual performance plan for the entire U.S. budget, and federal agencies must prepare their own annual performance plans. These plans must set forth indicators for measuring the outputs, service levels, and outcomes of each program.
- **Annual performance reports.** Beginning in 2000, agencies must submit annual program performance reports to the President and Congress. These reports must compare actual performance to the previously-set goals for that year, and provide explanations in cases where goals are not met.
- **Waivers.** Agency performance plans may include proposals for waivers from procedural requirements in order to meet goals.
- **Pilot projects.** OMB must select at least 10 agencies as pilot projects in performance measurement for fiscal years 1994-96. OMB must select at least 5 agencies as pilot projects in performance budgeting for fiscal years 1998-99. By March 2001, OMB shall "recommend whether legislation requiring performance budgets should be proposed..."

Source: Public Law 103-62.

Resolution by the Governmental Accounting Standards Board (GASB)

GASB is the national body that determines generally accepted accounting principles for state and local governments. Governments wishing to receive an "unqualified" opinion on their public financial reports from a certified public accountant must follow these principles.²⁹ In 1989, GASB passed a resolution that "strongly encourages" state and local governments to develop indicators of "service efforts and accomplishments."³⁰ GASB suggested that governments should regularly collect and report data on these measures, and it has tried to give particular emphasis to measurement of program outcomes.

²⁹ If a government receives a qualified opinion, this means that generally accepted accounting principles were not followed in preparing the financial report, which may concern potential investors. Agencies that rate government bonds base their determinations partly on CPA opinions.

³⁰ GASB, *Resolution on Service Efforts and Accomplishments Reporting* (Norwalk, Connecticut, July 1989).

Regular performance reporting has been endorsed by national organizations.

GASB has produced a series of reports that explore potential performance measures for a variety of state and local services. It has also drafted a "concepts statement" on performance reporting, and public comments on this statement will help GASB decide whether to propose a standard that requires financial reports to incorporate performance measures. GASB will probably not decide whether to require performance reporting in government financial reports until at least 2000, and national organizations such as the Government Finance Officers Association have expressed reservations about having performance standards as part of generally accepted accounting standards. Nevertheless, GASB's interest in this topic has already prompted serious consideration of performance measures in many state and local governments.

Resolution by the National Academy of Public Administration (NAPA)

NAPA is a private, non-profit organization chartered by Congress to provide independent advice on the organization and operation of all levels of government. A 1991 NAPA resolution states: "Most reports on government performance focus on resource expenditures and numbers served; few government agencies provide timely information on the quality and outcomes of their major programs."³¹

The resolution "strongly recommends that units of government at all levels make a concerted effort to encourage agency heads and program managers to monitor program quality and outcomes as part of an overall system aimed at improving the performance and credibility of major public programs." It encourages agreement between policy makers and program managers on appropriate measures of service cost, quality, quantity, and outcomes. It also encourages regular public reporting on performance, including explanations of factors that may have affected performance.

Resolution by the American Society for Public Administration (ASPA)

In 1992, ASPA passed a resolution encouraging "units of government at all levels to measure and report program effectiveness (including outcomes, quality, and timeliness) and efficiency on a regular basis, and eventually to set performance targets and monitor progress against targets."³² ASPA noted that performance measures have been used for a wide variety of government programs, and that credible measures can be developed for "even the most difficult-to-measure programs." However, like NAPA, ASPA concluded that "performance measurement is still the exception rather than the norm" in America's public sector.

³¹ NAPA, *Performance Monitoring and Reporting by Public Organizations* (Washington, D.C., November 8, 1991).

³² ASPA, *Resolution Encouraging the Use of Performance Measurement and Reporting by Government Organizations* (Washington, D.C., April 14, 1992).

Performance measurement is an important part of the "reinventing government" and "total quality management" movements.

ASPA noted that developing and refining good performance measures takes time ("at least several years"). It recommended applying performance measures to all governmental services, regardless of whether the service provider is a public or a private organization.

General Management Trends

Management literature has long recognized performance measurement to be an important part of good management. Managers must measure performance in order to know whether or not to change course. However, the strong emphasis on performance measurement in some currently-popular management literature has reinforced its acceptance in executive agencies.

For example, the authors of *Reinventing Government* urge the development of "results-oriented government" and suggest that agencies tend to focus on those things that are measured:

Organizations that measure the results of their work--even if they do not link funding or rewards to those results--find that the information transforms them.... People begin to ask the right questions, to redefine the problem they are trying to solve, and to diagnose that problem anew."³³

In addition, "total quality management" (TQM), which is an employee-based, customer-driven approach to reviewing organizational practices, views performance data as a necessary tool for making continuous improvements:

(M)anagers must focus on specific performance indicators to understand what the organization is doing. However, under TQM, you do not simply grade employee performance from above: you work together to collect meaningful information about performance--in fact, to decide what information is meaningful; you work together to develop ways to improve performance.³⁴

Earlier this year, a task force of the National Governors' Association suggested a model for "performance-based governance," with four components: a shared vision, measurable goals, performance measures, and performance budgets.³⁵ Also, accountability for results is one of the central themes of Vice President Al Gore's recent report on improving federal management.³⁶ The report recommends that federal agencies work with Congress to clarify the objectives of programs, thus enabling the development of agreed-upon performance measures. It also recom -

³³ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley, 1992), 146-7.

³⁴ Steven Cohen and Ronald Brand, *Total Quality Management in Government: A Practical Guide for the Real World* (San Francisco: Jossey-Bass, 1993), 55-6.

³⁵ Strategy Group on Performance-Based Governance, National Governors' Association, "Performance-Based Governance," *An Action Agenda to Redesign State Government* (Washington, D.C., 1993), 5.

³⁶ Vice President Al Gore, *Creating a Government That Works Better and Costs Less: Report of the National Performance Review* (Washington, D.C., September 7, 1993), 72-77.

mends that the President develop written performance agreements with agency heads.

LINKS BETWEEN PERFORMANCE REPORTING AND BUDGETING

One expert has called budgeting "a process for systematically relating the expenditure of funds to the accomplishment of planned objectives."³⁷ In the United States, the executive branch of the federal and state governments began developing budgets in the 1920s, primarily for the purpose of controlling spending. These early budgets were organized by "objects of expenditure," such as personnel, supplies, and equipment, rather than by programs or activities, such as pollution control or day care licensing. Figure 1.7 shows some of the ways in which public budgeting has evolved since that time. Budgets have become increasingly

Budgets were originally developed to help control expenditures, but they have increasingly been used in management and planning.

Figure 1.7: The Evolution of Public Budgeting in the United States

Budgets in the 1920s:

- **Focused on "objects of expenditure"**
The budget for an agency was presented in categories such as personnel, rent and leases, office supplies, fuel, and equipment.
- **Were control-oriented**
The purpose of the budget was to set limits on agency spending for the categories of spending noted above.
- **Focused on inputs**
The budget focused on the level of spending (and perhaps the number of employees), with little information on what the agencies were trying to accomplish or how they would do it.

Budgets in the 1990s:

- **Focus on programs and activities**
The budget for an agency is presented by program (such as forest management) and activity (such as forest firefighting). Data on objects of expenditure are available for each program or activity, and may be included in the budget document.
- **Are used for control, management, and planning purposes**
The budget document proposes limits on overall agency spending, but it also presents agency managers with an opportunity to discuss productivity, accomplishments, issues that should be addressed, and options for addressing them.
- **Consider outputs and outcomes, in addition to inputs**
The budget document discusses spending in the context of agency mission and activities, and perhaps provides information on actual or proposed program results.

³⁷ Allen Schick, "The Road to PPB: The Stages of Budget Reform," *Public Administration Review* (December 1966), 243.

focused on the activities (and sometimes the results) of government programs, not just spending and staffing levels. Public budgets can be key tools for management and planning purposes, in addition to their original purpose of controlling spending. In general, the budget document has grown in importance as its functions and focus have broadened.

In the 1990s, calls for performance-based budgeting by federal and state officials have generally reflected a desire to consider program outcomes more fully during the budget process. There are various ways in which a budget process can be performance-based or outcome-based. As shown in Figure 1.8, the budget development process, the budget document itself, or budget decisions may be performance-based.

Figure 1.8: Components of a Budget Process That Could Be Performance-Based

- **The process of building an executive branch budget.**

An agency might implement a strategic planning process for the purpose of identifying its key goals and objectives, including target levels for its performance. For example, the Pollution Control Agency might designate high priority to the goal of annually inspecting 100 percent of all large air pollution sources, starting in 1995. If there is a need to request additional staff, or to reallocate existing agency staff, to achieve this goal, the agency could present options or recommendations in its proposal to the Governor.

- **The Governor's budget proposal.**

This document could include information on actual or proposed program performance. For example, the Department of Revenue could present historical information on the state's cost of collecting each \$100 of income taxes. The budget document could also discuss the impacts of alternate strategies to achieve a goal. For example, the Department of Revenue could present an analysis of whether more state revenues could be generated by an investment in additional income tax auditors or an equal investment in the department's taxpayer assistance services.

- **Budget-related decisions by the legislative or executive branch.**

There could be formal, mechanical links between funding and past or projected program outcomes. For example, portions of a school district's funding could be directly based on its students' average performance on standardized tests. Alternatively, the Legislature could establish performance expectations for agencies during the appropriations process, without directly linking these expectations to funding. For example, the Texas Legislature's 1993 general appropriations bill designates expected education outcomes for the upcoming biennium, such as 45 percent of students will pass all of their standardized state tests, and 3.9 percent of students will drop out annually. However, the education funding provided in the bill is not contingent on attainment of these goals.

The 1993 Minnesota Legislature defined performance-based budgeting as "a budget system that identifies agency outcomes and results and provides comprehensive information regarding actual and proposed changes in funding and outcomes."³⁸ This definition suggests that performance information should inform Minnesota's executive branch budget process, and it seems to indicate that the Governor's budget document should discuss agency performance. However, the law does not mandate that executive or legislative funding decisions should be formally determined by agency performance levels.

While our literature review revealed a strong consensus about the need for government to produce better performance information, we found that:

- **There is considerable debate about whether and how to link performance information to budgeting decisions.**

On the one hand, some observers believe that performance information will be irrelevant if it does not play a key role in the budget process. As a recent report by the Association of Government Accountants noted:

(The budget process) is where the legislative and executive branches debate and set policy objectives; and, of course, it is where major resource allocation decisions are made. It is also where regularly scheduled and generally public oversight takes place. It is the natural arena to set performance goals and report on results. Moreover, performance data systems that are not tied to the budget process can be expensive additions to the bureaucratic process and become isolated from decision making.³⁹

Likewise, the National Academy of Public Administration's 1991 resolution on performance reporting stated that: "Performance monitoring should be an essential part of program administration and the budget process."⁴⁰

However, others have expressed considerable skepticism about the potential for directly linking performance information to budget decisions, at least in the short run. For example, the American Society for Public Administration's resolution supporting performance reporting by government "strongly recommends" that initial federal measurement and reporting efforts should focus on "agency performance improvement by Federal managers and on accountability to Congress (i.e., oversight) and the public, and NOT on the legislative budget process."⁴¹ Similarly, the U.S. Congressional Budget Office has stated that "the short-run emphasis should remain on developing performance measures for agency management rather than for use as a tool for allocating resources."⁴²

³⁸ *Minn. Laws* (1993), Ch. 192, Sec. 54.

³⁹ Association of Government Accountants, *Report of the Task Force on Performance Auditing* (Washington, D.C., February 1993), 15.

⁴⁰ NAPA, *Performance Monitoring and Reporting by Public Organizations*, 2.

⁴¹ ASPA, *Resolution Encouraging the Use of Performance Measurement and Reporting*.

⁴² U.S. Congressional Budget Office, *Using Performance Measures in the Federal Budget Process*, xiii.

We think it is possible to reconcile these apparent differences of opinion on how performance information should be linked to budgets. In general, we think these experts agree that budgeting is a critically important governmental process, and that good performance information should inform budget decisions whenever possible. However, some observers have concerns about whether it is practical or wise to develop **mechanical** links between performance and funding, such as making the amount of funding contingent on the level of performance achieved. These concerns are as follows:

- **First, agencies need to refine performance measures and data before they can be linked directly to funding decisions.**

Budget observers have questioned the wisdom and practicality of "mechanical" links between performance and funding.

As noted earlier, national observers believe that in recent years public agencies have developed improved measures of their outputs or activities, but most have not satisfactorily measured the real impacts of these activities. In some cases, agencies have not yet developed performance measures for their key activities. In other cases, agencies have appropriate measures but do not yet collect accurate, reliable data on the measures. It may take time for agencies to develop baseline data that will enable the legislative and executive branches to set reasonable benchmarks for future performance. One of the leading publications on performance measurement recommends: "Do not link performance standards to budget decisions until there is sufficient baseline information on performance to ensure that the standards are realistic estimates of what providers can achieve."⁴³ And as the U.S. General Accounting Office recently concluded, "Despite long-standing efforts in states regarded as leaders in performance budgeting, performance measures have not attained sufficient credibility to influence resource allocation decisions."⁴⁴

- **Second, it is often unclear whether the appropriate budgetary response to a program's poor performance is to reduce or increase funding.**

For example, Minnesota policy makers could target state subsidies toward school districts that have below average scores on standardized tests, in an effort to bring the performance of these districts up to some minimum level of performance. Alternatively, as in Kentucky, the state could create financial incentives for K-12 education by rewarding school districts that have high or improving test scores, or penalizing districts that do not. These approaches embrace opposite philosophies and have different impacts, but either could be called a "performance-based" approach to funding. Although there are certainly instances in which budget levels and financial incentives have affected the results that state agencies have

⁴³ Jack A. Brizius and Michael D. Campbell, *Getting Results: A Guide for Government Accountability* (Washington, D.C.: Council of Governors' Policy Advisors, 1991), 55.

⁴⁴ U.S. General Accounting Office, *Performance Budgeting: State Experiences and Implications for the Federal Government*, 1.

produced, the specific effects of funding on the results of most programs are not well-documented.⁴⁵

- **A third concern about "mechanical" links between performance and funding is that broad performance evaluations, rather than simple performance indicators, may be necessary to usefully summarize the performance of some complex programs.**

Some outcomes are difficult to measure or are beyond the control of state agencies.

For example, many states have developed programs intended to reduce long-term welfare dependency. However, measuring the success of these programs requires more than merely tracking the length of time people remain on welfare. Many variables, such as trends in the national or local economy, influence the rate at which welfare recipients achieve self-sufficiency. Some of these variables are difficult to measure, and some are outside the control of agencies operating welfare programs. The best evidence on the impact of welfare programs has come not from ongoing performance statistics, but from controlled, experimental studies that enable researchers to isolate the impacts of state programs from those of other factors. Thus, for some public activities, performance indicators provide a starting point for improved accountability, but are not sufficient to fully evaluate programs. It would probably be unwise to "reward" the Department of Human Services or a county welfare department with additional funds on the basis of a decline in its welfare caseload.

- **Fourth, some people fear that tying fund allocations to levels of performance could create unintended incentives.**

Specifically, agencies could choose to report only those performance indicators that portray positive results, or they might falsify data. According to high ranking U.S. officials, this problem has plagued Canada's efforts to forge close links between performance information and budgets.⁴⁶

- **Finally, some people note that budgeting is, by its nature, a political process that involves policy choices and tradeoffs; it is not merely a mechanical process for allocating funds based on data or formulas.**

Legislators have differing opinions about the purposes, importance, and measures of success of many programs. As the Congressional Budget Office recently concluded,

⁴⁵ In fact, in the case of education, more than 20 years of research has consistently failed to show a clear link between expenditures and student achievement. See Eric Hanushek, "The Impact of Differential Expenditures on School Performance," *Educational Researcher* (May 1989), 45-51. Hanushek states that "...there seems little question that money could count--it just does not consistently do so within the current organization of schools."

⁴⁶ Statement of Frank Hodsoll, Deputy Director for Management, U.S. Office of Management and Budget, in *Performance Measurement: Toward More Effective Government*, hearings before the U.S. Senate Committee on Governmental Affairs, 102nd Congress, May 5, 1992, and Charles A. Bowsher, *Performance Measurement: An Important Tool in Managing for Results*, Testimony Before the U.S. Senate Committee on Governmental Affairs (Washington, D.C.: General Accounting Office, May 5, 1992), 6.

Performance measures can aid those decisions by establishing the correct level of need, but they cannot tell decision makers how much to provide to one activity at the expense of another. Politics--in the best sense of the word--plays an important and legitimate role in budget decisions, even where measures of outcomes exist.⁴⁷

For example, it is reasonable for policy makers to consider **outputs**--such as the number of elementary students in the state, or the number of welfare recipients--when setting budgets for these programs. There is a clear link between the number of people served and the overall cost of providing a given level of services to them. However, a decision to fund these services based on **outcomes** would require a political judgment. If the Legislature provided financial "rewards" to school districts that successfully increased student test scores, it would likely affect the variation among districts in spending per student. Thus, the Legislature might have to weigh the potential benefits of providing performance-based rewards with the potential costs and consequences of more inequitable distribution of state education aids.

SUMMARY

There have been many efforts by the federal and state governments to develop better measures of government performance and incorporate them into the budget process. These efforts have played a role in elevating the importance of policy analysis and program information in public discussion and decision making. However, the effects of these efforts on budgeting have been subtle, at best. Some performance information has informed decision makers in the budget process, but most observers believe that it has not had significant effects on budget allocations. While most people agree that governments need improved measures of their effectiveness and that these data should inform budget decisions, there remain serious questions about whether government should use performance information as the sole or primary basis for budget allocations.

⁴⁷ U.S. Congressional Budget Office, *Using Performance Measures in the Federal Budget Process*, 8.

Minnesota's State Budget Process

CHAPTER 2

In 1993, the Minnesota Legislature approved and the Governor signed bills authorizing \$25 billion in spending during the 1994-95 biennium. To provide a context for Chapter 3's discussion of the 1994-95 budget, this chapter describes how state budgets are developed and adopted in Minnesota. We asked:

- **What are the Department of Finance's responsibilities in managing the state's biennial budget process? How do state agencies participate in the process?**
- **What roles do the legislative and executive branches have in budget development and adoption, and how do these roles differ?**
- **What are the main components of state spending?**

EXECUTIVE BRANCH BUDGET PREPARATION

The process of developing the state's budget begins in the executive branch. By state law, the Department of Finance coordinates preparation of the biennial budget under the supervision of the Governor (or Governor-elect).¹ In the summer of even-numbered years, the department begins the process by providing instructions for budget preparation to agencies. These instructions provide guidance on budget format, including how performance information should be presented. They also instruct agencies how to calculate their "base-level" budgets, which reflect current spending authorizations, and how to submit proposals for new spending.² Sometimes the budget instructions indicate the Governor's priorities for spending. It is not unusual for agencies to receive supplemental budget instruc

¹ *Minn. Stat.* §16A.10 states that the commissioner of finance "shall prepare the budget for all agencies," but also requires agencies to develop budget estimates and requests and submit them to the commissioner. *Minn. Stat.* §16A.095 requires the commissioner to make rules and instructions regarding the content and submission of budget requests and the classification of expenditures. It also states that: "Executive agencies must cooperate with the commissioner in making a budget. The budget must meet the commissioner's requirements while giving due regard to the executive agencies' requirements."

² In general, the "base" budget reflects current laws and appropriations. When preparing a new budget, the Department of Finance works with agencies to calculate an adjusted base that reflects statutory changes that have occurred since approval of the current budget.

The Department of Finance provides instructions that agencies use when developing budget proposals.

tions in the months that follow the initial instructions. Since 1977, state law has required the Department of Finance to consult on the proposed budget format with the chairs of the Senate Finance and House Ways and Means committees. The 1993 Legislature broadened this requirement to include consultation on budget instructions.³

In 1992, the Department of Finance's budget instructions contained some noteworthy restrictions on agency budget requests. The instructions stated that agency requests could not exceed 95 percent of the 1994-95 base-level funding. In other words, agencies were required to find ways to reduce their current level of spending by five percent. Also, in contrast to previous years, agencies were not allowed to adjust their base budgets upwards to account for inflation. This represented, in effect, an additional spending reduction of approximately 3.5 percent annually from existing levels. Agencies seeking funding above 95 percent of their base budget could submit requests for specific "investment initiatives," and the Department of Finance issued supplemental guidelines indicating the types of initiatives that would be considered for inclusion in the Governor's budget.

Throughout the year, each agency works with a budget officer from the Department of Finance. Currently the department has 16 budget officer positions and two supervisors.⁴ The duties of budget officers include:

- Consulting with and advising agencies on state fiscal policy, budgetary outlooks, budget development, and technical financial matters;
- Analyzing fiscal and programmatic issues affecting the budgets of assigned agencies, and making budget recommendations during the executive branch's budget review process;
- Tracking and explaining agency budgets during the legislative process;
- Approving annual agency spending plans after ensuring that they reflect legislative intent and budget priorities, and monitoring agency spending through the year;
- Evaluating agency requests for new capital appropriations; and
- Providing information to other Department of Finance staff for purposes of financial reporting and revenue forecasting.

Budget officers review the narratives that agencies develop for their biennial budget requests, including measures of performance, and they sometimes recommend that agencies make changes. However, agencies are considered by the Department of Finance to be the "owners" of this information and are primarily responsible for defending the budget documents at the Legislature.

³ *Minn. Laws* (1993), Ch. 192, Sec. 50.

⁴ Includes executive budget officer trainees, executive budget officers, and senior executive budget officers.

Figure 2.1 shows a timetable for the 1994-95 executive branch budget development process. In recent years, the Department of Finance has assembled "executive budget teams" consisting of staff from the Governor's office, Office of Long-Range and Strategic Planning, and the Departments of Finance and Revenue. These teams have provided agencies with an opportunity to present their budget summaries and proposals, and have provided advice to the Governor on key budget issues. Prior to 1984, the Department of Finance held public hearings for the purpose of presenting and explaining agency budget requests. However, the executive branch's process for deciding specific items to include in the Governor's budget proposal have always been private.

For the most part, the executive branch's 1994-95 budget proposal was developed over a seven-month period.

Figure 2.1: Executive Branch Schedule for Development of the 1994-95 Budget

June 26, 1992	Department of Finance issues budget instructions.
July 30 - August 4, 1992	Department of Finance and State Planning office provide orientation sessions for state agency staff on performance measurement and budgeting.
August 15, 1992	Agencies complete calculations of their 1994-95 base budgets, and determine target funding levels based on budget instructions.
September 15, 1992	Draft agency budget plans due at Department of Finance (final plans due October 31). These plans specify the agency proposals for restructuring and managing programs to achieve the target funding levels.
October 15, 1992	Draft agency "investment initiatives" due at Department of Finance (final versions due November 15).
Early October - early November 1992	Agencies present their budget plans to executive budget teams. Agencies write their budget narratives and work with Department of Finance staff to refine performance measures.
November 15, 1992	Department of Finance submits summary agency budget data to House and Senate budget committees.
November 24, 1992	Department of Finance issues revised state revenue forecast.
Mid-December 1992 - early January 1993	Executive branch officials decide on budget recommendations to include in the Governor's proposed budget.
January 25, 1993	Governor submits budget proposal to Legislature.

Source: Minnesota Department of Finance.

State law requires the Department of Finance to send copies of the agency budget plans or requests to the Senate Finance and House Ways and Means committees in November of even-numbered years. In November 1992, the Department of Finance provided these committees with financial information on agency base budgets, but did not provide budget narratives, requests for new funding, or explanations of agency reductions in base budgets. The Department of Administration granted the Governor's request to temporarily classify specific agency budget proposals as "protected nonpublic" data, noting that: "Knowledge that the data will become public data will discourage staff from proposing ideas that may be controversial, criticized or dismissed as unacceptable."⁵ The 1993 Legislature passed a law requiring the Department of Finance to provide the Legislature with agency budget plans or requests in November of even-numbered years, but exempting the department from having to provide the Legislature at that time with "information that identifies executive branch decision items."⁶

State law requires the Governor to submit a proposal to the Legislature for a balanced operating budget by the fourth Monday in January of each odd-numbered year. This must include a "budget message," which is an overview of proposed fiscal policy for the state. In addition, the Governor prepares detailed budget proposals for each agency. The 1994-95 budget was published in five volumes totalling more than 3,300 pages.

Traditionally, Minnesota governors have primarily left the task of drafting legislation for state appropriations to the House and Senate. In 1993, however, the Governor drafted several appropriations bills for the Legislature's consideration that encompassed the major components of his budget proposal, including appropriation amounts.

BUDGET ADOPTION

The Legislature and Governor must approve tax and spending bills that provide for a balanced budget.

The Legislature's process for adopting appropriations bills consists of five main steps: (1) committees hold hearings on detailed agency budgets, (2) the House and Senate leadership set budget targets for their respective appropriations committees, (3) the committees pass appropriations bills, (4) the full House and Senate approve the appropriation bills, and (5) conference committees negotiate differences between House and Senate versions of the bills prior to final passage by both houses. By the start of new biennia in July of odd-numbered years, the Legislature must pass and the Governor must sign tax and spending bills that provide for a balanced budget.

Before legislative committees begin the task of drafting and discussing appropriations bills, House and Senate leaders develop some general boundaries for spending authorizations that can be approved by committees. Since 1985, the House

⁵ Commissioner of Administration Dana Badgerow, "Findings of Fact and Conclusions Regarding Application for Temporary Classification of Data by the Office of the Governor," February 12, 1993, 2.

⁶ *Minn. Laws* (1993), Ch. 192, Sec. 51.

Legislative leaders set broad spending targets, and committees conduct detailed budget reviews.

Ways and Means Committee (called the Budget Committee between 1985 and 1987) has adopted a "budget resolution" setting overall spending and revenue targets for the budget process. In the 1993 legislative session, the committee approved this resolution in mid-March, following the Department of Finance's revised forecast of state revenues for the upcoming biennium. The budget resolution is not binding, but it is the only formal action by either body of the Legislature that addresses the budget as a whole.

Sixteen legislative budget committees, which are often called finance committees or divisions, conduct much of the detailed budget review. These committees are organized by functional area and are typically subcommittees of broader policy committees—for example, the Human Services Finance Division of the House Human Services Committee, or the Crime Prevention Finance Division of the Senate Crime Prevention Committee. The 1993 legislative session was the first in which all members of the House and Senate have been members of a budget or tax committee.

After consulting with committee chairs and staff, the majority party leaders in both houses set specific budget targets for each committee. In 1993, the House leadership set budget targets in mid-March, while the Senate leadership set targets in late March or early April. Some of the agency budget hearings were still in progress at the time the targets were set, but the targets generally reflected broad priorities more than detailed budget analysis. In the House, the sum of the targets was consistent with the overall spending limits in the budget resolution. House and Senate committee budget targets were not publicly debated or formally disclosed to the executive branch or general public. The targets were not binding, but legislators and staff told us that most budget targets did not change much during the course of the 1993 budget session, and a committee seeking increased appropriations for a program was generally expected to accomplish this within its budget target by reducing funding for other programs within the committee's jurisdiction.

Extensive budget deliberations take place in individual budget committees, before and after the House and Senate leadership determine their respective budget targets. Committees vary considerably in their approach to budget review, depending largely on the preferences of committee chairs. Some committees use the Governor's budget as a starting point and review it page by page; others rarely use this budget. Some committees review agency activities by detailed objects of expenditure, while others are satisfied with broader programmatic reviews. The committee budget hearings usually extend from early February to late April.

In both the House and Senate, an appropriations bill must be approved by an individual budget committee, a broader appropriations committee (Senate Finance or House Ways and Means), and by the entire legislative body.⁷ On the floor of the House and Senate, individual appropriations bills are aggregated into omnibus

⁷ Typically, an agency budget must be approved by a legislative budget subcommittee (such as the House Human Services Finance Division), and then by the policy committee to which the subcommittee reports (such as the House Health and Human Services Committee). The House and Senate have taken steps to have membership on policy and budget committees overlap more than they did in the past.

appropriations bills on general topic areas. Prior to passage, legislative leaders of the House and Senate ensure that the topics covered by each of these bills are generally comparable. Each body passed eight omnibus appropriations bills in 1993. The differences between the House and Senate versions of these bills are negotiated in conference committees, and each legislative body then approves the resulting bills, typically in mid-May. The appropriations bills are always voted on separately, and there is no point at which either body of the Legislature votes on the budget appropriations as a whole. These bills are sent to the Governor for his signature or veto. In 1993, following the Governor's veto of some major appropriations bills, the Legislature held a special session to submit revised bills to the Governor before the beginning of the new fiscal year.

Overall, there are several important differences between the executive and legislative branches' budget processes:

- The executive branch plays the lead role in budget development, while the Legislature's role is more reactive. Nevertheless, the process requires compromise between the two branches in order to produce a budget by the statutory deadline.
- The Legislature has a shorter period of time to review the budget than the executive branch has to prepare it. As a result, the Legislature's budget review tends to be incremental, focusing on proposed changes and selected portions of the base budget.
- The executive branch's budget review process is more centralized than the Legislature's. Various agencies participate in budget review, but decisions ultimately rest with the Governor. In contrast, the Legislature's consideration of the budget is fragmented among budget committees, although a small group of legislative leaders play key roles setting committee budget targets and in conference committee discussions.
- The Governor proposes a single budget for the state as a whole, while the Legislature approves the budget in the form of multiple appropriations bills.

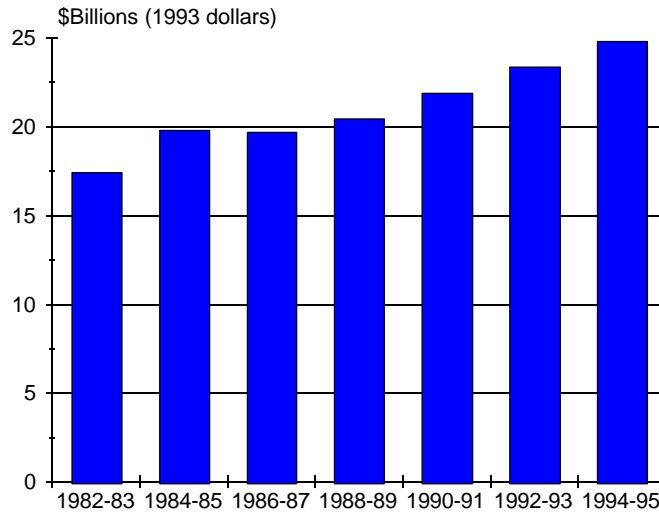
COMPOSITION OF THE BUDGET

At the end of the 1993 legislative session, the Legislature approved a budget for expenditures of about \$25 billion for the 1994-95 biennium. Figure 2.2 shows how biennial expenditures have grown over the past decade, adjusted for inflation. About 62 percent of the budgeted 1994-95 state expenditures are financed by the state General Fund, 24 percent (\$5.9 billion) by federal funds, and the rest by funds dedicated for special purposes.

Figure 2.3 shows how state spending is allocated among types of programs. About one-third of the budget is represented by health and human services spending (\$8 billion), including several large entitlement programs such as Medical

**The
Legislature
approved a
1994-95 budget
for \$25 billion
in spending.**

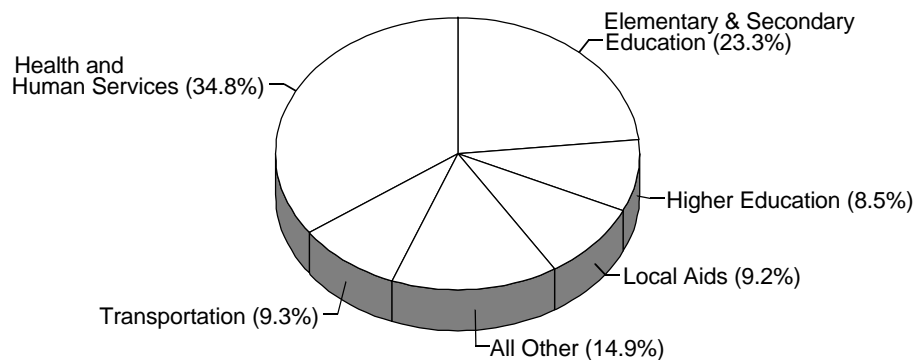
Figure 2.2: State Biennial Expenditures, 1982-83 to 1994-95



Source: Department of Finance, Budgetary Fund Statements.

Note: In constant 1993 dollars, adjusted with the implicit price deflator for state and local government purchases as prepared by the U.S. Department of Commerce. For 1994-95, annual inflation of 3.5 percent is assumed.

Figure 2.3: 1994-95 State Budget (All Funds)



Source: Minnesota State Senate, *Fiscal Review*, 1993 Session.

Note: The "All Other" category includes some federal funds, environmental and natural resources funds, some special revenue funds, the lottery fund and the workers compensation fund.

**Entitlements
and funding
for local
jurisdictions
account for
much of state
spending.**

Assistance, General Assistance, and Aid to Families with Dependent Children. Spending for these programs can be controlled only by changing benefits levels or, in some cases, eligibility criteria. The second largest segment of the budget is education. Spending proposed for elementary and secondary schools represents about 23 percent of the total 1994-95 budget (\$5 billion) and higher education represents another 8 percent (\$2 billion). Smaller portions of the budget include transportation and local government aid (over \$2 billion each). The rest of the state budget, including proposed expenditures for all state agencies' operations, represents less than 15 percent of the total (about \$3 billion).

Most of the money appropriated by the state goes to other jurisdictions, such as cities, counties, and school districts. Ensuring accountability for these funds is a major concern for state policy makers. Most state allocations to local jurisdictions are determined by statutory funding formulas, as in education, or by constitutional requirements, as in transportation.

SUMMARY

The Minnesota budget process begins in the executive branch when the Governor and Department of Finance provide agencies with guidance, including spending constraints, for the next biennium's budget requests. Agencies have been responsible for developing their own performance measures for the budget, with the Department of Finance providing initial instructions and some ongoing advice. The Governor presents a consolidated budget proposal to the Legislature, which then considers the budget by each topic area. Leaders of the majority party in each house play the key legislative roles in determining overall budget allocations, and chairs of budget committees have considerable influence over the review process for their respective parts of the budget.

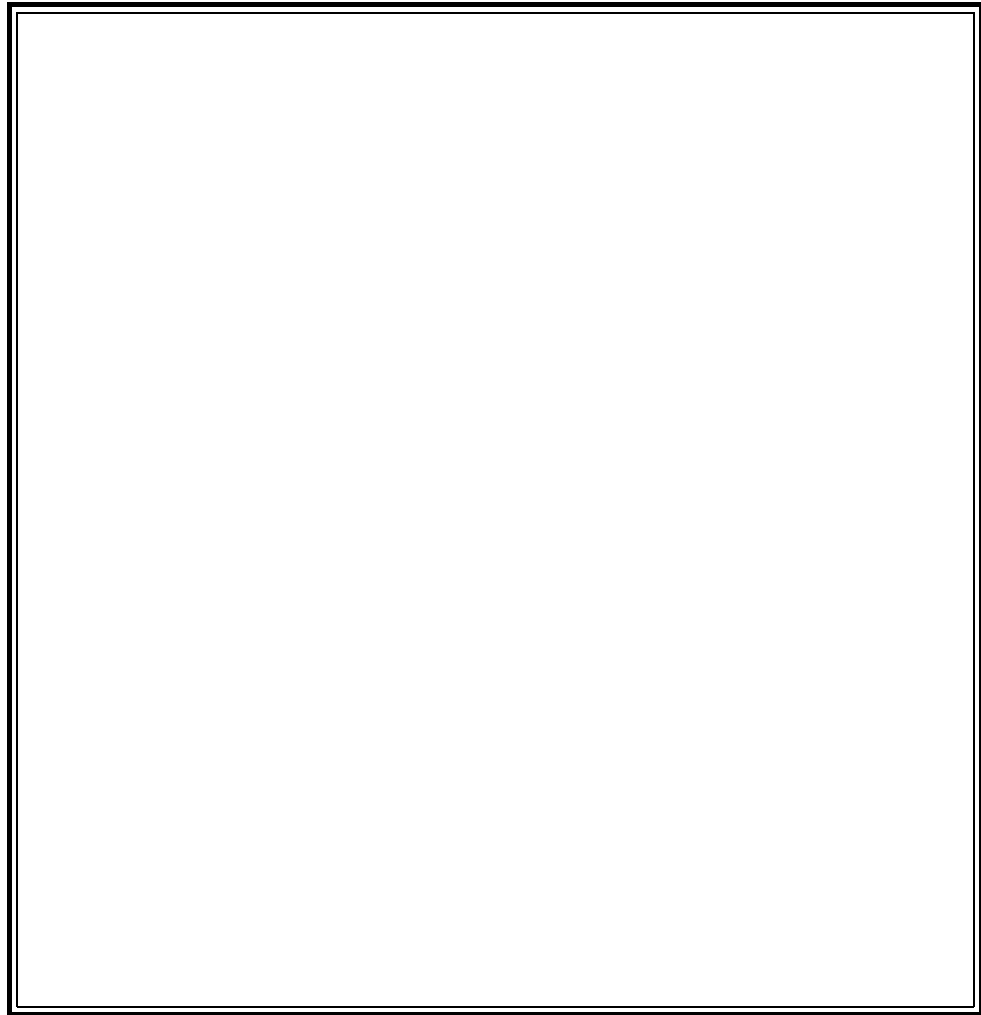


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Figure 2E.3: Performance Measures in Minnesota Milestones That Are Difficult to Directly Link to Particular State Activities

NOTE: These are milestones that either (1) do not pertain in a direct way to an area of significant state expenditure, or (2) pertain to issues for which the state's responsibility is diffuse, or primarily limited to public education.

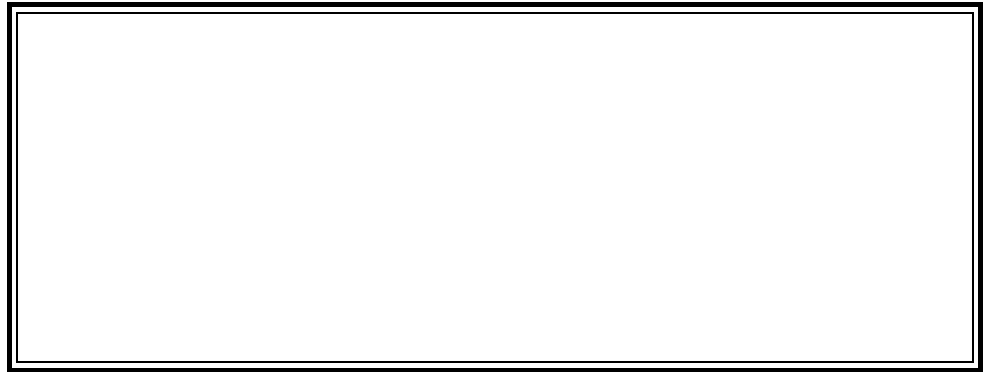


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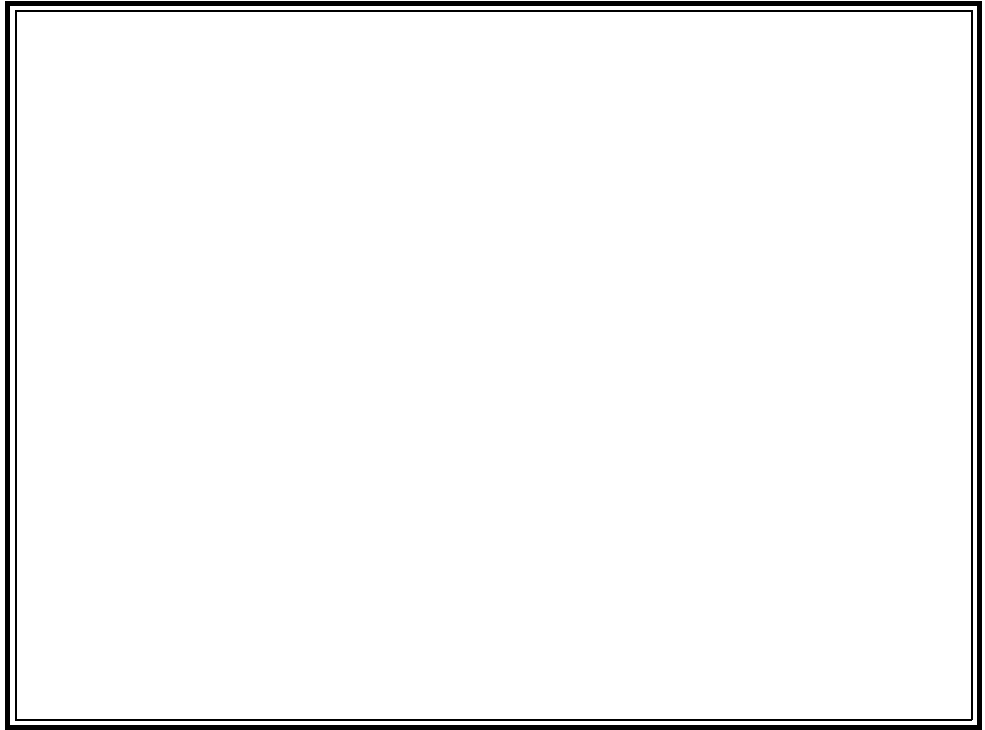


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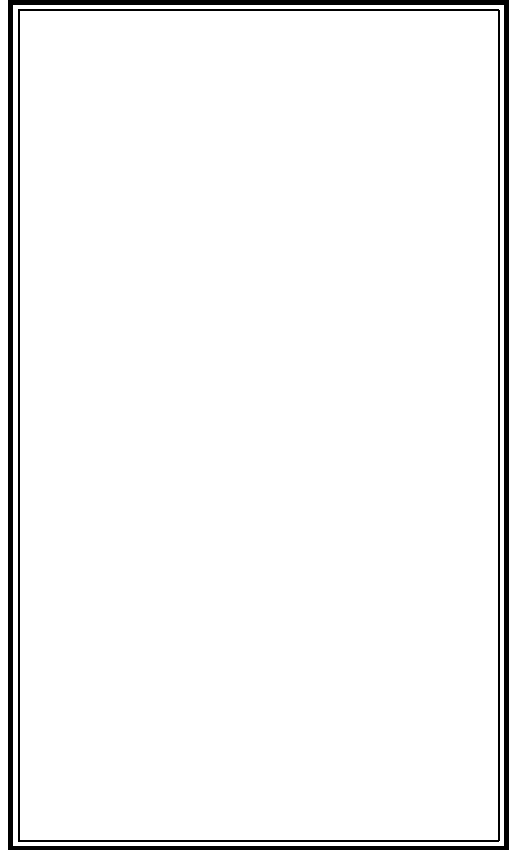


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1994-95 Biennial Budget

CHAPTER 3

In Chapter 1, we noted that performance-based budgeting is not a new concept in Minnesota. For the past 25 years, there have been executive and legislative branch efforts to bring more information on state agency performance into the budget process. However, the 1994-95 budget process was unique because the Department of Finance's budget instructions to agencies proposed explicit links between budget decisions and performance information. The department said that, "The key to success in this budget process is the ability of each agency to link program and resource allocation decisions to specific results and outcomes," and it said that agency objectives and agency performance indicators would "provide the basis for budget decisions."¹ In January 1993, Governor Arne Carlson wrote that his 1994-95 budget proposal "...is our state's first budget that is based on outcomes and results, rather than historical efforts and good intentions. It is a performance budget."²

We reviewed the 1994-95 budget process and asked:

- **To what extent did performance-based budgeting have an impact on information, discussions, and decisions in the 1994-95 budget process?**
- **Did the Department of Finance provide agencies with sufficient guidance on performance-based budgeting? Did agencies have enough time to develop improved performance measures?**
- **To what extent is performance information beginning to be used by agencies for their internal budgeting and management decisions?**

Our evaluation of the 1994-95 budget process was based primarily on interviews with key representatives of the executive and legislative branches, as well as a review of the biennial budget document. We interviewed:

- The commissioner of the Department of Finance, state budget director, and 16 current and former staff in the state budget office who worked on the 1994-95 budget;

¹ Minnesota Department of Finance, *Biennial Budget Instructions: 1994-95* (St. Paul, June 1992), 4.

² Governor Arne H. Carlson, *Minnesota 1994-95 Biennial Budget: Executive Budget Summary*, letter to the people of Minnesota and their 1993 Legislature (St. Paul, January 1993).

- More than 60 top officials and program managers in 16 state agencies;
- 26 legislators, including Senate and House leaders, chairs of budget committees, and several minority party members of the Senate Finance and House Ways and Means Committees; and
- 23 legislative staff, primarily the fiscal analysts who work with the House and Senate budget committees.

In addition, we talked with former Minnesota finance commissioners and budget directors, and a representative of the Governor's office.

Overall, we found that some agencies made useful efforts to improve their performance measures for the 1994-95 budget document, and others had begun to develop performance measures before preparation for the 1994-95 budget started. The quality of the measures in the budget document was mixed, however, partly because agencies had too little time and training, or did not have a sufficiently clear definition of their mission to enable them to develop good measures. Ultimately, the agency performance information had limited impact on executive or legislative branch budget discussions and decisions during the 1994-95 budget process. It is too early to tell whether agencies will embrace performance information as a key management tool, but there are some signs that they are beginning to consider it important and to use it in decision making.

IMPACT OF PERFORMANCE BUDGETING ON EXECUTIVE BRANCH BUDGET DEVELOPMENT

To evaluate the impact of performance budgeting on the Governor's 1994-95 proposed budget (which we will refer to as the "budget document"), we relied on two sources of information: the budget document itself, and interviews with key participants or observers of the executive branch budget development process. We tried to make comparisons between the 1994-95 budget and previous budgets, but we found that it was difficult to quantify changes in the number of performance indicators reported and the quality of the indicators. Instead, our assessment of agency performance measures relied on our impressions following careful readings of agency budgets, as well as the impressions of agency, Department of Finance, and legislative staff.

In this section, we discuss the measures in the 1994-95 budget document and how they were used in executive branch discussions and decision making. It is useful to think of performance indicators in categories such as those shown in Figure 3.1. Each of these types of indicators can be useful in evaluating the performance of a program. For example, while it is good to know how many immunizations (an output measure) the Department of Health provides, it is also useful to know how much each costs, an efficiency measure. Even if the costs are very low, it is also

Figure 3.1: Types of Performance Indicators

1. **Input indicators.** These report the amount of resources (financial, personnel, or other), that have been used for a specific service or program.
2. **Efficiency indicators.** These measure the cost, in dollars or employee hours, per unit of output or outcome. Examples are cost per million gallons of drinking water delivered to consumers, or cost per thousand gallons of effluent treated to a certain level of quality. Costs per outcome are often called "cost-effectiveness" measures.
3. **Output indicators.** These report the quantity of units produced or services provided by a service or program.
4. **Outcome indicators.** These report the impact (including quality) of the service. Examples of outcome indicators are the change in students' test scores, the percentage of hypertensives treated who now have controlled blood pressure, the value of property lost to crime, and the level of customer satisfaction.

Source: Harry P. Hatry, James R. Fountain, and Jonathan M. Sullivan, "Overview," in *Service Efforts and Accomplishments Reporting: Its Time Has Come*, ed. Harry P. Hatry, James R. Fountain, Jonathan M. Sullivan, and Lorraine Kremer (Governmental Accounting Standards Board, 1990), 10.

important to determine whether the immunizations are successful in controlling illness or disease, an outcome measure. None of the measures alone would give enough information to judge whether the immunization program should be continued, expanded, or ended.

Use of Performance Information in the Budget Document

All agencies made some effort to incorporate performance measures into their budgets.

We reviewed the 1994-95 biennial budget proposals of 21 state agencies, as listed in Figure 3.2. We found that all of the agencies made some effort to incorporate performance measures into their budgets. Each agency used essentially the same format in its budget narrative. First, at the agency level, the budget discussed the entire agency, its mission, and its relationship to Minnesota Milestones, the state's long-range plan. This broad discussion included some mention of the agency's activities, but without detail, and generally without performance measures.

Second, the budget document discussed each of the agency's programs. For most programs, agencies included a section titled "Outcomes," which was usually a list of accomplishments of the programs over the past biennium, rather than projected program outcomes for the 1994-95 biennium. To the extent that an agency included outcome measures in its budget, it was usually at the program level.

Finally, the budget document presented information on individual activities within the programs. Most agencies included many performance measures for activities, usually output or efficiency measures. In fact, the Department of Finance's budget instructions urged agencies to report efficiency measures for activities,

with outcome measures reserved for the budget document's discussion of programs. In our view, these instructions were unnecessarily restrictive, since decisions on budget activities might benefit from outcome information, if it is available.

We also reviewed the budget proposals of a sample of 10 agencies (those marked with asterisks in Figure 3.2) for each of the three previous biennia to determine whether the 1994-95 budget process represented a change from earlier years. This proved difficult because we were unable to conclusively determine what constituted a "performance measure" in the budget proposals. Some measures were grouped in a separate section of the budgets, while others were referenced in vague terms in budget narratives. Some measures included data, while others did not. Some measures had multiple "sub-measures," which complicated the task of counting the number of measures. The budget listed most measures by type (outcome/workload/efficiency), but many appeared to be misclassified. There were often multiple references to the same indicator within an agency's budget. Finally, we concluded that the number of measures that agencies reported was not necessarily an indication of their usefulness. In sum, we determined that the task of counting measures would be time consuming, inconclusive, and subjective. However, based on our impressions following careful reading of agency budgets, as well as the impressions of key participants in the budget process, we concluded that:

- **For most agencies whose budgets we reviewed, the 1994-95 budget document had more outcome measures than previous budgets.**

For all agencies, the 1992-93 budget had little detail and few performance measures. This reflected the Department of Finance's budget instructions, which eliminated activity-level information from both the narrative and the financial pages of the budget document. In contrast, the 1990-91 and the 1987-89 budgets included much more detailed information about performance. In our review of the budget narratives, however, it seemed that budget proposals in these two biennia tended to have primarily output indicators, such as the number of clients served or the number of workshops presented, rather than outcome measures.

Department of Finance staff generally viewed the performance measures in the 1994-95 budget document as an improvement over the efforts of previous biennia. The budget officers reported much more effort on the part of agencies to develop

Figure 3.2: State Agency Budgets Reviewed

Departments of:

Administration*
 Agriculture
 Commerce
 Corrections*
 Education*
 Employee Relations
 Finance
 Health*
 Human Rights
 Human Services*
 Jobs and Training
 Labor and Industry
 Military Affairs
 Natural Resources
 Public Safety
 Public Service*
 Revenue*
 Trade and Economic
 Development*
 Transportation*
 Veterans Affairs
 Center for Arts Education*

Note: These are agencies for which the Program Evaluation Division reviewed 1994-95 budget proposals. For those agencies with asterisks, we also reviewed proposals from the three previous biennia.

Many agencies reported existing data in new ways to emphasize performance.

good performance measures, and officials with the Department of Finance and some agencies told us that they thought the department's emphasis on performance budgeting had increased the usefulness of the document and raised legislative interest.

Many of the agency staff we interviewed said they had reported existing data--sometimes data they had collected for many years--in new ways to emphasize performance. A few agencies developed new performance measures, but most did not have time to collect new data for the 1994-95 budget. Even those staff who did not perceive much change in the 1994-95 budget document said that they are now putting more thought into developing performance measures for the future, which probably reflects the requirements of the 1993 performance reporting law as well as the Department of Finance's efforts.

Some agencies reported performance indicators in the budget document for which they expected to begin collecting data during the 1994-95 biennium. For example, the Department of Agriculture laboratory service program listed several efficiency measures for which it proposed to collect data in the future. The general administration program of the Department of Transportation listed customer satisfaction as a measure of its performance. There are no data for this measure yet, but staff said they plan to measure satisfaction with a survey.

Although we found that, in many cases, agencies presented more performance measures in the 1994-95 budget document than they had in previous biennia, we also found that:

- **The quality of the performance measures in the 1994-95 budget was uneven.**

As we reviewed agencies' budgets, we considered whether the performance measures had certain characteristics. First, a good performance measure should be relevant, or directly related, to the agency's legally mandated mission and to its programs. Second, performance indicators should be measurable, of ongoing utility, and presented with data on past and projected performance. Third, indicators should be reasonably simple and straightforward, so they are understandable to a general audience. And finally, performance measures should address outcomes whenever possible, in addition to addressing inputs, outputs, efficiency, and cost-effectiveness as appropriate.

For a few agencies, the budget document lacked good performance measures for any of their programs or services. For example, the Regional Transit Board presented no performance measures in its one-page budget narrative to support a request for \$27 million in state funding. It was more common, however, for agencies to present good performance measures for one or two programs, but questionable measures for the others. For example:

- The Department of Administration is primarily a service agency whose mission is to "Improve the quality and productivity of Minnesota

There was considerable variation in the quality of performance information presented in agency budgets.

government" by "provid(ing) customers in state and local agencies with business management and administrative services..."³ Yet we found that the agency's budget did not present customer satisfaction measures that could have indicated how well it was accomplishing its mission. The department's Management Analysis Division offers training to other state agencies in developing performance measures, yet presented no useful measures for its own activities. On the other hand, for the department's energy conservation activity, the budget projected that, as a result of the department's heating fuel price negotiations, participating institutions will reduce annual fuel budgets by 10 percent. This is a measurable, understandable outcome indicator.

- The Department of Education's budget also showed wide variation in the quality of its performance measures. The learner resource and support program, with a budget of about \$19 million, presented almost no ongoing performance measures for its many activities. We found that the budgets for most activities included descriptions of achievements over the previous biennium, and a few listed vague goals to increase efficiency or decrease costs. However, the budget document included no measurable goals for the coming biennium, and no way to ascertain whether the program is making progress toward achieving its purpose. In contrast, the budget narratives for the department's residential academies included some useful outcome measures and indicators. With a goal of helping their students "become productive citizens capable of leading meaningful and enjoyable lives to the maximum extent possible," the academies proposed measuring the number of graduates who are enrolled in post-secondary education, placed in an appropriate facility, or employed one year after graduation. We think this measure is useful because it relies on reasonable and measurable indicators of "quality of life"--education and employment.
- The Department of Transportation's transit program budget mentioned a 1991 on-board survey of riders that included questions about riders' attitudes towards transit services. However, the survey results were not presented in the document as performance measures. The department's road construction program, on the other hand, presented an example of good performance measurement. One objective for the program was to provide state-aided public highway access to all areas of the state. The related effectiveness indicators were the percent of population within 10 minutes or 5 miles of state-aided public highways, the percent of state area within 10 minutes or 5 miles of state-aided public highways, and the percent of state area within 2 miles of a paved road. The budget provided four years of actual and projected data. We found this measure easy to understand, as well as being clearly related to the goal of access to highways.
- The health protection program in the Department of Health presented outcomes of its programs in previous years, as well as goals for the same measures through the 1994-95 biennium. For example, the department

³ Minnesota Department of Finance, *1994-95 Biennial Budget* (St. Paul, January 1993), E-8.

presented information on the number of cases of measles, mumps, and pertussis in recent years, and established goals for reducing the annual number of cases of each disease by 1995. These measures are clear and easily understandable, can be compared over time, and are related to the agency's mission. In contrast, the health care resources and systems program, which is responsible for regulating health care facilities, health maintenance organizations, and other providers, presented no outcome goals or measures. The program's objectives were for changes in its workload, but workload measures were not presented, and the budget did not relate these objectives to the program's purpose.

In our opinion, it is especially important in the early stages of developing a performance budgeting system to ensure that there are clear, common definitions of terms such as "outcome," "outputs," and "efficiency"--terms that are often used to describe various types of performance measures. We found that:

- **The 1994-95 budget document incorrectly described many measures as efficiency or outcome measures.**

For example, the 1994-95 budget listed the following as efficiency measures:

- For the Aid to Families with Dependent Children (AFDC) program, the Department of Human Services' "efficiency" measures included the average AFDC family size, average payment per case, and average payment per person. These data provide descriptive information about the program, but are not measures of the agency's efficiency or performance.
- The Department of Health's "efficiency" measures included the number of cancers registered. This is actually a measure of the agency's output.
- The Department of Trade and Economic Development's "efficiency" measures included the number of grants awarded, number of applications, number of loans, amount of state funds disbursed, and number of projects funded. In fact, all are measures of the department's output.
- The Department of Administration's "efficiency" measures included the number of computer operations staff, which is actually a measure of the agency's inputs.
- The Promotion and Marketing program in the Department of Agriculture included an outcome measure--fruit and vegetable sales generated by the program--in its list of "efficiency" measures.

Many performance measures were misclassified in the 1994-95 budget document.

The Department of Finance's budget instructions and format contributed to some of the mislabeling of efficiency measures. The department's budget format grouped all measures of workload, output, and efficiency under the heading of "efficiency measures." Furthermore, the instructions did not indicate how agencies should report descriptive data that might be useful to know, but which does not reflect agency performance.

The budget instructions said that: "In terms of emphasis, however, the 1994-95 budget stresses effectiveness measures." The instructions defined these as measures of outcomes, impact, quality, or customer satisfaction, and they required such measures for every program. Because the budget instructions emphasized outcome measures, agencies generally tried to provide them. Usually, however, what agencies labeled as effectiveness measures or outcomes were simply lists of their accomplishments, activities, or caseloads for the prior few years. Some examples were:

- The Department of Corrections included as outcome measures a list of the adult inmate population and adult court commitments for each of the last 12 years. These are an indicator of prison caseloads, an output measure, not an indicator of prison outcomes.
- Under the heading "Outcomes," the Department of Health's health care resources and systems program listed numerous output measures, such as the number of inspections conducted and the number of enforcement actions taken.
- The Department of Commerce included the cost of department operations per employee in its outcomes section. This is an efficiency measure.
- The Department of Human Services presented the expected monthly caseload for its Aid to Families with Dependent Children and General Assistance programs as outcome indicators. These are actually output (or workload) measures.

Despite the emphasis on performance measurement in the Department of Finance's budget instructions, executive branch staff told us that agencies were generally less concerned about performance-based budgeting than about how they would meet budget cuts mandated in the 1994-95 budget instructions. Unlike previous years, when agency budget narratives were used more to justify increased funding, the 1994-95 budget instructions required agencies to budget for a five percent cut in their base funding. In addition, agencies were told that increased costs due to inflation, estimated at 3.5 percent per year, would not be funded, but would have to be covered by existing agency resources. Thus, at the same time they were asked to develop performance-based budgets, agencies were required to adapt to reduced funding.⁴ While the across-the-board cuts were, by definition, not performance-based, it was still possible for agencies to make cuts internally based on considerations of outcomes. In fact, we found:

- **Several agencies presented useful explanations of the impact of their proposed budget cuts in terms of outcomes, and sometimes these efforts affected executive branch allocations.**

⁴ Department of Finance officials told us that it is more difficult to implement performance budgeting during times when budgets are growing slowly or being cut, and they believe this may have affected the progress they made in the 1994-95 budget process.

For example:

- The Department of Corrections described how security in prisons and supervision of offenders in the community would decrease if the agency were required to absorb a five percent cut in its base funding. The department's arguments were persuasive, and the Governor recommended exempting the agency from the base funding cut.
- The Department of Administration's budget narrative related its plans for the five percent base cut to its strategic planning process. The narrative said that this "offered a unique opportunity to tailor proposed budget reductions within the context of the newly defined Administration mission." For each program within the agency, the budget listed the amount of the cut, the specific programs that would have their funding cut, and the expected impact on services of those cuts.
- The Department of Public Service stated that its highest priorities were those activities that yielded the highest documented savings to consumers. The budget document then listed each action the agency proposed and the associated net cost savings.

Some agencies presented useful discussions of the impact of budget reductions on program outcomes.

However, there were many instances in which agencies did not explain their proposals for budget cuts in terms of outcomes. For example, the Department of Agriculture said that its budget cuts would be made by reducing or eliminating low priority activities, but gave no further detail about which activities those were, or how the priorities were set. The agency also stated that each activity would be expected to absorb its own inflation increases, again without regard to performance. Despite such examples, however, the discussions of proposed cuts in the agency budgets showed some promising signs. Although agencies often lacked good baseline data on outcomes, discussions of the impacts of the cuts illustrated to some readers that agencies put more thought into the outcomes of their programs than they had in previous years.

In addition to examining whether agencies quantified the outcomes of their proposed budget cuts, we examined the extent to which proposals for new spending initiatives discussed outcomes. The primary avenue available to agencies for increased or new funding in the 1994-95 budget was the "Governor's investment initiative." Agencies were not permitted to submit traditional "change requests" in their budget plans, but were allowed to "identify additional spending initiatives that cannot be reasonably funded within the agency's targeted spending level."⁵

We found that 58 of the Governor's investment initiatives, affecting programs in 16 agencies, had proposed costs for the biennium of \$500,000 or more each. We reviewed these 58 initiatives to determine the extent to which they were based on expected improvements in outcomes. According to the Department of Finance guidelines for the initiatives, every proposal was to identify and clearly highlight

⁵ Laura M. King, Budget Director, memorandum to agency heads regarding biennial budget investment initiatives, August 17, 1992, cover letter.

(1) its intended impact on measurable program outcomes during the 1994-95 biennium, and (2) its long-term effects on program outcomes and program financing.⁶ However, we found:

- **Most of the Governor's budget "investment initiatives" were stated in general terms about expected outcomes, and they did not specify measurable impacts.**

Only 22 of the 58 initiatives met both Department of Finance requirements for performance measures. Nineteen of the initiatives did not meet either of the outcome-based criteria. For example:

- A Department of Trade and Economic Development initiative to transfer \$1 million to the Capital Access Pool asserted that "Additional dollars for this program will allow banks to take additional risks to make loans to small and medium size growing companies." The only goal for the program was to make 250 loans over the next 4 years, and the initiative did not discuss the risk of the loans, the size of the benefiting firms, or the economic impact of the loans.
- The Department of Natural Resources requested \$848,000 for a program called DNR Workforce 2000. The program purpose was to attract women and minorities to natural resources careers. But the initiative included no information on the current level of employment by these groups, nor did it include any outcome goals for the biennium or for the long-term.
- An initiative for the Department of Administration proposed expenditures of \$3.45 million for the biennium for advanced telecommunications. The expected outcomes for the proposal were more public sector organizations using advanced telecommunications technologies and an informed public sector workforce, leading to improved public service delivery. The proposal did not suggest measurable goals for the program, nor indicators that would show whether the program was successful.
- The Minnesota Housing Finance Agency requested \$4 million for homeless families and children. The program was expected to reduce the per-family cost of service, cause the redesign of emergency shelter systems, and create incentives for private sector participation. The proposal did not include any discussion of the level of change that was expected, such as how many additional families would be served.

We also compared the same 58 initiatives to other criteria listed in the Department of Finance memo. The memo said that each investment initiative request should represent at least one of the following types of expenditure:

1. One-time costs associated with agency restructuring or service redesign.

Most of the proposed "investment initiatives" did not discuss measurable outcomes.

⁶ Laura M. King, Budget Director, memorandum to agency heads regarding biennial budget investment initiatives, August 17, 1992, cover letter, 3.

2. One-time expenditures that will reduce ongoing program costs.
3. Investments that significantly improve program management, accountability, or productivity.
4. Costs of transfers, restructuring, or consolidation of programs within or between agencies which cannot be completely funded within the agencies' budget plans.
5. Intervention opportunities to avoid future costs.
6. Enterprise management, or fee policy reforms, which encourage efficiencies and accountability.

Of the 58 initiatives we reviewed, 21 did not appear to meet any of these six criteria. Four others probably met one of the criteria, although the narratives did not make this clear. We were told by Department of Finance staff, however, that some of the initiatives did not meet all of the department's criteria because they were used as a "catch-all" category for new or restored funding. The initiatives were sometimes used this way because the department had eliminated the "change request" from the budget format, leaving no more appropriate place for the Governor to request funding for programs.

Factors That Affected the Quality of Agencies' Performance Measures

As we noted in Chapter 1, experience at both the federal and state levels shows that it is difficult to successfully implement major budget reforms in a short period of time. Some observers suggest that it can take years to develop good performance measures. While it is hard to say exactly what contributed to the uneven quality of the performance measures in Minnesota's 1994-95 budget, several factors were frequently mentioned in our discussions with agency staff, legislative staff, and others. One factor was that:

- **Some agency missions were ill-defined, and this was an impediment to development of performance measures.**

For example:

- The state provides about \$23 million annually for the community corrections program, over which counties have considerable discretion. Staff within the Department of Corrections, which allocates this money to counties, said they are unclear whether the department should be accountable for the results of these local decisions. In the case of the department's prison operations, staff said there are mixed opinions about whether rehabilitation should be a goal. The department has discussed using recidivism as a performance measure, but currently does not.

- It is not clear what the mission of the Department of Transportation should be with respect to highway congestion. While some people believe that highways should be built to minimize congestion, others prefer more highway congestion so that transit will become a more viable alternative and the state can avoid purchasing homes and right-of-way for freeway expansion.
- The mission statement of the Department of Human Services (DHS) says, in part, that:

[The Department of Human Services] is committed to helping them [citizens whose personal or family resources are not adequate to meet their basic human needs] attain the maximum degree of self-sufficiency consistent with their individual capabilities. To these ends, the department will promote the dignity, safety, and rights of the individual, and will assure public accountability and trust through responsible use of available resources.⁷

The missions of some agencies and programs need clarification.

But agency officials told us that their mission is not so clear as it seems. They told us they are reluctant to adopt performance measures that assess the impact of department programs on their recipients. This is because agency staff believe that these impacts are primarily the result of legislative policy, not the department's administration of the policy. In addition, it is not always obvious who are the department's clients. In the Medical Assistance program, for example, DHS sees medical providers as its clients, rather than patients.

A related factor affecting the quality of performance measures may have been the extent of strategic planning conducted by agencies. Ideally, a strategic plan would guide an agency's development of performance measures by defining a mission and identifying areas needing improvement. For example, officials from the Department of Revenue told us that their strategic planning helped them recognize that, while they were very good at tracking dollars and counting transactions, they were not good at measuring how agency activities affected taxpayers' compliance with tax laws or satisfaction with the department's tax assistance. As a result of its internal planning, the department is now working to develop measures of customer satisfaction and taxpayer compliance.

Most of the agencies we reviewed, however, had not used strategic plans to develop the performance measures they included in the 1994-95 budget document. Some agencies have not yet gone through a strategic planning process, while others completed their most recent plan many years ago. Other agencies, including the Departments of Human Services, Trade and Economic Development, Health, and Administration, are in the process of developing strategic plans now, or completed their plans too late to use the information in the 1994-95 budget process.

Another factor that adversely affected the quality of performance measures in the budget document was the short time frame for preparation of the 1994-95 budget. We found:

⁷ Department of Finance, *1994-95 Biennial Budget* (St. Paul, January 1993), B-10.

Many agencies reported that they needed more time or training to develop better performance measures.

- **Agencies only had about two months to develop performance-based budgets, and most agency officials we talked to did not think this was enough time to significantly change their approach to budgeting or management.**

Initially, the Department of Finance considered asking a very limited number of state agencies to develop performance budgets. Ultimately, the department decided that it should ask all agencies to submit performance budgets, recognizing that full implementation might require several biennia.

Several agency staff told us that short timelines are always a problem in preparing the budget, and some said that last year was the worst they could recall. Budget officers in the Department of Finance provided considerable assistance to agencies, but generally agreed that there was not enough time for agencies to adequately develop outcome measures. Department of Finance and agency staff noted that developing useful indicators requires time for discussion and training, but budget instructions came out relatively late. Staff at the Department of Trade and Economic Development told us that, based on their experience, it takes at least two years to develop good performance measures. Department of Health officials noted that their agency, like many others, has several field offices around the state. They pointed out that it takes time to inform field managers about changes in budget formats, and to involve them in developing performance measures.

One other factor that is important in the early stages of implementing performance budgeting is training. We found:

- **The Department of Finance provided some helpful training on performance budgeting for agencies, but officials in several agencies told us they needed more extensive training.**

The Department of Finance provided three training sessions in July and August 1992 for agency heads, program managers, and budget staff. In addition, Department of Finance budget officers talked individually with agency staff about performance measures, although the Finance staff had received no special training that would have helped them to assist agency staff with developing performance measures. The Department of Finance had separate sessions on performance budgeting for small agencies, and followup group meetings with agency staff were a part of the training provided by the Department of Finance and Minnesota Planning. Agencies had other opportunities to learn about performance measurement, including sessions at a statewide managers conference, a conference on the "quality" movement in the public sector, and a Department of Employee Relations personnel conference.

Nevertheless, we found that agencies had mixed views of the training they received. For the most part, the agency staff we talked to found the formal training sessions offered by the Department of Finance to be inadequate, particularly for newer managers and for staff directly responsible for writing the budget narratives. One agency developed its own written instructions for its managers because

it did not consider the Department of Finance's training or budget instructions to be very helpful. One deputy commissioner told us, "There is a large chasm between interest in performance budgeting and its implementation, and Finance has not successfully helped agencies bridge the gap."

Staff in several agencies told us they found the budget officers with whom they worked to be very helpful. One official told us that she found the Department of Finance's staff to be accessible and helpful through all aspects of the budget process, and another official from the same agency described Finance's review of his budget as "superb."

Use of Performance Information in Executive Branch Budget Decisions

In Chapter 1, we noted that one of the lessons learned by the federal government in previous efforts to implement performance budgeting reforms is that it is difficult to make major changes in budget decisions in a short period of time. It takes time to provide agencies with sufficient training, to devise better performance measures, and to collect better data. We noted that a 1993 federal law required federal agencies to collect performance data, but that the Office of Management and Budget is not required to recommend whether to implement performance budgeting on a broad scale until 2001.

Officials in Minnesota's Department of Finance told us during our study that they never intended to use performance budgeting for key decisions in the 1994-95 budget process, and that this view was conveyed to agencies many times during the budget development process. They told us that it would have been inappropriate to evaluate agency performance this early in the development of a performance budgeting system, and that the real impact of the department's efforts would occur in the 1996-97 biennial budget.⁸ Department officials told us they emphasized performance budgeting to encourage agencies to set objectives, direct resources toward those objectives, and measure performance.

In our view, however, and in the view of many agency staff, the Department of Finance's budget instructions stressed the importance of performance measures to 1994-95 budget allocations. The instructions said, for example:

The 1994-95 biennial budget process will require linking resource allocation decisions to well-defined program outcomes...⁹

The key to success in this budget process is the ability of each agency to link program and resource allocation decisions to specific results or out-

⁸ Department of Finance, *1994-95 Biennial Budget Instructions* (St. Paul, June 1992), stated that, "The move to outcome budgeting is a multi-year process." (p. 20). The instructions did not explain differences in the department's expectations for performance budgeting in the 1994-95 biennial budget from subsequent budgets.

⁹ Department of Finance, *1994-95 Biennial Budget Instructions* (St. Paul, June 1992), 1.

comes...An agency's ability to retain even 95 percent base level funding will depend upon the adequacy of this information.¹⁰

Agency budget plans that produce no definable results, or produce outcomes inconsistent with policy objectives set by the Governor, will not be recommended.¹¹

Despite the stated intentions of the Department of Finance, our interviews with numerous staff from agencies and the Department of Finance indicated that:

- **No agencies lost base funding due to inadequate performance information.**
- **For the most part, there were very limited discussions of agency performance in the executive branch budget meetings convened by the Department of Finance, and top executive branch officials generally did not use performance information to determine budget allocations.**

We found that executive budget teams usually did not receive the agency narratives that included performance information, although some commissioners discussed performance in their presentations to the teams. Department of Finance officials told us they did not use performance information to make decisions about "how to most wisely spend the next available dollar."

Department of Transportation staff said that, while performance information was not ignored by executive branch officials, ultimately the Governor made a decision based on other factors that 1993 was not the right time for a gasoline tax increase. Officials in the Department of Health said that the Governor's decision to make children's issues a budget priority was made before the agencies developed their 1994-95 budgets and that, while performance information in the budget supported these initiatives, it was not the main impetus for them.¹²

The Department of Finance's budget instructions were overly ambitious.

Department of Corrections staff said that the department's budget focused on the need for additional prison beds, based on projections of inmate populations. Department of Finance staff said that corrections staff attempted to discuss performance measures in executive budget team meetings, but team members preferred to focus instead on caseloads. Similarly, Department of Human Services staff said that projected caseloads and related costs for its programs, and not service outcomes, were the focus of budget team discussions.

In our view, the Department of Finance's budget instructions were overly ambitious. The department's instructions seemed to indicate that there would be a more direct link between performance information and funding, or at least greater discussion of performance by top executive branch officials. Often, this did not

¹⁰ Department of Finance, *1994-95 Biennial Budget Instructions* (St. Paul, June 1992), 4.

¹¹ Department of Finance, *1994-95 Biennial Budget Instructions* (St. Paul, June 1992), 3.

¹² Executive branch officials did conduct an "inventory" of children's programs in all agencies when preparing the budget, and they believe that this could provide a useful foundation for future performance budgeting in these programs.

Performance information may have influenced some agency discussions or decisions, but these effects were subtle.

occur, and some agencies questioned why the department did not use the information it had requested.

To the extent that the Department of Finance's push for performance budgeting did have an impact on executive branch decisions, we think it was probably on internal agency allocations, which agencies generally made to address the budget cuts mandated by the Governor. Earlier in this chapter, we noted that several agency budget proposals contained useful, performance-based explanations of their proposed budget cuts. One success of the performance budgeting effort may be that it increased thinking and discussion about performance within agencies as they considered how to reduce their budgets, which was one of the Department of Finance's goals in initiating the effort.

We were unable to quantify the extent to which the Department of Finance's encouragement of performance budgeting caused agencies to make different budget choices than they otherwise would have made. We contacted 21 agency program managers and division directors, and most told us that they did not perceive that their agencies have used performance information to make budget cuts, or to make allocations among programs within the agency. The managers we spoke with thought that allocations to their own programs were based primarily on past funding levels, and that agencies usually made across-the-board spending reductions, rather than making cuts based on performance.

Staff at the Department of Trade and Economic Development told us that they thought performance measures really are better suited for use in management than in budgeting, and Department of Human Services officials said such measures probably will not be used to determine allocations. A Department of Administration official told us that the requirement for performance reporting in the 1994-95 budget process has not yet affected agency managers, who were too far removed from this process to have been influenced by it.

On the other hand, we did find examples of programs in which performance information has been used to allocate funds, although not necessarily in response to the Department of Finance's budgeting initiative. In one example, staff at the Center for the Arts told us they have used performance indicators to reallocate funds among programs. In one case, a survey of students at the school showed that printed brochures had not affected their decisions to attend the school. On the basis of that information, funds were reallocated from printing to academic areas. A manager in the Department of Revenue described how performance information had been used in 1993 to justify increased spending in areas such as taxpayer assistance that were determined to be important to the agency's mission but were underfunded. In addition, most of the managers we talked with said that senior management in their agencies have at least discussed using performance information to make internal allocations.

Impact of Performance Budgeting on Agency Management

We tried to assess the degree to which agencies are using performance information in the day-to-day operation of their programs and the extent to which that has changed as a result of the 1994-95 budget process. For example, an agency could use performance information to monitor the efficiency or effectiveness of regional offices, to allocate resources among its various activities, to justify proposed policy changes, or to evaluate the work of individual employees.

We interviewed top officials in 14 departments, typically chief financial staff, or deputy or assistant commissioners. We also spoke with 21 program managers and division directors. In general, we found that agencies seem conversant about the notion of "performance measurement," and most agree that it is potentially useful. In interviews with agency officials, we learned:

- **Most agencies have found ways to use performance information in their internal management, often predating the 1994-95 budget process.**

For example:

- The Department of Revenue started discussing outcome measures more than six years ago and has developed a number of key indicators, including measures of customer satisfaction and the "compliance gap," or the number of taxpayers who should file returns, but do not. The department expects that these measures will help with annual spending plans, day-to-day operations, and accountability.
- In 1993, the Department of Transportation created an Office of Measurement and Evaluation for the purpose of ongoing performance reporting in areas such as customer satisfaction and quality improvements. The department worked with the Governor's Commission on Reform and Efficiency (CORE) in 1992 to develop performance measures related to highway construction, and it has used these measures to help select projects that will receive federal construction funding.¹³
- In the late 1980's, the Department of Trade and Economic Development started working with a nationally-known expert in performance measurement to develop better measures for management purposes. In 1990, department officials found that their "trade lead" program, which compiled information on business opportunities for Minnesota firms interested in the export market, was not useful to customers, and its funding was reduced. Department officials told us that program managers

Performance information has been used by some agencies to improve internal management.

¹³ The federal Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 restructured the federal transportation program to allow more flexibility for state and local transportation investments, and broadened project eligibility to include transit capital, enhancements, and operational improvements, in addition to traditional highway capital and preservation projects.

believe performance information is essential to run their programs and have used performance measures even at times when top management has not been interested. Staff estimate that, even before the 1993 Legislature mandated agency performance measures, the department had developed measures for 60 percent of its programs.

- The Weights and Measures Division of the Department of Public Service is developing a new performance measurement initiative. The unit has divided its field staff into small teams, each responsible for a geographic area. Each team will have broad annual goals of recovering its costs through customer fees and performing certain numbers of tests, and they will have flexibility to determine how to meet those goals. The division expects that the team members will help refine these performance indicators in the future.

Other agencies are not as far along in their internal use of performance measures. Officials in one large agency expressed skepticism about the usefulness of such measures for budgeting, although they thought that performance measures could be used within agencies to select among alternative ways to achieve program goals.

Many agencies have developed performance measures over a period of years, and it is difficult to isolate the impact of the Department of Finance's 1992 budget instructions on agencies' uses of performance information for management purposes. As we noted in Chapter 1, general management trends and other actions at the state and federal levels have heightened interest in performance measurement. We asked the agency program managers and division directors who we interviewed how their agencies use performance information and, specifically, how they use it individually in their own daily work. All but five of these managers reported using performance information more now than they did two years ago.¹⁴ We also asked managers whether top agency officials use the managers' performance information. All but four said the information has been used for internal agency management purposes or to justify budget requests.

Overall, there appear to be subtle, gradual improvements in the use of performance information for agency management purposes, but it will take time for agencies to adopt performance-based management throughout their operations. Information on performance measurement has "trickled down" to (or in some cases "trickled up" from) many program managers, but they will need more training and better data in order to make performance-based decisions. Nevertheless, we agree with the Congressional Budget Office, which recently concluded:

...the greatest reward to be gained from the use of performance measures may have less to do with government-wide budgeting than with the task of using existing resources to improve performance. For example, performance measures can be useful as motivational tools; that is, they can encourage people to achieve performance targets. Ultimately, repeated use and exposure will result in the development of a culture of perform-

¹⁴ Four of those five said they are using the information at the same rate they had been and that they had been using it extensively for some time.

ance. Performance targets may not be precisely correct at first, and the measurements may not be either. But encouraging federal managers and employees to think in terms of outcomes rather than inputs or outputs will produce desirable results.¹⁵

IMPACT OF PERFORMANCE BUDGETING ON LEGISLATIVE BUDGET ADOPTION

If performance budgeting is to have a real impact on state government, it should affect the way that the executive and legislative branches discuss budgets and make decisions. To evaluate the legislative portion of the 1994-95 budget process, we talked with 23 legislative staff, primarily the fiscal analysts for all of the Senate finance and House appropriations committees. We also talked with 26 legislators, including legislative leaders, budget committee chairs, and several minority party members from the Senate Finance and House Ways and Means committees. We discussed their general impressions of the 1994-95 budget process, as well as specific instances in which they found performance information helpful (or not helpful). Based on these discussions, as well as those with agency staff, we concluded that:

- **Legislative consideration of the 1994-95 budget was only slightly more performance-based than in previous years, and the performance-based format of the budget document did not noticeably affect most budget allocations.**

Legislators and their staff were able to provide us with only a few specific examples of instances in which performance information had a significant impact on legislative budget decisions. Typically, these were instances in which the Legislature used performance information to justify a budget decision that was different from the Governor's recommendation. For example:

There were relatively few instances in which agency performance information directly affected legislative decisions.

- The Governor's budget recommended a 7.5 percent reduction in a \$189,000 annual grant to the state film board. However, the board presented the Legislature with information showing that the economic benefit of film production to Minnesota far exceeded the funds invested in the board. Legislators were persuaded, and increased the board's annual funding to \$214,000.
- The Governor's budget proposed funding reductions in the Bureau of Criminal Apprehension's information systems, despite providing information showing a growing workload. Ultimately, the Legislature appropriated about \$3.5 million more than the Governor's recommendation. Legislators expressed concern that increasing numbers of requests for the bureau's records and laboratory services were resulting in slower turnaround time, thus hampering criminal investigations.

¹⁵ Congressional Budget Office, *Using Performance Measures in the Federal Budget Process*, (Washington, D. C., July 1993), 46.

- The Department of Natural Resources provided legislators with a chart indicating the impact of its proposed budget reductions on services provided at various types of state parks. The chart helped the Legislature see what services could be provided at alternative funding levels, and legislators eventually restored some of the funding reductions proposed in the Governor's budget. This chart was provided in budget hearings, but was not included in the budget document.

Legislators and staff told us that agency performance was an important topic of discussion in some committees in 1993, even if it did not affect budget allocations directly. For example, the Legislature passed ambitious requirements for performance reporting and performance budgeting by state agencies, as discussed in Chapter 1. Also, although the 1993 Legislature did not allocate elementary and secondary education funding based on performance, observers noted that the Legislature clarified its expectations for future accountability, and expressed a willingness to consider links between performance information and budgets in the future. The 1993 omnibus education funding bill required the Department of Education to develop a "results-oriented graduation rule" for Minnesota public schools, with implementation starting in 1996. The bill proposes revisions in school funding formulas by the year 2000, based on estimates of the costs of providing education that helps students attain "world-class education outcomes."¹⁶

In addition to finding few instances in which performance information influenced the decisions of legislative budget committees, we also found that:

- **The House and Senate have not yet begun to use agency performance information to a significant extent in setting budget targets for their committees.**

As noted in Chapter 2, an important step in the legislative budget process occurs when the House and Senate leadership set budget targets for their respective finance committees. These decisions set boundaries for subsequent considerations of agency budgets by the committees, and they usually reflect political priorities of the majority party in each house. Each committee has flexibility to increase or decrease the budgets of individual agencies in its jurisdiction, but it is expected to approve budgets that, in total, do not exceed the overall committee target set by the leadership. The informal process of setting committee targets represents an important opportunity for House and Senate leaders to consider the state budget as a whole, and to set spending priorities among general parts of the budget.

None of the legislators or staff who we spoke with said that agency performance information had any particular impact in 1993 on the committee budget targets developed by legislative leaders. This partly reflected the fact that committees have very broad responsibilities (such as health and human services), while most of the performance measures in the 1994-95 budget document related to individual programs or activities.

¹⁶ *Minn. Laws* (1993), Ch. 224, Art. 1, Sec. 35.

We found a variety of other reasons why performance information did not affect legislative decisions in the 1993 session. First, agencies and legislators confronted a large revenue shortfall (\$769 million) going into the legislative session. As a result, efforts to control spending dominated many budget discussions, and diverted attention from agency performance measures. Second, the Legislature was preoccupied during a portion of the 1993 session with issues surrounding the public release of members' phone records. This was a distraction from ongoing legislative duties, including budget review.

Third, the House and Senate made significant changes to budget committees in 1993. Both bodies took steps to place more members on budget committees, to integrate the work of policy and budget committees, and to reassign departmental budgets among committees. As a result, legislators and their staff spent a considerable amount of time orienting themselves to the new budget process. Committees had more members who lacked previous budgeting experience and in-depth knowledge of the agencies they were reviewing. Also, legislative staff spent considerable time aligning House and Senate budget accounts prior to conference committees, and some staff had to advise members on accounts that they had not followed in earlier budget committees.

Fourth, the Department of Finance changed the format for the Governor's budget proposal in ways that some legislators and their staff found confusing. Many of the legislators we spoke with had difficulty understanding how the department calculated agency base budgets, and several felt that the budget provided less information on historical spending or performance than previous budgets. Time spent by legislators and staff understanding the new budget format diverted time from other issues, such as agency performance.¹⁷

These problems that were unique to the 1993 legislative session need not, in our view, pose long-term obstacles to performance budgeting. However, if the Legislature wishes to make performance-based budget decisions in future years, we think that several more fundamental issues need to be addressed. For example, we found that:

- **Many agencies have not yet won the confidence of the Legislature by developing accurate, appropriate performance information and demonstrating the relevance of this information to key decisions.**

For performance budgeting to be successful, the Legislature will need to have confidence in agency information.

An important determinant of the Legislature's budget allocations is the level of trust it has in agencies. Legislators develop opinions about agencies through public hearings, constituents, lobbyists, published reports, and many other sources. Budget observers with whom we spoke said that legislators often do not trust information from agencies as much as information from other sources. Over the years, many legislators have been dissatisfied with information that agencies have provided on their finances and programs, and have questioned the objectivity of the information. Legislators told us that, during the 1993 session, some agencies mentioned performance information in their budget presentations, but were unable

¹⁷ Some legislative staff also expressed concerns that getting agency narratives in the Governor's January 1993 budget proposal left too little time to consider performance information. Before 1990, legislative staff received agency narratives in November of even-numbered years.

to satisfactorily answer followup questions. These legislators were left with the impression that agencies were not yet fully committed to performance measurement. Also, despite the executive branch's efforts to provide more performance information in the 1994-95 budget, legislators and their staff told us they were still very frustrated with the quantity and quality of information they had on agency base budgets. As our discussion in the previous section indicated, we agree that there was much room for improvement in the information that agencies provided in their 1994-95 budgets. This was one reason why the 1993 Legislature passed a law requiring annual performance reporting by state agencies.

Some of the Legislature's distrust of agency information reflects the necessary tension that exists when one branch of government "checks and balances" the powers of another branch. It may also reflect the fact that the legislative and executive branches have been controlled by different political parties since 1991, although many people told us that there was considerable legislative distrust of agencies even when both branches were controlled by one party. Nevertheless, it is apparent to us that legislators will not use agency performance information to make decisions until they are convinced that the measures are appropriate and the data are trustworthy. The 1993 Legislature took an important step by requiring the Office of the Legislative Auditor to regularly review agencies' annual performance reports. This might help assure legislators that agencies are providing comprehensive and pertinent performance information, not just information that portrays agency programs in a positive light.

However, if agencies are to develop appropriate performance measures and data, another potential obstacle should be considered. Specifically:

- **There are often differences of opinion regarding an agency's mission and goals, and there is sometimes too little legislative discussion of agency mission and performance.**

There are often disagreements on program goals within agencies, within the Legislature, and between the executive and legislative branches. For example, earlier in this chapter we noted there is disagreement about whether reduced recidivism should be a goal of correctional programs, whether reduced congestion should be a goal of highway programs, and whether the Department of Human Services should view its "customers" primarily as the program recipients or the service providers. While some programs and agencies have clear statements of purpose and mission in state law, others do not.

The budget process does not always provide sufficient opportunity for discussion of programs' missions and performance.

The legislative budget process, with its rigid time constraints, does not always provide sufficient opportunity for discussion of programs' missions and performance. As we noted in Chapter 2, the Legislature's review of the Governor's budget tends to be reactive and incremental. The process focuses on approving appropriations bills and passing a balanced state budget by a fixed deadline. Agency budget narratives, which often contain lengthy discussions of agency missions, goals, policy challenges, and performance measures, receive much less attention from legislators than the budget numbers. Thus, although the budget adoption process is perhaps the main vehicle for conversations between the legislative branch and state

agencies, discussions of agency mission and performance are usually secondary to the task of passing budgets in odd-numbered years.

If the Legislature intends to move toward a more performance-based budgeting approach, it will need appropriate legislative forums for discussing agency performance and missions. While this could occur in existing budget or policy committee hearings, another model might be the informal, two-day meeting held in 1990 by the House State Departments Finance Division and key officials in the Minnesota Department of Revenue. The department initiated this meeting after several years of contentious legislative debates on its budget.¹⁸ The department hoped that the meeting would provide an opportunity to discuss and reach consensus on its mission. Although some of the agency participants were not entirely satisfied with the results of the meeting, this event was significant for its process--a forum outside of the regular budget process for discussing agency mission and performance, and its end product--a list of desired agency outcomes on which participants in the meeting agreed. As we discuss in Chapter 5, the annual agency performance reports that were required by the 1993 Legislature might provide a focal point for legislative committees to discuss agency performance and missions.

A final obstacle to performance budgeting is that:

- **The Governor's budget proposal, which has been the primary means of reporting agency performance information, sometimes has not been the centerpiece of legislative budget discussions.**

The Department of Finance, through its budget instructions, exerts considerable influence over the format of the biennial budget document. For example, the department required agencies to include performance measures in the 1994-95 budget, as well as a discussion of how the agencies' activities related to Minnesota Milestones, the state's long-range plan. The budget document is the result of months of work by state agencies, the Department of Finance, and the Governor's office.

Legislative committees and executive agencies vary in the way they use the Governor's budget document.

For some legislative committees, however, the Governor's budget proposal is, as one legislative analyst described it to us, "a big document that no one reads." According to legislative staff, legislators typically use the financial portions of the budget (the numbers pages), but the narratives (including the performance measures) are not as widely read.¹⁹ Some committees go through the budget document page by page, while others rarely use it.

Agencies bear some responsibility for the Legislature's inattention to performance measures. We learned that many agencies relied primarily on handouts other than the Governor's budget proposal document when making budget presentations to legislative committees in 1993. In contrast to the budget document, these hand-

¹⁸ Some legislators resented the department's claims in previous budget sessions that state revenues would decline if the department's funding requests were denied. In the 1989 session, the Legislature reduced both the department's base budget and its requests for new funding, and department managers felt that legislators did not understand the department's new management initiatives.

¹⁹ According to legislative staff, legislators typically read or refer to budget documents during committee budget hearings, but most do not take the budget documents with them outside of hearings.

outs were not subject to central guidelines and many did not emphasize performance measures.

Although the Legislature did not fundamentally alter its approach to budgeting in 1993, we think it would have been unrealistic to expect such a major change in a single budget session. It will take time for agencies to develop satisfactory performance measures and baseline data. In addition, legislative staff told us that legislators are learning how to ask questions about performance and outcomes, and it will take some time for this to become rooted in the legislative process. Although some legislators who strongly support performance budgeting were disappointed with the quality of performance measures in the 1994-95 budget document, they generally agreed that full implementation of performance budgeting in a single biennium would have been an unrealistic goal.

If performance information is ever to influence broad spending targets set by legislative leaders, the chairs of individual finance committees would need to become regular users of this information. Specifically, if committee chairs can use performance information to demonstrate to legislative leaders that the state is clearly succeeding or failing in its efforts to achieve an important goal, and if they can convincingly suggest a link between future performance and funding in this area, it might be possible for performance information to influence the target-setting process. Until this occurs, however, performance information will be most useful for helping legislators make allocation decisions within individual budget committees.

SUMMARY

To the extent that performance-based budgeting affected 1994-95 budget allocations, the effects were mainly limited to internal reductions that agencies made to comply with across-the-board cuts required by the Governor. We were unable to precisely determine the impact of performance budgeting on internal agency decisions, but we observed that some agencies had useful and outcome-based descriptions of their budget reductions in their 1994-95 budget documents. Agencies generally lacked the time, training, and baseline performance data to apply performance budgeting more extensively. With very limited exceptions, the development of somewhat improved performance information did not change allocation decisions by either the Governor or the Legislature, nor did it significantly affect legislative or top-level executive branch budget discussions.

We think that development of a more performance-based budget should be considered a multi-year process. Although decision making for the 1994-95 budget was not significantly different from past budgets, we were encouraged to learn that agency officials are finding ways to use performance information in their internal management. The Department of Finance intends to use performance information to make more decisions in the 1996-97 budget process.

Development of a more performance-based budget should be considered a multi-year process.

Minnesota Milestones

CHAPTER 4

In February 1991, Governor Arne Carlson asked the state planning agency (now known as Minnesota Planning) to develop a long-range strategic plan for Minnesota, with measurable goals and performance indicators.¹ The resulting plan, called Minnesota Milestones, merits special attention for several reasons. First, Minnesota Milestones represented the first effort by the current administration to develop outcome measures for state government, and it set the stage for the administration's subsequent encouragement of performance measurement in the 1994-95 budget process. Second, the Department of Finance's budget instructions indicated that Minnesota Milestones would play a key role in executive branch decisions on the 1994-95 budget. Third, because Minnesota Milestones represents the state's long-range plan, with goals for the next 30 years, it is important to consider whether this document provides a durable basis for decision making. We asked:

- **What impact did Minnesota Milestones have on executive and legislative branch decisions in the 1994-95 budget process?**
- **Could Minnesota Milestones be useful in future budget discussions?**

We evaluated Minnesota Milestones, as we did other parts of the 1994-95 budget process discussed in Chapter 3, by interviewing executive branch agency staff, legislators, and legislative staff. We also reviewed various documents prepared by Minnesota Planning during the development and implementation of the Minnesota Milestones report. We focused primarily on Minnesota Milestones' relevance to the budget process, although the executive branch initiated Milestones for broader purposes and uses.

Overall, we concluded that Minnesota Milestones was (and is) a serious effort to provide greater focus on the state's well-being and the performance of state government. However, it did not significantly shape decisions on the 1994-95 budget, as proposed in the Department of Finance's budget instructions. If Minnesota Milestones is to have long-range impact in the budget process, the measures and targets in the report would need to undergo further review and revision, and would need the support of the Legislature. There would also need to be a continued effort by Minnesota Planning, state agencies, and others to collect milestone-related data and identify possible strategies for meeting the outlined goals.

¹ The agency's statutory name is the Office of Strategic and Long-Range Planning, but it is commonly known as Minnesota Planning.

BACKGROUND

Following a series of public forums around Minnesota, as shown in Figure 4.1, Minnesota Planning issued a report in December 1992 called *Minnesota Milestones: A Report Card for the Future*. Based on the notion that "defining a shared vision, setting goals and measuring results will lead to a better future for Minnesota's people," this document outlined 5 general themes, 20 broad goals, and 79 measures with targets, or "milestones," for future performance.² Figure 4.2 provides examples of these, and Appendix B provides a complete list. Minnesota Planning has distributed about 10,000 copies of the final report. About eight

Minnesota Milestones resulted from an extensive series of community meetings.

Figure 4.1: Chronology of Minnesota Milestones Activities

February 1991	Governor asks State Planning Agency to develop a long-range plan for Minnesota with measurable goals and performance indicators.
May 1991	Legislature abolishes the State Planning Agency, and creates a smaller Office of Strategic and Long-Range Planning (called "Minnesota Planning"). State law requires the office to develop a long-range plan for the state and "stimulate public interest and participation in the future of the state."
August-November 1991	Public forums are held at 15 locations around Minnesota. At each community meeting, citizens participate in groups of 8 to 15 people, each led by a person trained in small group discussion. About 1,600 people attend these meetings.
February 1992	Minnesota Planning issues a "preliminary vision statement" that summarizes the views expressed at the 1991 hearings. The office sends surveys on the vision statement to 2,000 people and 188 respond.
June 1992	Minnesota Planning issues a draft of the <i>Minnesota Milestones</i> report for public review. The draft contains 103 proposed milestones; some have specific target levels of performance for future years, others do not. On June 26, the Department of Finance issues its biennial budget instructions to state agencies.
June-August 1992	About 500 people attend community meetings on the draft report at 15 locations around Minnesota, and 177 of these people complete a survey on the draft. Minnesota Planning staff make presentations on the draft report, and continue consulting with various people to refine goals, indicators, and targets.
December 1992	Minnesota Planning issues <i>Minnesota Milestones</i> report.

² Minnesota Planning, *Minnesota Milestones: A Report Card for the Future* (St. Paul, December 1992), 1.

The *Minnesota Milestones* report contained 20 goals and 79 performance measures.

Figure 4.2: Examples of Themes, Goals, Measures, and Targets in *Minnesota Milestones*

MINNESOTA MILESTONES HAS:

5 themes

Example: "Minnesota will be a community of people who respect and care for one another."

20 goals

Example: "Minnesotans will be healthy."

79 performance measures

Example: Percentage of children who are adequately immunized.

30-year performance targets, or milestones, for each of the 79 measures

Example: In 1990, 57 percent of Minnesota children were adequately immunized at 24 months of age. This percentage should increase to 70 percent by 1995, 90 percent by 2000, 95 percent by 2010, and 95 percent by 2020.

Note: Each performance target relates to a single performance measure, and each measure relates to a single goal. However, goals are not explicitly linked to a single theme, and may contribute to more than one.

staff worked full-time on Minnesota Milestones for more than a year, and the costs of the project exceeded \$500,000.³

Minnesota Milestones was modeled after a similar effort in Oregon, discussed in Appendix A. Minnesota used public forums to solicit citizen input for this performance-based plan, which was consistent with the statutory mission of Minnesota Planning to "stimulate public interest and participation in the future of the state."⁴ The office also established an advisory commission of citizens and executive branch officials. The Minnesota Milestones report states that more than 10,000 Minnesotans "participated in public meetings around the state, provided comments on the vision, goals and milestones, or reviewed early drafts of the report."⁵ We found that this estimate included about 2,500 people who attended a

³ The 1991 Legislature required Minnesota Planning to receive a recommendation from the Legislative Commission on Planning and Fiscal Policy (LCPFP) and to consult with the Legislative Advisory Commission (LAC) before receiving a \$500,000 state appropriation for planning in each year of the 1992-93 biennium. In fiscal year 1992, Minnesota Planning devoted this \$500,000 appropriation solely to Minnesota Milestones, following consideration of the agency's proposal and budget by the LCPFP and LAC and their subsequent recommendations for approval. In fiscal year 1993, the LAC and LCPFP considered the agency's proposal for this contingent appropriation, as required by law, and the LCPFP recommended its approval. The LAC chose not to approve the agency request, but Minnesota Planning was not required to receive LAC approval in order to receive the appropriation. In fiscal year 1993, Minnesota Milestones was one of several activities that the agency funded with this \$500,000 contingent appropriation plus a \$1 million planning appropriation. Because Milestones was related to Minnesota Planning's other planning activities, the agency did not separately track the amount that it spent for Milestones in that year.

⁴ *Minn. Stat.* §4A.01.

⁵ Minnesota Planning, *Minnesota Milestones*, 1.

About 2,500 people attended a community meeting or completed a survey.

community meeting or completed a survey, and more than 8,000 people who received a draft report, usually by request.⁶ Minnesota Planning staff solicited participation for its community meetings through public notices, plus invitations sent to 15,000 to 20,000 Minnesotans. Invitations were sent to state and local elected officials, as well as people on mailing lists maintained by state agencies, chambers of commerce, and religious and nonprofit organizations. The community meetings were held at various sites in the Minneapolis-St. Paul metropolitan area and in 11 cities elsewhere in Minnesota. Minnesota Planning took special steps to invite and make meetings accessible to youth, people with disabilities, and racial and ethnic minorities. Initially, Minnesota Planning staff proposed conducting a survey of a representative cross-section of state citizens, noting that public forums or other surveys would "contain the bias of those who make the effort" to participate.⁷ However, Minnesota Planning was unable to obtain private funding for the costs of conducting such a survey.⁸

State agencies participated in the development of Minnesota Milestones in several ways. The commissioners of seven large agencies were members of the 19-person Milestones Advisory Board, which met 10 times between July 1991 and November 1992. Agency commissioners also convened several of the public forums around the state, and many agency staff attended these meetings. Staff in some agencies, such as the Department of Health, told us that Milestones staff made excellent efforts to consult with them. Staff in several other agencies expressed concerns to us that agency participation was too limited or that some agency recommendations were not adopted.

According to the draft of the Minnesota Milestones report, the 30-year performance targets in this plan were selected by (1) identifying the best levels of performance by other states or countries, (2) proposing that the state maintain performance levels that were already high, (3) consulting with experts, (4) seeking consensus, or (5) projecting trend lines into the future.⁹ Minnesota Planning officials told us that performance targets were selected following extensive discussions with agency staff or outside experts. For example, they told us that they had meetings with 42 people to help them develop indicators and outcome targets for environmental goals, and that many outcome targets for health-related performance indicators were based on the Minnesota Department of Health's goals and objectives for the year 2000. On the other hand, public discussion of the

⁶ The estimate of 2,500 total participants double counts an undetermined number of people who participated in more than one meeting or survey. Several of the milestones originated in a separate report on the well-being of Minnesota's children (Action for Children's Commission, *Kids Can't Wait: Action for Minnesota's Children*, St. Paul, February 1992); about 1,000 people attended a separate series of public meetings for this report. In addition, Minnesota Planning staff made about 25 public presentations regarding Milestones to about 1,400 people between May and October 1992, some of whom provided verbal comments to staff.

⁷ Minnesota Planning, "The Minnesota Milestones Project," submission to the Legislative Advisory Commission, July 9, 1991, 3.

⁸ The office estimated that representative surveys would have cost up to \$50,000, depending on their scope. Minnesota Planning staff told us that they reviewed the findings of existing public opinion surveys and found them generally consistent with comments made at Milestones meetings.

⁹ Minnesota Planning, *Minnesota Milestones Public Review Draft* (St. Paul, June 1992), 4. The document also noted that, "Selecting targets requires difficult judgments about priorities and the willingness to commit resources."

performance targets was limited. There were relatively few performance targets in the draft Minnesota Milestones report issued for public review in June 1992, and the performance targets were reviewed but usually not discussed by the Minnesota Milestones Advisory Committee.¹⁰

USE OF MINNESOTA MILESTONES IN THE 1994-95 BUDGET PROCESS

The budget instructions outlined a key role for Minnesota Milestones.

Minnesota Planning developed Minnesota Milestones to provide a long-term vision and outcome measures for the state. Although the report was not developed primarily for purposes of state budgeting, it recommended that, "Government spending should be more directly linked to results."¹¹ The Department of Finance's June 1992 budget instructions outlined a key role for Minnesota Milestones in the 1994-95 executive branch budget process. For example, the instructions stated that:

Minnesota Milestone goals and indicators, and agency objectives and performance measures will provide the basis for budget decisions.

During the budget development phase, the Governor will indicate the "priority milestones" that will be used to shape priority spending decisions within the biennial budget. Beginning this year, the Governor's budget recommendations will be based on investments required to reach important milestones.¹²

We reviewed the 1994-95 budget document and found that Minnesota Milestones received considerable emphasis in agency narratives. A separate section of each agency budget narrative discussed links between the agency's services and the goals expressed in Minnesota Milestones. Many agencies also discussed links to Minnesota Milestones in the portions of the budget that addressed specific programs and activities. In fact, in our review of budget narratives, we found only one instance (the Board of Boxing) in which an agency said that its activities do not contribute toward the themes or goals in Minnesota Milestones, and several others (particularly in the judicial branch) that did not mention Minnesota Milestones.

Several people in the executive and legislative branches told us that Minnesota Milestones succeeded in getting some agencies to consider the link between their activities and broad societal goals, and provided a useful framework for budget decisions. They noted that agencies tend to focus on very detailed activities, particularly in the budget process, and that Milestones helped agencies to view their roles from a different perspective. However, the widely prevailing view of people we talked with was that neither the executive nor legislative branches made signifi-

¹⁰ This advisory committee consisted of a citizen chair, plus the commissioners of seven large state agencies, the state planning director, and 10 additional citizen members.

¹¹ *Minnesota Milestones: A Report Card for the Future*, 2.

¹² Minnesota Department of Finance, *Biennial Budget Instructions 1994-95* (St. Paul, June 1992), 4, 17.

Most people told us that Minnesota Milestones had a limited impact on 1994-95 budget decisions.

cant use of Minnesota Milestones when making decisions on the 1994-95 budget. For the most part, agencies used Minnesota Milestones as a means of justifying and supporting their budgets, not to re-evaluate their fundamental missions, priorities, or activities. Agencies engaged in an exercise of finding goals in Minnesota Milestones that best fit their existing or already planned activities. Because the goals in Minnesota Milestones were extremely broad and covered a wide variety of topics, it was usually quite easy for agencies to make these links.¹³

Based on our interviews, we think there were several reasons that Minnesota Milestones had limited impact on the state budget. First,

- **The goals and indicators in Minnesota Milestones were still being developed at the time when agencies were putting together their biennial budget requests.**

Minnesota Planning issued its draft of Minnesota Milestones in June 1992, shortly before the Department of Finance issued its budget instructions to state agencies. In the following months, many of the draft performance indicators and goals were eliminated or revised, and performance targets were developed for each indicator. Minnesota Planning staff told us that these revisions continued through November 1992. As a result, it was difficult for agencies, who submitted draft budget requests to the Department of Finance in September and October 1992, to fully integrate Minnesota Milestones into their budget considerations. Given these time constraints, we think it was probably overly ambitious for the Department of Finance and Minnesota Planning to propose using Minnesota Milestones to make key decisions on the 1994-95 budget.

A second reason that Minnesota Milestones had limited impact on the 1994-95 budget was that:

- **Decision makers in the executive and legislative budget processes had difficulty using Minnesota Milestones to make choices on specific programs and activities.**

In some cases, this occurred because Minnesota Milestones adopted goals that cannot be easily addressed with government intervention. As the Milestones report acknowledged, "government cannot do it alone," and achievement of many of the goals would require actions by the private sector, communities, nonprofit organizations, and individuals.¹⁴ For example, based on concerns expressed at Milestones meetings about the impact of television on the attitudes and academic performance of students, the report included a goal of reducing the percentage of sixth-graders watching more than 40 hours of television per week. State government's impact on the viewing habits of children is, at best, limited and indirect.

For many of the performance indicators identified in Minnesota Milestones, responsibility for improving performance is diffuse. For example, the number of

¹³ In the case of the Governor's proposed "investment initiatives," however, agencies usually did not reference Minnesota Milestones or its goals in their budget narratives.

¹⁴ *Minnesota Milestones: A Report Card for the Future*, 2.

people in poverty depends on numerous federal, state, and local programs and policies, the national economy, and the actions of individuals. Likewise, the amount of hazardous waste produced in the state depends on the state's level of economic activity, the preferences of consumers, and the efforts by state and local regulators to encourage companies to use production processes that generate less pollution.

Overall, we estimated that at least one-third of the 79 performance indicators in Minnesota Milestones either (1) do not pertain in a direct way to a discrete and significant area of state expenditure, or (2) pertain to issues for which responsibility is extremely diffuse. In instances where we think state activities more directly affect performance on the indicators, we found that the Minnesota Milestones report usually did not identify or discuss existing state efforts. Minnesota Planning staff told us that the Milestones report was not intended to describe links to existing programs or the Governor's proposed budget, and that agencies would not have had enough time to identify these links prior to the time the report was published. Nevertheless, in light of the executive branch's expressed interest in using Minnesota Milestones to make key decisions in the 1994-95 budget process, we think that the report might have been more useful for budgeting purposes had it included a better discussion of how Minnesota Milestones' performance indicators related to the state budget.

A third reason that Minnesota Milestones had limited impact on the 1994-95 budget was that:

- **The Milestones planning process generally did not consider and the report did not discuss strategies for achieving the outlined performance targets or their costs.**

For example, Figure 4.3 shows that Minnesota Milestones adopted ambitious targets for future child poverty rates. According to Minnesota Planning staff, the 1995 target (10 percent) was selected because this level of poverty had been achieved in 1980. Milestones participants set goals for further reductions in the years 2000 and beyond because they believed that the 1995 rate was unacceptably high. We are unaware of any anti-poverty strategies in Minnesota or elsewhere that have demonstrated results of this magnitude. The Milestones report did not identify strategies for achieving its targets, which seemed to contradict the initially stated intentions of the Milestones project to produce a plan that would include

Strategies or costs for achieving Milestones' goals were not considered in time for the 1994-95 budget process.

Figure 4.3: Goals for Child Poverty in *Minnesota Milestones*

Percentage of children living in households below the poverty line

<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
10.2%	12.4%	10.0%	8.0%	5.0%	5.0%

Source: *Minnesota Milestones: A Report Card for the Future* (St. Paul, December 1992), 9.

"strategies for achieving the vision of the people of the state."¹⁵ However, Minnesota Planning staff told us that the Milestones plan is in a continuing process of development and was not completed with the December 1992 Milestones report.¹⁶ They also said that they decided against identifying strategies in the Minnesota Milestones report in order to focus the report's attention on statewide goals.¹⁷

We acknowledge that it would have been difficult for Minnesota Planning to identify a full range of strategies in the limited time before agencies submitted 1994-95 budget requests to the Department of Finance or before the Milestones report was issued. However, we think the decision by Minnesota Planning to delay discussion of strategies or costs made the plan less useful in the 1994-95 budget process than it could have been. In addition, it is difficult to evaluate whether the performance targets in Minnesota Milestones are realistic without a discussion of strategies or costs.¹⁸

In 1993, Minnesota Planning worked with agencies to develop strategies for some goals.

Since the publication of the Minnesota Milestones report in December 1992, Minnesota Planning has recommended specific strategies for addressing some of the milestones. For example, the office issued a report on racial diversity in Minnesota that recommended 37 strategies for reducing racism and discrimination. This was consistent with the Minnesota Milestones goal of "welcom(ing), respect(ing), and valu(ing) people of all cultures, races, and ethnic backgrounds."¹⁹ Also, the office has worked with 11 state agencies to develop a strategy--restructuring services for children and families--that they believe will help the state make progress toward 4 of the 20 goals in Minnesota Milestones, as well as 16 of its 79 performance targets. The agencies have prepared a 700-page strategic plan, with cost estimates, in conjunction with an application for a private grant.²⁰ In addition, the office plans to implement a computer database in early 1994 that Minnesota communities can use to determine their performance on indicators related to children's services. Minnesota Planning staff are currently working with task forces that

¹⁵ Minnesota Planning, "The Minnesota Milestones Project," 1.

¹⁶ A letter from the Governor to the people of Minnesota opens the Minnesota Milestones report and states that the report "is your long-range plan for Minnesota." The report acknowledges that, "For Minnesota to reach its ambitious goals, strategies need to be developed around the milestones and the results of those strategies monitored on a regular basis." (p.1)

¹⁷ The *Minnesota Milestones Public Review Draft* (June 1992) stated that: "For most milestones, more than one strategy is possible. Often the choice of strategy will be more controversial than the goal. However, by focusing attention on outcomes, *Minnesota Milestones* will help policy-makers evaluate alternatives and choose the best strategies." (p. 4)

¹⁸ Some of the most influential political scientists of recent years have suggested that means and ends are intertwined, and that it is inappropriate to set goals without considering policies, programs, or resources needed to accomplish them. See Charles Lindblom, "The Science of 'Muddling Through,'" *Public Administration Review* (Spring 1959), 79-88; Aaron Wildavsky, *The Politics of the Budgetary Process* 3rd ed. (Boston: Little, Brown and Company, 1979), 181-183.

¹⁹ Minnesota Planning, *State of Diversity: A Plan of Action for Minnesota* (St. Paul, November 1993). Like Minnesota Milestones, this action plan does not discuss the costs of its recommended strategies.

²⁰ Minnesota is one of five states under consideration for three grants that the Pew Charitable Trust will award in March 1994. Minnesota's proposal calls for the establishment of community "family centers" that will consolidate information, referral, and direct services for families. For example, the centers would coordinate outreach for families of newborn children, early childhood health screening, and school registration. The grant would help restructure services in three communities initially, with implementation statewide within 10 years.

address the Milestones goals of "economic growth that is consistent with environmental protection" and "decent, safe, and affordable housing."²¹ We think these are useful and important efforts, and they demonstrate Minnesota Planning's ongoing commitment to Minnesota Milestones. However, the strategies developed so far represent first steps toward the Milestones goals, and it will be important for agencies and Minnesota Planning to continue developing additional strategies.

A fourth reason that Minnesota Milestones did not have more significant impact on the state budget was that the legislative branch had a limited role in the development of this plan. Minnesota Planning originally stated that, "Legislators will be involved throughout the process to enhance the opportunity for the adoption of recommended strategies."²² All 201 legislators were invited to participate in the Milestones public meetings by letter and, in most cases, by personal phone call from the deputy planning director. Legislative candidates who were nonincumbents also were invited to attend the 1992 meetings. Based on a review of the lists of attendees at the Minnesota Milestones community meetings, we determined that 40 of Minnesota's legislators attended at least one 1991 Minnesota Milestones meeting. In addition, Minnesota Planning officials estimated that they discussed Milestones with at least 75 legislators, including all legislative leaders and most committee chairs, in individual meetings or public hearings. There were no representatives of the legislative branch on the Milestones advisory committee because Minnesota Planning was advised by legislative leaders that legislators traditionally do not serve on agency advisory committees.

Many legislators did not feel "ownership" over the goals and targets in the *Minnesota Milestones* report.

Despite the efforts by Minnesota Planning, many legislators and their staff told us that the Legislature did not feel that it "owned" the goals and targets outlined in Minnesota Milestones, and several questioned whether Milestones was based on input from a true cross-section of Minnesotans. Following the issuance of the Minnesota Milestones report, the Legislature did not formally adopt its goals or performance measures, nor was it asked to do so. This is in contrast to Oregon, where the Legislature passed a law mandating ongoing tracking of certain benchmarks, identifying "critical" benchmarks, and adopting a general set of objectives for the state. In our interviews with Minnesota legislators, we heard concerns raised about Minnesota Milestones from members of both political parties, although it is possible that partisan differences between the legislative and executive branches had some impact on the Legislature's response to Minnesota Milestones. Likewise, the traditional tensions between state legislative and executive branches could partly explain the concerns expressed by legislators.

²¹ The Environmental Quality Board, staffed by Minnesota Planning, is working with about 100 environmentalists, business leaders, and others to develop recommendations on "sustainable development." Planning staff are also working with the Governor's Task Force on Metropolitan Housing Issues.

²² Minnesota Planning, "The Minnesota Milestones Project," 1.

DURABILITY OF MINNESOTA MILESTONES

Minnesota Planning officials told us that Minnesota Milestones is intended to be a plan that will last beyond the administration of a single governor. They expressed willingness to consider new performance indicators or revisions to existing ones, and told us that the Milestones report should influence executive branch decision making--including budget decisions--well into the future. Minnesota Planning intends to issue regular progress reports on Minnesota Milestones, perhaps annually.

During our review of Minnesota Milestones, we did not comprehensively evaluate the appropriateness of each measure, or the accuracy and reliability of the performance information in the 1992 report. In our more limited review, we found examples of good measures, such as:

Minnesota Milestones identified some useful measures of the state's well-being.

- **Infant mortality rate.** Although there are numerous factors that contribute to this rate, this is a simple but fundamental measure of the health of Minnesota's population. In part, this rate reflects the quality and accessibility of health services for pregnant women and newborn children.
- **Days that locations in Minnesota violate air pollution standards.** The federal government sets standards for air quality based on studies of the health risks of short-term exposure to pollutants. Instances in which air quality violations occur represent documented health risks to persons in the areas surrounding the monitoring sites. Therefore, this is a meaningful measure, although it is worth noting that the state regularly monitors air quality at less than 50 sites statewide.
- **Achievement test scores.** Schools provide many services to Minnesota's students, but the most fundamental test of their success is whether they provide an adequate level of academic skills. Although there are debates about the appropriate tests to use, and there are currently very limited data for establishing statewide baselines, it will be important in coming years for the state to collect better information on the achievement levels of its students.

However, we also think there are several issues that should be addressed if Minnesota Milestones is to provide a foundation for future performance budgeting by the executive branch. First,

- **For many of the 79 performance indicators, reliable performance data either are not collected at all, or are collected infrequently.**

Based on information in Minnesota Milestones and discussions with agency staff, we estimated that nearly one-third of the performance indicators currently have no reliable existing data, and there are no immediate plans for collecting most of this information. For example, Minnesota Milestones recommended using a statewide

Data for many of the indicators are not collected frequently, if at all.

public survey for 10 of the performance indicators. So far, a survey measuring 2 of the 10 has been developed and conducted.²³

In addition, the state collects reliable data for at least 10 of the indicators no more than once every three years. For example, reliable data on state poverty rates, which is the basis for 3 of the 79 indicators, is available only through the decennial national census. Also, four of the indicators rely on data from a statewide survey of public school students that is conducted every three years. In the case of the student survey, Minnesota Planning staff considered the need for more frequent surveys, but have concluded that they would not justify the expense.

The Minnesota Milestones report acknowledged many of the data limitations, and offered recommendations for improving data collection for 26 of its measures. To date, there has been limited progress toward better statewide data collection on the 79 indicators, but we recognize that developing and reporting reliable outcome data may take time and require further consultation with state agencies. It remains to be seen whether Minnesota Planning's future updates on Minnesota Milestones will contain sufficient, reliable data for these measures.

A second issue that should be addressed if Minnesota Milestones is to be used for decision making in future years is:

- **There is an unclear relationship between Minnesota Milestones and the agency performance reports mandated by the 1993 Legislature.**

As discussed in Chapter 1, the 1993 Legislature required 20 state agencies to develop performance measures for their programs and activities. The law requires agencies to use "worker participation committees" to develop these measures, but it does not require public hearings or other forms of public participation, such as those used to develop Minnesota Milestones. The law does not require agencies to consider or incorporate the 79 performance measures in Minnesota Milestones.

As we noted earlier, Minnesota Milestones includes many outcome measures that are not directly related to state government activities. If this were true for all of the Milestones measures, it might be possible to think of Minnesota Milestones as a report card on the general well-being of Minnesota's population, and agency performance reports as report cards on the performance of state government. At present, however, the distinctions between Minnesota Milestones and the agency performance measures are not drawn this clearly, and the executive branch can have multiple, differing goals for a state activity. For example, both Minnesota Milestones and the Department of Public Service have performance measures related to statewide energy use. The goal set forth by Minnesota Milestones (a 22 percent reduction in energy use per capita between 1990 and 2020) differs from the goal of the department (stable energy use per person).

²³ In a few cases, the Milestones indicators themselves have not yet been defined in a readily measurable way. For example, there is a Milestone indicator called "Minnesota's rank in telecommunications technology," but there is no national ranking of states in this area, nor is there agreement on what might be the necessary components of adequate telecommunications access. The Minnesota Milestones report recommended that the Public Utilities Commission should develop such a measure.

A third concern we have about the future utility of Minnesota Milestones is that:

- **Some of the performance measures may need revision or refinement.**

We recognize, as does Minnesota Planning, that the task of identifying measurable outcomes and collecting data for public activities is difficult, time-consuming, and sometimes expensive. For many activities, there are differences of opinion about what outcomes to measure and how to do so. Nevertheless, if Minnesota Milestones is to make a long-term contribution to state decision making, its measures and performance data should be appropriate, accurate, and reliable. The Minnesota Milestones report acknowledged that many of its recommended measures are not perfect, and suggested continued efforts to improve the measures and supporting data. During the past year, for example, Minnesota Planning helped to identify measures of racial equality and child welfare that supplement those in Minnesota Milestones, and it administered a statewide survey that measured the perceptions and incidence of crime.

We think some of the measures in Minnesota Milestones need further review, so we support Minnesota Planning's willingness to consider alternative or additional measures. For example:

- There is a milestone for the "number of school districts with a twelfth-grade dropout rate over 10 percent." In 1990, only 14 of the state's 400 districts (3.5 percent) had dropout rates this high. However, Minnesota Milestones' focus on districts with high dropout rates in the twelfth grade obscures a serious and growing dropout problem in Minnesota schools. Based on 1991-92 data, for example, the Minnesota Department of Education estimates that about 19 percent of Minnesota ninth-graders will drop out of school before they complete twelfth-grade.²⁴ Staff in the department told us that they prefer using this four-year rate instead of annual dropout rates because many students have already dropped out by the time they reach twelfth grade.
- There are performance indicators regarding the quantities of air pollutants and hazardous wastes produced in Minnesota. These are useful data to track, but they are insufficient for measuring the ultimate outcomes of pollution. The risks of pollutants depend not only on the amounts produced, but also on how they enter the environment. For example, through proper regulation, some air pollutants can be emitted in ways that pose little or no health risk, and many hazardous wastes can be treated for safe disposal.²⁵

Minnesota Planning should continue to review and revise the measures, where appropriate.

²⁴ Projected dropout rates based on 1991-92 data were provided to us by the Minnesota Department of Education, District Data Unit. The rates are calculated by applying the most recent year's dropout rates for grades 9, 10, 11, and 12 to the current population of ninth-graders. Based on 1991-92 data, the four-year projected dropout rate for black students is 61 percent; for American Indian students, 56 percent; and for Hispanic students, 50 percent.

²⁵ This measure of air quality, based on quantity of pollutants, is different from the indicator referenced earlier, which was based on number of detected air quality violations.

- Minnesota Milestones reported that 85 percent of technical college graduates in 1990 found employment in fields related to their training. However, this estimate was based on questionable methods of calculating placement rates and should be reconsidered when preparing future updates on Milestones. In a recent report, we estimated that placement rates are between 74 and 79 percent, using more appropriate measures.²⁶

The 1993 Legislature required agency performance measures to undergo regular review by the Office of the Legislative Auditor. The office must comment on the appropriateness, validity, and reliability of the outcome measure and data collection efforts. There are no similar requirements for Minnesota Milestones, although the Legislature could certainly consider this if it believes that Milestones is a valuable effort and worth continuing.

SUMMARY

Our discussions with members of both the legislative and executive branches indicated a widely-held desire for better information on state government performance. Minnesota Milestones, in conjunction with many other national and state efforts, has helped to promote more focus on outcome measurement and Minnesota Planning deserves credit for its efforts to solicit opinions from Minnesotans around the state. We found that Minnesota Milestones had very limited impact on the 1994-95 state budget. It was probably overly ambitious for the Department of Finance and Minnesota Planning to propose using Milestones for budgeting purposes before the document was finalized, before strategies and costs had been considered more fully, and before more outcome data were available. We recognize that it may take time to develop a consensus on the "right" measures and performance targets, and to collect appropriate data.

The extent of the executive branch's commitment to refining Minnesota Milestones, collecting baseline data, and using it to help make future decisions remains to be seen. Whether Milestones will play a stronger role in future legislative budget discussions depends largely on the ability of Minnesota Planning and other state agencies to: (1) develop specific strategies (with cost implications) that could improve various aspects of state government's performance, (2) develop a greater sense of "ownership" for Milestones among legislators and state agencies, (3) distinguish Milestones from agency performance measures, and (4) ensure that measures are appropriate, and based on meaningful and useful data.

²⁶ Office of the Legislative Auditor, *Higher Education Programs* (St. Paul, February 1993).

Conclusions and Recommendations

CHAPTER 5

Over the past two decades, Minnesota's executive branch has tried many times, and in various ways, to encourage agencies to develop measures of their efficiency, outputs, and outcomes. Despite incremental improvements in the quality of information that agencies have reported in the budget process, neither the legislative nor the executive branches have been fully satisfied. The Department of Finance's 1994-95 budget instructions and the Legislature's 1993 act requiring state agencies to report on their performance both indicated that key decision makers want better information on state government's results. In this chapter, we ask:

- **How should the executive and legislative branches use performance information in the budget process?**
- **What issues should be addressed if performance budgeting is to be implemented successfully?**

PREREQUISITES FOR PERFORMANCE BUDGETING

Even if agencies develop better performance measures, there is no way to mandate that the legislative or executive branches use this information to make critical budget decisions. In order for information to be used in budgeting, it must be considered important, relevant, timely, and accurate by decision makers. Achieving this would require the two branches to address several major challenges.

First, successful implementation of performance budgeting will probably require the executive and legislative branches to reach greater agreement on agency and program missions. Simply put, agencies will not be able to develop relevant and useful performance measures for budgeting unless there is general agreement on the purposes of agencies, their programs, and the policies they help to implement. There are fundamental, underlying disagreements about the purposes of many programs, and some agencies have not adequately conducted strategic planning to clarify their missions. Development of useful performance measures will require agencies to conduct better planning and have more public discussions of agency missions with the Legislature.

Performance information must be credible and trustworthy before legislators will use it for budgeting.

Second, agencies must approach performance measurement as a central part of management, not as a passing fad. In order for the Legislature to have useful discussions about performance, state agencies must first develop appropriate measures, collect valid and reliable data, and use it as part of their administrative decision making. In 1993, some agencies were unable to answer legislators' questions about the performance information in their budgets, and some ignored this information in their budget presentations. In part, this reflected the fact that some agency staff viewed performance budgeting as something that might not outlast the present administration, or was not relevant to budget allocations. However, by mandating annual performance reporting in state law, the 1993 Legislature took an important step toward institutionalizing performance measurement as an ongoing, important state activity.

Third, agencies should improve the quality of the performance measures and their supporting data. The 1993 performance reporting law took steps to ensure that agency information will be trustworthy. It required the Office of the Legislative Auditor to review the performance information of agencies on a regular basis and report whether it is appropriate, valid, and reliable. For some programs, getting adequate data may take several years or prove to be impractical. Nevertheless, in cases where it is possible and practical to measure program performance, decision makers must find this information to be credible before they will use it to make budget decisions.

Fourth, performance budgeting will have a greater likelihood for success if there were a higher level of trust between the legislative and executive branches. While some skepticism between the executive and legislative branches is normal and even desirable, a certain level of trust is needed for efficient governance. While the current level of mutual distrust partly reflects the fact that the two branches are now controlled by different political parties, there was also distrust when a single party controlled both branches. Many agency officials believe that the Legislature manages their agencies' affairs in too much detail, or is simply looking for places to cut their budgets. If performance budgeting is to be implemented successfully, agencies need to believe that performance information will be used constructively in legislative discussions, and that they will have the operating flexibility needed to achieve their expected outcomes. Legislators have suspicions as well, believing that some agencies are more concerned about self-preservation than achieving their missions. In order for legislators to use performance information in the budget process, they would have to be convinced, at a minimum, that agencies are providing trustworthy information. This might enable discussions between the two branches to focus more on policy issues and ways to improve performance and less on matters of fact.

Finally, the Legislature may need to consider better ways to use performance information in decision making. Agencies would be more likely to develop high-quality performance information if they believed it would be the focus of legislative discussions. Now that the Legislature has required in state law that most large agencies produce annual reports on their performance, it should ensure that this information receives proper attention. According to some legislative staff we spoke with, legislators may need to devote more time to agency oversight and ask agen-

cies more questions about their performance. This is a difficult challenge, given the time constraints of the existing budget process and the fact that the narratives in the budget document are currently not used extensively by many legislators. As discussed below, increasing the Legislature's use of performance information may require the development of new forums for discussing agency performance, preferably ones that complement the existing budgeting and policy making processes.

CONCLUSIONS AND RECOMMENDATIONS

Performance information can be useful in many aspects of governance and management.

Performance information can help the Legislature in many ways. It can help the Legislature to (1) develop appropriate state policies and goals, (2) monitor the implementation of these policies by state agencies or others, (3) communicate with constituents and the broader public about state programs and their results, and (4) make budget decisions. In short, high-quality performance information can help legislators in virtually all aspects of governing, not just in the budget process.

Likewise, agency officials can and already do use performance information in many aspects of daily management, not just to allocate funds internally or to justify budget requests. They may use this information to choose among competing vendors, or to choose among various strategies for accomplishing a goal. Performance information helps agencies to evaluate existing goals and priorities and to set new ones. An agency may use this information to compare the effectiveness of its regional offices or operating divisions.

The 1993 Legislature required executive agencies to prepare "performance based budget plans" and the Governor's budget to include "comprehensive information regarding actual and proposed changes in funding and outcomes."¹ However, we think the legislative and executive branches should exercise caution as they attempt to link performance information to budget decisions. As discussed in Chapter 1, the federal government will evaluate limited experiments in performance budgeting over the next several years, but will wait to make a decision on its broader application until 2001. There have been very few examples in the United States' federal or state governments of direct links between performance information and legislative appropriations. As discussed in Chapter 3, the Department of Finance's 1994-95 budget instructions were overly ambitious in discussing the link between agency performance information and executive branch budget decisions.

In our view, with very limited exceptions at the present time, agency performance should not be tied to appropriations in a formal, mechanical way, nor should it be a primary component of funding formulas. In other words, we do not think it is a good idea to have large components of agency budgets that directly depend on the levels of outcomes those agencies help to produce. For many government services, the relationship between funding and outcomes is indirect or not well-documented. Numerous variables can affect outcomes, some beyond the control of

¹ *Minn. Laws* (1993), Ch. 192, Sec. 48 and 54.

Legislative "performance reviews" might provide a useful forum for discussing agency missions, performance, and objectives.

agencies. Also, it is often very appropriate to consider factors such as caseloads or workloads when setting agency budgets, even though these are not measures of outcomes. Ultimately, we think decisions about appropriations require the Legislature's best judgment based a variety of considerations--including, but not limited to, performance information.

However, many legislators and their staff expressed to us a desire to find better ways to review agency performance. Specifically, we heard widespread support for the idea of having legislative committees spend the early part of the budget session conducting "agency performance reviews," using annual agency performance reports as a focal point for discussion. We think such reviews could be useful, and could serve the following purposes:

- **To develop more agreement between the legislative and executive branches on agency mission, performance measures, and reasonable performance expectations for the future;**
- **To provide agencies with an opportunity to discuss and explain past performance;**
- **To provide the Legislature with a stronger foundation for setting policy and budget priorities.**

Many legislators and staff told us that the early part of the budget sessions would be a good time for agency performance reviews. They noted that it sometimes takes several weeks during the budget session for legislative committees to begin budget hearings, and this time period could be better spent. Alternatively, some legislators suggested that, given the time constraints of budget sessions, there might be more time for performance reviews between legislative sessions or during the sessions in even-numbered years.

Agency performance reviews could be held by either the policy or budget committees of the Legislature. In many cases, House and Senate budget committees are actually subcommittees of broader policy committees. In other cases, however, there is little overlap in the membership of committees that set policy for an area and those that approve budgets. For example, there is an overlap of only two members between the 10-member Senate Agricultural and Rural Development Committee, which addresses agricultural policy, and the 12-member Senate Environment and Natural Resources Finance Division, which considers agricultural bills with fiscal implications. Because performance information has implications for both policy making and budgeting, and because both houses of the Legislature have been trying to make policy committees more attentive to budget issues, we think it would be preferable to have policy committees conduct agency performance reviews.

In order to develop useful performance measures, agencies need to have clear missions, goals, and objectives. Many legislators told us they favor adopting statements of mission and priorities into law and putting performance targets into appropriations bills wherever possible. We agree that it is a good idea to have

In selected cases, performance targets could be written into appropriations bills.

clear missions and performance expectations in law, to the extent possible. Statutory mission statements have the consent of the entire Legislature, while informal agreements between agencies and legislative committees do not. However, laws may be an inflexible way to establish objectives and performance targets for some programs. Thus, in some cases, it may be more reasonable for committees to establish informal agreements with agencies rather than statutory statements of mission, goals, or priorities. Even informal agreements would be an important step toward better communication between the legislative and executive branches.²

We recognize that trying to get legislative agreement on the goals of programs or policies could be very difficult.³ But, if the Legislature expects agencies to report on their performance, we think it is reasonable for the Legislature to clarify performance expectations in cases where these are unclear, or at least to publicly discuss measures that agencies have proposed for measuring their performance.

As discussed in Chapter 1, the 1993 Texas Legislature negotiated performance levels with all state agencies and put them in its appropriations bill. The California Legislature intends to contract with selected agencies for certain levels of performance, starting next year. In our view, these measures have merit and should be considered by the Minnesota Legislature. Perhaps the Legislature could include performance targets in appropriations bills for a limited number of carefully selected services during the 1995 budget session--preferably services with clear missions, reliable performance data, and outcomes that are subject to the state's influence.

While performance information could be helpful to individual legislative committees, it could also help to inform the overall priorities set by legislative leaders. The House of Representatives recently convened a working group of staff to determine ways to identify key policy or budget issues before legislative sessions begin. If agency performance reports gain the confidence of legislators and their staff, they could be useful in these pre-session discussions, and chairs of legislative budget committees might use them in discussions with legislative leaders regarding budget targets.

We also think there are specific steps that the executive branch could take to improve its use (and the Legislature's use) of performance information. We recommend:

- **The Department of Finance should work with the departments of Administration and Employee Relations to ensure that agencies have sufficient training in performance measurement and performance management, and opportunities to exchange information on these topics.**

² For example, in 1990, Department of Revenue officials met informally with members of a key House budget committee and agreed upon measures of agency performance, as discussed in Chapter 3.

³ Some legislators, as well as the Minnesota Office of the Revisor of Statutes, have tried to minimize the number of "policy statements" in law. The revisor's office, which drafts bills and codifies laws, believes that if bills are written clearly, it is unnecessary for them to include statements of legislative intent.

The Department of Finance should take steps to improve the usefulness of agency performance information.

- **The Department of Finance should publish a consolidated state performance report in November 1994, and every two years thereafter, that highlights key performance measures from agency performance reports.**

If the Legislature received this report in advance of the biennial budget, legislators and staff would have more time to consider this information before the budget process begins. Legislators could also use this performance report as the focus for agency performance reviews early in the budget session. Department of Finance staff told us that they intend to produce such a report, but have not yet determined what it will include and how it will relate to the biennial budget document.

In our view, the Department of Finance should continue to include selected performance information in the biennial budget document. However, to improve the utility of this document at the Legislature,

- **The Department of Finance should consider ways to streamline agency budget narratives, highlight performance measures and link them to objectives, and present budget recommendations or options in terms of their expected outcomes.**

In addition, the department should ensure that the budget narratives are sufficiently informative that agencies will use them in legislative presentations, rather than relying primarily on supplementary materials.

We also recommend that:

- **The Department of Finance should convene an ongoing legislative-executive branch work group for the purpose of refining measures and data used in the agency performance reports or the budget document.**

The utility of agency performance information will depend on its accuracy, reliability, and relevance to the interests of key decision makers. State law gives the Department of Finance responsibility for providing guidance to agencies on annual performance reports, and it is important for the department to develop this guidance based on input from both the legislative and executive branches. The main function of this working group would be to establish common reporting procedures for all agencies. For example, one legislative fiscal analyst suggested that it would be useful for efficiency measures to employ more consistent definitions of agency administrative costs.

- **The Department of Finance should find ways to more effectively link information on performance with corresponding information on spending.**

According to Department of Finance staff, it is now difficult to determine how much the state spends in pursuit of a particular performance goal because there are differences between the state's accounting and budget information systems. In

order for performance information to be useful in budgeting, agencies must be able to produce reliable information on unit costs--for example, the amount of income tax revenues collected for each dollar spent for auditors. As the department develops and implements new information systems for state government during the next 18 months, it should identify ways to relate information on program performance to accounting data.⁴

Finally, we think that agencies will be more likely to generate credible performance information for management purposes if they believe that this information will also be useful to top executive branch officials. Just as we think the Legislature should consider the need for better ways to discuss agency performance, we also recommend that:

- **The Department of Finance should work with the Governor to periodically review and discuss agency performance with individual agency heads--either in meetings related to budget development, or in separate meetings.**

Over the past 25 years, the budget document has evolved into a better decision-making tool that includes some useful analysis, performance measures, and background information on state programs. But there is considerable room for improvement. What is most needed now are better performance data, particularly information on program outcomes and the cost of achieving them. In addition, the legislative and executive branches need to create more opportunities to discuss this information. In the Legislature, this might include hearings of individual House or Senate committees, joint House-Senate committee hearings, or less formal meetings between committees and agency officials.

It will take time to develop a consensus on what to measure and to collect credible, useful data.

While not a panacea for addressing the state's key issues, good performance information can help decision makers. But it will take time to develop a consensus on what should be measured, and to develop information that is credible and comparable to meaningful standards. Also, researchers will still need to evaluate reasons for current performance levels, many of which are beyond the control of agencies.

The 1993 performance reporting law's requirements apply to just over half of the state budget. If it is the Legislature's intention to implement a performance-based approach for the entire budget, then it may need to obtain better performance information on the remainder of the state budget, including education aids, general local government aid, the higher education systems, the Pollution Control Agency, and many smaller agencies that are not currently subject to the performance reporting law. Furthermore, the Department of Finance's instructions for implementing this law have asked agencies to focus on those outcomes "which the program can directly affect."⁵ These instructions may exclude some important areas of state performance--such as student achievement in public schools--because they are not

⁴ The department is now developing a new state accounting system, which will be implemented in July 1995. In addition, the department is planning July 1995 implementation of a "decision support system" that will provide legislative and executive branch staff with access to budget, accounting, staffing, and performance data for all state operations.

⁵ Laura M. King, Budget Director, memorandum to agency heads regarding annual performance reports, July 23, 1993, 1.

directly attributable to the actions of a state agency. Our office intends to review the current performance reporting law, as well as the Department of Finance's instructions for its implementation, and issue recommendations to the Legislature in March 1994.

Applications of Performance Reporting and Budgeting in Other States and Countries

APPENDIX A

To identify states that are currently using or developing performance budgeting or some form of structured performance reporting, we reviewed literature and spoke with staff from organizations such as the National Conference of State Legislatures, U.S. General Accounting Office, and National Association of State Budget Officers. We contacted staff in other states' budget or legislative offices to learn more about these efforts, and we obtained written descriptions, reports, and statutory references.

We obtained information on other industrialized countries primarily from published literature, although we also spoke with officials at the Canadian Treasury Board and the Australian embassy in Washington, D.C. The examples discussed here are all parliamentary governments, in which the heads of agencies (or "ministries") are typically members of the legislative body as well. It is worth noting that, compared to American governments that have more distinct separations between executive and legislative branches, parliamentary governments may have stronger incentives for cooperation between agencies and legislative bodies.

OTHER STATES

California

In January 1993, California's Governor proposed a pilot test of performance budgeting in four departments. The Legislature enacted many of the provisions of this proposal.¹ According to the law, the performance budgeting pilot projects shall have the following elements:

- Annual contracts between the Legislature and executive branch requiring delivery of a specified level of outcomes for a specified budget, starting in the 1994-95 fiscal year;
- Sufficient agency freedom from statutory requirements to achieve the outcome goals;

¹ California Statutes of 1993, Ch. 641, also known as the Performance and Results Act of 1993.

- Financial incentives for agencies, including the ability to reinvest up to 50 percent of program savings;
- An emphasis on strategic planning;
- Development of performance measures, particularly outcome measures;
- Establishment of benchmarks for measuring progress.

The pilot projects are being conducted in the following agencies: consumer affairs, general services, parks and recreation, and the state computer center.

A recent study by California's Legislative Analyst's Office suggested that sanctions for poor performance "should not take the form of budgetary or administrative constraints, which could have an adverse impact on departmental programs, but be more in the nature of sanctions applicable to those making the promises and those possessing the authority to fulfill them (for example, not granting a pay increase or, in extreme cases, removal from a position)."² It recommended setting up a joint legislative committee to oversee performance measures and contracts, consider the role of sanctions, and consider expansion of the pilot projects. The office said that a necessary precondition to successful performance budgeting is that the Legislature must give up its traditional, detailed control over departments in exchange for longer-term control over mission, direction, and outcomes of agencies.

Oregon

In 1989, Oregon's executive branch produced a strategic plan for economic development, based on input from 16 committees of business, labor, education, and government leaders.³ Following its release, the Oregon Legislature created the Oregon Progress Board, which includes the Governor, commissioner of the Department of Administrative Services, and eight citizen members. The board was asked to translate the economic development plan into measurable goals for the state. The board, with citizen input, developed 158 benchmarks in 1991, and identified 17 as "lead benchmarks."⁴ An example of a benchmark is "small business startups per 1,000 population." For each benchmark, the board presented performance data (if available) for 1970, 1980, and 1990, and projected performance for 2010. The Legislature discussed, amended, and adopted the performance measures, although it did not adopt the specific goals for future levels of performance on each measure. The Legislature required the Progress Board to report on state performance each biennium.

² California Legislative Analyst's Office, *Performance Budgeting: Reshaping the State's Budget Process* (Sacramento, CA, October 25, 1993), 9-10.

³ Oregon Economic Development Department, *Oregon Shines: An Economic Strategy for the Pacific Century* (Salem, OR, May 1989).

⁴ Oregon Progress Board, *Oregon Benchmarks: Setting Measurable Standards for Progress, Report to the 1991 Legislature* (Salem, OR, January 1991).

In 1990, Oregon voters passed a ballot measure limiting local property taxes and requiring the state to make up the revenues lost by school districts. In order to limit overall state spending, Oregon's budget instructions for the 1993-95 biennium asked agencies to reduce their base-level funding requests to 80 percent of the current service level. Agencies were asked to avoid budget cuts that would slow progress toward the state's benchmarks, and they could request funding equal to 10 percent of their current budget for special initiatives that would improve performance on these benchmarks.⁵

The Oregon Progress Board's report to the 1993 Legislature identified 272 benchmarks.⁶ Staff in Oregon's executive branch told us that they are still discussing possible ways to use this information in the budget process, although they believe that their benchmarks-based budget proposals in 1993 were well received by the Legislature.

North Carolina

The state budget and planning offices prepared pilot performance budgets for state environmental and health activities for the 1993-95 biennium.⁷ These documents organized the budget by statutorily defined goals and programs. For each activity, the documents included measures of (1) need and demand, (2) program activity, and (3) outcome and benefits. In addition, the proposed budget for each "subprogram" identified strategies for achieving the purposes of this activity. The budget document identified funding for each strategy.

For these two areas, the General Assembly received both traditional and performance-based budgets. In our interviews, we were told that the General Assembly primarily used the traditional budget to make decisions. Nevertheless, staff in the budget office told us that they are proceeding to develop performance-based budgets for several additional areas of state government.

Iowa

Iowa law requires executive branch departments to annually submit to the Department of Management estimates of expenditure requirements for the coming year, and these must be accompanied by performance measures for evaluating the effectiveness of programs.⁸ Iowa's executive branch has also initiated a system of strategic planning and performance measurement. The Department of Management produces reports that outline objectives and outputs for each department, and

⁵ Oregon Executive Department, Budget and Management Division, *1993-95 Biennium Budget Instructions* (Salem, OR, February 1992).

⁶ Oregon Progress Board, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Government Performance, Report to the 1993 Legislature* (Salem, OR, December 1992).

⁷ North Carolina Office of State Budget and Management, Office of State Planning, *1993-95 Biennium: The North Carolina State Budget, Performance Budget for Health and Performance Budget for Environment* (Raleigh, NC, undated).

⁸ Iowa Code §8.23.

show whether the departments are on schedule to meet their objectives.⁹ The Governor has monthly meetings with managers to discuss progress. We learned that the measures have not been used extensively in the budget process, although executive and legislative budget staff are developing a common set of performance measures in one department (elder affairs).

Connecticut

In a 1992 report, a Connecticut legislative office reported that state agencies had developed more than 2,000 performance indicators since 1981.¹⁰ However, it found that most of the measures were not related to program outcomes, and were not used by agency managers. The 1992 Connecticut General Assembly required the Office of Policy and Management, in consultation with agencies, to develop biennial goals, objectives, and outcome measures for budget purposes.¹¹ The 1993 General Assembly created a progress council that is comprised of legislative and executive branch leaders, as well as citizen representatives.¹² The council is required to develop a long-range vision and benchmarks for achieving the vision. The council's benchmarks must be submitted to the legislative and executive branches in July 1994, and every two years thereafter, "for use in developing and reviewing the budget." The Office of Policy and Management must develop annual reports that assess the progress state agencies make toward the benchmarks.

Virginia

The 1992 Virginia General Assembly directed the state planning and budget office to "develop performance measures for selected base budget programs on a pilot basis," and for new programs.¹³ The office selected 24 pilot projects in 21 agencies, and 18 of the programs selected were new initiatives. It asked agencies to develop no more than eight indicators of various types for each pilot project. Participating agencies developed plans for the pilot programs by early 1993.

During 1993, agencies developed a total of 376 measures for the 24 programs. A recent evaluation by the Virginia Department of Planning and Budget found that eight of these programs "made very good progress" with their performance measurement systems.¹⁴ For the remaining 16 programs, agencies are still in the process of developing clear objectives, appropriate measures of outcome (and standards against which performance can be compared), and sufficient explanatory information so that users of the data can correctly interpret it. The evaluation

⁹ Iowa Department of Management, *Progress Review of Iowa's State Government, Fiscal Year 1993* (Des Moines, IA, undated).

¹⁰ Connecticut Legislative Program Review and Investigations Committee, Connecticut General Assembly, *Performance Monitoring in State Government* (Hartford, CT, April 1992).

¹¹ Public Act 92-8.

¹² Public Act 93-387.

¹³ Ch. 893 of 1992 Acts of Assembly (1992 Appropriation Act), Item 271.

¹⁴ Virginia Department of Planning and Budget, *Performance Measures Pilot Project* (Richmond, VA, December 1, 1993), ii.

concluded that the pilot projects should be continued and expanded, and that a plan should be developed for implementing performance measures throughout Virginia state government and linking them to the budget process. Overall, the report concluded that performance information:

...can be important and useful for program managers as well as higher-level decision makers. Performance measurement serves as a practical tool for monitoring programs, and the information it produces can help ensure mutual understanding of program objectives. It can help managers see when programs are missing the mark and mid-course corrections are necessary. And, because resources can more clearly be linked to outcomes, it can also help decision makers in their quest to allocate resources in appropriate ways.¹⁵

Texas

The appropriations bill passed by the 1991 Texas Legislature required agencies to develop performance measures for future budgeting purposes.¹⁶ Soon afterward, the Legislative Budget Board passed a resolution requiring the Texas State Auditor's Office to certify the accuracy of the performance information reported by agencies, and the office issued two reports on selected agencies' measures.¹⁷

At the Governor's request, all agencies developed strategic plans in 1992. The auditor's office and Legislative Budget Board reviewed the performance measures developed by agencies. Agencies negotiated targets for performance with the Legislative Budget Board because there is no single executive branch agency that is responsible to coordinate agency performance reporting. The Legislative Budget Board has authority to transfer funds from agencies that do not meet their performance targets, but has not yet used this authority.

The state government appropriations bill passed by the 1993 Legislature has goals and objectives for each program.¹⁸ For each objective, the bill states measurable outcomes for the biennium, as well as strategies, output measures, and efficiency measures. Funding is appropriated by strategy, not by program.

Washington

The 1993 Legislature required each state agency to define its mission and establish measurable goals.¹⁹ Each program must have outcome-based, measurable objectives. The Legislature required the Office of Financial Management to develop a plan by December 1994 for using the objectives to evaluate agency performance.

¹⁵ Virginia Department of Planning and Budget, *Performance Measures Pilot Project*, iii.

¹⁶ 72nd Legislature, 1st called session, House Bill 1.

¹⁷ Texas State Auditor's Office, *Accurate and Appropriate Performance Measures Are the Foundation of Tomorrow's Texas* (Austin, TX, February 1992 and June 1992).

¹⁸ 73rd Legislature, Regular Session, Senate Bill 5 (General Appropriations Act for 1994-95 Biennium).

¹⁹ 53rd Legislature, Regular Session, Ch. 406.

Utah

The Utah Legislature has established a strategic planning committee, which includes four members from both the House and Senate, as well as two executive branch officials and the state court administrator. The committee has worked with state agencies in an effort to develop a set of performance measures collectively known as "Utah Tomorrow." The committee is still working to develop specific performance targets, or benchmarks, for performance over the next 20 years that could be used in planning and budgeting decisions. Currently, state agencies are focusing primarily on developing performance measures for new programs that will be included in the Governor's budget proposal. Legislative staff told us that the 1994 Utah Legislature will likely adopt by resolution the goals of Utah Tomorrow, but not measurable performance targets.

Wyoming

The 1993 Wyoming Legislature required state agencies to develop annual strategic plans, starting in December 1994.²⁰ The plans must include performance measures, and agencies must also develop annual performance reports. Wyoming officials have not yet determined whether or how this information should be used in the budget process.

Louisiana

In 1989, Louisiana's executive branch started to implement a strategic planning process throughout state government. Agencies have developed four-year strategic plans and annual operating plans. The format of the executive branch budget document has been changed to include missions, goals, objectives, and performance indicators for each program. In general, the budget office has encouraged agencies to implement the principles of total quality management and to focus on customer service. The executive branch issues an annual "state of the state" report that provides information on "trends, rankings, and accomplishments" in various areas of state government.²¹

OTHER COUNTRIES

Canada

In 1986, the Canadian government initiated the Increased Ministerial Authority and Accountability (IMAA) reforms that gave departments more administrative discretion in exchange for stronger accountability for results. Every three years, the Canadian Treasury Board negotiates "memoranda of understanding" with each department, and these make performance expectations explicit. Each department

²⁰ 52nd Legislature, Ch. 221.

²¹ Louisiana Office of Planning and Budget, *State of the State 1993* (Baton Rouge, LA, undated).

prepares an annual management report which is reviewed jointly by officials from the Treasury Board and the departments to determine whether the department is making sufficient progress toward its objectives. The Treasury Board views performance information primarily as a departmental management tool, and has not linked this information to budgeting.²²

In earlier years, Canada's Policy and Expenditure Management System tried to directly link performance measures to budgets. However, according to U.S. officials who have reviewed the Canadian experience, this produced an overwhelming amount of data, and agencies did not always report truthful data.²³

New Zealand

New Zealand appropriates funds to departments in order to purchase a specified level of outputs, such as vehicle safety inspections, road maintenance services, or driver testing services. Departments are accountable for producing the level of outputs purchased, but not for producing specific outcomes. This is based on the recognition that outcomes depend not only on the outputs produced by departments, but also on governmental policies that are beyond the control of department officials.²⁴

United Kingdom

In 1982, the United Kingdom started a program called Financial Management Initiatives. This was based largely on the notion of giving departments more flexibility in their operations in exchange for stronger accountability through performance measurement. The program envisioned budgeting as a contract for performance, but strong links between performance and resources have not yet been established. There have been difficulties developing precise objectives and performance measures, although many measures are now reported in budget documents.²⁵

Australia

Australia has developed performance measures as part of an effort to implement program budgeting. The Department of Finance requires government agencies to produce annual "program performance statements" that summarize program

²² Allen Schick, "Budgeting for Results: Recent Developments in Five Industrialized Countries," *Public Administration Review* (January/February 1990), 26-34.

²³ Statement of Frank Hodsoll, Deputy Director for Management, U.S. Office of Management and Budget, in *Performance Measurement: Toward More Effective Government*, hearings before the U.S. Senate Committee on Governmental Affairs, 102nd Congress, May 5, 1992, and Charles A. Bowsher, U.S. Comptroller General, *Performance Measurement: An Important Tool in Managing for Results, Testimony Before the U.S. Senate Committee on Governmental Affairs* (Washington, D.C.: General Accounting Office, May 5, 1992), 6.

²⁴ Brian W. McCulloch, "New Zealand Leads in Government Management Reform," *Government Accountants Journal* (Spring 1993), 27-32.

²⁵ Schick, "Budgeting for Results," and Hodsoll statement to U.S. Senate Committee on Governmental Affairs.

performance from the previous year and outline expected accomplishments for the coming year. These statements accompany the annual budget submitted to Parliament. Most of the performance indicators developed by government agencies in Australia have been efficiency and workload measures.²⁶

Sweden

The Swedish government has been trying to stabilize public expenditures relative to its gross national product, and has mandated across-the-board reductions in administrative expenditures for several years. In 1988, following a test in 20 agencies, the government introduced "triennial budgeting" for administrative spending. Agencies were given more flexibility to make administrative spending decisions over a three-year period but, in exchange, have been asked to annually report performance information on all of their activities, including non-administrative ones.²⁷

²⁶ Schick, "Budgeting for Results," and Hodsoll statement to U.S. Senate Committee on Governmental Affairs. In addition, we obtained two of the agency performance statements and found that they were sometimes difficult to read (for example, they contained many acronyms of programs and operating units) and did not always include measurable performance objectives.

²⁷ Schick, "Budgeting for Results."

Themes, Goals, and Performance Measures in *Minnesota Milestones*

APPENDIX B

THEMES

- Minnesota will be a community of people who respect and care for one another.
- Our economic activity will create wealth and provide a good standard of living for all our people.
- Our citizens will be good thinkers, creative, always learning, with the skills to compete internationally.
- We will protect and enjoy the natural world.
- Our government will be responsive, effective, and close to the people.

GOALS AND PERFORMANCE MEASURES

Goal: Our children will not live in poverty.

- Measures:**
1. Percent of children living in households below the poverty line
 2. Percent of parents who receive full payment of awarded child support

Goal: Families will provide a stable environment for their children.

- Measures:**
3. Teen pregnancy rate (number per 1,000 who become pregnant)
 4. Runaways per 1,000 children
 5. Percent of twelfth-grade students who have ever attempted suicide
 6. Apprehensions of children (per 1,000)
 7. Percent of children who use alcohol or illegal drugs at least monthly (12th graders)
 8. Rate of divorces involving children
 9. Percent of students who move more than once a year
 10. Percent of sixth-graders watching television or videos more than 40 hours per week
 11. Percent of parents satisfied with their child-care arrangements
 12. Percent of children who have healthy diets
 13. Abused or neglected children (per 1,000)

Goal: Minnesotans will excel in basic academic skills.

- Measures:**
14. Average achievement test scores for elementary or secondary students
 15. Number of school districts with a 12th-grade dropout rate over 10%

Goal: Minnesotans will be healthy.

- Measures:**
16. Infant mortality rate (per 1,000 births)
 17. Percent of babies who have low birthweights
 18. Percent of children who are adequately immunized
 19. Percent of Minnesota adults who do not smoke
 20. Average life expectancy (in years)

Goal: Our communities will be safe, friendly and caring.

- Measures:**
21. Percent of people who feel they can rely on another person in their community for help
 22. Violent crimes reported (per 100,000 Minnesotans)
 23. Percent of people who feel safe in their communities
 24. Percent of people who have been crime victims
 25. The rate of violent and injury-related deaths (per 100,000 Minnesotans)
 26. Percent of Minnesotans who volunteer for community activities
 27. Percent of youths who volunteer at least an hour a week

Goal: People who need help will receive it.

- Measures:**
28. Number of people using homeless shelters
 29. Percent of recipients of Aid to Families with Dependent Children on assistance more than 24 consecutive months
 30. Percent of unemployed people remaining unemployed more than 26 weeks (five-year average)
 31. Quality of life for people with long-term limitations

Goal: People with disabilities will participate in society.

- Measure:**
32. Percent of public facilities that are accessible

Goal: We will value all cultures, races and ethnic backgrounds.

- Measures:**
33. Number of discrimination complaints filed in Minnesota
 34. Percent of people who say they have been discriminated against in the past year
 35. Percent of state legislators and constitutional officers who are members of an underrepresented racial or ethnic group
 36. Percent of state legislators and constitutional officers who are female

Goal: Minnesota will sustain above-average economic growth

- Measures:**
37. Minnesota per capita gross state product as a percentage of U.S. per capita gross national product

Goal: **Minnesotans will have the advanced education and training to make the state a leader in the global economy.**

Measures: 38. College graduation rates of various systems
39. Cost of college tuition as a percentage of personal income
40. Percent of high-school graduates who are pursuing advanced training, apprenticeship or higher education one year after high school
41. Percent of recent technical college graduates employed in a job related to their training
42. Percent of Minnesotans who use public libraries

Goal: **All Minnesotans will have a reasonable standard of living.**

Measures: 43. Minnesota median family income as a percentage of U.S. median family income
44. Percent of population living in households with income at least 200 percent of the poverty line
45. Percent of Minnesotans with health-care insurance

Goal: **All Minnesotans will have decent, safe and affordable housing.**

Measures: 46. Percent of low-income housing units with severe physical problems
47. Percent of low-income renters paying more than 30 percent of their income for housing
48. Home ownership rate

Goal: **Small cities, rural and urban areas will be economically viable.**

Measures: 49. Percent of Twin Cities population living in census tracts with poverty rates 1.5 times the state average
50. Percent of population living in counties with per capita incomes less than 70 percent of U.S. per capita income
51. Minnesota nonmetropolitan per capita income as a percent of U.S. nonmetropolitan per capita income
52. Primary-care physicians per 10,000 people in nonmetropolitan Minnesota
53. Minnesota's rank in telecommunications technology
54. Percent of nonmetropolitan population in communities served by two or more options for shipping freight

Goal: **Minnesotans will protect and enhance their environment.**

Measures: 55. Average annual energy use per person (million BTUs per person)
56. Highway litter (bags collected per mile)
57. Total water use (billion gallons per day)
58. Solid waste produced and recycled (millions of tons)
59. Percent of students passing an environmental education test

Goal: We will improve the quality of the air, water and earth.

- Measures:**
60. Air pollutants emitted from stationary sources (thousands of tons)
 61. Number of days per year that air-quality standards are not met
 62. Percent of river miles and lake acres that meet fishable and swimmable standards
 63. Percent of monitored wells showing groundwater contamination
 64. Soil erosion per acre of cropland (in tons)
 65. Toxic chemicals released or transferred (millions of pounds per year)
 66. Hazardous waste generated (millions of pounds per year)
 67. Number of Superfund sites identified and cleaned up

Goal: Minnesota's environment will support diverse plant and animal life.

- Measures:**
68. Diversity of song birds
 69. Number of threatened, endangered, or special-concern native wildlife and plant species
 70. Acres of natural and restored wetlands (in millions)
 71. Acres of forest land (in millions)
 72. Land area in parks and wildlife refuges (millions of acres)

Goal: Minnesotans will have opportunities to enjoy our natural resources.

- Measures:**
73. Miles of recreational trail (in thousands)
 74. Number of public access sites on lakes and rivers

Goal: People will participate in government and politics.

- Measures:**
75. Percent of eligible voters who vote in gubernatorial elections
 76. Percent of dollars contributed to campaigns coming from small contributions

Goal: Government in Minnesota will be cost-efficient.

- Measures:**
77. Percent of the state budget for which goals and outcome measures have been established
 78. Percent of local government budgets for which goals and outcome measures have been established
 79. Percent of Minnesotans who say they get their money's worth from their local and state taxes

Source: Minnesota Planning, *Minnesota Milestones: A Report Card for the Future* (St. Paul, December 1992).