

Money Matters

A Publication of the Minnesota House Ways and Means Staff on Government Finance Issues

State Agency Performance Reports

Performance Reports Focus on Outcomes

Requiring governmental agencies to report on how well they are achieving their goals is viewed as a common sense approach to improving the oversight of governmental programs and, it is hoped, improving the budget process. To get a better handle on what the taxpayers get for their money, many states and the federal government have turned to performance measures.

Budgeting has generally focused on "inputs;" for example, how many staff or how much money to put into a program. **Performance reporting is an attempt to change the focus from inputs to outcomes to show policy makers how well programs are achieving their intended results.** By providing improved information on costs and outcomes, performance reports can also suggest more cost-effective approaches.

At the federal level, agencies will be required to provide performance reports by the year 2000. Several states, including Texas, Florida and Oregon, have begun massive attempts to introduce performance measures into their budgeting process. In Minnesota, the 1993 Legislature mandated that state agency performance reports be completed by the fall of 1994.

Minnesota's Performance Reports Available for the 1995 Session

According to Minnesota's law (M.S. 15.90), the annual performance reports prepared by state agencies are to:

- **generate information so that the Legislature can determine the extent to which state programs are successful;**
- **develop clear goals and priorities for state programs;**
- **strengthen accountability to Minnesotans by providing a record of state government's performance in providing effective and efficient services; and**
- **create appropriate incentives and systems that will allow and encourage the best work by state employees.**

The law requires the reports to include agency mission statements, goals and measurable objectives which are simple and specific enough "so citizens can measure progress year to year." The reports must cover the four year period prior to the date they are issued and must forecast two years into the future. They are to allow comparison between forecasted and actual performance levels. Citizens, agency clients, consumers and advocacy groups, worker participation committee members, managers and contractors must be included in the agency's planning efforts.

The Department of Finance is responsible for administering the reports, including preparing the report instructions (see addendum), reviewing and submitting reports to the Legislature. The Department of Finance was also to provide technical assistance to agencies in completing the reports. The Office of the Legislative Auditor is responsible for reviewing the agency draft reports and giving comments and feedback to the Legislature and state agencies. The Auditor is to continue reviewing and giving comments on the annual reports on a rotating biennial schedule.

Reports are currently available for 20 state agencies, plus a variety of other governmental bodies, (see addendum). The Legislative Auditor's Office is completing its review of the reports for consistency, logic and format; the reports will be available in January 1995.

Final Reports Provide Valuable Information, But Still Need Improvement

Reviews of the reports by fiscal staff show a wide variety of quality and usefulness across agencies:

- The reports generally provide a good description of agency activities, and many can serve as good resources for members interested in understanding the breadth of activities in which a department is involved;
- Some include measures which provide good indicators of the extent to which the goals of a program are being met;
- Many provide enough detail on specific programs to be of use in discussions regarding the effects of specific funding changes or policy changes;
- Many establish good baseline data which will be useful in the future and will allow legislators to see performance changes over time;
- Some will allow legislators to see duplication or overlap in missions/goals/programs across agencies;
- Most have been helpful to state agencies in their internal management decisions.

Reviews also show a number of problem areas or areas that need to be improved to make reports more useable:

- It is not possible to tie the performance reports to the budget documents, making it difficult to link outcomes to inputs;
- Many reports have measures that are not outcome based, but merely count inputs (e.g., number of service recipients);
- Some agencies use measures which make their performance look good, while ignoring measures that are more critical to the real intent of their programs (e.g., recidivism rates in the correctional system);
- Many reports reveal deviations from legislative intent, as established in statute, in the agency's definition of its own goals and mission (others reveal that clear statutory mission statements do not exist or are no longer timely);
- Many measures lack a context in which to judge their effect (e.g., reporting the number of people served by a program without reporting the total number eligible);

- Many reports lack sufficient information about the cost-effectiveness of agency operations, or the benefits of alternative strategies or the trade-offs the agency has made to achieve certain goals;
- Some agencies use the reports as a forum to request additional funds to meet goals; for others, it will be difficult to assess the effects of funding changes on performance and results.

In addition to these report-specific issues, fiscal analysts also noted the following issues related to performance reporting in general:

- Difficulties in isolating wider societal effects from state agency activities (e.g. are changes in child abuse rates beyond the effects of governmental programs alone?);
- Difficulty determining outcome measure for many agency activities, as well as determining adequate levels of performance;
- Difficulty determining the proper response to performance results (i.e., should poor performance be punished with less money or should additional funds be appropriated to improve the results?).

Reports Are Most Useful With Potential And Limits in Mind

Minnesota can learn from the experiences of other states and the federal government. A review of studies completed by the Office of the Legislative Auditor¹, as well as summaries by the National Conference of State Legislatures (NCSL) and the Government Accounting Office (GAO) offer the following points:

- **Performance measures are best used if they are seen as just one factor in decision-making:** “Budgeting, in a democratic society, is inherently political.”² Policy and budget decisions cannot be made solely on data which will never completely capture the choices and trade-offs that must be made.
- **Performance measures work best when there is agreement on measures and objectives.** According to GAO staff, this is most difficult to obtain when different parties control the executive and legislative branches. NCSL found that “without the balance of legislative] input, however, legislators run the risk that program data will service primarily the executive branch’ s needs.”³ Minnesota’s experience with the “Minnesota Milestones” is an example of an effort which failed to include legislators, and which had minimal effect, as a result.
- **A deliberate approach may work best when introducing performance reporting.** For maximum effectiveness, general agreement must be reached among those developing the measures and those using them to make policy decisions. The measures should be credible in the minds of all involved, including front line staff. This process could take several years and will likely be ongoing as legislators modify programs or establish new ones.

Understanding the complexity of the measures is necessary; using the wrong measures misinforms policymakers and wastes state agency staff time.

¹Office of the Legislative Auditor, **Performance Budgeting**, February, 1994.

²Joyce, Philip (1993). “*Using Performance measure for federal budgeting: Proposals and prospects,*” **Public Budgeting and Finance**.

³National Conference of State Legislatures, **The Performance Budget Revisited**, Legislative Finance Paper #91, February, 1994.

The general conclusion reached by those who have studied other attempts to implement performance reporting is that it will not solve a state's budget problems but that it can be used successfully as one of the tools at a Legislature's disposal. It can be extremely valuable in helping legislators to see how the state is doing in important areas, and should be of interest to members of both policy and budget committees. It works best if its limitations are kept in mind and the results interpreted in that light. **Perhaps its biggest contribution is to help people think in terms of outcomes**, both when a program is developed as well as when it is implemented and later evaluated.

Recommendations and Potential Legislative Uses for the Current Performance Reports

Although improvements are needed in most of the reports, they should be useful to legislators and committees:

- 1. The reports provide fairly comprehensive summaries of agency activities and can serve as resources for legislators wanting to learn more about specific programs;**
- 2. The reports provide a starting point for discussions between the executive branch and the Legislature regarding agency missions and legislative intent. The reports can also provide a forum for discussion of performance expectations;**
- 3. Committee discussions about performance objectives and measures can help the Legislature and the agencies focus on what is being purchased with state appropriations.**
- 4. Results from specific programs may indicate areas where the Legislature may want to request more comprehensive evaluations.**

In addition, **it is recommended that the Legislature be more involved in the instructions for the reports**, clarifying measures or outcomes to be desired, narrowing the scope of the reports as appropriate and trying to improve the format to make it most useful for legislators as well as the general public (e.g., executive summaries). Indications from state agencies are that they also need more assistance from Department of Finance in completing the reports.

Paper prepared by Marcie Jefferys, Chief Fiscal Analyst (6-5384). Analyses of the reports are available from fiscal staff; reviews by the Legislative Auditor will be completed in January.

Addendum

I. The agencies below are required by law or the Department of Finance to submit performance reports.

Administration	Historical Society	Public Service
Agriculture	Housing Finance Agency	Revenue
Commerce	Human Rights	Strategic and Long Range Planning Office
Corrections	Human Services	Trade and Economic Development
Economic Security	IRRRB	Transportation
Education	Labor and Industry	Veterans Affairs
Employee Relations	Military Affairs	Water and Soil Resources
Finance	Natural Resources	Zoo
Health	Pollution Control Agency	
Higher Education Systems	Public Safety	

II. The Department of Finance released performance reporting instructions to state agencies in June, 1994. Below is a summary of the definitions provided by Finance for the basic terms used in the reports. Examples from the Department of Corrections report follow each element.

Agency Mission--the reason for the agency's existence (e.g., "To ensure that sanctions and services of the criminal justice system are designed and delivered to create a safer Minnesota").

Program Goals--general ends toward which agencies direct their efforts (e.g., "To provide a safe, secure, humane environment for incarcerated offenders").

Objectives--clear targets for specific action (e.g., "To ensure sanctions of the criminal justice system to create a safer Minnesota").

Performance Measures: Quantifiable, enduring measures of public sector outcomes (e.g., "(1) average daily population of adult inmates, (2) number of escapes from correctional facilities, (3) number of adult inmates transported without escape").

Outcome Measures--indicators of the extent to which a services has achieved its goals or objectives, met the needs of its clientele or met commonly accepted professional standards,

Output measures--indicators of the number of units produced, services provided, or people served by an agency or its programs,

Efficiency Measures--measure of cost (or the amount of other resources) per unit of output.

Cost-effectiveness Measures--measure of cost per unit of outcome.