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GOVERNMENT PERFORMANCE AND ACCOUNTABILITY SYSTEM PILOT PROJECT - BACKGROUND MEMORANDUM

House Bill No. 1035 (Appendix A) directs the Legislative Council to assign to an interim committee the responsibility to establish a government performance and accountability system pilot project involving up to three executive branch agencies during the 2005-06 interim. The Budget Committee on Government Services has been assigned this responsibility. House Bill No. 1035 also provides the guidelines and criteria for the government performance and accountability system pilot project, which require that each executive branch agency selected for inclusion in the pilot project shall, with input from the Budget Committee on Government Services:

1. Prepare biennial goals and objectives and related performance measurement indicators for major programs of the agency or department. The performance measures must provide, to the extent possible, the data necessary to assess the performance of major activities of an agency, including a program's efficiency and effectiveness, and provide a comparison, to the extent appropriate, to other states' performance measures.
2. Establish, to the extent possible, a three- to five-year strategic plan to guide its operations and activities. The strategic plan must include:
 - a. The mission, goals, and objectives of the agency or department.
 - b. Identification of the groups of people served by the agency and the results of any methodology used to assess and improve services.
 - c. The strategies and activities utilized to meet agency or department goals and objectives.
 - d. A general description of the agency's or department's sources and uses of funds.
 - e. Estimated future service requirements and the resources that may be necessary to meet those requirements.
 - f. External factors affecting services of the agency or department.
 - g. The performance measurement indicators developed under this Act used to evaluate and assess the agency's or department's performance.
3. Prepare, to the extent possible, a biennial performance report that summarizes its goals and objectives, compares performance results to performance targets, provides explanations of any major variances between performance results and targets, presents multiyear trends in performance results, and, to the extent possible, provides comparisons to other states' performance results and national benchmarks.

PERFORMANCE BUDGETING - HISTORY IN NORTH DAKOTA

1993-94 Interim

The 1993-94 Budget Section requested that the Office of Management and Budget ask all agencies and institutions to include, to the extent possible, **service efforts and accomplishments** in the 1995-97 budget request forms and to use this information to support the executive budget. Service efforts and accomplishments are measures used to evaluate agency performance. The Office of Management and Budget developed a pilot project to incorporate service efforts and accomplishments into the budgeting process. The Office of Management and Budget developed statewide goals, objectives, and strategies and chose the following 14 budgets in 12 agencies to be involved in the program-based performance budgeting pilot project for the 1995-97 biennium:

1. Office of Management and Budget.
2. Information Services Division.
3. State Auditor.
4. Central Services Division.
5. Board of University and School Lands.
6. Department of Human Services - Aging Services - Vocational Rehabilitation Division.
7. Insurance Department.
8. Securities Commissioner.
9. Highway Patrol.
10. Department of Corrections and Rehabilitation - Parole and Probation Division.
11. Department of Economic Development and Finance.
12. Department of Tourism.
13. Parks and Recreation Department.
14. Department of Transportation.

Budget requests of these pilot agencies included information in support of meeting statewide and agency goals, objectives, and strategies. Under each major program of the agency, goals, objectives, and strategies were listed as well as the description and justification of the strategy and performance measures, including outcome, output, efficiency, effectiveness, and explanatory measures. The appropriation bills for these agencies included **program line items** rather than **object code line items**.

The following presents an example of a statewide and agency goal, objective, and strategy developed as part of the pilot project for the Highway Patrol:

Statewide goal - Reduce the number of traffic-related injuries and deaths.

Agency goal - Promote traffic safety.

Program objective - Reduce fatalities, injuries, and economic loss by containing traffic accident rate.

Strategy - Supervision of traffic on rural highways by uniformed officers.

The related outcome measures were:

1. Decrease traffic accident rate per 100 million miles.
2. Decrease traffic fatality rate per 100 million miles.
3. Decrease rate of vehicles exceeding the national maximum speed limit.

The related output measures were:

1. Hours of road patrol.
2. Miles of road patrol.
3. Total contacts.
4. Highway assists.
5. Accidents investigated.
6. Hours of traffic safety education.

The related efficiency and effectiveness measures were:

1. Cost per mile of road patrol.
2. Cost per hour of traffic safety education.
3. Traffic accident rate per 100 million miles.
4. Traffic fatality rate per 100 million miles.
5. Percent of vehicles exceeding the national maximum speed limit.

1995 Legislative Assembly

The 1995 Legislative Assembly chose to appropriate funds on a program basis rather than object code basis for 9 of the 14 pilot budgets listed below.

1. Office of Management and Budget.
2. Information Services Division.
3. State Auditor.
4. Central Services Division.
5. Board of University and School Lands.
6. Highway Patrol.
7. Department of Corrections and Rehabilitation - Parole and Probation Division.
8. Parks and Recreation Department.
9. Department of Transportation.

The remaining five agencies listed below received object code line item appropriations but were expected to continue to monitor and strive to achieve agency performance measure goals and objectives.

1. Department of Human Services - Aging Services - Vocational Rehabilitation.
2. Insurance Department.
3. Securities Commissioner.

4. Department of Economic Development and Finance.
5. Department of Tourism.

The section below was included in 1995 Senate Bill No. 2015 providing legislative intent for the performance budgeting pilot project.

SECTION 9. INTENT - PROGRAM-BASED PERFORMANCE BUDGETING.

It is the intent of the fifty-fourth legislative assembly that the office of management and budget continue the 12 agency program-based performance budgeting pilot project through the 1997-99 biennium. Periodic reports shall be made to the budget section during the 1995-97 biennium of actual to planned expenditures by program and comparisons of planned to actual outcome, output, and efficiency and effectiveness measures. The budget section shall make a recommendation to the fifty-fifth legislative assembly regarding the continuance or expansion of program-based performance budgeting.

1995-96 Interim

As part of the performance budgeting pilot project, the Office of Management and Budget prepared agency performance reports entitled *North Dakota Delivers* based on the measures developed for each agency. Copies of performance reports for the Highway Patrol, Parks and Recreation Department, and the Department of Transportation are attached as Appendix B.

The 1995-96 interim Budget Section reviewed reports on the pilot project and asked the Office of Management and Budget to continue to work with only the nine budgets in the development of the 1997-99 biennium budget requests and executive recommendation and that those agencies be subject to program reviews. In addition, the Budget Section asked that the appropriation bills for the 1997-99 biennium for the agencies with program line items include a separate section identifying the amounts for salaries and wages, operating expenses, equipment, and grants for each agency. The Budget Section also recommended that the 1997 Legislative Assembly review the program-based performance budgeting pilot project and determine if the project should continue.

1997 Legislative Assembly

The 1997 Legislative Assembly continued the program line item appropriations for the nine pilot budgets and object code line item appropriations for the remaining five agencies. The Legislative Assembly included a separate section in the appropriations bill for each of the agencies with program line items identifying the amounts appropriated by

object code also. The Legislative Assembly did not include a section providing for reporting of the agencies' performance measures.

item appropriations for agencies for the 2003-05 biennium:

1997-98 Interim

The 1997-98 interim Budget Committee on Government Finance studied, pursuant to House Concurrent Resolution No. 3045, the current budgeting process, the results of the program-based performance budgeting pilot project, budget reforms in other states, and the feasibility of developing a legislative budget.

The committee recommended Senate Bill No. 2031, which was not approved by the 1999 Legislative Assembly, but which would have required the Legislative Council to create a legislative budget committee to coordinate and direct activities involved in the development of budget recommendations to assist the Legislative Assembly as it develops the final legislative budget. The estimated cost of implementing provisions of the bill was \$439,000 per biennium.

The committee reviewed the history of program-based performance budgeting in North Dakota and other states and recommended that if the program-based performance budgeting pilot project continues, the Appropriations Committees review agency performance and create, with agency input, performance measures for those agencies. Senate Bill No. 2031 also included a section indicating that a goal of the budgeting process is to include historic and anticipated agency performance as supporting information for budget recommendations.

1999 Legislative Assembly

The 1999 Legislative Assembly, in Senate Bill No. 2015, directed the Office of Management and Budget to discontinue the program-based performance budgeting pilot project when preparing the 2001-03 executive budget.

The following agencies that were involved in the performance budgeting pilot project continued to have program-based line items in the appropriations bill:

1. Highway Patrol.
2. Department of Corrections and Rehabilitation - Adult Services Division.

Although the appropriations bills for these agencies contained program line items, the detailed supporting budget information identified the amounts provided for each program by object code (salaries and wages, operating expenses, etc.).

2001 and 2003 Legislative Assemblies

Although the performance budgeting pilot project discontinued after the 1999-2001 biennium, a number of agencies continue to have their appropriations made by program line item rather than object code line item. The schedule below lists the types of line

Agencies With Object Code Line Items	Agencies With Program Line Items
NOTE: Boldfaced agencies were a part of the performance budgeting pilot project.	
Legislative branch	Department of Veterans Affairs
Judicial branch	Highway Patrol
University System ¹	Department of Corrections and Rehabilitation
State Department of Health	Upper Great Plains Transportation Institute
Indian Affairs Commission	Northern Crops Institute
Aeronautics Commission	NDSU Extension Service
Veterans Home	Agricultural Experiment Station
Department of Financial Institutions	Protection and Advocacy
State Fair	State Water Commission
Council on the Arts	Workforce Safety and Insurance
Department of Transportation	
Land Department	
Children's Services Coordinating Committee	
Industrial Commission and related agencies	
Job Service North Dakota	
Office of Administrative Hearings	
Department of Commerce	
State Board for Career and Technical Education	
Information Technology Department	
Governor's office	
Secretary of State	
Attorney General	
State Auditor	
State Treasurer	
Tax Commissioner	
Labor Commissioner	
Public Service Commission	
Agriculture Commissioner	
Insurance Commissioner	
Securities Commissioner	
Department of Human Services	
Department of Public Instruction	
State Library	
School for the Deaf	
North Dakota Vision Services - School for the Blind	
Office of Management and Budget	
Division of Emergency Management	
Adjutant General	
Seed Department	

Game and Fish Department

State Historical Society

Parks and Recreation Department

Retirement and Investment Office

Public Employees Retirement System

¹The University System has two line items per campus appropriation.

The primary reasons the Legislative Assembly chose to discontinue the performance budgeting pilot project were:

1. The system focused too much on detailed inputs and outputs of agency programs, rather than outcomes or results.
2. The detailed performance budgeting information required more time to analyze than was available during a legislative session.
3. The performance measures were selected by agencies, with little input from legislators.
4. The focus was on agencies wanting program rather than object code line items in the appropriation bills.

2003-04 Interim

The 2003-04 interim Government Performance and Accountability Committee studied, pursuant to House Bill No. 1497, state government performance and accountability practices, including a review of other states' performance budgeting practices and strategic planning efforts and how those practices and efforts may apply to North Dakota and improve its budgeting process.

The committee recommended House Bill No. 1035, which was amended to provide for a state government performance and accountability system pilot project and approved by the 2005 Legislative Assembly. As introduced the bill would have:

1. Created a government performance and accountability system to be established and maintained by the Office of Management and Budget subject to the input and review of the Government Performance and Accountability Committee. The system was to focus on results of major agency activities and to provide agency managers, the Governor, the Legislative Assembly, and the public with the information necessary to evaluate and assess agency performance and accountability for the purpose of ensuring that state government services are effective and state resources are used efficiently.
2. Established a statutory Government Performance and Accountability Committee consisting of up to eight legislators, two citizens, a representative of the Office of Management and Budget, and a representative of the State Auditor's office. The

- chairman of the committee could also invite up to six additional legislators to participate when committee discussion relates to their legislative standing committee assignments. The committee was to monitor state government performance and accountability by reviewing state agency missions, goals, objectives, strategic plans, and performance measurement data. The committee was also to assess the effectiveness of the government performance and accountability system.
3. Provided that the Legislative Council staff was to assist the committee in performing its duties and responsibilities, including the development of a consistent format for agencies and departments to submit their biennial goals and objectives or strategic plans and performance measurement data, analyzing proposed performance measures prior to committee review, and summarizing performance measurement data for the committee or Legislative Assembly.
 4. Provided that the Office of Management and Budget implement the system for executive branch agencies over two bienniums and that initially agencies prepare and present biennial goals and objectives and related performance measurement data for major programs of the agency for the next biennium. Within two years of approval by the Legislative Assembly or the Government Performance and Accountability Committee of an agency's performance measures, each agency must establish and maintain a three- to five-year strategic plan to guide its operations and activities.
 5. Required each agency to prepare an annual performance report summarizing its goals and objectives, including comparisons of performance results to performance targets, explanations of any major variances from performance targets, and multiyear trends in performance.
 6. Provided that the State Auditor, as part of each agency's biennial audit, review select agency performance results.
 7. Allowed for incentives and reviews for agencies based on their performance.
 8. Included provisions relating to the legislative and judicial branch participation in the system.
 9. Provided for University System participation but in accordance with statutory provisions already in place under North Dakota Century Code (NDCC) Section 15-10-14.2, which provides for performance and accountability reporting.
 10. Required performance measurement data to be included in agency budget requests.
 11. Included appropriations totaling \$404,859 from the general fund for the 2005-07 biennium for administering the government performance and accountability system. The appropriation included \$200,000 and one full-time equivalent (FTE) position for the Office of Management and Budget, \$89,668 and one FTE position for the State Auditor, and \$115,191 and one FTE position for the Legislative Council.
- The committee also recommended that the Legislative Council chairman invite representatives of the National Conference of State Legislatures and the Urban Institute to conduct performance and accountability training for state agency personnel in North Dakota.

CURRENT PERFORMANCE REPORTING University System

Section 20 of Senate Bill No. 2003, approved by the 2005 Legislative Assembly, provides the accountability measures that are to be included in State Board of Higher Education performance and accountability reports required by NDCC Section 15-10-14.2. The statutory section also requires the board to develop a strategic plan to define and prioritize University System goals and objectives. Similar reporting was required during the 2001-03 and 2003-05 bienniums. The 2005-07 accountability measures relate to:

1. Education excellence, including:
 - a. Student performance on nationally recognized exams in their major fields compared to the national averages.
 - b. First-time licensure pass rates compared to other states.
 - c. Alumni-reported and student-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities.
 - d. Employer-reported satisfaction with preparation of recently hired graduates.
 - e. Biennial report on employee satisfaction relating to the University System and local institutions.
 - f. Student graduation and retention rates.
2. Economic development, including:
 - a. Enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs.
 - b. Percentage of University System graduates obtaining employment appropriate to their education in the state.
 - c. Number of businesses and employees in the region receiving training.
3. Student access, including number and proportion of enrollments in courses offered by nontraditional methods.

4. Student affordability, including:
 - a. Tuition and fees on a per student basis compared to the regional average.
 - b. Tuition and fees as a percentage of median North Dakota household income.
 - c. Cost per student in terms of general fund appropriations and total University System funding.
 - d. Per capita general fund appropriations for higher education.
 - e. State general fund appropriation levels for University System institutions compared to peer institutions general fund appropriation levels.
5. Financial operations, including:
 - a. Cost per student and percentage distribution by major function.
 - b. Ratio measuring the funding derived from operating and contributed income compared to total University System funding.
 - c. Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
 - d. Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.
 - e. Ratio measuring the amount of expendable fund balances divided by total expenditures and mandatory transfers.
 - f. Ratio measuring net total revenues divided by total current revenues.

The University System has submitted four performance and accountability reports--January 2002, January 2003, January 2004, and January 2005.

Department of Commerce

Section 53 of Senate Bill No. 2018, approved by the 2005 Legislative Assembly, provides that the Department of Commerce report to either the Budget Section or another interim Legislative Council committee on North Dakota's economic goals and associated benchmarks. The Legislative Council assigned the responsibility to receive these reports to the Budget Section. The Department of Commerce is to report on the following North Dakota economic goals and associated benchmarks during the 2005-06 interim:

1. Develop unified efforts for economic development based on collaboration and accountability:
 - a. Site selection ranking of the Department of Commerce.
 - b. Share of local economic development organizations participating in statewide marketing strategy.

2. Strengthen cooperation between the University System, economic development organizations, and private businesses:
 - a. Academic research and development expenditures as percentage of gross state product.
 - b. Industry research and development expenditures as percentage of gross state product.
3. Create quality jobs that retain North Dakota's workforce and attract new high-skilled labor:
 - a. Net job growth.
 - b. New private sector businesses per 100,000 residents.
 - c. Average annual wage.
 - d. Net migration.
4. Create a strong marketing image that builds on the state's numerous strengths, including workforce, education, and quality of life.
 - a. Positive national and out-of-state media exposure (favorable mentions).
 - b. Number of Department of Commerce web site hits per month.
 - c. Number of leads generated by the Department of Commerce.
5. Accelerate job growth in sustainable, diversified industry clusters to provide opportunities for the state's economy:
 - a. Net job growth in manufacturing.
 - b. Net job growth in business services.
 - c. New private sector businesses in manufacturing.
 - d. New private sector businesses in business services.
 - e. Number of utility patents per 100,000 residents.
6. Strengthen North Dakota's business climate to increase international competitiveness:
 - a. Gross state product (annual growth rate).
 - b. Venture capital investments (thousands).
 - c. Merchandise export value (per capita).

The department, in cooperation with Job Service North Dakota, the Department of Human Services, and the University System, is also to report on the number of individuals trained and the number who became employed as a result of each department's workforce development and training programs, including the state's investment, the areas of occupational training, the average annual salary of those employed, and the average increase in earnings 12 months after completion of training.

Information Technology Department

Pursuant to NDCC Section 54-59-19, the Information Technology Department prepares an annual report on information technology projects, services, plans, and benefits. The department also includes information on its performance measures in the report. The department provided the following

information to the 2003-04 Budget Section on its performance measures:

PERFORMANCE MEASURES			
Performance Measures	Baseline (Previous Years)	Current Status (June 2004)	Target
Acceptable level of total net assets	2001 - 1.6 2002 - 1.4 2003 - 1.6	1.4	< or = to 2.0
Percentage of Information Technology Department rates reported in annual report that are competitive	2003 - 100%	100%	100%
Total number of customer projects and service requests completed	N/A	20,826	Monitor
Service requests	N/A	21,742	Monitor
Customer satisfaction indexes (percentages satisfied or very satisfied) relating to:	2002-03		
Value	85.3-86.0%	88.1%	90%
Timeliness	94.9-90.2%	91.6%	95%
Quality	94.6-94.2%	92.3%	95%
Knowledge	95.9-96.1%	97.3%	98%
Professionalism and courtesy	98.6-96.9%	97.3%	100%
Employee satisfaction index	2001 - 1.967 2002 - 2.010 2003 - 1.983	1.96	2
Controllable employee turnover	2001 - 4.0% 2002 - 2.4% 2003 - 1.9%	3.2%	4.0-6.0%
Percentage of service levels met	N/A	100%	100%
Percentage of strategic business plan objectives completed or on schedule	2001 - 35% 2002 - 50% 2003 - 65%	72%	70%

PERFORMANCE AUDITS

North Dakota Century Code Section 54-10-01(4) requires the State Auditor to perform or provide for performance audits of state agencies as determined necessary by the State Auditor or the Legislative Audit and Fiscal Review Committee.

The State Auditor's office conducts financial statement audits, information systems audits, and performance audits. Two types of performance audits are conducted--operational and performance. Operational audits are conducted every two years for most state agencies. Performance audits are conducted by the State Auditor's performance audit team consisting of five staff members. Performance audits are comprehensive and indepth audits. The agency completes two or three performance audits each year. Performance audits address a number of objectives, including objectives relating to assessing program effectiveness and results, economy and efficiency, internal control, and compliance with legal or other requirements. The specific objectives for each performance audit vary based on the circumstances for which the audit is selected.

Recent performance audits completed by the State Auditor and presented to the Legislative Audit and Fiscal Review Committee include:

- Service payments for elderly and disabled (SPED) program of the Department of Human Services.
- Workforce Safety and Insurance.
- Job Service North Dakota.
- Veterans Home.
- Child support enforcement program.
- Contracts for services.
- Department of Veterans Affairs.
- Department of Corrections and Rehabilitation.

NATIONAL STUDIES AND REPORTS

Legislating for Results

The National Conference of State Legislatures and the Urban Institute began studying state activities relating to results-based government in 1998 and completed a *Legislating for Results* report to provide guidance for states in developing a performance- or outcome-based system of evaluating the effectiveness of government services.

The following five key legislative actions are needed for obtaining useful outcome information for *Legislating for Results*:

1. Legislate a process for regular reporting of results-based information to the Legislative Assembly by each major state program, identifying clearly what the program has accomplished for the state's citizens, not merely what activities the program has undertaken.
2. Provide training in *Legislating for Results* for legislators and legislative staffs.
3. Ask legislative staffs to review in advance the performance information provided by agencies to identify issues for legislative consideration during hearings and other legislative sessions.
4. Seek explanations from agencies for variances on outcomes.
5. Establish a formal process for reviewing the quality of the outcome data. As the data is used for making major funding and programmatic decisions, it becomes necessary for the Legislative Assembly to have confidence in the data.

The report identifies the following six key legislative actions that are necessary for effectively using outcome information:

1. Examine outcome information as part of the budget request reviews.
2. Review state programs periodically outside the budget process to identify which services have strong results and which have poor or weak results. This will indicate to agency personnel that the Legislative Assembly is interested in results, not only activities and

outputs. This will also encourage agencies and programs to focus on results and how best to deliver services.

3. Review the latest outcome information related to key issues as a basic starting point when developing policies and new authorizations.
4. Require that outcome information be included as a major criteria when establishing performance incentives for agencies and state employees. This will increase accountability of the agencies and employees and encourage them to focus on important service outcomes.
5. Support and encourage agencies to include outcome targets in service contracts and grants. This will increase accountability of contractors and grantees and encourage them to focus on important service outcomes.
6. Include outcome information when communicating with constituents. If possible, obtain from agencies service outcome information relating to the constituent's county or city.

"Balanced Scorecard"

The "balanced scorecard" concept of measuring government performance involves the development of a program's vision and strategy and the critical success factors to achieve the vision. Key performance indicators measure the agency's progress in achieving its vision. The "balanced scorecard" concept:

1. Clarifies and builds consensus on strategic direction.
2. Communicates strategy and measures of success on all levels for staff and citizens.
3. Communicates cause and effect relationships.
4. Aligns behavior and increases the focus on priority initiatives.
5. Provides insight into the achievement of strategic objectives and goals.

Each agency program should have a clear and focused mission. Although programs may measure many outcomes, only 5 to 10 key performance measures should be monitored at the legislative level for each program. Other performance measures should have a cause and effect relationship to the key measures of the program.

Kentucky Review of Performance-Based Budgeting

The 2001 Kentucky Legislative Research Commission studied performance-based budgeting. Conclusions of the commission include:

1. Legislators must determine whether they want to hold agencies accountable for what they spend or what they achieve.
2. Performance budgeting is a tool that can improve accountability in the use of public

resources. To date it has not been a good tool for improving efficiency in the use of public resources.

3. Performance measures should be carefully defined to accurately capture outcomes resulting from program activities.
4. Sufficient technical and staff resources should be devoted to training and maintenance of the system.
5. One of the most difficult aspects of performance budgeting is the definition of agency performance targets that can be reliably measured on a regular basis.
6. Performance measures should be independently validated on a regular basis.
7. Careful planning should limit the number of performance measures to a small set of well-crafted indicators.

National Conference of State Legislatures Review of States' Performance Budgeting

In 2002 the National Conference of State Legislatures reported on the experiences of a number of states that have developed performance budgeting systems. The states involved in the review were Florida, Minnesota, North Carolina, Oregon, and Texas. The report lists the advantages of performance-based budgeting as increased government accountability with more detailed oversight and better targeting of activities to citizens' needs. Disadvantages identified include significant paperwork and increased staffing to collect data, monitor, and report, particularly in states in which systems are not already established.

The report includes recommendations for developing and implementing a performance budgeting system. Major recommendations include:

1. Executive leadership and legislative commitment are essential for the development of performance budgeting. The executive branch must provide central direction and enforce agency commitment, and the legislative branch must be involved in selecting performance indicators and using the performance information in its decision-making process.
2. An oversight agency is needed to be responsible for developing agency instructions and performance reports and integrating this information into agency budget requests.
3. Legislators must be involved in selecting performance indicators to ensure that the measures are relevant to legislators' concerns. Performance measures should be linked to appropriations because agencies are more likely to be concerned with good performance when linked to funding levels.
4. Performance measures should be limited to those that are most relevant and best-defined.

5. The identification of unit costs for select programs such as cost per mile of new highway construction provides additional useful information for the legislature to use in its decisionmaking process.
6. Agencies need to specify how funding changes will affect performance results to provide legislators with relevant information for use in decisionmaking.
7. Although attempts have been made to use incentives and disincentives to improve agency performance, adjusting the amount of agency funding as an incentive or disincentive has not been successful.
8. Additional legislative staff may be necessary to assist legislators and state agencies to develop, validate, and use performance information. In states in which staff resources have been dedicated to the performance process, including Florida and Texas, the system has been somewhat more successful than in states such as Minnesota and Oregon that have had relatively few staff members involved in the performance budgeting system.
9. Additional funding may be needed to develop more comprehensive information management systems to facilitate the collection, analysis, and presentation of performance information and its integration with budget requests.
10. Implementation of performance budgeting may take up to four years--18 months for an

agency to design and receive approval of its proposed program structure and performance measures from the Governor and the legislature and another 30 months to complete the review of an agency's first-year performance measure results.

The National Conference of State Legislatures prepared a report in 2000 entitled *Governing for Results in the States - Ten Lessons* which provides suggestions for implementing a results-oriented performance and accountability system. The publication indicates that cooperation between the executive and legislative branches is needed to successfully implement a performance and accountability system. The report also identifies the importance of adequate training and technical assistance as the system is being implemented.

OTHER STATES' PERFORMANCE AND ACCOUNTABILITY PRACTICES

Based on a 2000 National Conference of State Legislatures report, 33 states have approved legislation providing for performance budgeting information. Six states--Florida, Louisiana, Maine, Missouri, New Mexico, and Texas--include performance information in agency appropriation bills. The majority of other states include the performance information in various budget documents available to those states' legislatures.

The following chart compares legislative and performance information of selected states to North Dakota:

	North Dakota	Alaska	Florida	Louisiana	New Mexico	Texas
Session	Biennial	Annual	Annual	Annual	Annual	Biennial
Length of session	80 legislative days	121 calendar days (may be extended by 10 days)	60 calendar days (may be extended)	60 legislative days in odd-numbered years, 30 legislative days in even-numbered years	60 legislative days in odd-numbered years, 30 legislative days in even-numbered years ¹	140 calendar days ¹
Number of legislators	House - 94 Senate - 47	House - 40 Senate - 20	House - 120 Senate - 40	House - 105 Senate - 39	House - 70 Senate - 42	House - 150 Senate - 31
Number of legislators on appropriations committee	House - 23 Senate - 14	House - 11 Senate - 7	House - 48 Senate - 16	House - 21 Senate - 12	House - 18 Senate - 10	House - 27 Senate - 15
Number of legislative fiscal analysts	Joint staff - 5	Joint staff - 6 Each legislator has from 2 to 5 personal staff	House - 43 Senate - 29	House - 10 Senate - 6 Joint - 18	Joint staff - 18	Joint staff - 89
Budgeting period	Biennial	Annual	Annual	Annual	Annual	Biennial
Number of appropriation bills	Several	2	1	1	1	1
Approximate appropriations bill(s) length	135 pages	100 pages plus 55-page performance measure bill	369 pages	294 pages	242 pages	1,002 pages
2003 general fund budget	\$874 million ²	\$2.1 billion	\$20 billion	\$6.6 billion	\$3.9 billion	\$31 billion ²
Number of performance	N/A	Unknown	Unknown	5,900	Unknown	7,035

	North Dakota	Alaska	Florida	Louisiana	New Mexico	Texas
indicators maintained by agencies						
Number of performance indicators considered by legislature	For select agencies - Higher education - 25; Commerce - 25	550	1,000	2,300	1,000	2,200
Location of performance indicators considered by legislature	In select appropriation bills	In a separate bill	In the appropriations bill	In the appropriations bill	In the appropriations bill	In the appropriations bill
Agencies excluded from performance budgeting	N/A	Legislative and judicial branches and higher education	Legislative branch	Legislative branch	None	Legislative branch
¹ Legislative committees meet prior to the legislative session to develop a legislative budget recommendation. ² Based on 2001-03 biennial appropriation.						

Alaska

Alaska began its performance measurement system in 1997 and phased it in over a three-year period:

- Year 1 - Mission statements were established for each program of each agency.
- Year 2 - Performance indicators for one-half of the agencies were established.
- Year 3 - Performance indicators for the remaining agencies were established.

By statute, Alaska requires agencies to submit performance measurement information to the legislature. State agencies submit proposed program missions and performance indicators to the legislature prior to each legislative session. Subcommittees of the appropriations committees review the proposed missions and measures as they develop the missions and measures for each agency for the next fiscal year. These missions and measures are included in a separate bill that is approved by the legislature. The Alaska legislature includes approximately 550 measurement indicators in the bill that is approved each year. Agencies are not required to develop a strategic plan as part of performance budgeting.

There is no formal interim reporting of performance measure information to legislative committees in Alaska.

Florida

Florida began its performance measurement system in 1994 and phased it in over a seven-year period. Use of the system is mandated by statute. Agencies are required to include performance information in their budget requests and the Governor is required to submit a performance-based program budget to the legislature.

When implementing the system, the first agencies selected to utilize performance budgeting were agencies that expressed an interest in being involved. In each subsequent year, a mix of large, medium, and small agencies was implemented.

Performance measures are included in each agency's budget request. Actual performance for two

previous years, the current year's estimate, and the proposed target for the next year are presented. Key indicators for each agency are included in the appropriations bill and the implementing bill (a bill providing guidance and direction to agencies for implementing their appropriation). The Florida legislature considers approximately 1,000 measures associated with state agency programs. Although not required as part of performance budgeting, agencies in Florida are required to have a long-range strategic plan to guide their activities.

Unless an agency is requested by the legislature to report more frequently, agencies report their performance data annually as part of the agency budget request. Performance data of an agency is audited periodically as part of an agency performance review conducted by the legislature's Office of Program Policy and Government Accountability.

Louisiana

Louisiana began its performance measurement system in 1997. Louisiana phased in components of the system rather than phasing in agencies, requiring all agencies to implement a component of the system at the same time. Louisiana statutes require agency strategic plans and the use of performance-based budgeting.

The components were phased in over three years:

- Year 1 - Program descriptions for each agency were required.
- Year 2 - Key performance indicators, semiannual reporting, and strategic plans were required.
- Year 3 - Key objectives and quarterly reporting were required.

Agencies include proposed objectives and performance measures for the upcoming fiscal year in each agency's annual operational plan that is submitted as part of the agency's budget request. The Governor includes the key objectives and performance measures for each agency in the executive budget recommendation. During the session, the objectives and measures are considered by the

appropriations committees and included in the appropriations bill. The Louisiana legislature includes approximately 1,100 objectives and 2,300 performance indicators in its appropriations bill each year. Agencies are required to develop and maintain a five-year strategic plan.

Agencies report quarterly on performance relating to key performance indicators and semiannually relating to supporting indicators. An interim legislative performance review subcommittee meets semiannually to review agency performance. The State Auditor reviews agency performance systems for reliability and validity but does not audit the performance data.

New Mexico

New Mexico began its performance and accountability system in 1999 and is phasing it in over a five-year period. A mix of small, medium, and large agencies began using the system in each of the five years. Performance budgeting is required by statute in New Mexico.

Agencies submit proposed performance measures along with each agency's budget request. Actual performance for two previous years, the current year's estimate, and the proposed target for the next year are presented. Approximately 1,000 performance measures, including output, outcome, efficiency, and quality measures, are included in the appropriations bill. Agencies are not required to prepare strategic plans as part of performance budgeting.

Agencies report actual performance annually as part of the budget request process. Periodically, the legislature has required quarterly reporting. The performance data reported by agencies is not audited.

Texas

Texas began its performance measurement system in 1992, with all agencies implementing the system. Performance budgeting is required by statute.

Texas requires agencies to develop a strategic plan, to include five-year outcome measure projections, and to include performance measures in agency budget requests. The Texas legislature considers output, outcome, efficiency, and explanatory measures as it develops each agency's appropriation, with a total of approximately 2,200 performance measures included in the appropriations bill.

Agencies submit quarterly reports of actual performance, including an explanation of any variance from the target exceeding 5 percent. The Legislative Budget Board staff prepares budget and performance assessments based on actual agency performance which are provided to all legislators.

The State Auditor's office is responsible for auditing the performance measure information provided by state agencies.

ACTION PLAN

The committee may wish to proceed with the establishment of a government performance and accountability system pilot project as follows:

1. Review the information received by the 2003-04 interim Government Performance and Accountability Committee regarding performance budgeting and reporting.
2. Receive information from the Office of Management and Budget regarding the establishment of a government performance and accountability system pilot project, including recommendations for the three pilot agencies.
3. Receive information from representatives of the state agencies under consideration for the pilot project regarding the agency's current performance measures.
4. Select up to three executive branch agencies for the government performance and accountability pilot project.
5. Review, for each executive branch agency selected for inclusion in the pilot project, biennial goals and objectives and related performance measurement indicators for major programs of the agency or department. The performance measures must provide, to the extent possible:
 - a. The data necessary to assess the performance of major activities of the agency, including a program's efficiency and effectiveness.
 - b. A comparison, to the extent appropriate, to other states' performance measures.
6. Review, for each executive branch agency selected for inclusion in the pilot project, the establishment, to the extent possible, of a three- to five-year strategic plan to guide its operations and activities. The strategic plan must include:
 - a. The mission, goals, and objectives of the agency or department.
 - b. Identification of the groups of people served by the agency and the results of any methodology used to assess and improve services.
 - c. The strategies and activities utilized to meet agency or department goals and objectives.
 - d. A general description of the agency's or department's sources and uses of funds.
 - e. Estimated future service requirements and the resources that may be necessary to meet those requirements.
 - f. External factors affecting services of the agency or department.
 - g. The performance measurement indicators developed under House Bill No.

- 1035 used to evaluate and assess the agency's or department's performance.
7. Review, for each executive branch agency selected for inclusion in the pilot project, the preparation, to the extent possible, of a biennial performance report that summarizes its goals and objectives, compares performance results to performance targets, presents multiyear trends in performance results, and, to the extent possible, provides comparisons to other states' performance results and national benchmarks.
 8. Develop recommendations and prepare any legislation necessary to implement the recommendations.
 9. Prepare a final report for submission to the Legislative Council.

ATTACH: 2