

GOALS AND PERFORMANCE MEASUREMENTS AS PART OF THE APPROPRIATIONS PROCESS

A Report Prepared for the
Legislative Finance Committee

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Due to concerns by the Legislative Finance Committee (LFC) that the use of performance measurement in the legislative appropriation process during the 2009 Legislative Session was not consistent or uniformly utilized, a Performance Measurement Subcommittee of the LFC was appointed to make recommendations that ensure decisions on state agency program goals and related performance measurements are incorporated into the appropriation process as part of the drafting of both the general appropriation bill and its companion bill. Also, during periods of budgetary stress, performance measurement can be used to evaluate and prioritize reductions. This report outlines the subcommittee's recommendations on potential solutions for incorporating performance measurement into the legislative appropriation process in a consistent and uniformly utilized way and recommends a format for agencies to outline the effects of budget reductions as part of their budget submissions.

LFC ROLE IN MAKING RECOMMENDATIONS TO THE 2011 LEGISLATURE

During the 2009 interim, 29 state agencies reported to the LFC on 165 state agencies performance measurements developed through a collaborative process. 2011 interim LFC members identified a need to prioritize and reduce the number of performance measurements allowing a greater emphasis on those selected while reducing the staff time required for the process. In addition, members identified a need to incorporate performance measurements as part of the appropriations process.

Recommended Legislative Solutions

Consistent application of performance measurements in the legislative appropriation process is based on certain fundamentals:

1. LFC should develop recommendations for the legislature
2. Legislative leadership endorsement and direction is critical to ensuring follow through by committees. Legislative leadership at all levels of the process should request legislative action on performance measurements
3. Staff should develop for legislative review and approval written materials outlining critical performance measurements for the members in all committees

Recommended legislative solutions include:

1. The LFC workgroups determine performance measurements should be presented and considered as part of the appropriation requests in discussions with state agency representatives as part of the October workgroup meeting held on the first day of the LFC. To address prioritization, the workgroup could recommend a few critical performance measurements for the upcoming 2013 biennial budget. Agencies with large general fund impacts, such as Office of Public Instruction, Public Health and Human Services, or Corrections, workgroups may consider two or three goals to include in the process.
2. Staff summarizes the priorities and performance measurements into memoranda for presentation to the full LFC on the following day. Workgroup members present their recommendations to the full committee and the LFC finalizes its recommendations to the 2011 Legislature on the second day of the October LFC meeting.
3. Once the LFC finalizes the recommendations, the LFC chair and vice chair meet with legislative leadership from both parties to discuss the process for incorporating LFC recommendations into the appropriation process from the beginning of the budget discussions.
4. Formal recommendations concerning the LFC and leadership recommended goals and related performance measurements are made to the House Appropriations (HAC) and Senate Finance and Claims Committees (SFC) when the LFC discusses "global recommendations" at the beginning of the 2011 Legislative Session. Included in the "global recommendations" are leadership direction that discussion and legislative recommendations on performance measurements are included in the decisions of the appropriation subcommittees, HAC, House floor, SFC, and Senate floor and formalized as part of the HB 2 companion bill.
5. Leadership directs the chairs of the House Appropriations Committee and the Senate Finance and Claims Committee to include performance measurement as part of the appropriation process, to define upfront those performance measures that should be included as part of legislative policy embodied in appropriations and to formalize the policy as part of the companion bill to HB 2.

6. The House Appropriation Committee chair moves the process forward to the Joint Appropriation Subcommittees chairs directing, for those performance measurements identified, the subcommittees incorporate discussion and decisions on the performance measurements recommended as part of the budget. The recommendations are included in the HB 2 companion bill to implement the general appropriations bill.
7. At each step of the appropriations process performance measurements used to determine success are reviewed and adjusted resulting in their inclusion in the legislative appropriations process

Global Recommendations: Carrying the interim work into the session

As discussed in the March 2010 legislative training session, the financial picture of the state for the 2013 biennium results in a need to review and reduce the current level of services provided by state government. Current level of services for agencies are, in most cases, a combination of the base budget and present law adjustments. To address reductions in base budgets and further legislative discussion and understanding of reduction decisions the Performance Measurement Subcommittee recommended an option to eliminate the adoption of the base budget and statewide present law adjustments as the starting point for the budget.

Subsequent discussions with various legislators have included other potential budget starting points. Regardless of the starting point, the LFC could make a new global recommendation to the HAC and SFC that includes:

- Review of the starting point and discussion of anticipated outcomes given the new base. This allows for legislative discussion on current program performance, the effects of reducing the previous base and the impacts on related performance measurements
- Decisions on measurable performance measures made at each step of the appropriation process and formalized as part of the companion bill

Leadership Direction: Keeping on track

As discussed above, legislative leadership endorsement and direction is critical to ensuring application of the process in committees and on the floors of both houses. The committees themselves will need to assure consistent application of the performance measurement process with the state agencies presenting budgetary and performance measurement information.

Budgetary Format for Reduction Decisions: Impact Analysis

In the 2007 Legislative Session, a new format for new proposals was included in the budgetary decisions packages outlining the justification for the new proposals. Components included the justification for the proposal, program goals, outcome measurements, milestones, FTE, funding, challenges, and risks of not approving the proposal. Staff revised the format of the new proposal justification, modifying the information for budget reductions. The format includes:

- Reason for the reduction
- Affect on program or project outcomes
- Adjusted performance criteria
 - Types of monitoring – LFC, interim committees, written report to the legislature
- FTE impacts
 - Increased workloads
 - Delays in processing applications, etc
 - Reduction in force
 - Transferred employees/reassignment
- Funding impacts, all types – matching, maintenance of effort, etc.
 - Future funding impacts in 2015 biennium
- Risks
 - Affected populations
 - Local government impacts
 - Unintended consequences

- Costs shifts
- Legal risks
- Federal action

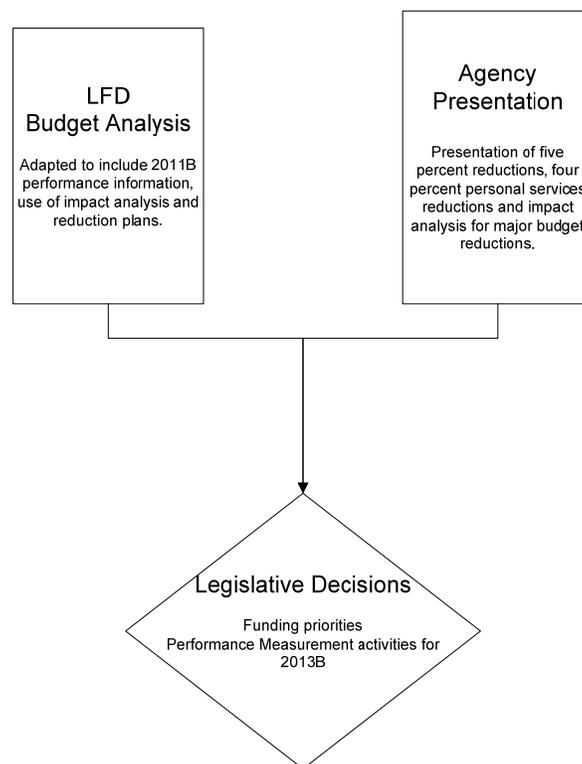
The information included above should assist in legislative discussion with state agencies on the impacts of the recommended reductions.

HB 2 Companion Bill – Statutory Requirements for Implementing Legislative Appropriation Policy

The 2009 Legislature passed HB 676, the companion bill to HB 2, outlining statutory changes needed to implement legislative appropriation policy included in the General Appropriations Act (HB 2). HB 676 contained language not appropriate for inclusion in HB 2 including restricting or eliminating funds; revising the definition of the present law base for the ensuing budget cycle; or requiring development of performance measurements to guide review of budget alternatives. The 2011 Legislature can further the performance measurement process by incorporating performance measurements as part of its appropriation policy in the HB 2 companion bill.

MAKING IT WORK IN TIMES OF BUDGET REDUCTIONS

This process was designed to allow for the implementation of performance measurement principles throughout the appropriations process. In previous biennia, this implementation would have required commitments to conduct legislative business in an alternative manner. However, given the current budget constraints, this process will be difficult to implement, but can add value by adding consistent processes to evaluate the risks of budget reductions. To take this step the legislature needs to have available the appropriate information. This information would come from predominantly two major sources: the LFD budget analysis and the agency presentation. Figure 1 below illustrates the relationship of these two items to legislative decisions. This will also require a reorientation of committee time to allow for the inclusion of this information in legislative deliberations regarding budget reductions.



Budget Analysis

The appropriations process begins with the LFD's budget analysis. This document is used as the workbook during the process. The LFD staff is current working on assuring the budget analysis is written and formatted in a manner that is consistent with a performance measurement framework. The LFD is committed to making the necessary adjustments to the budget analysis to assure the incorporation of performance measurement into the legislative decision making process as determined by the LFC

Agency Presentation

The agency presentation has historically been the part of the subcommittee process when agency personnel explain the purpose of the agency and the proposed budget changes. The change comes in how the information is requested by the legislature and used in committee. In order to assure the legislators receive useful information and the agency has time to provide what they believe is important; the legislature should establish a policy regarding minimal elements of the agency presentation. The minimal elements are categorically defined information related to statutory budget submission requirements, and not a prescribed "fill-in-the-blank" format. To achieve the inclusions of performance measurement in the budget process, the agencies should be required to address specific budget items in the presentations to subcommittees. Those required element include; five percent reduction plans; personal services reduction plans and impact analysis for major budget reductions. These items would provide the background information regarding why a program was selected for reductions, and how such a reduction would be implemented. The impact analysis information would provide the legislature the opportunity to discuss how specific program outcomes will react to a decrease in funding. To make this happen, the LFC would need to make the request of the executive and other elected officials to provide the minimal elements¹ during the subcommittee process.

Legislative Decisions

The subcommittees would be responsible for proposing to the House Appropriations Committee (HAC) recommendations for performance measurement monitoring in the 2013 interim. By utilizing the information contained in the budget analysis and the requested information provided in the agency presentation, the subcommittee would propose performance measurements that adequately track changes in program performance due to budgetary restrictions. This proposed information would be deliberated by HAC prior to inclusion in the companion bill.

SUMMARY

In summary, to integrate performance measurement into the legislative appropriation process, two major changes need to occur. First, the legislature and its leadership has to agree that it is important to know how outcomes will vary with levels of funding, how those outcomes will be determined and where that fits within legislative priorities. Second, the legislature will need to request the appropriate information from the agencies to assure that a fully informed legislature can take appropriate action.

This report provides a philosophy of performance management integration and potential changes to the appropriations process to implement such a philosophy. Given this, the Legislative Finance Committee next step would be to adopt the report and proceed with the following:

- Request Legislative Council to endorse this process
- Require the LFC workgroups to select critical goals, performance measures and funding priorities for the upcoming legislative session
- Request LFD to work with the budget office to incorporate the impact analysis in the budget process and the legislative request for information in agency presentations
- Direct LFD staff to develop education for members of House Appropriations and Senate Finance Claims
- LFC Leadership to meet with session leadership to achieve endorsement of this process

¹ Other minimal elements are discussed in the appendix.

APPENDIX: PROPOSED PROCESS

To bring performance measurement into the budget deliberations process, the process itself needs to be adjusted to increase the focus on legislative priorities and the subsequent goals, and performance measures, and ultimately outcomes. The process proposed here is built upon the current appropriations process. This will allow the merging of new concepts with historical practices. As with any change to a process, there will be points along the way where the LFD staff may need additional time to develop materials necessary for informed decision making.

The Budget Analysis

The appropriations process begins with the LFD's budget analysis. This document is used as the workbook during the process. The LFD staff is current working on assuring the budget analysis is written and formatted in a manner that is consistent with a performance measurement framework. This includes the reformatting of portions of the book to flow with the minimum elements of the agency presentation, use of icons to link related decision packages together and the evaluation of reductions, as discussed earlier in this document. The LFD is committed to making adjustments to the budget analysis to implement the proposed process, or a process adopted by the LFC.

Joint Appropriations Subcommittees

The subcommittees have traditionally started the deliberations process with the greatest amount of budget detail, and this remains true in the proposed process. The change comes in how the information is requested by the legislature and used in committee. Historically there have been disagreements over who controls the hearing and what should be in the agency and program presentations. Agencies believe that it is well within their control to determine what types of information should be delivered to the subcommittee. Legislators often report that they find the agency "dog and pony" show unrelated to the decisions at hand, and thus not useful. In order to assure the legislators receive useful information and the agency has time to provide what they believe is important; this requires the legislature to establish a policy regarding minimal elements of the agency presentation. The minimal elements are categorically defined information related to statutory budget submission requirements, and not a prescribed "fill-in-the-blank" format. To make this happen, the LFC would need to make the request of the executive branch to provide the minimal elements during the subcommittee process.

Subcommittee meeting with agencies

Since this process will be different for both the agencies and the subcommittee, the LFD recommends an orientation meeting prior to starting the process. At this first subcommittee meeting the chairman can discuss the changes to subcommittee process and what that will mean to the agencies. It can include an overview of performance based questioning to allow the agencies to get an idea about what types of questions could be asked. This time can also serve to alleviate the rumor mill associated with legislative proceedings.

The agency presentation: A legislative request

As in the past, the agency presentation will serve as the opening for the discussion of an agency's budget. The difference being that an informational request of the legislature will be balanced with the agencies desire to provide specific information. The informational elements are agency mission, a discussion of major budget and policy issues, five percent reduction plans, agency employment, and key personnel.

Program Presentations

Like the agency presentation, the program presentation starts with the informational request of the legislature and follows with program provided information. The program presentation would include the request to address 2011 performance activities, 2013B goals and objectives, and the impacts of budget reductions. Program presentations would begin after the completion of the agency presentation.

Program Discussion

After the program has completed the presentation, the subcommittee enters into a discussion of the decisions that will be made for each program. The subcommittee would hear each program individually in order to focus on a specific function of the agency. The discussion, led by the chairman should include the base budget, the statewide present law adjustment, and the requested decision packages. The committee should reserve ample time for question and answers throughout this process. The agency leads the subcommittee through the decision packages explaining why each package is necessary and how the package relates to program goals and performance measures. The LFD would comment as needed, based on issues raised in the budget analysis. In addition time for questions would be needed.

Executive Action

Following program discussions, the subcommittee moves into executive action. It should be noted here that subcommittees have historically operated differently in completing executive action. This decision could still be left to the chairman. Executive action could be taken after each program discussion or after the completion of the agency. Since leadership will be encouraged to direct the subcommittees to not close agencies, either method will work.

Given the financial condition of the state, performance measures and objectives would most likely be focused on measuring the impact of budgetary reductions. In doing this, the Legislature will have set up the opportunity to formalize the measuring of budget reductions on state activities and services. To achieve this, it is suggested that the subcommittee address the base, statewide present law adjustments and executive requested decision packages. Once these steps are completed the subcommittee can take a step back and review the overall reduction to the agency. At this point, the subcommittee can establish performance focus areas and the subsequent measurement criteria. It is recommended that such performance measurement items focus on a major function of the department and not a number of small programmatic changes. The chairman of the subcommittee would take the lead in working with LFD staff to formalize performance measurement items for continued legislative discussion as well as inclusion in the companion bill.

House Appropriations Committee

At this point of the process, the legislature will begin to merge HB 2, revenue updates and the companion bill together to “see” the entire financial picture. With full support from the HAC Chairman, the process of HB2 would start with a leadership briefing to allow for the introduction of the companion bill and the establishment of any financial targets before HB 2 would go to the floor. After this briefing, the HAC would hear HB 2 as follows:

1. Overview – HB 2/HJ2 and Companion Bill
 - o The staff of the LFD would provide an overview of the decisions made by the subcommittees creating the first draft of HB 2, a revenue status report and the need for the companion bill. This overview would provide the committee with a comparison between appropriations contained in HB 2 and the revenue status report to see the entire picture.
2. For each agency:
 - After the overviews by the LFD, the presentation of HB 2 will continue through each section. For each section the subcommittee chair, with assistance from the LFD staffer would present information on agency mission, 2011 Biennium update, priorities, goals

and performance measures for the 2013 Biennium, companion bill recommendations and summary of budget changes.

3. Public comment and time for question and answers would follow the presentation of the subcommittee chair

Following the question and answer session, the amendment process for a section of the bill would begin. When the amendments are complete, LFD staff would summarize changes made by the committee. This summary would be provided at the next scheduled meeting of the HAC. When all sections are complete, the LFD staff would provide a HB 2 summary, a companion bill summary and revenue update prior to the committee taking final action. This would allow the committee to have all items together to make final decisions prior to sending the bill to the floor.

HAC- Companion Bill

After the final section has been heard, and HB 2 has been passed by the committee, the committee should then take consideration on the companion bill. If HB 2 and the companion bill do not travel together as close as possible, the chances of conflicts between the two rise drastically. Since each subcommittee chair will have summarized the proposed inclusions to the companion bill, those inclusions could be drafted as each section is presented, therefore creating a bill for consideration.

House Floor

Prior to scheduling HB 2 for hearing on the house floor, LFD staff, the chair of House Appropriations should meet with House leadership to facilitate the changes in how HB 2 is handled on the floor to incorporate the changes related to performance measurement. The proposed change could require the legislature to spend additional time on HB 2.

As with other points in the process, the legislature will need to start the process with an overview of the status of HB 2, an update on revenue projections and the purpose of the companion bill. This overview would be provided by the Chair of the House Appropriations committee with support from the LFD staff. Once this overview is done, general questions could be taken from the floor prior to starting on the specific sections.

Historically, HB 2 has been heard in sections on the house floor, this will continue, however the type of information provided will change. The LFD staff will assist the subcommittee chair in developing the floor presentation, focusing on the agency mission and purpose, outcomes for 2011 B, priorities, goals and performance measures for 2013, and summary of budget changes.

Following this presentation, the section of the bill is considered open for debate, question and amendments per HA 40-180 of the Rules of the Montana Legislature. When debate, question and amendments are complete, current rules state that the section should be closed. After each section is completed, a summary sheet² will be updated to keep the Legislature informed of the fiscal impacts of amendments. In doing this, after the last section is completed the impact of amendments from all sessions would be available. At this time the House of Representatives could stand at ease while the LFD staff finishes the calculation, prints and distributes the information. Given the information, the legislature could then determine whether additional amendments were warranted or if they were ready to proceed with the bill.

House Floor – Companion Bill

Dedicated LFD staff will track needed changes to the CB as HB 2 action is completed. The companion bill should be heard on the house floor directly after HB 2 to allow for amendments to the companion bill for changes made in HB 2. For example, if a change in priorities or legislative goals and performance measures was needed to accurately reflect the contents of HB 2, those changes would be made at this time. This step keeps performance

² A summary could be provided on the reader board, on a PowerPoint screen, paper copies or verbally. House Leadership, the Chair of House Appropriations and the LFD would need to work this out.

measurement clearly in the process. Keeping the two bills together links the money portion to the performance portion.

Transmittal Break

LFD staff often takes a break during the Legislative transmittal break. However, prior to taking that break, LFD staff would complete a short review of the process through the house and determine if any process changes need to be made for the Senate side. Once the Legislature reconvenes those changes would need to be discussed, and potentially adopted by Senate leadership.

Senate Finance and Claims

After transmittal HB 2 and the companion bill would be heard in Senate Finance and Claims (SFC). The process used for HAC would be utilized for SFC. The only difference would be that SFC would have the actual companion bill, unlike HAC where the bill was created.

Senate Floor

The LFD proposes, at this time, to utilize the same process for the Senate Floor as the House Floor. A potential difference could be in how the Senate would like to be kept apprised of the changes to HB 2.

If the Senate adopts a different version of HB 2, the bill must travel back to the house for concurrence. Without concurrence from the house, the bill goes to a conference committee. If this occurs, the companion bill needs to be amended to match the Senate version of HB 2 and be sent to the House shortly after HB 2.

Conference Committee

To ease the process, HB 2 and the companion bill should be sent to conference committees with the exact same membership. This will alleviate the need to bring a second conference committee up to speed to process the companion bill once HB 2 has been completed.

Process wise, when HB 2 gets to conference committee, the conference committee members are aware of the fiscal condition of the bill, including what needs to occur for both houses to endorse a conference committee report. Two things will occur at this point. First, LFD staffers will be writing the amendments to craft the conference committee report that will ultimately allow passage of HB 2. Second, at least two LFD staffers should be assigned to determine the impact of the amendments the performance measurement language contained in the companion bill. If this is successful, after the HB 2 conference committee report is adopted, the legislature will already know what changes would need to be made to the companion bill to assure coordination between the two. When conference committee report is adopted by both houses, the companion bill committee report can follow shortly behind it. As with the other points in the process, prior to the conference committee report going to the House and the Senate a fiscal impact of the amendments will be created by LFD staff.

Sine Die

After session, the LFD staff will begin to develop the monitoring portion of the legislatively adopted priorities, goals and performance measures. The monitoring proposal then becomes a portion of the proposed LFD work plan for consideration by the Legislative Finance Committee. This is the bridge between activities of session and the interim monitoring process.