

Testimony of Kathryn Vesey White, National Association of State Budget Officers

Hearing on Performance-Based Budgeting
Senate Appropriations Committee & Senate Policy Committee
September 20, 2016

Chairman Browne, Chairman Argall, and members of the Senate Appropriations and Policy Committees, thank you for the opportunity to testify before you today. I am a Senior Policy Analyst with the National Association of State Budget Officers (NASBO). NASBO is the professional membership organization for executive budget and finance officers. We are an independent, nonpartisan, nonprofit research and educational organization located in Washington, DC.

A core component of NASBO's mission is to provide our members with opportunities to share ideas and best practices across states related to budgeting. In support of this mission, NASBO has engaged in a variety of research activities and convened members for numerous meetings to discuss how states are working to increase their use of evidence and performance data to inform decision-making. At these meetings, state budget officials have shared their experiences and lessons learned, and worked together to come up with solutions to address some of the common challenges associated with data-driven, evidence-based efforts in state government.

My testimony today will first cover the current landscape of how performance measures are used to inform budget and management decisions at the state level. Next, I will discuss a variety of methods and tools that states have developed to facilitate the use of data. Finally, I will provide an overview of the key lessons learned shared by state budget officials on this subject.

Using Performance Measures to Inform Decision-Making at the State Level: Current Landscape

The use of performance data to inform the allocation of state resources through the budget process is an important topic for state officials. The current fiscal environment for many states is characterized by limited resources with numerous demands for spending. This reality, coupled with new technologies that have enhanced capacity for data collection, analysis and presentation, has led to growing interest and increased efforts to harness performance data to inform decision-making and strengthen transparency, program effectiveness and efficiency in the public sector.

To provide a sense of how performance measures are collected, reported, and used to inform decision-making across the states, NASBO collected data on this subject from state budget offices in the fall of 2014 as part of the *Budget Processes in the States* survey. In this survey, 46 states indicated that they collect at least some performance measures. Most states reported collecting performance measures at the agency-level and program-level, while 12 states also reported that they collect statewide quality of life measures.¹

This survey also looked at how performance measures are reported, some of the key requirements around performance measures, and the entities responsible for managing certain elements of performance measurement. The most common method used to report performance measures and actual performance data is through the budget document, followed by on a statewide performance website and

¹ NASBO, *Budget Processes in the States* (2015), Table 27, p. 132.

in a stand-alone separate document. Performance measures are required as part of agency budget requests in 40 states, and 24 states formally review or audit performance measures on a regular basis.²

How performance measures are actually used for decision-making in state government is a subject of great interest for public policy and administration academics and practitioners alike. While this topic raises issues that are more subjective and complex, NASBO's survey aimed to provide a snapshot of the use of performance data by states, as reported by budget offices. Forty-two states reported using performance measures to support internal agency or program management, making it the most commonly reported use. Thirty-nine states said they use performance measures to inform executive budget recommendations, 35 states use them for program evaluation, and 34 states use them for strategic planning and setting priorities. Twenty-two states reported that performance measures are used to inform legislative actions on appropriations, and six states said performance measures are used to help oversee the performance of gubernatorial appointees.³

Methods and Tools to Use Performance Data

As these survey results show, performance information is used by state governments in a variety of ways. There are various methods and tools that states can apply to use data and evidence to inform decision-making. These different approaches for using data in decision-making can and should work together and reinforce one another. The Government Finance Officers Association (GFOA) writes of "Budgeting for Outcomes" as follows:

"To use it effectively...organizations need to use other tools such as performance measurement, process improvement, and program evaluation. For example, to decide the degree to which a stated priority has been achieved, organizations need performance measures to evaluate results, both at the program level and the community level. Process improvement strategies such as Lean can also help make sure individual programs are working as efficiently as possible and that they are focusing on appropriate outcomes."⁴

This is why it is difficult to talk about performance budgeting without also talking about performance management, process improvement efforts like Lean, and program evaluation. Recently, NASBO published an issue brief taking a closer look at these various, interrelated methods and tools that have been developed and implemented by states. I will briefly discuss four major approaches used by states to incorporate data and evidence into decision-making, including: 1) performance management, (2) process improvement, 3) program evaluation, and 4) performance budgeting.

Performance Management

Among all the terms that come up when talking about using data to inform decisions, performance management is perhaps the broadest in scope and therefore most inclusive. In fact, a state may use this phrase as an umbrella term to describe a variety of tools and methodologies to tie evidence, data and performance information to decision-making. The existence of different performance management frameworks allows governments to customize their specific approach to their unique needs and

² Ibid., Table 28, p. 134-135.

³ Ibid., Table 29, p. 138.

⁴ Michael J. Mucha, "Budgeting for Outcomes: Improving on a Best Practice," *GFOA Government Finance Review* (December 2012), p. 45-46.

circumstances. Utah’s SUCCESS Framework provides a good example of a statewide performance management system. With the governor’s overarching goal of improving government performance (or capacity) by 25 percent, the SUCCESS Framework sets out to align state agencies’ goals, strategic plans, performance measures, processes, policies and so on to maximize government efficiency and effectiveness. Other examples of a performance management system include Minnesota’s Results-Based Accountability™ framework and Virginia Performs.

Process Improvement

Beyond performance management, a number of states have also created programs or initiatives centered on improving government operations by streamlining processes, eliminating waste and duplication, and fostering a culture of continuous improvement. These efforts are often linked in some way to a state’s performance management framework, or may be regarded as one component of that effort. Some states have found process improvement efforts, which tend to be more “bottom-up” than “top-down,” to be particularly effective as a beginning step to transform the culture of state government to become more data-driven and focused on continuous improvement. Once this cultural transformation is well underway, introducing other activities such as assessing program performance and return on investment may go more smoothly.

Lean is perhaps the most popular and well-known process improvement method being adopted by public sector organizations across the country. A report prepared by the Colorado Governor’s Office of State Planning and Budgeting defines Lean as a “systematic approach to continuous improvement that aims to make processes more efficient, effective, and elegant by eliminating waste.”⁵ Colorado conducted a national survey in fall 2012, finding that Lean was being used by 21 state governments, including Colorado, at that time.⁶ The Colorado budget office launched the state’s Lean Program as a first step in a broader cultural transformation of state government, guided by the belief that performance management and Lean can complement and reinforce one another. As performance management experts and practitioners Michael Jacobson and Jim Chrisinger wrote, “Both [performance management and Lean] rely on data for learning and improvement; both require rigor in their application; and both depend on leadership for change management and support.”⁷

Program Evaluation

There are a variety of research methods and tools that play an important role in facilitating the use of data and evidence in state government. “Program evaluation is the application of systematic methods to address questions about program operations and results.”⁸ There are numerous forms of program evaluation that rely on different research designs and serve diverse information needs. They can range from formative or rapid feedback evaluations conducted early in implementation and designed to improve program delivery, to comprehensive impact evaluations using randomized controlled trials (RCTs) to demonstrate the effects of a well-established program.

⁵ The Governor’s Office of State Planning and Budgeting, *State of Colorado Lean Program Office Progress Report: Pursuing Effective, Efficient and Elegant Government Services* (December 2013).

⁶ Ibid.

⁷ Michael Jacobson and Jim Chrisinger, “Performance Management and Lean: Frenemies?,” *GFOA Government Finance Review* (June 2013), p. 63-66.

⁸ Joseph S. Wholey, Harry P. Hatry, and Kathryn E. Newcomer (Eds.), *Handbook of Practical Program Evaluation*, Third Edition. (San Francisco, CA: Jossey-Bass, 2010).

One tool that has been gaining in popularity is predictive analytics, which refers to “a broad range of methods used to anticipate an outcome.”⁹ Such methods may include statistical modeling, data mining, and machine learning techniques. Whereas most forms of program evaluation are retrospective, predictive analytics (also sometimes called “predictive program evaluation”) attempts to predict future program performance. This can be an effective tool to gain actionable insights into where targeted budget or policy changes might help improve outcomes. Indiana’s Management and Performance Hub provides a great example of how this technique is being applied at the state level to inform programmatic and funding decisions guided by outcome-based thinking.

Performance Budgeting

Moving on to discuss performance budgeting, NASBO’s *Budget Processes in the States* report defines performance budgeting as a budget approach that “uses programs or activities as budget units, and presents information on program goals and performance. This budget system places emphasis on incorporating program performance information into the budget development and appropriations process, and allocating resources to achieve measurable results.”¹⁰ This definition is rather broad deliberately in recognition of the multitude of ways in which states (and other entities) may utilize performance data and evidence to inform budget decisions.

The Budgeting for Outcomes approach is one form of performance budgeting, with strategic planning components as well. In its purest form, Budgeting for Outcomes eliminates the budget “base,” so in this way, it can resemble zero-base budgeting as well. The process, as laid out in *The Price of Government* by David Osborne and Peter Hutchinson more than a decade ago, consists at a high level of three steps:

- (1) “Determine the priorities of government: the outcomes that matter most to citizens.
- (2) Decide the price for each outcome.
- (3) Decide how best to deliver each outcome at the set price.”¹¹

In other words, this budget model seeks to identify the most effective and efficient way to deliver the measurable outcomes citizens want within certain resource constraints. Washington State is viewed as the pioneer among jurisdictions that have employed this approach to budgeting, which was referred to as “Priorities of Government” and debuted in the governor’s fiscal 2003-2004 biennial budget proposal. Several other states, as well as numerous local jurisdictions, have since adopted various iterations of this approach to allocating resources. Just as with other forms of performance budgeting, a Budgeting for Outcomes approach should be well integrated with other performance management techniques. Washington State has since adapted its Priorities of Government approach to become part of a broader performance management framework, known as “Results Washington,” which integrates aspects of a Budgeting for Outcomes approach with a new emphasis on Lean, performance measurement, and regular results review meetings akin to a “StateStat” approach.

Another popular initiative related to performance budgeting that has been growing in use across the states is the Results First Initiative, a project of The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, which you will hear more about shortly. Additionally, “Pay for

⁹ Scott Cody and Andrew Asher, *Smarter, Better, Faster: The Potential for Predictive Analytics and Rapid-Cycle Evaluation to Improve Program Development and Outcomes* (June 2014), Brookings Institution.

¹⁰ NASBO, *Budget Processes in the States* (Spring 2015)

¹¹ David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis* (2004), New York: Basic Books, p. 67.

Success” contracts (also known as “social impact bonds” or “social innovation financing”) have emerged as an alternative financing mechanism for state and local governments to fund innovative, evidence-based social policy interventions. The Pay for Success model can be viewed as a tool designed to support performance budgeting, by providing a means of financing evidence-based programs.

Lessons Learned: Setting the Stage for Success

Having now discussed various methods and tools developed and implemented by states to facilitate data-informed decision-making, I will conclude by offering some key lessons learned shared by budget officials and identified by NASBO to increase the likelihood of success in effectively leveraging performance measures and evidence to inform budget decisions and, ultimately, to improve outcomes.

1. **High-level leadership and commitment are critical to getting agency buy-in.** A performance budgeting effort will not be taken seriously by state agencies unless top leaders in state government, including the governor, agency heads, and legislative leaders, support and actively participate in the effort. This will give the effort legitimacy by indicating that the data generated will actually be used to inform management and budgeting decisions.
2. **Do not frame performance budgeting primarily as a budget-cutting exercise.** Certainly, reducing costs and increasing efficiency can be one objective of any effort to increase the use of performance data and evidence in funding decisions. However, if it is the sole or primary objective, this is likely to undermine data quality and usefulness, and prevent agency buy-in. Rather, the focus should be on improving agency operations and the quality of government services, and positioning state government to be able to solve problems and respond to increasing service demands.
3. **Show agencies how they can use their performance data to manage their programs.** Agency staff are likely to resist a performance budgeting initiative unless they understand how it can add value to their operation and serve their mission. Providing agency staff with the knowledge, tools, and flexibility necessary to use their data to inform management decisions and improve processes can help demonstrate the benefits of performance budgeting.
4. **Invest in the human capital and technology needed to effectively carry out the effort.** Provide agency staff with training and support on performance measurement, and how to select measures that are useful and provide actionable information. If at all possible, obtain dedicated staff resources with the right skill sets to oversee this type of work. Explore opportunities to integrate disparate systems and harness data to enable more useful, timely analysis.
5. **Design an approach that is flexible, able to adapt over time, and not too prescriptive or one-size-fits-all.** Performance budgeting is not an “event” with a defined start and end point. It is a continuous process of strengthening what works, improving or eliminating what does not, and making ongoing adjustments as conditions change. If performance budgeting is approached as the equivalent of an item to be checked off a to-do list, it will not be effective and can end up stifling innovation rather than encouraging it. It should be flexible and able to adapt to different agency missions and changing statewide priorities, especially through leadership transitions.

6. **Keep it simple and limit the number of performance measures.** Too many measures can be counterproductive and overly burdensome, resulting in too much paperwork and not enough focus, making it difficult for policymakers to find context to take action.

7. **When designing your state's approach to performance budgeting, let purpose be your guide.** The various performance-based methods discussed earlier in my testimony can serve different (though often related, complementary) goals, which may include: defining and understanding a problem; estimating how much of a problem will be addressed by a program; measuring capacity needed to implement a proposal; comparing program results and investing in what works; communicating results to the public; and identifying program flaws and opportunities for improvement. Performance budgeting can also help break down agency silos and encourage innovation by shifting focus from inputs and compliance to accountability for outcomes.

Thank you again for the opportunity to share how states are using performance data and evidence to inform the allocation and management of resources and some of the key lessons learned on this topic from the perspective of state budget officers across the country.