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| **History of performance Budgeting in montana**A Report Prepared for the**Committee on Efficiency in State Government**ByTaryn PurdyPrincipal Fiscal AnalystLegislative Fiscal DivisionSeptember 5, 2012

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# Overview

Montana’s involvement with some level or definition of performance budgeting goes back 20 years. There are certain things the state does today and has been doing for the last several years, and other thoughts, initiatives, and “wouldn’t that be a good ideas” that have been discussed over the years.

This report contains a history and overview of the efforts of the last several years. Given the looming presence of Washington State in any discussion of priority-based budgeting, a separate report gives a 35,000-foot-level overview of how that process works.

# Montana performance-Related History

## Zero-Based Budgeting

The State of Montana undertook zero-based budgeting in the 1970s. A report on the project was written by John Fitzpatrick. A copy was mailed to the committee and is also attached (Attachment A).

## Postsecondary Education Policy and Budget Committee (PEPB)

The PEPB has participated in various types of priority setting since FY 1992. The PEPB, which was last used in the 2007 biennium, has been composed of legislators, Board of Regents members, and a representative of the Governor’s Office. When the PEPB was first established it also included the Commissioner of Higher Education, which later incarnations did not include.

### Incentive Funding

In FY 1992, the first iteration of the PEPB was charged with looking at the concept of “incentive funding” for the Montana University System (MUS) and as a way for the legislature to determine what if any changes in MUS funding it would provide. Among the most basic questions of that examination is how you tell what you want them to accomplish and how the budget can be used to help get it accomplished.

The committee did not pursue the concept, opting instead for an alternative funding methodology.

### Shared Policy Goals and Accountability Measures

Beginning in the 2003 biennium, the PEPB in partnership with the MUS began to aggressively pursue the definition of shared policy goals for the MUS.

#### 2005 Biennium

In the 2005 biennium, the PEPB and the MUS agreed on a set of goals and performance measures that can be found at the following website:

<http://leg.mt.gov/content/Committees/interim/2003_2004/edu_local_gov/sub_com/pepb/accountability_measures_from_03_interim1.pdf>

#### 2009 Biennium

In the 2009 biennium, the PEPB adopted a further shared goals and accountability measures statement, found at the following website:

<http://leg.mt.gov/content/publications/fiscal/subcommittees/PEPB/2007_interim/Shared_Goals_2009_Bien_June08_Version.pdf>

The committee did not make any recommendations on accountability measures for any of the budgeting initiatives proposed by either the Governor or the MUS in the 2009 Legislative Session.

#### 2013 Biennium

The 2011 Legislature passed SJ 28, which called for an interim study of performance-based funding for K-12 education and an implementation plan for the 2013 Legislature. The Education and Local Government Interim Committee conducted this study and the committee and the Board of Regents, Board of Education, Board of Public Education, Superintendent of Public Instruction, and Commissioner of Higher Education signed agreements outlining those shared policy goals and accountability measures.

These goals and accountability measures are included as Attachment B and can also be found here:

<http://leg.mt.gov/css/Committees/Interim/2009_2010/Education_and_Local_Government/Subcommittees/HJR6_SJR8/default.asp>

## Performance Based Budgeting (PBB) Pilot

The 1993 Legislature endorsed a performance based budgeting pilot program through language in HB 2 that: 1) encouraged the Governor to foster development of a mission-driven, results-oriented budget system to enhance flexibility and improve decision making information available to the 1995 Legislature; and 2) specified four departments (the Departments of Revenue, Administration, Military Affairs, and Transportation) that should be involved in the PBB project designed by the Executive Branch.[[1]](#footnote-1) The following is the submission of one of the pilot functions, the Air National Guard Program.

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| Table 1 |
| Air Guard Program PBB |
| Goals and Performance Targets |
| 1997 Biennium |
| Goals | Performance Target |
| #1 -Provide reliable facilities and utilities to meet readiness requirements and satisfy installation needs. | - Achieve satisfactory or higher rating for all outside agency directed inspections, audits, and staff assistance visits. |
| #2 -Conduct all activities in compliance with environmental, fire, and safety laws and directives | -Achieve satisfactory or higher rating for all environmental and safety inspections, audits, and staff assistance visits. |
| #3 -Operate, maintain, repair, and construct real property and installed equipment to accomplish mission in most economical manner. | -Achieve satisfactory or higher ratings on ANG Civil Engineer Technical Services assessments. |
| #4 -Provide effective management of contracted services including garbage, design, and grounds. | -Complete all as estimated to customers and control contract services costs within acceptable parameters. |

There are a number of potential reasons why this project was not continued. Please note that this list is not the result of a formal postmortem but is based on staff observations at the time.

* If the executive used the information, it was not done in a way that translated to the budget
* If the process was used as a management tool by the pilot agencies, neither the process nor the impacts were formally communicated
* The legislature had no basis with which to use the information during the session
* The staff member in the Governor’s budget office who had personally attempted to keep the process operating left state employment

## Legislative Finance Committee

There were two primary types of projects undertaken to some degree by the Legislative Finance Committee (LFC): 1) an early version of prioritization of state functions; and 2) performance measurement.

### Prioritization of State Functions

The LFC first began discussing an early version of priority-based budgeting in March 2004. This report is attached (Attachment C) and can also be viewed at the following website:

<http://leg.mt.gov/content/publications/fiscal/interim/financecmty_mar2004/Program_Priorities.pdf>

The original impetus of the overall project of which this report was a part was an attempt to compare the natural rate of growth in revenues to ongoing pressures on expenditures. Because expenditure pressures are generally consistently greater than the natural growth in revenues, the purpose of the project was ultimately to aid the legislature in prioritizing state government. The following was taken from a follow-up report:

The legislature is essentially the board of directors of the State of Montana. As such, it is the legislature’s responsibility to determine what the purpose and scope of state government will be. In order to do this, the legislature must understand what state government currently does, and determine priorities. However, budgeting generally takes place at the “margin”, with the implicit assumption that ongoing programs within the base should be continued. Consequently, the larger issues of ongoing public policy can be either overlooked or diminished. Therefore, the primary purpose of this project is to provide the legislature with the information it needs to:

1. Put the budget into a more comprehensive, public policy oriented context.
2. Prioritize a greater range of services based upon desired public policy.
3. Understand more fully how the legislature can influence and control more areas of the budget.
4. Make informed decisions within the context of this knowledge.

As indicated in the report, staff identified several categories of “purposes” of state government and assigned various functions into the categories. These categories were strictly a means of cataloging what state government did and were not in any way a prioritization of those functions.

* **Provision of justice and protection of life and property** - Operation of the means of citizens to seek justice and remediation (all courts); operations to protect the citizenry from violent/fraudulent/etc. behavior and pursue justice against those who perpetrate such acts.
* **Reduction of incidence and impact of poverty and disability** - Services that enhance the productivity and productive capacity of economically disadvantaged or disabled (mentally or physically) citizens and/or enhance their quality of life through provision of food, housing, medical services, etc.
* **Enhancement and promotion of the public health** - Services designed to improve the quality of life and health of either all citizens or those pertaining to targeted behaviors or conditions. Reducing the costs to the state of the previous category is a corollary purpose.
* **Provision of workforce support** - All services provided that support a trained and productive workforce, including those specifically designed to protect health and economic status. Would not include services designed specifically for the economically or developmentally challenged.
* **Development of full educational potential of state’s citizens** – Services designed to enable citizenry to have the mental capacity to be productive, creative, innovative, and self-sufficient.
* **Consumer/citizen protection** - Services designed to protect the health and safety of citizens from sources related to activities and/or consumption of products.
* **Economic/business development** - Services directly related to improving business climate and/or creation of jobs or designed to aid specific businesses or types of businesses.
* **Protection/enhancement/remediation of natural resources** - Services conducted to protect from or eliminate or alleviate past or current harmful impacts to the state’s natural resources; and/or restore productive capacity of those resources.
* **Preservation/enhancement of recreational/cultural resources** - Those services not related directly to the health and safety of citizens or the environment but that enhance people’s experience of living in Montana.
* **General operation of state government** - Those functions designed specifically for the operation of state government in support of other governmental programs and/or activities.
* **Governmental and physical infrastructure** - Those operations that either provide for the state’s physical infrastructure, such as roads, or without which government would not function, such as the legislature, the Governor, and revenue collection.

The next step was to be a compilation of amount and source of expenditure for the components and categories. Because the LFC had other priorities, this project was not pursued beyond this report.

An offshoot of this project was the discussion by members of the LFC with the entire legislature of a performance measurement project.

### Goals and Performance Measurement

In each biennium since 2006, the LFC has undertaken some form of performance measurement. Numerous reports can be found at the following LFD website:

<http://leg.mt.gov/css/Committees/Administration/Finance/2013_lfc_default.asp>

#### 2007 Biennium

In June 2005 the LFC voted to proceed with an initiative to explore performance management. The MUS shared policy initiative was continued and other agencies were added. During the interim the LFC received formal, standardized reports on a very limited selection of functions (both of which had volunteered to be a part of the process). Attachment D shows the standard reporting form used for the Department of Fish, Wildlife, and Parks. The attachment can also be found here at the following website:

<http://leg.mt.gov/content/publications/fiscal/interim/financecmty_oct2005/Perf_Mgm_fwp.pdf>

There were a number of perceived benefits to expansion of the project to other agencies and functions in subsequent biennia, including:

* Provision of a formal means to receive reports and provide feedback during the interim on items of interest
* Utilization of current performance or accountability measures to establish program budgets
* Bridging of the knowledge gap created in a term-limited legislature
* Establishment of policy regarding the analysis of new proposals
* Use in other appropriation bills to establish benchmarks, outcomes, and resolution
* Creation of a framework to set priorities

##### Expanded Discussion in LFD Budget Analysis

One of the results of the review was the inclusion of additional information for decisionmaking in the LFD budget analysis. As part of the agreement between the Legislative Fiscal Analyst and the director of the Office of Budget and Program Planning on the form of the executive budget submission, agencies included an expanded discussion of selected new proposals and significant present law adjustments in their budget submissions. Agencies were asked to include the following:

* Justification – Identify the problem/issue the new proposal will address. Provide any corresponding data that supports the activity.
* Goal(s) – List the goals this new proposal is designed to accomplish. How does this goal relate to the overall mission of the agency?
* Performance Criteria – Provide the criteria that will be used to measure progress toward the goal. Include the details of how often it will be monitored, who will do the monitoring, and what results would trigger a change in implementation plans.
* Milestones – Identify major new proposal milestones and provide target dates if available.
* Number of FTE and job class - Provide proposed hiring date(s). Identify any recruitment concerns.
* Fees - If the new proposal is based on the collection of new fees, provide projection of fee collections and how it will be monitored.
* Obstacles – Identify potential obstacles to successful implementation and discuss how those obstacles can be mitigated.
* Risk – In real terms, identify the risk to the state if the new proposal is not approved.

The primary purpose of the expanded discussion is to give the appropriations subcommittees additional information with which to evaluate new proposals and significant present law adjustments and provide a basis for determining whether the programs met milestones and other criteria.

An example from the 2011 biennium is included as Attachment E. With some tweaking this expanded discussion was still in use through the 2013 biennium analysis and fiscal report and will continue into the 2015 biennium.

##### Consistent Provision of Information to Subcommittees

During this time period, the LFC asked agencies, when they presented agency and program overviews to the appropriations subcommittees, to address certain standard topics. Among these topics were a listing of goals and measurable objectives for the overall agency and each program. The goals and objectives Office for the Department of Revenue is included as Attachment F.

#### 2009 Biennium

The LFC expanded the performance measurement project begun in the previous biennium, involving each agency and in some instances numerous functions within the agency. The LFC also formed several subcommittees to review the information gathered and discuss the reports.

The following website includes all reports in October 2008.

<http://leg.mt.gov/css/fiscal/2009_biennium/PM_Agency_2009biennium.asp>

The LFC placed high importance on the process being a collaborative one between the LFC and the executive. Consequently, LFC staff worked with agency staff to identify programs that would be reviewed by the LFC at each meeting. A standard form was developed and filled out by the agency (with comment by LFD staff) prior to each LFC subcommittee meeting and reviewed by the subcommittee. Attachment G shows a completed form for student data in the Montana University System, which can also be found at the following website:

<http://leg.mt.gov/content/Publications/fiscal/LFD_Performance_Measures/2011/Agency-Reports/Section-E/5102-01-I1.pdf>

##### Incorporation in the Budget Analysis

A discussion was included in the LFD Budget Analysis to assist appropriations subcommittees in followingup on LFC work if they deemed it valuable or appropriate. Attachment H is a sample of a narrative included in the budget analysis in the Department of Revenue and also can be found throughout the budget analysis volumes:

#### 2011 Biennium

In the 2011 biennium, the previous form and process used by the LFC in previous bienniums was continued. Attachment I shows a completed form for the Department of Justice which can be found at the following website:

<http://leg.mt.gov/content/Publications/fiscal/LFD_Performance_Measures/2011/Agency-Reports-Oct-2010/Section-D/4110-13-G1.pdf>

#### 2013 Biennium

The approach and reporting devices were changed in the 2013 biennium. In an attempt to provide an opportunity for more interim committees to participate in performance measurement, the legislature passed a resolution that included a number of issue areas identified by appropriations subcommittees as well as other input by full committees, which can be found at the following website:

<http://data.opi.mt.gov/bills/2011/billhtml/SJ0026.htm>

The resolution was also meant to provide a wider legislative sanction to the performance measurement process. With the exception of the Environmental Quality Council, no other interim committees chose to monitor any of the identified issue areas or designate their own.

Because of several issues identified with the prior form and process, in the current interim the LFC has taken another approach:

* Limit the number of functions examined so that issues could be examined in more depth as warranted
* Have review by the entire committee rather than subcommittees so all members were invested
* Have LFD staff fill out the forms from information provided by the agency and/or gathered by the LFD staff
* Make the forms less rigid and allow for greater flexibility in the provision of information

The LFC also authorized two additional projects with a more goal-oriented thrust. The programs would be examined from the perspective of how well they are furthering broader state goals. In addition, both projects are a collaborative effort between the agency (both of which are headed by elected officials) and the LFC:

* Court Help in the Judiciary
* The Digital Academy in the Office of Public Instruction (and the University of Montana)

The current report form with a report on the Court Help program in the Judicial Branch is included as Attachment J and can also be found at the following website:

<http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_June/CourtHelp.pdf>

### Examination of Other Budgeting Systems

At various points in the previous several bienniums, the LFC has examined other budgeting systems but did not make any recommendations. Please note that this is not a complete list.

Two reports by Jon Moe are linked below:

* Options for Enhancing Montana’s Budget Process

<http://leg.mt.gov/content/publications/fiscal/interim/financecmty_oct2004/Budget_Process.pdf>

* A report on vacancy savings and alternate personal services budgeting methods

<http://leg.mt.gov/content/publications/fiscal/interim/financecmty_june2002/vacancy_savings.pdf>

1. “The governor is...encouraged to foster development of a mission-driven budget system, including the development of flexible, unified budgets and the development of an incentive system to encourage agencies to generate cost savings and reduced expenditures. This initiative should include working toward the development of a results-oriented system for budgeting, including budgeting by performance and outcome measures and seeking flexibility and improvement in the quality of decisionmaking information available to the legislature in the 1995 session. The departments of administration, revenue, military affairs, and transportation should be used for pilot projects in developing an innovative budget system.” [Language attached to the Governor’s Office appropriation - HB 2 – 1993 Legislative Session.] [↑](#footnote-ref-1)