Matt Knittel, Director
Independent Fiscal Office

USING PERFORMANCE MEASURES IN THE STATE BUDGET

IFO Independent Fiscal Office

SEPTEMBER 2016

About the Independent Fiscal Office

The Independent Fiscal Office (IFO) provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, the IFO does not support or oppose any policies it analyzes, and will disclose the methodologies, data sources and assumptions used in published reports and estimates.

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IFO

The Independent Fiscal Office was created
by the Act of Nov. 23, 2010 (P.L.1269, No.120).

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INDEPENDENT FISCAL OFFICE

Second Floor, Rachel Carson State Office Building
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September 19, 2016

The Honorable Members of the Pennsylvania General Assembly:

Section 604-B(a)(3) of the Administrative Code of 1929 requires the Independent Fiscal Office to "develop performance measures for executive-level programs and departments and evaluate performance measures and results as promulgated and reported by executive-level departments." The office submits this report in partial fulfillment of its statutory obligation, and will await further direction from the General Assembly regarding the next steps in this process. This report presents one method that could be used to integrate performance measures into the budget process, and policymakers might have alternative methods in mind to accomplish that goal.

The office welcomes any questions or comments regarding the contents of this analysis. Inquiries can be submitted to contact@ifo.state.pa.us.

Sincerely,

MATTHEW J. KNITTEL
Director

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Executive Summary

A significant challenge faced by all governments is the responsibility to ensure that taxpayer funds are disbursed in an efficient and effective manner. Unlike private firms, governments do not attempt to maximize profits on behalf of their shareholders. Their goals and objectives are very different, and the outcomes they seek to achieve are difficult to value monetarily. Governments have employed a wide variety of programs and initiatives that attempt to address this responsibility, and those attempts have met with varying success.

In many states, governments are considering the implementation of a performance-based budgeting system. This system is a budget approach that identifies specific goals, objectives and strategies for executive agencies, and develops performance measures to assess progress towards those goals and objectives. Currently, 31 states have a statutory requirement that requires the computation and publication of performance measures. A recent survey found that 40 states compel agencies to include performance measures as part of their annual budget submission.[1]

Despite widespread use, the same survey found that only three states characterized performance budgeting as their primary budget approach. Most states continue to use an incremental budget approach, where appropriations are not tied to specific goals or objectives. Rather, appropriations are motivated by amounts from the prior year, with adjustments for agency workload and, in some cases, inflation. Although states recognize the value of performance-based budgeting and performance measures, the great majority only use that system to augment the legacy budget process that has been in place for decades.

Pennsylvania is part of that majority. For FY 2014-15, Pennsylvania executive agencies compiled and reported 686 performance measures as part of their annual budget request. Those measures are part of a larger system that identifies goals, objectives and strategies for all executive agencies. The Office of the Budget publishes all agency performance data on its website, and select measures appear in the executive budget. However, it is widely perceived that the measures have very limited impact on the allocation of funds within or across agencies. The current budget process continues to closely resemble an incremental approach, and performance measures are rarely considered during the budget process. The Commonwealth has developed significant performance measures infrastructure, but it remains underutilized.

Some Pennsylvania policymakers have indicated a desire to transform the budget process to more fully integrate performance measures into the approach used to allocate funds. Many policymakers also want access to data-driven, objective measures that can be relied upon to facilitate a move away from a purely incremental budget approach. To that end, this report considers performance measure reports used by other states, and develops a prototype report that could be used in Pennsylvania. The prototype report is designed to be quickly integrated into the current budget process and utilized during annual budget hearings. It seeks to leverage the current infrastructure and the numerous measures already complied by executive agencies. It is also a mechanism to solicit feedback from policymakers and agency managers regarding the design of a performance measures report that would be most useful and informative.

[1] "Budgeting Processes Spotlight: How States Use Performance Data," The National Association of State Budget Officers (August 2015). See https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Issue%20Briefs%20/Budget%20Processes%20Performance%20Brief.pdf.

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Introduction

Nearly a decade has passed since the historic housing and financial markets crisis precipitated the Great Recession. Since then, state governments have struggled to reconcile modest economic and revenue gains with persistent expenditure needs driven by aging populations, worn infrastructure and underfunded pension systems. These pressures have prompted many states to re-examine their budget process and the manner in which they allocate funds to agencies and programs. More than ever, state governments want to ensure that taxpayer funds are used efficiently and serve their intended purpose.

Policymakers may have several models in mind when they contemplate efficient and effective resource allocation, and it is important to draw a distinction between the concepts. In general, three methods have been used by state governments to improve resource allocation or maximize the return on taxpayer funds. They are as follows:

<u>Efficiency Initiatives</u> Examples of efficiency initiatives include Continuous Improvement (CI), Total Quality Management (TQM), Six Sigma (private firms) and Lean Management. These initiatives emphasize cost containment and/or quality improvement. They achieve those goals through enhancement of staff productivity, streamlining of operations and improved identification of customer needs and desires. These programs are typically implemented by an executive order or initiative and are not an integral part of the budget process.

<u>Cost-Benefit Analysis</u> A number of models attempt to compute a cost-benefit ratio or return on investment for state programs. The best-known model is the Pew Charitable Trusts' Results First model. Since 2011, 21 states have used the Results First model to rank the effectiveness of state programs. For example, New Mexico recently used Results First to compare cost/benefit ratios for programs such as vocational education in prison, drug treatment in prison, electronic monitoring and employment training in the community.[2] The model places a monetary value on outcomes, computes a discounted cash flow, and ranks each program based on the return on investment. The model output facilitates a comparison of returns across programs that share common goals, but it is less suited to the development of general questions that might elicit insight regarding agency progress towards its mission, goals and objectives.

<u>Performance-Based Budgeting</u> Performance-based budgeting (PBB) refers to the use of performance measures in the budget process. Performance measures are metrics that provide information regarding the operations of an executive agency or department. They can include input, output, efficiency and outcome measures (defined in next section). Some measures are computed at the agency-wide level, while others are computed for specific programs. Relevant measures allow policymakers to assess an agency's progress towards stated goals and objectives, which could facilitate a more efficient allocation of resources across state agencies and programs.

[2] "New Mexico's Evidence-based Approach to Better Governance," Pew-MacArthur Results First Initiative (August 2014). See http://www.pewtrusts.org/~/media/assets/2014/08/nm_results_first_brief_web.pdf.

This report focuses on the third approach because the statute that created the Independent Fiscal Office (IFO) requires the office to:

> Develop performance measures for executive-level programs and departments and evaluate performance measures and results as promulgated and reported by executive-level departments. Performance measurements shall be outcome based and include, but not be limited to, activity cost analysis, measures of status improvement of recipient populations, economic outcomes and performance benchmarks against similar State programs.

Currently, Pennsylvania executive agencies publish hundreds of output, efficiency and outcome performance measures. Those measures are compiled by the Office of the Budget and published on its website, and to a more limited extent, included with the annual release of the executive budget. Policymakers may not utilize existing measures because (1) they are not aware of the metrics, (2) the measures lack context, (3) there are too many measures or (4) there is not a clear relationship between the measures and an agency's goals and objectives.

This report discusses a proposal that attempts to increase the exposure and utilization of performance measures during the budget process. Prior to the development and evaluation of performance measures for executive-level programs, it is useful to establish the manner and context in which they will be used. The establishment of this general framework is a first step in the effort to more fully integrate measures into the budget process and maximize their potential to facilitate efficient resource allocation.

The remainder of this report contains five sections. Section 2 provides a brief overview of the PBB system structure. Section 3 discusses performance measurement in Pennsylvania. Section 4 considers six states that have significant experience with PBB systems to provide insight regarding the implementation and administration of those systems. Section 5 presents a prototype performance measures report that could be used during budget hearings. The report's primary intent is to solicit feedback from executive and legislative policymakers. Section 6 concludes with an itemization of issues that policymakers must consider if they seek to transition the budget process towards one that more fully utilizes performance measures.

Performance-Based Budgeting

As specified by statute, this report discusses the development and evaluation of performance measures, and by extension, methods that would facilitate more extensive use of those measures in the state budget process. However, performance measures are only one component of a comprehensive budgeting and management system known as performance-based budgeting (PBB). In order to provide context and background in which performance measures will be developed and utilized, this section contains a brief discussion of that system.

For the limited scope of this report, the following definition of a PBB system is used:

> *Performance-Based Budgeting is a management and budget system that facilitates the evaluation of agency and program performance through the application of data-driven, objective measures. The performance measures allow (1) agency managers to monitor efficiency and output trends and (2) policymakers to assess agency progress towards published goals and objectives in order to (3) facilitate the efficient allocation of limited state resources. The measures are an integral part of the budget process and receive regular review by agency managers and policymakers.*

In broad terms, PBB is a comprehensive strategic planning system that is sufficiently flexible to adapt to the specific needs of state and local governments. Ideally, leaders from the executive and legislative branches (and possibly other stakeholders) would develop the mission, goals and objectives for executive agencies. Performance measures would then be used to assess whether agencies have made progress towards their goals and objectives, and what, if any, corrective actions should be taken. Performance measures would be developed only after other infrastructure had been established and agreed to by stakeholders.

The following terms and definitions illustrate how performance measures fit into a comprehensive PBB system and strategic planning generally. These terms are used throughout the report, but are not discussed further.

- Mission statements succinctly describe why an agency exists, what an agency does and the population(s) it serves.
- Goals are the general ends towards which an agency directs its efforts through a statement of policy intentions. Typically, agencies will have three to five key goals that may be ranked based on priority. Goals should be achievable and realistic over a long-term time horizon.
- Objectives are clear targets for specific action needed to attain agency goals. They have shorter time frames than goals, and the targets can usually be quantified.
- Strategies are the methods used to achieve goals and objectives. They discuss how inputs will be transformed into outputs and outcomes (defined below).
- Performance measures are indicators of work performed and results achieved. The measures may not prove whether a goal or objective has been attained, but may simply provide evidence that suggests an agency is moving closer towards a particular goal or objective.

The executive budget contains goals for all Pennsylvania executive agencies. A more detailed itemization of all goals, objectives, strategies and performance measures for many executive agencies can be found on the Performance Management website administered by the Office of the Budget.[3] This report assumes that agency mission, goals, objectives and strategies have already been established and focuses on the development and utilization of performance measures in the budget process.

Types of Performance Measures

States that use a PBB system often use a mix of measures to evaluate agency performance because different measures provide unique insights into agency operations or supply context and perspective. The four types of performance measures are as follows:

- Input measures represent an agency's cost structure, or the funds appropriated or spent during a fiscal year. Although these measures are published in the executive budget, the presentation may not include sufficient detail to allow a meaningful assessment of trends by policymakers. For example, an agency might report a significant increase in personnel costs, but much of those costs might be related to pension contributions, which are generally beyond the control of an agency.
- Output measures quantify an agency's workload or production. Examples include the number of inmates housed by the Department of Corrections or the number of tax returns processed by the Department of Revenue.
- Efficiency measures quantify staff productivity or timeliness of output, and are typically expressed as a ratio or average. Examples include the ratio of inmates to custody staff or the average cost to issue a driver's license.
- Outcome measures attempt to gauge the impact of an agency's programs or actions on target populations that receive services or benefits. They are most conducive to evaluate an agency's progress towards its stated goals and objectives. Examples include recidivism rates, reduction in illnesses or deaths due to a new health initiative, or the number of individuals who obtain employment in their preferred field as a result of job training. It is important to note that these measures do not reveal the monetary value of the outcomes.

For reporting purposes, the inclusion of different types of performance measures not only provides broader insights, it also increases the likelihood that measures important to various stakeholders will be included. For example, agency managers and executive officials may track output and efficiency measures closely because they are variables over which an agency can typically exert some control. By contrast, policymakers will be more concerned with outcomes, because they provide evidence regarding the efficient allocation of resources and whether funding is serving its intended purpose.

In addition to identifying the optimal mix of performance measures, policymakers must also determine the number of measures that should be reported. For most agencies, dozens of output and efficiency measures could be compiled and reported, and each may reflect unique aspects of an agency or different programs. Conversely, there is a much smaller pool of potential outcome measures because agencies must obtain reliable data from a service population, either through forms, surveys or other interactions. For official reports transmitted to policymakers, most states include only a small subset of performance measures. States have noted uniformly that performance measures quickly lose value as the number of measures increase.

[3] See http://www.budget.pa.gov/PublicationsAndReports/Pages/PerformanceReports.aspx#.VYwwU_lVhBc.

Integration of Performance Measures

A recent report issued by the National Association of State Budget Officers (NASBO) found that 31 states have a statutory requirement that compels agencies to compile and report performance measures.[4] Moreover, 40 states require that agency budget requests include some type of performance measures. However, the actual utilization of measures in these states varies significantly and may depend on factors such as the initial vision of policymakers, available resources and the commitment to quarterly or annual review. The NASBO report found that only 24 states required formal review or regular audit of performance measures. The degree of integration may even hinge on whether a state has an annual or biennial budget. Most states that have fully integrated performance measures into their budget process have biennial budgets (e.g., New Mexico, Texas and Utah). That budget cycle may lend itself to longer-term strategic planning and implementation of a comprehensive PBB system.

In a comprehensive system, the PBB process typically begins with the annual re-evaluation of performance measures and the subsequent submission of those measures by agencies. In most states, agencies submit measures to a designated central office such as an executive budget office or its legislative equivalent. That office coordinates, compiles and approves performance measure submissions, and most will publish those data online. Performance measures could be submitted and evaluated on a monthly (Washington), quarterly (New Mexico and Texas) or annual (Nevada) basis. States may also require annual or periodic audit of performance measures by an entity separate from the office that compiles the measures.

Once performance measures have been submitted and verified, the coordinating office may compile the measures into a concise report for use by policymakers and the public. The reports can take various forms, and Section 4 provides examples from six states. The reports generally include high-level performance measures, along with some descriptive text that discusses recent trends, and whether agencies have met performance targets. Some states convene regular forums where agencies make formal presentations that are open to the public. Agencies may also be requested to comment and explain deviations from performance targets that exceed a certain threshold, such as five or ten percent.

All states that use a PBB system have stressed the critical importance that high-level managers and legislators regularly monitor and review performance reports and solicit agency input regarding recent trends. If performance measures do not receive regular review and their role in the budget process is not clearly defined, then the effectiveness of the entire PBB system will be significantly diminished.

Rewards and Penalties

In addition to regular review of performance measures, agencies should be confident that reviews will have direct implications for their budgets or operations. Without an explicit reward and penalty mechanism, agencies may lack the proper incentive to implement changes that are necessary to achieve long-term goals.

[4] "Budgeting Processes in the States," The National Association of State Budget Officers (Spring 2015). See https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Reports/2015%20Budget%20Processes%20-%20S.pdf.

Positive incentives or rewards could include increased funding, expanded responsibility, awards and bonuses, retention of unspent appropriations, formal recognition and exemption from certain reporting requirements. Although monetary rewards likely provide the strongest incentive to agency personnel, states find that monetary incentives are difficult to implement due to (1) inadequate funds, (2) an inability to identify meaningful and measurable indicators that provide an objective basis to distinguish employees who qualify for awards and (3) difficulties in attaching monetary values to outcomes.

Negative incentives or penalties could include funding reductions, additional monitoring and auditing, transfers of responsibilities or more frequent reporting. Many states have stressed that performance measures should not be used in a purely punitive fashion. That approach is counterproductive and will negatively impact agency morale.

For high-level agency managers, regular review of performance measures can also provide strong incentives, both positive and negative. Some states require regular, formal presentation of performance measures, and managers must explain recent trends and agency performance relative to targets. These forums allow managers to receive public recognition for their efforts. Managers can also cite unanticipated factors or events that caused the agency to miss a performance target, and the steps they plan to undertake to remedy the situation.

Performance-Based Budgeting in Pennsylvania

Since the early 1970s, executive agencies in Pennsylvania have submitted annual performance measures for programs they manage or administer. In 1978, Section 610(a) of the Administrative Code of 1929 (P.L. 177, No. 175) codified the requirement that agencies report performance measures. Under that provision, agencies must update and submit measures to the Office of the Budget related to all programs for which state funding is requested as part of the annual budget process. Historically, a subset of those measures has been reported as part of an agency's presentation in the executive budget.

In 2007, a more comprehensive approach to performance measures reporting was implemented with the creation of the Office of Performance Improvement (now the Division of Performance Improvement), which is housed within the Office of the Budget. The office requires agencies to develop and update multi-year performance plans, which contain an agency's mission, goals and objectives. Each objective includes multiple strategies an agency will employ to achieve those outcomes. The objectives are linked to performance measures that help an agency determine if strategies are effective and objectives are being met. The office oversees, compiles and reports performance measures for approximately 30 state agencies. The office initially employed two staff, but only one staff person remains since the reporting infrastructure has been established and individual agencies compile and submit their own performance measures. The total number of full-time equivalent staff dedicated to performance measures reporting in Pennsylvania has not been quantified.

The Division of Performance Improvement begins the annual reporting cycle with the transmission of the "Guide to Completing Performance Plans" to all agencies. By early September, agencies submit their performance plans electronically and the plans are reviewed and approved by the Office of the Budget. The plans itemize all performance measures that an agency will track and report in the next fiscal year. The approved measures are reported in the executive budget and/or in the office's annual report on agency performance measures.[5] The report is organized into seven key goal areas: education, economic development, health and human services, environment, public safety, consumer protection and government efficiency. (See Figure 1.) Goal areas are further sub-divided into related subject areas, and each subject area contains objectives and corresponding performance measures. An agency may have performance measures that are distributed across multiple goal areas.

To develop performance measures, agencies solicit input from managers, employees and sometimes legislators, citizens and interest groups. Agencies may request to add or delete performance measures from their existing plan, but the final decision rests with the Office of the Budget. The addition of a new measure requires that several years of historical data be available for comparison purposes.

It is an agency's responsibility to ensure that performance measures are relevant and accurate, but all measures are still reviewed by Office of the Budget staff. The staff compare (1) new performance measure data points to historical values and (2) new submissions to prior submissions. If staff observe a significant revision or deviation, then the office requires the agency to explain the factors that motivate the change.

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[5] See http://www.budget.pa.gov/PublicationsAndReports/Pages/PerformanceReports.aspx#.VYwwU_lVhBc.

Figure 1
Pennsylvania Performance Measure Reporting Structure

Goal Area	Subject Areas	Objectives	Measures	Agencies Contributing
Education	3	11	75	2
Economic Development	5	24	135	7
Health and Human Services	8	18	128	7
Environment	3	18	130	5
Public Safety	3	42	122	7
Consumer Protection	4	15	38	5
Government Efficiency	6	19	58	7
Totals	**32**	**147**	**686**	**n.a.**

Source: Pennsylvania Office of the Budget, *2014-15 Report on State Performance.*

For Pennsylvania, performance measures are widely viewed as a management tool, as opposed to a budgeting tool. Moreover, performance measures are generally used to evaluate requests to increase program funds, rather than facilitate and inform overall resource allocation (which would include program reductions). Several factors support this perception:

- Although the budget presentation displayed in the executive budget reflects agencies' program evaluations (i.e., performance measures), the final budget passed by the General Assembly more closely resembles an incremental budget approach, where funding is largely based on the level from the prior year.
- The staff who compile performance measures do not receive extensive training. The lack of training increases the likelihood that performance measurement strategies may differ across agencies.
- There is no mechanism to ensure the accuracy of agency performance measures. While a significant change in value can alert the Office of the Budget to potential issues and requires an agency explanation, there is no independent auditing of performance measures.
- Short and long-term performance targets are not set by agencies or the Office of the Budget. There is also no clear reward or penalty mechanism based on performance measures.

Informal conversations with legislative and executive staff confirm this general perception. Current performance indicators largely measure agency input, output or efficiency. While these measures provide data points that may be informative and provide background, most are not indicative of agency or program performance, and they have limited potential to improve resource allocation.

Figure 2 provides a snapshot of the most recent Report on State Performance for the goal of public safety. Within that goal area, there are three subject areas, 42 objectives and 122 performance measures. (See Figure 1.) The presentation lists the objective, the rationale for why the objective is considered important and a brief commentary on recent performance. The presentation also contains the strategies used to achieve the objective and measures that could be used by policymakers to assess whether the agency (Department of Corrections) has made progress towards its stated objectives. In this example, the department attempts to reduce recidivism rates by enrolling inmates in drug and alcohol treatment programs. The listed measures are output measures that reflect agency workload. However, for this purpose, an outcome measure that follows inmates who receive treatment upon release is necessary to assess whether the program achieves its objective.

Figure 2

pennsylvania
OFFICE OF THE BUDGET

2014-15 Report on State Performance

Goal: Public Safety

Subject Area: Incarceration, Rehabilitation and Reentry of Offenders

Objective: Improve assessment and treatment of inmates by evaluating inmates appropriately and by giving them proven treatment in a timely manner, thus reducing recidivism.

Why this objective is important:

By using proven assessment tools and providing inmates with evidence based treatment programs, we will reduce the likelihood of released inmates committing new crimes.

How are we doing:

Ninety percent of Department of Corrections (DOC) inmates will one day return home after incarceration. The DOC addresses recidivism and reentry needs through assessment and treatment. Assessment focuses on needs, and treatment is based on risk levels for those needs. The department believes reentry begins upon reception to the prison system and continues through a successful return to the community. The DOC experiences a 43 percent return rate of inmates over three years post incarceration.

Strategies
Continue using the computer system developed to track inmate assessment and progress in treatment programs. Through analysis of the data, the appropriateness of prescribed treatment programs can be measured.
Develop a scientifically based quantitative risk assessment tool for the Sentencing Commission judges to use to measure the risk of reoffending while deciding the appropriate sentence for the defendant.
Increase the use of proven treatment programs. The Boot Camp, Recidivism Risk Reduction Initiative, and the State Intermediate Punishment programs are evidence-based programs that lower the rates of recidivism for the inmates who have completed the programs.

Measures:

MeasureName	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Inmates assessed as having an alcohol or other drug problem	33,398	33,227	32,738	32,500	32,100
Inmates currently in alcohol or other drug treatment programs	3,491	3,440	3,008	3,000	3,000
Inmates who have completed alcohol or other drug treatment programs	9,966	9,420	8,995	8,850	8,750

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State Case Studies

A previous section noted that 31 states statutorily require the computation and compilation of performance measures, and 40 states require agencies to include performance measures as part of their annual budget submission. However, a closer inspection reveals that relatively few states have comprehensive systems that fully integrate performance measures into their budget processes. This section considers six states recognized as leaders in the application of performance measures: Texas, Washington, Virginia, Oregon, New Mexico and Nevada. The states are presented based on their length of experience with performance measures, starting with Texas (1974) and ending with Nevada (2012). A brief survey of these states provides insights into the different approaches and methods they have used to ensure that performance measures are firmly embedded in the state budget process.

Prior to the state survey, it is useful to note the federal experience with PBB systems. The federal government has a long history with performance measurement under Presidents Carter (zero-based budgeting, 1977), Clinton (Government Performance and Results Act (GPRA), 1993), Bush (Program Assessment Rating Tool (PART), 2002) and Obama (GPRA Modernization Act, 2010). In general, it is recognized that none of these acts or initiatives made substantive changes to the federal budget process. A major factor in that outcome was the failure to secure the active interest and participation of Congress, despite its approval of legislation that preceded implementation of certain efforts. This lesson also applies to states: it is not possible to transform the budget process without the active and continual participation of both the executive and legislative branches.

Specific factors may have impeded budget reform efforts at the federal level, but could be less pertinent for states. One factor may be the sheer size of the federal government, and the inherent difficulty in getting a new system operational under a time frame short enough to retain the interest of stakeholders. Another factor may be the lack of a balanced budget requirement. Unlike states, federal resources may seem unlimited since the government may borrow to fund operational expenses. Finally, much of the federal budget is composed of spending for entitlements, national defense, various grants and debt service, and a relatively small portion represents non-defense discretionary spending. Federal policymakers may have less motivation to devote the necessary time and energy to implement a comprehensive PBB system if they perceive that the pool of potential savings is relatively small compared to the entire federal budget.

Texas

Due to its extensive experience, many view Texas as a leader in PBB. Since 1974, the state has compiled performance-related data on a wide range of programs. In 1991, new legislation implemented a more comprehensive approach and required all state agencies to develop a six-year strategic plan.[6] Later that same year, the Texas Legislative Budget Board (LBB) adopted a PBB system.[7] In 1992, the LBB implemented a strategic planning and budgeting system to facilitate the integration of agency strategic plans into the performance-based budget.

Texas operates on a biennial budget cycle and requires the development of agency strategic plans with operational goals that support statewide objectives. Those objectives promote agency operations that (1) are accountable to taxpayers, (2) minimize waste, (3) identify functions that are redundant or not cost effective, (4) successfully fulfill core functions, meet performance measures and seek continuous improvement, (5) provide a high-level of customer service and (6) promote transparency. As required by statute, all strategic plans must include agency-specific goals, strategies to accomplish those goals and performance measures to evaluate program success. Initial appropriation requests and corresponding performance measures (includes outcome, output and efficiency measures) are also developed for each agency. The governor's office and the LBB hold hearings with each agency to finalize performance measures to be included in the final appropriation request. The appropriation request provides the framework for the LBB-prepared appropriations bill. The appropriations bill, which contains LBB's funding recommendations and contingencies on certain expenditures (called riders) is itemized by goals and strategies and includes output measures and projected outcomes for all agency programs.

After the appropriations bill is approved, agencies must electronically file performance reports through the Automated Budget and Evaluation System of Texas (ABEST). Quarterly and annual performance reviews are conducted for the legislature by the LBB. If actual performance differs from targeted performance by five percent or more, agencies must explain the variance in ABEST. Agencies may be required to explain a variance of any size to the legislative committees. Agencies that meet or exceed performance goals may be rewarded based on incentives specified within the appropriations act. Applicable incentives could include: increased funding, exemption from reporting requirements, increased discretion over funding transfers, formal recognition, awards or bonuses, expanded responsibility and expanded contracting authority. Agencies falling short of performance targets may be subject to disincentives such as a reduction or restriction of funding. Figure 3 displays targeted and actual performance for three goal areas under the Texas Department of Criminal Justice for fiscal years 2009 through 2013.[8]

In order to ensure the accuracy of performance measures, the State Auditor's Office (SAO) conducts reviews of agency measures, as well as an agency's conformity with its strategic plan. Agencies are selected for audit based on a number of factors, including changes in structure or personnel, legislator concern, unanticipated performance, the amount of funds an agency receives, past audit results or frequent changes in performance measures. The auditors follow a detailed process which results in an agency's performance measures receiving a designation of certified, certified with qualification, factors

[6] The planning horizon was reduced to five years in 1993.

[7] The LBB is a ten-member legislative body composed of the following members of the Texas legislature: lieutenant governor, speaker of the house, chairman of the House Appropriations Committee, chairman of the House Ways and Means Committee, chairman of the Senate Finance Committee and five additional appointed members from the House and the Senate. Approximately 140 staff are employed by the LBB.

[8] Texas Department of Criminal Justice Budget and Performance Measures for Fiscal Years 2009-2013. See http://bapm.lbb.state.tx.us/?FiscalYear=2013.

prevented certification, or inaccurate. The performance audit results, recommendations for performance measures not certified and the agency manager's response to such recommendations are published in a public report.

In addition to the audit of agency performance measures, Texas also utilizes the Sunset Advisory Commission (SAC). Each agency's authorizing statute has a sunset date, usually 10 years after the establishment of an agency. If the Texas legislature fails to renew the statute, the agency is disbanded. Two years prior to the sunset date, the agency undergoes an intensive review by the SAC, a 12-member committee composed of elected officials and other members appointed by the lieutenant governor and speaker of the House of Representatives. Although the SAC almost always recommends that an agency continue operations, legislation is required to achieve that outcome.

Since 2005, the LBB's Agency Performance Review Team has published a Government Effectiveness and Efficiency Report that provides a detailed analysis of agency and program performance. This report is published every two years and is available on the LBB website.[9] The most recent report, published in January 2015, is over 400 pages long and contains 49 separate analyses of agencies and programs.

[9]See http://www.lbb.state.tx.us/Documents/Publications/GEER/Government_Effectiveness_and_Efficiency_Report_2015.pdf.

Figure 3

PERFORMANCE MEASURES for FISCAL YEAR 2013

DEPT OF CRIMINAL JUSTICE

	TARGET					ACTUAL				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
1 Goal: PROVIDE PRISON DIVERSIONS										
Outcome (Results/Impact):										
1-1-1 Strategy: BASIC SUPERVISION										
Output (Volume):										
DIRECT SUPERVISION-FELONY	165,496	172,895	175,075	173,558	173,810	172,375	173,058	171,090	168,543	164,209
Efficiencies:										
AVERAGE MONTHLY CASELOAD	76.0	76.0	76.0	76.0	76.0	78.0	77.3	78.5	79.4	78.8
1-1-2 Strategy: DIVERSION PROGRAMS										
Output (Volume):										
RESIDENTIAL BEDS GRANT-FUNDED	3,984	3,284	3,284	2,920	2,920	3,103	3,100	3,007	2,879	2,829
1-1-3 Strategy: COMMUNITY CORRECTIONS										
Output (Volume):										
RESIDENTIAL BEDS CC-FUNDED	604	330	330	255	255	327	327	327	241	241
2 Goal: SPECIAL NEEDS OFFENDERS										
Outcome (Results/Impact):										
SPECIAL NEEDS-REINCARCERATION RATE	12.0%	12.0%	12.0%	23.0%	23.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2-1-1 Strategy: SPECIAL NEEDS PROJECTS										
Output (Volume):										
# OF SPECIAL NEEDS OFFENDERS SE	28,500	28,500	28,500	26,190	26,190	29,824	25,967	24,328	25,006	25,727
3 Goal: INCARCERATE FELONS										
Outcome (Results/Impact):										
THREE-YEAR RECIDIVISM RATE	30.0%	28.0%	28.0%	26.0%	26.0%	0.0%	0.0%	24.3%	24.3%	22.6%
# OFFENDERS ESCAPED INCARCERATION				0.0	0.0				1.0	0.0
TURNOVER-CORRECTIONAL OFFICERS	18.0%	18.0%	18.0%	18.0%	18.0%	21.3%	20.3%	22.4%	24.6%	24.4%
AVG OFFENDERS UNDER CMHC				152,897	153,788				152,057	148,854
MEDICAL CARE COST PER DAY				7.7	7.7				7.8	8.5
3-1-1 Strategy: CORRECTIONAL SECURITY OPERATIONS										
Output (Volume):										
AVERAGE OFFENDERS INCARCERATI	142,308	140,529	140,019	140,763	142,654	138,976	139,693	141,161	140,268	137,384
3-1-7 Strategy: UNIT AND PSYCHIATRIC CARE										
Output (Volume):										
PSYCH INPATIENT AVG DAILY CENSU	1,963	1,963	1,963	1,963	1,963	1,917	1,923	1,943	1,789	1,771
3-1-11 Strategy: CONTRACTED TEMPORARY CAPACITY										
Explanatory:										
# IN CONTRACT/TEMP CAPACITY	2,000	0	0	1,000	0	1,790	0	0	0	0
3-1-12 Strategy: CONTRACT PRISONS/PRIVATE ST JAILS										
Output (Volume):										
AVG OFFENDERS CONTRACT PRISON/JAILS		11,890	11,890	11,890	11,890		11,818	11,905	11,910	11,689

Washington

Washington has extensive experience with PBB systems and has implemented many changes to enhance and modernize the system over time. A brief timeline is as follows:

- In 1994, the Washington legislature passed the Government Performance and Accountability Act, which established performance measures to improve agency productivity, transparency and customer satisfaction.
- In 1996, the state expanded the focus on performance measures by requiring agency budget proposals to "...include integration of performance measures that allow objective determination of a program's success in achieving its goals."[10]
- In 2001, the state implemented the Priorities of Government (POG) initiative. The program ranked state government provided services and used the rankings to develop an overall strategic plan for the state budget. The POG strategic plan examined needs across the state, set goals for improvement and prioritized those goals by allocating funds accordingly.
- In 2005, the Government Management Accountability and Performance (GMAP) program was initiated through an executive order.[11] GMAP required agencies to "develop clear, relevant and easy-to-understand measures that show whether or not programs are successful; demonstrate how programs contribute to the priorities that are important to citizens; gather, monitor and analyze program data; evaluate the effectiveness of programs; hold regular problem-solving sessions with the agency to improve performance; allocate resources based on strategies that work; and regularly report to the governor on performance."[12] A GMAP office was also created within the governor's office to support the program and oversee POG.
- In 2011, Washington began to incorporate Lean strategies into state governance. Lean principles are rooted in manufacturing practices, but have been adopted by a broad range of organizations in recent years. These strategies seek to maximize value and eliminate waste, thereby optimizing the flow of services.
- In 2013, elements of the GMAP program and the Lean initiative were merged and the state transitioned to a new program called "Results Washington." The purpose of the program was to create a responsive, data-driven state government based on effective communication and transparency with regard to goals, performance measures and progress.[13]

Results Washington requires outcome-based measures and leading indicators across five goal areas: (1) world-class education, (2) prosperous economy, (3) sustainable energy and clean environment, (4) healthy and safe communities and (5) efficient, effective and accountable state government. A goal council consisting of agency directors, representatives from the governor's budget and policy offices and the Results Washington team are established for each goal area. Outcome measures and leading indicators for each area are developed by the goal council for that area. Washington also requires agencies to develop strategic plans and performance measures consistent with those plans.

[10] "State Performance-Based Budgeting in Boom and Bust Years: An Analytical Framework and Survey of the States," Public Administration Review (June 2011).
[11] See http://www.governor.wa.gov/sites/default/files/exe_order/eo_05-02.pdf.
[12] See supra note 10.
[13] The Results Washington director and staff reside within the Office of the Governor.

Under Results Washington, performance data for one of the five goal areas is reviewed each month on a rotating basis by the relevant goal council, the Results Washington staff and the governor. If an area or agency is not meeting its goals, the cause will be determined, an improvement plan will be developed, program adjustments will be made and results will continue to be monitored. Agencies submit final outcome measures and indicators that will be shared with the public on a central website. Some data are collected and reported on an annual basis, while other data are collected and reported quarterly. Figure 4 provides an example of an interactive report published by Results Washington that has a goal area of public safety and an objective to "decrease the rate of return to institutions for offenders from 27.8% to 25.0% by 2020."[14]

Washington uses a Joint Legislative Audit and Review Committee (JLARC, composed of 16 legislators, eight from the Senate and eight from the House, with no more than four from the same political party in each chamber) to oversee all performance-related activities within the state. The JLARC conducts policy and fiscal research, performance audits and program evaluation. Similar to Texas, Washington has a sunset review process to determine if certain agencies and programs should be sustained, revised or eliminated.

The governor utilizes data from Results Washington to guide policy decisions, prioritize resources and focus efforts on key goals to improve the efficiency and effectiveness of state government. Although Results Washington impacts the governor's policy decisions, it is unclear to what extent the legislature relies on this information in the passage of the biennial state budget. Washington's PBB system is also complicated by the fact that the source of the funds (federal, state or dedicated revenue source) is given consideration when making budgetary decisions. The state then adjusts its priorities, in part, depending on the revenue source.

Results First

In 1983, the Washington legislature created the Washington State Institute for Public Policy (WSIPP). The agency's mission is to conduct practical, non-partisan research to assist legislators in making informed policy decisions. Beginning in the 1990s, the legislature expanded the role of WSIPP to include conducting and reviewing research related to the effectiveness of public policy programs. To that end, WSIPP now devotes considerable resources to reviewing national research and evidence-based analyses related to program results in various public policy areas. These reviews have allowed WSIPP to develop a model for the purpose of estimating the benefits, costs and risks associated with different policy options using state-specific data to produce a return on investment value for each policy option. Interest in the WSIPP model has grown over time, and it now serves as the basis for the model utilized by the Pew Charitable Trusts' Results First Initiative.

Since 2011, the Pew Charitable Trusts' Results First Initiative has partnered with 21 states to implement their cost-benefit model to assist state decision makers in policy choices and resource allocation. The Results First approach focuses on: (1) using research to identify which programs work, (2) predicting the likely state impact of certain programs, and (3) calculating the long-term benefits and costs of those programs. Currently, the model includes the following public policy areas: adult criminal justice, juvenile justice, child welfare, mental health, K-12 education, substance abuse and general prevention.

[14] See https://data.results.wa.gov/en/stat/goals/qdwb-qdcy/w6ku-nvcq/8bjk-2kyf.

Figure 4

Safe People

Public

Decrease rate of return to institutions for offenders from 27.8% to 25.0% by 2020 Explore the data ›

30.4 rate of return to institutions for offenders

Current as of Dec 2011

25 rate of return to institutions for offender

Dec 2020 Target

Needs Improvement

Show chart

Community Supervision Compliance

75.6

percent

Explore the data ›

Increase adult offenders complying with their conditions of supervision or case plan to 78% by 2017

Juvenile Offender Recidivism

58

percent

Explore the data ›

2.3.b Decrease juvenile offender recidivism to 49% by July 2017

Youth in Detention (Targeted Group)

45.6

percent

Explore the data ›

Decrease percentage of African American, Hispanic and Native American youth in detention to 41% by July 2017

Offender Employment

38.1

percent

Explore the data ›

Increase adult offenders who are employed post-release to 40% by 2017

Violent Infractions in Prison

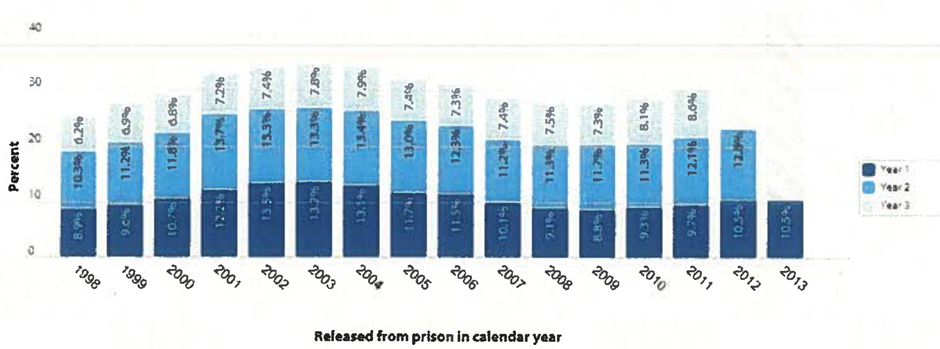
0.9

rate

Explore the data ›

Decrease rate of violent infractions in prison to 0.90 per 100 offenders by 2017

Washington State return to institutions rates for all offenders



Virginia

Virginia operates on a biennial budget cycle and has employed some type of performance measurement process since the 1980s. At the outset, performance measures were not integrated into the budget process, agency reporting conventions were inconsistent, and the measures were not linked to any comprehensive state goals. In 2003, the process was formalized with the creation of The Council on Virginia's Future (council). The purpose of the council was to develop long-term goals for the commonwealth and a performance leadership and accountability system that focused on outcomes related to those goals. The council is chaired by the governor and includes the lieutenant governor, key members of the governor's cabinet, legislators, business leaders and citizens.

In 2007, the council launched "Virginia Performs" as the commonwealth's performance leadership and accountability system, and the system currently tracks more than 900 performance measures. The Virginia Performs website allows the public to view reports issued by the council. Agencies submit performance measures directly through the website portal and measures are audited annually by the Virginia Auditor of Public Accounts.

While the council develops long-term goals for the commonwealth, the Department of Planning and Budget (DPB) is responsible for the coordination of agency strategic plans. Agencies must submit three-year strategic plans to DPB for approval before the start of the two-year budget cycle. Agency plans are reviewed by the governor's office on a staggered basis with about one-third of plans reviewed each year.[15] Agencies also develop performance measures to facilitate an assessment of their progress towards meeting the objectives of their strategic plan.

The primary purpose of performance measurement in Virginia is to align specific outcomes with the seven statewide, long-term goals established by the council. The long-term goal areas are as follows: economy, education, health and family, natural, historic and cultural resources, public safety, transportation, and government and citizens. Virginia's Scorecard at a Glance (published on the Virginia Performs website) reflects current performance for 49 indicators related to Virginia's seven long-term goal areas. (See Figure 5.)[16] Arrows on the scorecard allow the reader to assess progress towards the stated goal (↑), no change (→) or regression from the goal (↓). A building icon denotes whether the state has significant influence (blue building) or limited influence (black building) over the indicator.

Information provided on the Virginia Performs website suggests that the system has helped to target cuts to specific programs, while at the same time, facilitating the reallocation of funds to more cost-effective programs. For example, the website notes that the Department of Health saved over $3 million by cancelling a program not meeting its performance targets. The Department of Corrections also saved nearly $1 million annually by cancelling private food service contracts.[17] Despite these examples, the extent to which performance data are actually utilized by the legislature during the budget process remains unclear. Regardless, performance measurement maintains relevance in Virginia due to the broad composition of those serving on the council and the statutory basis for that body.

[15] "Performance Budgeting, State's Experiences Can Inform Federal Efforts," United States Government Accountability Office (February 2005). See http://www.gao.gov/new.items/d05215.pdf.
[16] See http://vaperforms.virginia.gov.
[17] "Trade-off Time: How Four States Continue to Deliver," The PEW Center on the States (February 2009). See http://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/government_performance/gpp20budget20brieffinal2web0209revisedpdf.pdf.
[17] See http://vaperforms.virginia.gov.

Figure 5

Scorecard at a Glance

Economy

Goal: Be a national leader in the preservation and enhancement of our economy

Personal Income	→
Employment Growth	→
Poverty	→
Unemployment	↑
Business Climate	→
Workforce Quality	↑
Economic Diversity	→
Innovation/Entrepreneurship	↑

Education

Goal: Elevate the levels of educational preparedness and attainment of our citizens

School Readiness	→
3rd Grade Reading	↓
4th Grade Reading/Math	↑
High School Graduation	↑
High School Dropout	↑
College Graduation	↑
Educational Attainment	↑

Health and Family

Goal: Inspire and support Virginians toward healthy lives and strong, resilient families.

Adoption	→
Cancer	↑
Cardiovascular Disease	↑
Child Abuse and Neglect	↑
Foster Care	↑
Health Insurance	→
Immunization	↑
Infant Mortality	↑
Life Expectancy	↑
Obesity	→
Smoking	→
Suicide	→
Teen Pregnancy	↑

Public Safety

Goal: Protect the public's safety and security, ensure a fair & effective system of justice, and provide a prepared response to emergencies & disasters of all kinds.

Crime	↑
Emergency Preparedness	↑
Juvenile Intakes	↑
Recidivism	→
Traffic Fatalities	↑

Transportation

Goal: Ensure Virginia has a transportation system that is safe, allows the easy movement of people and goods, enhances the economy, and improves our quality of life.

Infrastructure Condition	→
Land Use	→
Multimodal Transportation	→
Traffic Congestion	→

Natural Resources

Goal: Protect, conserve and wisely develop our natural, cultural and historic resources.

Air Quality	↑
Energy	↑
Historic Resources	→
Land Preservation	↑
Solid Waste & Recycling	→
Water Quality	↑

Government and Citizens

Goal: Be recognized as the best-managed state in the nation.

Bond Rating	↑
Civic Engagement	→
Consumer Protection	↓
Government Operations	↑
Internet Access	↑
Taxation	↑
Voter Registration and Turnout	→

Oregon

Like Washington, Oregon has extensive experience with PBB systems and performance measures, and has also modified that system over time. A brief timeline is as follows:

- In the late 1980s, Oregon made a concerted effort to increase focus on the state's strategic plan through the publication of biennial public reports that tracked the state's progress towards its stated goals. The initial reports included 152 benchmarks against which agencies were required to track their progress.[18] In 1993, the legislature statutorily required agencies to include "benchmarked-based planning in performance measurement and budget policy."
- In 2001, the legislature added specific requirements regarding the development and reporting of performance measures. The changes required the Progress Board, the Legislative Fiscal Office, Office of the Secretary of State and the Department of Administrative Services to develop performance measure guidelines for all state agencies. As a result, key performance measures (KPMs) were established for each agency and included in the agency's biennial budget request.
- In 2012, the administration prioritized budgeting for outcomes and long-term agency planning for the FY 2013-2015 budget. Six high-level outcome areas were identified: education, healthy people, safety, economy and jobs, healthy environment and improving government. These outcome areas are tied to the governor's overall strategic plan, and agencies must link all programs to one or more specific outcome areas.

The Department of Administrative Services and the Legislative Fiscal Office are statutorily required to develop and maintain a statewide system of performance measures. Agencies are required to propose a set of KPMs during their biennial budget request and to report annually on legislatively-approved KPMs in an Annual Performance Progress Report that is submitted to the non-partisan Legislative Fiscal Office. The reports provide detailed analysis of agency performance measures, progress and the factors that impact results.[19]

Figure 6 displays the executive summary from the Oregon Department of Corrections Annual Performance Progress Report for FY 2014-15.[20] The report was published in September 2015 and discusses departmental progress in meeting its KPMs. The executive summary includes an overall performance summary, explains departmental challenges and lists contact information for the staff person responsible for the measures. The performance summary indicates the number of KPMs that were rated green, yellow or red for the fiscal year. Explanations of measures rated yellow or red (those requiring improvement) are also included in the summary. The full progress report contains 43 pages and provides detailed information for each KPM.

Agencies may request changes to improve their KPMs as part of the budget process.[21] All approved KPMs must (1) quantify agency progress in meeting performance goals, (2) use standard terminology, (3) be limited in number, (4) identify performance targets, (5) utilize accurate and reliable data, (6) measure customer satisfaction and (7) assign an organizational unit responsible for achieving targets.
During the budget process, the legislature approves or modifies and approves each agency's proposed

[18] By 2009, the number of benchmarks had declined to 91.

[19] See http://www.oregon.gov/transparency/Pages/Key-Performance-Measures.aspx and www.oregon.gov.

[20] See http://www.oregon.gov/transparency/docs/2015/APPR%27s%20for%20Fiscal%20Year%202015/APPR%202015%20DOC.pdf.

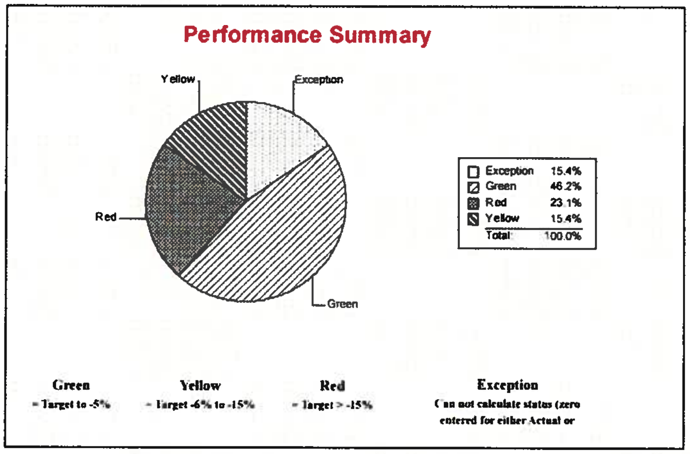
[21] "2017-19 Budget & Legislative Concepts, Instructions," State of Oregon Department of Administrative Services and Chief Financial Office (March 2016). See http://www.oregon.gov/das/Financial/Documents/2017-19%20Budget%20Instructions%20-%20final.pdf.

biennial KPMs, which includes targets for the two budget years.[22] These measures are included in the final agency budget report and are posted online. Before program increases are approved, agencies must indicate the anticipated impact on their KPMs.

[22] See www.oregon.gov.

Figure 6

CORRECTIONS, DEPARTMENT of		I. EXECUTIVE SUMMARY
Agency Mission:	The mission of the Oregon Department of Corrections is to promote public safety by holding offenders accountable for their actions and reducing the risk of future criminal behavior.	
Contact: Jennifer Black		**Contact Phone:** 503 569 3318



1. **SCOPE OF REPORT**

Appropriate to the agency mission, most of the Key Performance Measures track performance in areas of inmate activity; compliance with Measure 17 work/education requirements, participation in Oregon correction plans, recidivism, assaults on staff, misconduct sanctions, work crew walk-a-ways, escapes, offsite care encounters and successful completion of transitional leave. One measure tracks the department's energy conservation relative to consumption of electricity and natural gas. One measure tracks workers compensation time loss days. One customer service measure tracks our success relative to significant agency customers. This measure includes customer satisfaction for services provided to community parole and probation officers. There are a number of other key Department operations and programs that are not currently tracked as Key Performance Measures, but are managed through the use of internal measures at the Division or program level.

2. **THE OREGON CONTEXT**

The Department is a primary contributor to Benchmark #64: Adult Recidivism: The percentage of adult offenders convicted of a new felony within three years of initial release. The Department influences this measure through its efforts to provide inmates the tools necessary to successfully remain in the community after release. This effort has been strengthened through the establishment of the Oregon Accountability Model (OAM). The model recognizes that transition begins at the point of intake, when a corrections plan is developed for each inmate. The plan addresses criminal risk factors in order to enhance successful reintegration into the community and in turn reduce recidivism. To further enhance the effectiveness of the OAM, the Department has implemented the Correctional Case Management (CCM) designed to target limited agency resources and treatment towards those inmates who are at the highest risk of returning to prison.

3. **PERFORMANCE SUMMARY**

As the performance summary chart indicates, the Department is performing well in 10 of the 13 measured areas. Although these ratings indicate green performance, the Department is continually working to maintain and improve performance in these areas. The Department ranked yellow in 2 key measurement areas. These include #1: Compliance with Measure 17 work and education requirements and #4: Rate of Class 1 assaults on individual staff. KPM #1 improved from red performance last year. Limited and reduced program resources continue to make it difficult to achieve the work and education requirement. Decreased staffing due to budget constraints, the rising inmate population within existing capacity and the increasing proportion of young and gang-related inmates present an on-going risk to staff. The Department ranked red in one area, #9: the number of escapes from unarmed perimeter facilities. The Department continues to work on improving security procedures, staffing and proper classification of inmates.

4. **CHALLENGES**

Budget constraints, reduced staffing, and increased inmate populations within existing capacities make it difficult to maintain a safe environment while providing the resources necessary to ensure inmate success upon release. Fewer outside work crews challenge the availability of meaningful work for inmates. As our population has grown, so have the number of inmates sanctioned for Level 1 misconducts. The Department is working on a number of initiatives to review inmate incentives and inmate sanctions and their relationship to Level 1 misconducts.

5. **RESOURCES AND EFFICIENCY**

The Department 2011-13 budget is $1,324,785,417 General Fund, $27,563,757 Other Funds and $8,171,635 Federal Funds ($1,262,826 FF is Non-limited Debt Service limitation). KPM #6 Reduce Electricity and Natural Gas Usage, reports that the Department is on track to achieve its 2015 target of reducing BTU usage by 20%. This is in response to an increased target from 10% to 20% reduction in BTU usage.

New Mexico

In 1999, the New Mexico legislature enacted the Accountability in Government Act (AGA). The purpose of the act was to "provide for more cost-effective and responsive government services by using the state budget process and defined outputs, outcomes and performance measures to annually evaluate the performance of state government programs." The AGA required all state agencies to submit an annual "performance-based program budget request" and the request must include: (1) a list of all agency programs, (2) the constitutional or statutory direction and authority for each program, (3) the users of each program, (4) the purpose of each program or the benefit conferred to users of the program, (5) output and outcome performance measures and (6) baseline historical performance measures. State agencies gradually became subject to the act, which was fully phased-in by the end of fiscal year 2004.

Under the AGA, the State Budget Division (SBD) of New Mexico's Department of Finance and Administration develops instructions to assist agencies in the creation of performance-based program budget requests.[23] The SBD also requires agencies to develop strategic plans, goals and objectives as the basis of the performance-based budget. Agency performance measures are tied to those objectives.

The SBD reviews and approves the submitted requests in consultation with the agency and the Legislative Finance Committee (LFC). Both the governor (through the SBD) and the LFC make budget recommendations to the legislature based on the approved agency requests. The budget recommendations must include the following elements: (1) a breakdown of the budget recommendation by program, (2) a summary of each program, (3) performance measures and performance standards for each program and (4) a program performance evaluation. The SBD and LFC budget recommendations may also include suggestions for incentives or disincentives related to agency performance.

Certain key agencies are required to submit quarterly performance reports, which compare their actual performance to targeted performance for select measures. All agencies must also produce annual reports, which include full reporting of all performance measures. These reports are reviewed by SBD and LFC staff and recommendations for subsequent year funding are based on those evaluations.

In 2007, the LFC implemented a performance report card system that consolidates agency quarterly reports and highlights key results in a brief document.[24] Under this system, performance measures are used to assess agency progress towards goals and objectives, and all measures receive a rating and corresponding color code to highlight areas of success or concern. A performance measure that is on track to achieve or surpass the targeted rate or level receives a green indicator. A measure that is not on track to achieve its target receives a yellow indicator. A measure with significant performance or validity issues receives a red indicator. It is important to note that red ratings are not necessarily a sign of failure, but do indicate a problem with a particular agency objective. The report cards assist legislators in the interpretation of performance results and are posted online for public viewing. (See Figure 7 for an excerpt from the fiscal year 2015 report card for the New Mexico Department of Corrections.)

Quarterly performance reviews (for key agencies only) provide New Mexico legislators with information about program performance well in advance of budget negotiations. These reviews are open to the public and often attract media coverage. In advance of a quarterly review, the agency provides the

[23] See http://nmdfa.state.nm.us/Budget_Division.aspx.
[24] See https://nmlegis.gov/Entity/LFC/Default.

legislature with a written report containing each agency program, its purpose or mission, goals, results and action plans. The LFC provides a summary (the performance report card) of the programs contained in the more extensive agency report, as well as the amount of budgeted funds and the number of full-time equivalent positions related to the program. The LFC also prepares an explanation of the report card and highlights items of particular interest or importance. The legislature reviews and approves agency performance measures and targets during the appropriations process. Appropriations are made by program and include the purpose of the program, performance measures and performance targets for the upcoming fiscal year.[25]

Unlike other states, New Mexico does not require independent verification or auditing of reported performance measures. However, the extensive involvement of both the executive (SBD) and legislative (LFC) branches in the annual development of a performance-based budget does provide an inherent check and balance to the system.

[25] "Five Actions to Improve State Legislative Use of Performance Information," Judy Zelio, Program Director, National Conference of State Legislatures (2008). See http://www.businessofgovernment.org/sites/default/files/ZelioReport.pdf.

Figure 7

PERFORMANCE: New Mexico Corrections Department

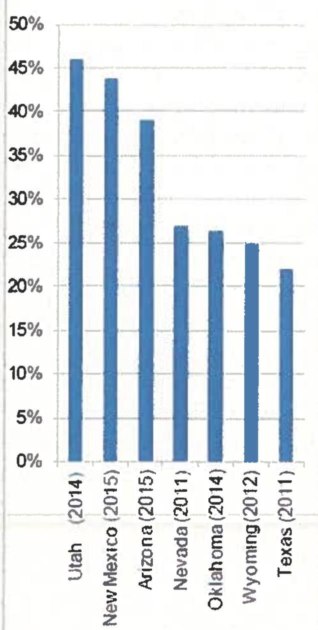
KEY ISSUES

The New Mexico Corrections Department fell short on some performance targets including overall recidivism, timely releases, sex offender recidivism, and parole officer caseloads, but does have a plan to close these gaps such as providing evidence-based recidivism reduction programming. However, inmate and staff safety as well as absconder apprehension target levels were all achieved.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

Surrounding States Recidivism Rates



Source: LFC files

The New Mexico Department of Corrections (NMCD) reported relatively high recidivism rates amid growing prison populations and crime rates in New Mexico. New Mexico has the second highest recidivism rate, the highest rate of violent crime among surrounding states, but has the second lowest incarceration rate per 100 thousand residents. New Mexico leads the nation in rates of aggravated assault. The department received a $7 million special appropriation during the 2015 legislative session to cover costs associated with growing populations in FY15 as well as a 7 percent FY16 base budget increase.

A recent study by the New Mexico Sentencing Commission suggests female prison population growth is driven by the length of stay more than new admissions. However, female rates of violent crime have grown over time as well as admissions for new crimes, leading to a growing female recidivism rate. In a study by the New Mexico Statistical Analysis Center, 67 percent of New Mexican females recidivated within four years of release. The department should enhance educational programming to reduce recidivism and continue efforts to expand transitional living facilities statewide.

Inmate Management and Control. The leading causes of inmates serving time in prison rather than on parole are a lack of community resources for parolees, administrative issues causing parole hearings to be canceled, and inmates not participating in the parole process. NMCD is working to reduce inmate refusal to participate in the parole process by implementing disciplinary measures including a loss of accrued good time. Additionally, some inmates serving parole sentences in prison, once their sentences have run out, are released without community supervision – posing a public safety risk. The 2015 legislative session added $500 thousand for a transitional living pilot program and $400 thousand to expand transitional living services for women. The funding should reduce the number of inmates and improve recidivism rates in future years.

Measure	FY13 Actual	FY14 Actual	FY15 Target	FY15 Actual	Rating
Thirty-six month recidivism rate	47%	47%	44%	47%	R
Number of inmate-on-inmate assaults with serious injury	21	9	15	12	G
Number of inmate-on-staff assaults with serious injury	5	5	4	2	G
Percent of inmates testing positive for drug use or refusing to be tested in random monthly drug tests	2.2%	2.0%	≤2.0%	2.6%	R
Percent of female offenders successfully released in accordance with their scheduled release dates	77%	78%	90%	87%	Y
Percent of male offenders successfully released in accordance with their scheduled release dates	81%	78%	90%	90%	G

Nevada

Nevada is the latest state to integrate performance measures reporting into the budget process. In 2011, the Nevada legislature approved PBB statutes, and statewide measures were introduced with the biennial 2013-15 Executive Budget. The legislation required that performance goals and progress indicators related to core government functions be included in the proposed budget. The legislation attempts to link government programs to statewide objectives and provide data to inform budget decisions.

The current system is referred to as the "Priorities and Performance Based Budget" (PPBB). The system structure can be summarized by the seven steps required to create the system. [26] They are as follows:

(1) Identify statewide strategic priorities. There are currently four: (1) sustainable and growing economy, (2) educated and healthy citizenry, (3) safe and livable communities and (4) efficient and responsive state government.

(2) Establish the core functions of state government. All state programs must align with one or more core functions. There are currently eight and examples include business development and services, education and workforce development and health services.

(3) Identify objectives for each core function. All objectives link to a core function and must directly advance one or more strategic priorities. They are high-level initiatives that the state seeks to achieve, such as wellness or prevention under the core function of health services. There are currently 56 objectives.

(4) Develop high-level benchmarks to measure progress towards objectives. There are currently 148 benchmark measures, and an example is the statewide crime rate.

(5) Identify basic agency activities. Activities represent a program or service performed for a specific purpose or population and represent the budget "building blocks."

(6) Establish performance measures for all agency activities. Activities can have up to three performance measures.

(7) Link activities to statewide objectives. While benchmark measures provide a general indication of progress towards objectives, performance measures provide more specific evidence.

Agencies prepare their budget request using a traditional line-item budget and PPBB. This dual presentation is necessary because lawmakers have not yet fully adapted to the PPBB system. Figure 8 reflects an excerpt from the governor's recommended priorities and performance based budget for 2015-2017.[27] The core function is "public safety" and the stated objective is to "reduce repeat criminal activity." There are 16 activities that correspond to this objective as it relates to the core function of public safety. If the listed activity is tied to more than one core function, it may also receive funds associated with that function and related objectives (see Other Objective Funding for that activity). The recommended budget is displayed on an interactive website (www.openbudget.nv.gov) that presents expenditures by core function, department type or funding type, and allows users to drill down to the associated activity, objective and core function. At various levels, the site also lists the expenditures, performance measures, benchmarks and service population associated with the activity or objective.

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[26] The seven steps are identified in "Investing in Results, Using Performance Data to Inform State Budgeting," National Association of State Budget Officers (Summer 2014).

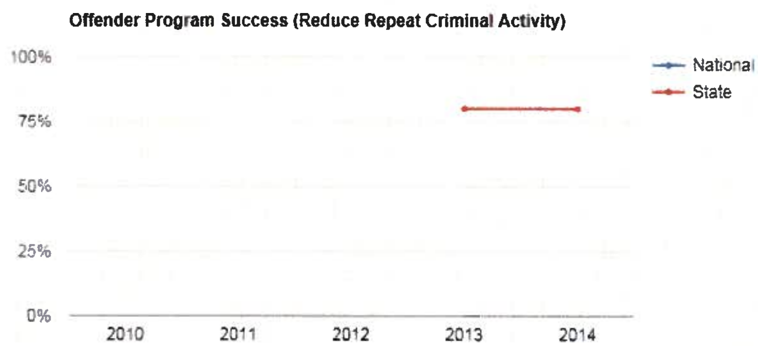
[27] See http://openbudget.nv.gov/OpenGov/ViewPOGSummary.aep?version=Gov.

Figure 8

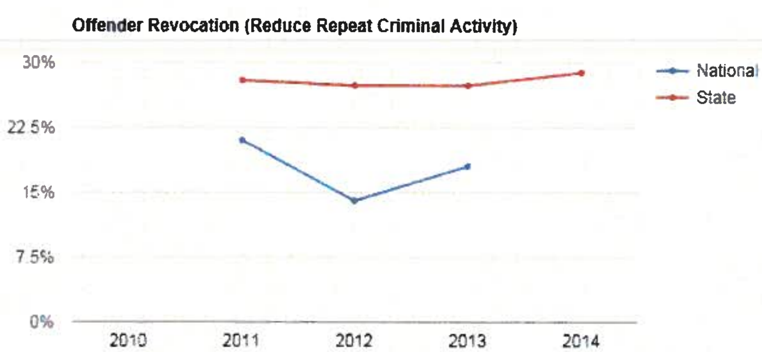
State of Nevada
Activity Summary for Objective: Reduce Repeat Criminal Activity

Budget Version: 2015-2017 Biennium: Governor's Recommended Performance and Priorities Budget

Activity	FY 2016 Funding	FY 2017 Funding	Total Funding	FY 2016 Other Objective Funding	FY 2017 Other Objective Funding	Total Other Objective Funding
Supervise Offenders	36,938,945	38,324,984	75,263,929	0	0	0
Forensic Services	14,131,840	15,109,320	29,241,160	0	0	0
Programs	8,103,180	8,352,955	16,456,135	0	0	0
Prison Industries	7,325,262	7,294,843	14,620,105	0	0	0
Juvenile Services - Juvenile Correction Care	6,519,113	6,494,377	13,013,490	6,519,113	6,494,377	13,013,490
Pre-Sentence Investigation Reports	5,805,828	5,841,067	11,646,895	0	0	0
Administration and Other Support Services	4,335,275	4,365,082	8,700,357	0	0	0
Criminal Investigation and Prosecution	3,100,035	2,991,349	6,091,384	5,757,209	5,555,362	11,312,571
Juvenile Services - Community Alternative Correction Placements	2,731,701	2,714,658	5,446,359	2,731,701	2,714,658	5,446,359
Specialty Courts	2,025,094	2,040,088	4,065,182	0	0	0
Parole Hearings	1,358,793	1,304,132	2,662,925	1,358,793	1,304,132	2,662,925
Administrative Court	1,117,999	1,132,116	2,250,115	0	0	0
Juvenile Services - Youth Parole	915,492	911,582	1,827,074	2,746,476	2,734,745	5,481,221
Pass Through	710,827	688,452	1,399,279	0	0	0
Conduct Investigations	482,351	485,519	967,870	1,447,052	1,456,557	2,903,609
Pardons Board	34,719	34,477	69,196	34,719	34,477	69,196



Percent of enrolled offenders completing one or more programs and not returning to the supervising agency



Percent of offenders returned/revoked within 36 months

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Prototype Performance Measures Report

This section presents a prototype performance measures report that builds upon current submissions made by Pennsylvania executive agencies. The prototype report is not a recommendation, but rather a mechanism to facilitate discussion and solicit feedback from the General Assembly, executive branch officials and agency managers regarding the attributes of an effective performance measures report.

As noted in the Introduction, the statute that creates the Independent Fiscal Office (IFO) requires the office to:

> Develop performance measures for executive-level programs and departments and evaluate performance measures and results as promulgated and reported by executive-level departments. Performance measurements shall be outcome based and include, but not be limited to, activity cost analysis, measures of status improvement of recipient populations, economic outcomes and performance benchmarks against similar State programs.

In order to facilitate the development and evaluation of effective performance measures, it is necessary to identify (1) the manner in which they will be used, (2) the context in which they will be reported and (3) the primary audience. The establishment of this framework is the first step in a longer-term effort to integrate measures into the budget process. Having established the basic elements of a report and how it will be used, policymakers can focus on the measures that should be included to maximize its effectiveness.

This section begins with a brief review of cautions raised by officials in states that currently use a performance-based budget (PBB) system. Based on the state survey from the prior section and various studies, an itemization of positive report attributes follows. Those attributes should expedite the integration of performance measures into the budget process. The section concludes with a discussion of the contents of a prototype performance measures report and a possible timeline under which the report could be utilized.

Attributes That Reduce Effectiveness

In states that use a PBB system, legislators, legislative staff and agency officials have noted four common elements that reduce the effectiveness of performance measures reports.[28] They are as follows:

- Performance Measures Do Not Reflect Legislative Concerns Agency managers and legislators may have different views regarding the appropriate emphasis of reports and performance measures. While managers might place greater emphasis on caseloads (outputs) and staff productivity (efficiency), legislators are more concerned with policy results (outcomes). Legislators should have significant input into the performance measures included in reports to ensure that they will be used during the budget process.

[28] "Legislative Performance Budgeting," National Conference of State Legislatures (2008). See http://www.ncsl.org/research/fiscal-policy/legislative-performance-budgeting.aspx.

- Too Much Data Nearly all states noted that a proliferation of performance measures is counterproductive and fails to direct attention to measures that are most informative. New Mexico legislators have noted that they prefer no more than 10 to 16 key performance measures per agency, and most states typically publish fewer than a dozen.[29]
- Presentation Lacks Clarity In addition to content, data presentation is a critical attribute that determines the effectiveness of performance measures. Legislators have a strong preference for reports that are easily understood and direct their attention to measures that are most relevant. Surveys find that policymakers are not inclined to use a multi-page spreadsheet packed with numerous measures that have little or no context or explanation.
- Unreliable Data Many states have noted that policymakers must have a high degree of confidence that published data are reliable and accurate. In some states, executive agencies submit data to nonpartisan legislative fiscal staff so that measures are compiled and reviewed by two groups prior to publication. In other states, a state auditor is tasked with reviewing and certifying measures that are submitted by agencies.

Attributes That Enhance Effectiveness

While some attributes hinder or impede the integration of performance measures into the budget process, others may encourage integration. The prototype report presented in this section is designed to reflect or encompass the following positive attributes to increase the potential that a performance measures report would be used.

Concise Presentation

A review of state experience with PBB systems conveys the strong impression that performance measure reports should not overwhelm readers with volume or detail. Rather, reports should err on the side of brevity and conciseness, which can be conveyed through two key characteristics:

- A limit on the number of measures. An optimal or correct number of measures cannot be specified, and will depend on factors such as the size of the agency, the different populations served, data availability and the preferences of policymakers and executive officials. For the simple prototype report discussed in this section, 12 performance measures are displayed: 5 output measures, 4 efficiency measures and 3 outcome measures. Input measures (i.e., agency expenditures) are also included.
- A limit on the number of pages. Similar to the number of measures, there is no optimal or correct report length, and that attribute could vary across agencies. The prototype report contains six to eight pages, depending upon comments submitted by the agency (discussed later).

Quick and Seamless Integration into the Budget Process

A report published by the Urban Institute cautions policymakers that full implementation of a PBB system likely requires "several years" due to the time required to (1) select appropriate indicators and procedures for data collection, (2) the culture change necessary for agencies to shift from input and output

[29] "Five Actions to Improve State Legislative Use of Performance Information," Judy Zelio, Program Director, National Conference of State Legislatures (2008). See http://www.businessofgovernment.org/sites/default/files/ZelioReport.pdf.

measures to outcome and efficiency measures and (3) updates to computer systems that may accompany new data collection.[30] The report recommends that policymakers allow at least three to five years for full implementation.[31]

Lengthy start-up times increase the likelihood that a proposed report will never be successfully integrated into the budget process due to the myriad demands made upon policymakers and executive branch officials. Moreover, there could be a change in administration that precludes the adoption of a new budget system. The prototype report leverages the performance measures reporting framework already in place to facilitate quick integration into the current budget process. Once the report has been established, it can be modified based on feedback from policymakers and executive branch officials.

Report Format Applicable to All Agencies

Consistency and familiarity allows policymakers to quickly assimilate report data for budget hearings since data will be presented in the same manner and format across agencies. Once policymakers become familiar with one agency, they may be more inclined to utilize the reports across multiple agencies.

Minimize Demands on Executive Agencies

Most executive agencies already collect and publish numerous output, efficiency and, to a much lesser extent, outcome measures. The prototype report attempts to build upon those efforts, and would use many of the measures already compiled and published. The primary differences with current performance measure reports (published online by the Office of the Budget) is that the prototype report would also include (1) input measures for context, (2) historical data to view long-term trends and (3) benchmark comparisons to peer or surrounding states (where possible).

Inclusion of Agency Comments

Informal conversations with agency personnel suggest that managers are more inclined to have a favorable view of performance measure reports if they are afforded an opportunity to explain recent trends and results. Many states have noted that agency participation and cooperation is a crucial element of successful PBB systems. Therefore, the performance measures review process would not be complete if agencies did not have an opportunity to explain trends and results to policymakers and the general public.

The prototype report reserves two pages for agency comments and feedback. Agency comments would focus on recent trends, and whether those trends are expected to persist. This convention reinforces the primary intent of a performance measures report: to provide relevant information to policymakers in a clear, concise, easily useable format that facilitates the development of informed questions during the budget process.

As discussed in the previous section, some states require that agencies provide explanations for performance measures that deviate from pre-determined targets by more than five or ten percent. The prototype report does not solicit agency comments pertaining to actual performance relative to targets because targets are not included in the report. Performance targets have been omitted because (1) they are often arbitrary, (2) the measures may not be under the direct control of the agency and (3) agencies may view tar-

[30] "Making Results-Based State Government Work," The Urban Institute (April 2001). See http://www.urban.org/sites/default/files/alfresco/publication-pdfs/310069-Making-Results-Based-Government-Work.PDF.

[31] In July 2016, Kansas released a timeline that details the phase-in of a comprehensive PBB system over a three-year period. See http://www.kslegresearch.org/KLRD-web/Publications/PerformanceBasedBudgeting/PBB-Overview-Phase1Guide.pdf.

gets as an asymmetric mechanism used to justify a reduction of funds, but have limited upside when targets are met or exceeded. If desired, policymakers could add targets and corresponding rewards and penalties once the proposed report has been integrated into the budget process.

Benchmark Comparisons

An element missing from nearly all state performance measure reports are benchmark comparisons to other states. The lack of benchmark comparisons is due to the difficulty in compiling truly comparable data across states. Where feasible, such comparisons have potential to greatly increase the interest of policymakers and agency managers. Benchmark comparisons also provide valuable insights regarding trends in other states, and may suggest that an agency's performance exceeds, is on par with, or falls short of its peers. Alternatively, a benchmark comparison may suggest that macroeconomic or demographic trends are driving results across multiple states, and are beyond the control of an agency. The current version of the prototype report includes a page that provides benchmark comparisons to surrounding states.

Utilization of a Performance Measures Report

Performance measure reports have greatest value during the annual budget hearings, which generally take place in February and March following the release of the executive budget. Policymakers could use the reports as a supplement to other documents submitted by executive agencies. The discussion in this section assumes that the prototype report would be used for certain agencies during the FY 2017-18 budget hearings that will take place in the spring of 2017.

To prepare reports for use in budget hearings, all historical and current data items would be populated prior to the release of the executive budget. Final data for the most recently completed fiscal year (FY 2015-16), as well as preliminary data for the current budget year (FY 2016-17), are typically finalized in the fall of the current budget year, and those data could be input when they become available. Upon release of the executive budget, the office that prepares the report would populate budget year (FY 2017-18) fields, but would exclude any new policy initiatives that may limit comparisons to historical funding levels and measures. A draft of the report would then be forwarded to the agency for comments and confirmation of the data contained in the report. Comments would need to be transmitted in a timely fashion so the final report could be forwarded to the General Assembly several days prior to budget hearings. Reports would also be posted online prior to the hearings.

During the summer and early fall, the office that compiles the reports could work with executive agencies to adjust existing measures, add new measures or implement general improvements to the report. The office could also solicit input from legislators regarding measures they would like to see in future reports.

Contents of a Performance Measures Report

To provide a framework for the proposed development of executive-level performance measures, this sub-section discusses the contents of a prototype performance measures report. The prototype report provides a mechanism to solicit feedback and comments. For illustrative purposes, the report uses data from the Pennsylvania Department of Corrections (DOC). Four attributes motivate the selection of that agency for this purpose: (1) it is one of the largest state agencies, (2) it publishes data on a regular basis, (3) the data are generally reliable and are not retroactively revised and (4) many other states publish comparable measures, which facilitates benchmark comparisons. The text that follows discusses the proposed contents of the report, and preliminary data can be found on pages 37 to 41. *It is noted that all state benchmark* *data are preliminary and subject to revision based on further refinement. The data on that page should be used for illustrative purposes only.*

Page 1: Mission, Goals, Objectives and Allocation of Funds

Page one presents the agency's mission, goals and primary objectives as stated in the executive budget or the Office of the Budget's Report on State Performance website.[32] Agencies may have various goals and objectives, and multiple strategies to achieve them. The prototype report contains only the primary goals and objectives, and ones that are most relevant for the performance measures included in the report.

The bottom half of the page lists the funding sources for the agency and the utilization of General Funds in terms of the components or shares of funding. The tabulations provide policymakers with a snapshot of how funds are used and their origin. The current format displays data for five historical years, the current fiscal year and the budget year (currently blank).

Page 2: Agency Inputs or Cost Structure

Page two details agency inputs or cost structure in dollar amounts and growth rates. The top portion of the page itemizes spending based on the use of funds across (1) employee wages, (2) pension contributions, (3) healthcare benefits, (4) retiree healthcare costs and (5) all other costs such as payments for office supplies, contractors and utilities. The report displays data for five years: three historical years, the current fiscal year and the budget year. The page provides detail regarding the use of General Fund revenues, but not for other sources such as federal funds and other minor funds; only total amounts are provided for those sources. The report could attempt to provide further detail for the relatively large "non-personnel" category if sufficient data are available.

The middle portion of the page provides an itemization of General Fund spending based on major programs administered by the agency. The bottom portion of the page lists other funding sources. The Department of Corrections also receives funds from the Manufacturing Fund and federal funds. Totals for all funding sources and the number of full-time employees (actual filled positions) appear at the bottom of the page. Those totals are used for certain computations that appear on page three.

Page 3: Output, Efficiency and Outcome Measures

Page three contains the output, efficiency and outcome performance measures. For the purpose of the prototype report, certain measures already published by DOC are used. New or different measures could be added or substituted depending on data availability and the interests of policymakers. Policymakers and agencies could jointly determine the measures that are most useful and meaningful to communicate whether an agency is making progress towards achieving its stated mission, goals and objectives.

Output measures are the most commonly used performance measure and quantify agency workload. For DOC, output measures include the number of inmates, the number of receptions (processing) and releases, the number enrolled in alcohol or drug treatment programs and the number enrolled in academic programs.

Efficiency measures quantify staff productivity and are typically expressed as ratios (e.g., inmates per staff) or averages (e.g., average cost per inmate). Similar to output measures, most agencies collect (and publish) data that allow for the computation of standard efficiency measures. For DOC, efficiency

[32] See http://www.budget.pa.gov/PublicationsAndReports/Pages/PerformanceReports.aspx.

measures include the ratio of inmates to total staff, the ratio of inmates to custody staff, average total cost per inmate and average healthcare cost per inmate.

Outcome measures attempt to inform whether funding is having the intended impact on target populations, and provide insight into whether an agency is making progress towards its primary goals and objectives. Due to lack of data and resources, outcome measures are difficult to compile and some agencies may not compile these measures. For DOC, potential outcome measures could include the one-year recidivism rate, the one-year re-incarceration rate and the employment rate of certain inmates following release. It is important to note that agencies may have limited impact on outcomes, whereas broad demographic or economic trends could play a more prominent role.

Page 4: Benchmark Comparisons

Page four contains benchmark comparisons to corrections agencies in surrounding states. For this purpose, the office that compiles these data must confirm that the state data are indeed comparable. For example, states may have different definitions of recidivism rates or compute rates using a one-year or a three-year time frame. Currently, many fields on page four do not contain values, pending confirmation from agencies in other states.

Benchmark comparisons provide policymakers and managers with two methods to gauge agency performance. The first method compares levels for a given year, such as the ratio of inmates to staff across states for 2015. The second method compares trends over time across states. For example, an agency may have higher average costs than other states, but a comparison of trends may suggest that the agency is making progress in cost containment if the comparison reveals that the differential grows smaller over time.

Page 5: Historical Data

Page five contains historical data from the past decade and supplies an overview of long-term agency trends. The proposed data reflect the primary input, output, efficiency and outcome measures. Other relevant indicators such as demographic populations, inflation rates and statewide economic growth rates are included to provide context.

Pages 6 to 7: Agency Comments

The final pages of the report are reserved for agency comments and feedback regarding the report contents. Agency comments might focus on recent trends, provide insight into an agency's progress towards goals and objectives, or an explanation of factors that have impeded progress. Alternatively, a standard template could be provided with specific questions that would assist policymakers in their evaluation of agency performance. Potential questions could include the following:

- During the past year, which objectives has the agency made significant progress towards?
- During the past year, which objectives have not been met?
- What factors inhibit the attainment of agency goals?
- Which programs or activities require additional funding?
- Which programs could receive less funding?

Department of Corrections - Overview

Mission Statement

The Pennsylvania Department of Corrections reduces criminal behavior by providing individualized treatment and education to offenders, resulting in successful community reintegration through accountability and positive change.

Primary Goal

Public safety

Primary Objectives

1. Improve assessment and treatment of inmates by evaluating inmates appropriately and by giving them proven treatment in a timely manner, thus reducing recidivism.
2. Operate all state prisons securely, safely and humanely by creating and efficiently managing inmate populations and facilities.
3. Prepare inmates for successful reentry into the community.

	Share of Funding						
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Sources of Total Funds							
General Fund	96.2%	96.0%	96.5%	96.6%	96.8%	96.5%	
Federal Funds	0.2	0.5	0.2	0.2	0.2	0.2	
Manufacturing Fund	3.6	3.5	3.3	3.2	3.0	3.2	
Total	100.0	100.0	100.0	100.0	100.0	100.0	tbd
Use of General Funds							
Employee Wages[1]	50.2%	51.7%	49.7%	48.1%	48.2%	46.9%	
Pension Contributions	4.6	6.6	8.5	10.2	12.0	13.6	
All Other Benefits[2]	9.6	10.0	9.8	10.0	10.3	11.0	
Retiree Health Benefits	5.2	5.7	6.1	6.0	7.2	6.1	
Non-Personnel	30.4	25.9	26.0	25.6	22.3	22.4	
Total	100.0	100.0	100.0	100.0	100.0	100.0	tbd

Notes

[1] Includes wages, salaries, bonuses and payroll taxes (Medicare and Social Security).

[2] Includes all non-pension benefits such as health and life insurance and other miscellaneous benefits.

Department of Corrections - Inputs

	Dollar Amounts (millions)					Growth Rates or Change				
	2013-14	2014-15	2015-16	2016-17[2]	2017-18	2013-14	2014-15	2015-16	2016-17[2]	2017-18
General Fund by Category[1]										
Employee Wages[3]	$994	$1,036	$1,070	$1,136		2.8%	4.2%	3.3%	6.2%	
Pension Contributions	169	219	266	328		36.3	29.6	21.5	23.3	
All Other Benefits[4]	195	216	229	267		4.3	10.8	6.0	16.6	
Retiree Health Benefits	121	130	160	147		13.1	7.4	23.1	-8.1	
Non-Personnel	520	552	496	542		7.2	6.2	-10.1	9.3	
Total General Fund	**1,999**	**2,153**	**2,221**	**2,420**	**tbd**	**6.9**	**7.7**	**3.2**	**9.0**	**tbd**
General Fund by Program[1]										
General Government	$32	$33	$34	$37		6.7%	3.1%	3.0%	8.8%	
Inmate Medical Care	235	248	240	259		7.8	5.5	-3.2	7.9	
Inmate Education	39	40	42	46		-2.5	2.6	5.0	9.5	
State Correctional Institutions	1,693	1,831	1,902	2,068		7.0	8.2	3.9	8.7	
Transfer to JRI[5]	0	1	3	10		n.a.	n.a.	n.a.	n.a.	
Total General Fund	**1,999**	**2,153**	**2,221**	**2,420**	**tbd**	**6.9**	**7.7**	**3.2**	**9.0**	**tbd**
Other Funding Sources										
Manufacturing Fund[6]	$68	$72	$68	$81		-1.4%	5.9%	-5.6%	19.1%	
Federal Funds[6]	5	4	5	6		-44.4	-20.0	25.0	20.0	
Total Other Funding Sources	73	**76**	73	**87**	**tbd**	**-6.4**	**4.1**	**-3.9**	**19.2**	**tbd**
TOTAL FUNDS	**$2,072**	**$2,229**	**$2,294**	**$2,507**	**tbd**	**6.4%**	**7.6%**	**2.9%**	**9.3%**	**tbd**
Number of FTE (Filled Positions)[7]	15,243	15,147	15,164	15,186	**tbd**	-275	-96	17	22	**tbd**

Notes

[1] Includes all actual spent state funds from the General Fund including appropriated, restricted, augmentations and supplemental funds.

[2] FY 2016-17 is the budgeted amount. Due to the comparison of appropriations to actual spending (FY 2015-16), growth rates are subject to revision.

[3] Includes wages, salaries, bonuses and payroll taxes (Medicare and Social Security).

[4] Includes all non-pension benefits such as health and life insurance and other miscellaneous benefits.

[5] JRI stands for Justice Reinvestment Initiative.

[6] Includes all actual spent state funds including appropriated, restricted, augmentations and supplemental funds.

[7] Average of FTE filled positions as of June for current and prior fiscal year. FY 2016-17 is an estimate.

Department of Corrections – Performance Metrics

	Calendar Years or Fiscal Year Beginning					Annual Percent or Level Change				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Output: Workload										
Number of Inmates[1]	51,184	51,512	50,756	49,914	49,848	-454	328	-756	-842	-66
Number of Receptions[2]	18,099	19,769	19,465	19,535	n.a.	224	1,670	-304	70	n.a.
Number of Releases[2]	20,439	21,815	22,063	22,957	n.a.	1,075	1,376	248	894	n.a.
Number in Treatment Program[3]	3,563	3,491	3,440	3,008	n.a.	-140	-72	-51	-432	n.a.
Number in Academic Programs[3]	9,670	8,331	8,634	9,052	n.a.	789	-1,339	303	418	n.a.
Efficiency: Productivity										
Inmates per Total Staff[4]	3.3	3.4	3.4	3.3	3.3	0.0	0.1	0.0	-0.1	0.0
Inmates per Custody Staff[4]	5.6	5.7	5.7	5.5	5.5	0.0	0.1	-0.1	-0.1	0.0
Avg. Total Cost per Inmate[5]	$37,883	$40,127	$43,837	$45,859	$50,173	1.5%	5.9%	9.2%	4.6%	9.4%
Avg. Healthcare Cost per Inmate[5]	$4,259	$4,562	$4,886	$4,808	$5,196	-6.8%	7.1%	7.1%	-1.6%	8.1%
Outcome: Effectiveness										
One-Year Re-incarceration Rate[6]	24.1%	24.6%	25.5%	28.1%	n.a.	1.6%	0.5%	0.9%	2.6%	n.a.
Three-Year Recidivism Rate[7]	61.1%	61.4%	59.9%	63.1%	n.a.	-1.0%	0.4%	-1.5%	3.2%	n.a.
Employment Rate[8]	59.0%	55.0%	54.0%	56.0%	n.a.	-3.0%	-4.0%	-1.0%	2.0%	n.a.

Notes

[1] Number of inmates under DOC jurisdiction in December. Does not include parolees in center. Value for 2016 is for August.

[2] Number of Receptions and Releases is total for calendar year.

[3] Number participating in program during fiscal year. Value for 2015 corresponds to FY 2014-15.

[4] Value for 2016 is an estimate based on data through August 2016.

[5] Equal to cost for entire fiscal year divided by number of inmates (December). Value for 2015 is average cost for FY 2015-16.

[6] Share of inmates arrested and returned to DOC custody within 12 months of their release during the latest release year available for a full 1-year follow-up.

[7] Share of inmates rearrested or re-incarcerated to DOC custody within 3 years of their release during the latest release year available for a full 3-year follow-up.

[8] Employment rate of offenders who are able to work. Measure reported by Board of Probation and Parole.

Department of Corrections – State Benchmark Comparisons

Preliminary: Certain values have not been confirmed

	Levels or Rates					Growth Rate or Change in Rate			
	2012-13	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
Average Total Cost per Inmate[1,2,3]									
Pennsylvania	$37,883	$40,127	$43,837	$45,859	$50,173	5.9%	9.2%	4.6%	9.4%
Ohio	31,523	31,265	31,418	32,704	34,624	-0.8	0.5	4.1	5.9
New York	54,160	52,651	54,576	57,148	57,122	-2.8	3.7	4.7	0.0
New Jersey	44,703	46,179	47,254	50,192	50,376	3.3	2.3	6.2	0.4
Virginia	37,250	37,491	38,558	40,577	41,671	0.6	2.8	5.2	2.7
Maryland	55,323	58,432	60,838	62,705	64,130	5.6	4.1	3.1	2.3
Average Healthcare Cost per Inmate									
Pennsylvania[4]	$4,259	$4,562	$4,886	$4,808	$5,196	7.1%	7.1%	-1.6%	8.1%
Ohio	4,239	4,481	4,493	4,959	4,882	6.9	0.1	9.7	-1.8
New York	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Jersey[5]	6,543	6,963	7,052	7,738	8,028	6.4	1.3	9.7	3.7
Virginia[6]	5,654	5,053	5,361	5,602	6,533	-10.6	6.1	4.5	16.6
Maryland[7]	7,290	7,636	8,082	8,213	8,073	4.7	5.8	1.6	-1.7
Re-Incarceration Rates[8]									
Pennsylvania (1-Year)	24.1%	24.6%	25.5%	28.1%	n.a.	0.5%	0.9%	2.6%	n.a.
Ohio (1-Year)	28.7	27.1	27.5	n.a.	n.a.	-1.6	0.4	n.a.	n.a.
New York (1-Year)	23.1	23.4	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.
New Jersey (3-Year)	n.a.	32.0	31.3	31.3	n.a.	n.a.	-0.7	0.0	n.a.
Virginia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Maryland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes

1 For most states, computed as total state funds divided by number of inmates in December of fiscal year or the average number for fiscal year.
2 Estimates for number of inmates for FY 2016-17 based on latest monthly reports published by state or is an estimate. For PA, latest report is August 2016.
3 Historical values represent actual spending. Value for NY for FY 2015-16 uses appropriated amount. All FY 2016-17 values based on appropriation.
4 For PA, includes medical, dental and some mental health. Some states may characterize certain healthcare costs as payments to service providers.
5 For NJ, inmate healthcare includes medical, dental, mental health and substance use disorder treatment costs.
6 For VA, healthcare costs uses appropriated budget number, not actual.
7 For MD, healthcare costs represent the department's total costs including the Division of Pretrial Detention and Services (DPDS - Baltimore City detention).
8 Share of inmates returned to DOC custody within 12 (or 36) months of their release during the latest release year available for a full 1-year follow-up.

Department of Corrections – Historical Data

	Calendar Year or Fiscal Year Beginning										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	AAGR[6]
Number of Inmates[1]	46,028	49,307	51,487	51,321	51,638	51,184	51,512	50,756	49,914	49,848	0.9%
Number of FTE (Filled Positions)[2]	15,447	15,818	16,034	15,935	15,727	15,518	15,243	15,147	15,164	15,186	-0.2%
General Funds ($ millions)[3]	$1,594	$1,598	$1,592	$1,657	$1,857	$1,870	$1,999	$2,153	$2,221	$2,420	4.7%
Exclude Pensions ($ millions)	$1,555	$1,561	$1,549	$1,602	$1,772	$1,745	$1,830	$1,934	$1,955	$2,091	3.3%
Inmates per Staff	3.0	3.1	3.2	3.2	3.3	3.3	3.4	3.4	3.3	3.3	n.a.
General Funds per Inmate	$34,631	$32,409	$30,920	$32,287	$35,962	$36,535	$38,806	$42,419	$44,497	$48,548	3.8%
Exclude Pensions	$33,784	$31,659	$30,085	$31,215	$34,316	$34,093	$35,526	$38,104	$39,167	$41,948	2.4%
Male Incarceration Rate[4]	1.13%	1.21%	1.25%	1.23%	1.23%	1.22%	1.23%	1.21%	1.19%	1.19%	n.a.
One-Year Re-incarceration Rate	26.3%	23.4%	22.0%	20.1%	22.5%	24.1%	24.6%	25.5%	28.1%	n.a.	n.a.
PA Males Age 20-64 (000s)[5]	3,656	3,665	3,719	3,751	3,776	3,776	3,778	3,775	3,768	3,761	0.3%
Philadelphia Metro CPI-U[5]	2.2%	3.4%	-0.4%	2.0%	2.7%	1.8%	1.2%	1.3%	-0.1%	1.0%	1.7%
Nominal PA GDP Growth[5]	4.4%	2.4%	0.3%	3.6%	3.3%	3.1%	3.0%	4.2%	2.5%	3.0%	2.8%

Notes

[1] Number of inmates under DOC jurisdiction at end of calendar year. Value for 2016 from August 2016. Source: DOC Annual Statistical Report.

[2] Average number of actual filled positions. Equal to average of June value from current and prior fiscal year. 2016 is an estimate.

[3] Includes all actual spent state funds from the General Fund including appropriated, restricted, augmentations and supplemental funds.

[4] Equal to male inmate population age 20-64 divided by total male population age 20-64. Source: U.S. Census Bureau and PA DOC.

[5] Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis and Pennsylvania State Data Center.

[6] AAGR is average annual growth rate.

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Next Steps

This report provides a brief review of performance measures reporting in Pennsylvania and six other states that have extensive experience with PBB-type systems. The report also presents a prototype performance measures report that could be integrated into the current budget process, and leverages much of the existing infrastructure and published measures for that purpose. The prototype report is best viewed as a mechanism to solicit feedback that allows the IFO to fulfill its statutory obligation to "develop performance measures for executive-level programs and departments and evaluate performance measures and results as promulgated and reported by executive-level departments."

As policymakers contemplate the potential integration of performance measures into the budget process, they should also consider certain policy and implementation issues that must be resolved. The issues can be classified as follows:

- Scope and purpose Policymakers will need to determine (1) the agencies subject to reporting, (2) whether to use performance targets and (3) the desirability and application of rewards and penalties. The inclusion of performance targets increases system complexity because it can be difficult to develop meaningful, objective targets. Targets may also signal a false level of precision.
- Timing and manner of integration Relevant issues include (1) the phase-in schedule for agencies subject to reporting and (2) a determination of the point in the budget process at which performance measure reports will be used. The prototype report was designed to be used in conjunction with agency budget hearings, but the report could be used at other points in the budget process, such as the development of the budget proposal or post-hearing deliberations.
- Resources dedicated to the system Personnel and other resources required to integrate performance measures into the budget process should be considered. Those resources should reflect the scope of the reporting system and address the clear need for more outcome measures, which may not be readily available.
- Administrative and technical issues Policymakers will need to determine (1) the process to design and select the performance measures subject to reporting, (2) the entity that would compile the reports, (3) the interaction between that entity and executive agencies, (4) any statutory authorizations necessary to facilitate the development of measures and their integration into the budget process and (5) whether a separate audit function is necessary to ensure accuracy.

The IFO submits this report in partial fulfillment of its statutory obligation, and will await further direction from the General Assembly regarding the next steps in this process. This report presents one method that could be used to integrate performance measures into the budget process, and policymakers might have alternative methods in mind to accomplish that goal.