Statement of

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Before the

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Commonwealth of Pennsylvania

Legislating for Results

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Good morning, Chairman Eichelberger, Chairman Folmer and members of the Committee. Thank you for the opportunity to speak today.

My name is Harry Hatry and I am a distinguished fellow at the Urban Institute and the director of its Public Management Program. The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy research. We believe in the power of evidence to improve lives.

Today, I am here to provide information requested by the Pennsylvania Senate Finance and State Government Committees on ways to strengthen performance measurement for Pennsylvania's programs and policies. My organization, the private, nonprofit, non-partisan, Urban Institute has been a leader in this area since the 1970's when interest in managing for results first emerged as a major need for managing and legislating public programs. However, I will be speaking for myself in my testimony. The Urban Institute does not take policy positions.

Most interest in focusing on results initially occurred in the executive branch. At the beginning of this century, the National Conference of State Legislatures (NCSL) and Urban Institute undertook one of the first efforts to encourage state legislatures to move in this direction. That effort resulted in the report "Making Results-Based State Government Work" aimed at the executive branch as well as state legislatures I have provided a copy of that report to each of the two committees. Following that work, NCSL and Urban Institute again worked together to produce a set of "Legislating for Results "Action Briefs" to help state legislators and their staffs move to legislating for results. A by-product of that work was a NCSL pamphlet "Asking Key Questions: How to Review Program Results" aimed at legislative staffs. I have provided copies of each of these two reports to the Joint Committee. While somewhat old, most of the recommendations in these reports are still very much applicable to today's issues.

My testimony covers the following topics:

- Four major performance information sources for the Pennsylvania General Assembly
- Brief summary of Pennsylvania's Performance Measurement Efforts.

- Getting valid information on performance results
- Making that “raw” data more understandable and useful to the General Assembly
- Major ways that performance measurement information can be used by the General Assembly. Time is short so I will focus on two uses: “Performance-Based Budgeting” and “Pay for Success” programs. Pay for Success projects have become a hot topic throughout the country.

I will provide some recommendations to the Senate on these topics.

<u>Four Major Performance Information Sources for the Pennsylvania General Assembly</u>

These four sources are: (1) program evaluations; (2) cost-effectiveness studies; (3) cost-benefit studies; and (4) performance measurement systems. The General Assembly can, of course, choose to legislate the use of one or more of these for particular programs or policies. The second and third of these sources, it is my understanding, are being covered in considerably more detail by Tim Conroy representing the Pew-MacArthur Results First Initiative.

1. **Program Evaluations.** These are in-depth examinations of particular programs aimed at assessing the effectiveness of a particular program or policy. Typically they do not examine the cost of the program being evaluated. These evaluations can be designed to also identify ways to improve the program and not only address the question of how effective the program has been. Program evaluations have become popular in the federal government, such as evaluation of employment and substance abuse programs.
2. **Cost- Effectiveness Studies.** These are in-depth examinations that provide information on of both the cost and effectiveness of a program. These studies might examine only the past cost – effectiveness of the program but more typically are used to estimate the future cost and effectiveness of new or extended programs or policies.
3. **Cost- Benefits Studies.** Their basic characteristic is that all cost and benefits are expressed as dollars. For example, the effects of a particular illness would all be converted into dollars, such as the value of work time lost. This has the advantage to legislators of providing them one number, such as the estimated cost-benefits ratio, that purports to summarize all the individual cost and benefit data.
4. **Performance Measurement Systems.** A performance measurement system provides, on a regular basis, performance data for each program. The performance data should be available at any time

throughout the year. The data typically includes counts of both the amount of output produced by the program and the outcome (results) that occurs. The performance measurement system provides such information on each program covered by the system. However, the outcome information does not identify what caused the outcomes. The federal government has extensive performance measurement process throughout the government.

The first three sources by applying in-depth analysis provide considerably more details, and more valid information as to how well the program has worked. However, each study typically focuses on only one program, can be quite expensive, and requires lots of time and special analytical work. The more in-depth extensive studies, such as "Randomized Control Trails" (RCTs), also can take considerable calendar time, even multiple years to produce their findings. The Washington State Institute for Public Policy noted in the Pew–MacArthur testimony can provide good examples of cost-effectiveness and cost-benefit studies. Performance measurement systems have become commonly used in states, as well as in many local governments. The federal government has extensive on-going performance measurement systems in place – as does Pennsylvania. Cost-effectiveness and cost-benefits studies remain rare.

Each of these sources has its own place. The in-depth studies, because of their expense, are likely to be best used for the most important and most expensive programs and policies—and even then only once every few years for any one program. Performance measurement systems provide data at least annually and on most programs. Uses for performance information, such as performance-based budgeting, need to draw on the regular performance measurement data for most state programs. When findings become available from any of the in-depth study sources, that information is likely to be considerably more informative than the information available from the performance measurement system. The legislator and sometimes the agencies themselves sponsor program evaluations of selected programs.

Recommendation: #1: Each General Assembly Committee (such as Agriculture and Rural Affairs, Education, Labor and Industry, Public Health and Welfare.) should annually identify its needs for special studies considering their costs and feasibility—and develop a schedule for them so their findings would be available in time to help the Legislature make timely decisions. The legislature should provide adequate funding for such studies.

Caution: Do not assume that Pennsylvania will obtain the same results from studies undertaken by other states. Rather, use such information from other states as a starting point for adapting the study to Pennsylvania's own situation.

I will focus most of the remaining testimony on performance measurement systems as requested by the Joint Committee.

Brief Summary of Pennsylvania's Performance Measurement Efforts

Pennsylvania was one of the first state that considered applying a result-based decision making process. Very early, in the late 1960's, it tested what was called "PPBS" (Planning, Programming, and Budgeting System) encouraged by Professor Robert Mowitz of Penn State University. This attention to results and long-term strategic planning was far ahead of its time.

The state executive branch has for several years, at least going back to fiscal year 2006-2007, has produced a "Report on State Performance." These are for public consumption and provide a combination of output and outcome performance indicators for each state agency. Some state program areas contain a more thorough set of outcome indicators than others.

Currently, House Bill 451 introduced by Representative Stan Saylor, "Performance, Accountability and Results Act" was referred to the State Government Committee on February 17, 2015. Representative Saylor's memo to all house members used the phrase "Performance Based Budgeting" as the subject of the proposed legislation." (This HB was a version of House Bill 35 from the previous session.

Given the extensive performance measurement work by the Executive Branch over the years, the General Assembly will need to assess the need for further legislation, focusing on the adequacy of the coverage of outcome (results) indicators and timeliness of the performance measurement information provided to the General Assembly.

Another bill recently introduced, by Senator Wiley, and referred to the State Government Committee on May 14, 2015 addresses the Governor's proposed effort to enable"Pay for Success programs (PFS)". This is Senate Bill 115. The same legislation is proposed in House HB1147. As I will briefly discuss later, the PFS process requires use of both an on-going performance measurement tracking process to track program results as well as an independent program evaluation to determine whether the service provider has met the outcome, and cost reduction targets required to receive success payments.

Getting Valid Information on Performance Results

Performance measurement systems have had a number of important limitations. They often do not provide timely information to executive and legislator decision makers on performance, particularly on outcomes. The information on outcomes has typically been quite limited. The burst of computer technology has in recent years enormously expanded the ability of both executive and legislative branches to obtain considerably more timely and detailed information on results.

Major limitations include:

(a) Lack of information on how what happens to the customers after completing the service. For example, the success of most health and human services is not adequately measured by assessing customers' condition at the time of completing the service. Was improvement sustained?

(b) Lack of feedback from programs customers (whether individual citizens or businesses), and obtained using systematic, valid, survey procedure.

(c) Lack of outcome information disaggregated by age group, gender, race/ethnicity, income level, disabilities, etc.).

Performance information can be obtained by surveying customers on both the quality of service delivery and on their condition such as six or 12 months later. Such performance information has generally been lacking in performance measurement systems throughout the country.

State legislators would likely find highly useful the ability, say at meetings with constituents or in response to media questions , to use their smartphones to download the latest results information on their own districts, and for various demographic populations The technology is available. The software, however, is not fully developed in providing readable data. Nevertheless considerable outcome data can be obtained on many performance indicators and for many population groupings.

> **Recommendation #2:** Encourage or require agencies and their programs to seek feedback on a regular and systematic basis from their customers. This includes surveying customers for their ratings of their satisfaction with services characteristics, such as timeliness, accessibility, and professionalism of the services provided to them. The survey should also request feedback on the successfulness of the service for which they requested help. Cost is a major obstacle often cited for not undertaking such customer surveys. However, for the type of survey needed for performance measurement purposes, a number of steps can be applied that can considerably reduce survey cost.

Making the "Raw" Data More Understandable and Useful to the General Assembly

The data on outcomes and outputs that comes from performance measurement systems most often is shallow. The data on results are highly aggregated, such as being reported only for the state as a whole. This is useful information but not sufficiently useful to legislators for addressing specific issues. The data do not tell much that is useful to legislators who may be swamped with other matters such as constituent requests and complaints.

Further confounding the problem is that state legislative committees seldom at the state level have staff that are available and able to undertake much examination of the data. Legislators need to obtain assistance to examine and analyze the performance information provided by the Executive Branch.

Further complications are that many issues that legislators face involve more than one agency and more than one program. For instance, such issues as juvenile delinquency and reducing poverty involve the performance of many agencies each of which need to provide compatible information for decision makers in both the executive and legislative branches to inform decisions.

> **Recommendation #3:** State Legislative Committees should ask, if not require, state agencies and their programs to disaggregate outcome data, whenever possible, by key demographic characteristics such as by district/county/city, race/ethnicity, income group, gender, disability category, etc. In addition, Committees should also request information on the outcomes broken out by individual service units, such as individual offices that deliver the same services throughout different parts of the state. The intent here is not to drown legislators in data but to make the data readily accessible for use when needed.

> **Recommendation # 4:** Provide analytical assistance to each Committee. This assistance would include summarizing and identifying the highlights from each executive branch performance report that contains data likely to be of interest to Committee Members. The analytical assistance would also include examining, summarizing, and highlighting findings from any relevant special studies that become available, such as those studies discussed above. In

Pennsylvania, the Committees might be able to obtain help from staff of such organizations as: the Independent Fiscal Office; the Legislative Audit Advisory Commission; and the Legislative Reference Bureau. These offices appear to primarily focus on fiscal matters particularly revenue sources. However, they may also have capacity to help committees examine performance information.

Major Ways that Performance Information Can be Used by the General Assembly

Performance information can have major roles in many aspects of a state government's work. These uses include: long range strategic planning; performance-based budgeting, incentivizing state employees; various forms of performance contracting; interfacing with local governments; and communicating with citizens. The information provides both accountability information and information needed to make fully informed decisions on legislations involving programs and policies. For this session I have time to address two of these uses: performance-based budgeting and a version of performance contracting that has been receiving major attention, called "Pay for Success" projects. Please see the "Action Briefs" and "Making Results Based State Government Work." noted at the beginning of this paper for descriptions of other uses for performance measurement information.

Performance Based Budgeting. Performance-based budgeting, to quote the NCSL Performance Based Budgeting: Fact Sheet, "…differs by focusing on results rather than money spent. " The term is sometimes used if the budget document that contains budget amounts also provides data on how much product and/or outcomes are produced.

Beginning in the 1970's, the performance information reported was primarily information relating to "outputs," that is, the amount of work completed by a program. Outputs, however, do not say anything about the results of those outputs, the results importance to citizens. In recent years many governments, including Pennsylvania have begun collecting and reporting outcome data. Beginning in the 1970's, the term is most often used to reflect not only the inclusion of output data but also data on the outcomes, the results, of those outputs.

A more troublesome issue is the extent to which executive branch programs use outcome information, not only output data, in developing their budgets.

Efficiency performance has been often neglected in performance measurement systems. When reported in budgets the performance indicators are usually presented as the "cost per unit of output," such as "cost per eligibility determination made," or the "number of customers served." Seldom included are even more meaningful indicators of efficiency that relate cost to the outcomes of the service, the "cost per unit of *outcome* achieved" (such as the "cost per customer whose conditions improved" or the "cost per mile of river transformed from the polluted category to non-polluted."

> **<u>Recommendation #5:</u>** If not already being done adequately for the state programs you are reviewing, ask the executive branch as part of its budget request to identify and report on each outcome the program seeks to achieve.
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> **<u>Recommendation #6:</u>** At budget hearings (as well as at any separate program review hearings) ask for information on the outcomes expected from the expenditures, including how the outcomes differ among key demographic customer groups. Also ask the program to identify the unintended effects that are likely to occur along with those outcomes that are being sought.
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> (I have provided to the Joint Committee copies of a set of basic questions in "bookmark" form, questions that might be asked by Pennsylvania legislators at budget hearings, or at other program review hearings throughout the year. One side of the bookmark provides basic questions to ask during budget reviews. The other side of the bookmark provides basic questions to ask during program reviews.)

"Pay for Success (PFS)" Projects. These have been receiving considerable recent attention. The federal government has been supporting work on this variation of performance contracting. Performance contracts are contracts (or grants) in which payments to service providers are at least partially based on success in meeting targets written into the contracts.

PFS is a considerably more complex version. Here, philanthropically-oriented, private or public organizations provide up-front funding for a new or extended innovative service approach. Funders are repaid, plus a "profit," if outcome and/or cost-saving targets are met. An independent evaluator is hired to evaluate the extent to which the targets have been achieved. A complicating feature of these projects is they typically are multi-year projects continuing for a number of years into the future. For example, New York State's "Break the Cycle of Re-Incarceration" PFS agreement covers five and one-half years.

As noted earlier, the Governor has endorsed this approach, and legislation has been introduced in both the Senate and House to enable such projects.

> **Recommendation #7:** Because of the complexity of these projects, Pennsylvania should seek outside expert assistance in developing such projects. It is my understanding that the executive branch has already enlisted the help of Harvard's SIB Lab. It is one of the first, if not the first, to develop PFS projects. My organization, the Urban Institute has also recently begun a major program to provide assistance to public and private organizations considering PFS projects.

A Final Recommendation

Recommendation #8: All Legislators should be encouraged to receive at least brief training on the states performance measurement system and on the other three sources of performance information. The training should include what types of information legislators can and should expect from the information, how they can use the information, and their limitations. New legislators should receive training as soon as possible.

I hope this material will be of help to the Pennsylvania legislature as it addresses this key issue of Legislating for Results.

Additional Information

- "Performance Measurement: Getting Results," Harry P. Hatry, second edition, Urban Institute Washington DC, 2006.

- "Transforming Performance Measurement for the 21st Century, "Harry Hatry, 2014, available for free download from Urban Institute web site (www.**urban**.org).

- "Five Steps to Pay for Success: Implementing Pay for Success Projects in the Juvenile and Criminal Justice Systems," John Roman, Kelly Walsh, Sam Bieler, and Samuel Taxy, Urban Institute, Washington DC, June 2014.