

Research Report



March 1999

PB² -- "Diamond in the Rough" or Just A "Zirconium Bauble"?

Introduction

Is PB² in Florida state government today truly the "diamond in the rough" that it is touted to be? How much genuine progress has been attained in its evolution in the process of refining measures of program performance and standards of government accountability? The lexicon of PB² is replete with rich terminology connoting important necessary, if not sufficient process components bench marking, program inputs, outputs, and outcomes, performance measurement, etc. for determining government accountability. Nonetheless, the goals and objectives that PB² purports to represent could end up being a mere litany of reform rather than culminating in a bono fide professionalization of government bureaucracy. Is PB² the "real thing," or does it risk being fossilized, like its messianic forebear, Planning, Program and Budgeting Systems (PPBS), did some thirty years ago?

Far too often current vested interests and other intransigent political obstacles to meaningful government reform will not yield to accommodate, either by commission or omission, honest efforts to tighten government accountability. The goal of government program accountability never will be effectively driven by PB² unless the outcomes of public programs overcome such inertias and come to reflect "genuine articles" of consumer demand. In order for the PB² process to attain its fullest potential for achieving public program accountability, there must be an ongoing refinement of system and process. The "polishing of the gem" must attain government accountability in terms of externally driven rather than primarily in terms of in-house determined performance measures of program outcomes. Unless vigilant in their determination of program standards in terms of consumer evaluation of product performance as well as top-down "evaluation by the experts," both PB² and the outcomes it professes to measure could be perceived as mere contrivances by elected officials to manipulate public opinion.

TaxWatch acknowledges that PB² is making limited progress toward attaining its overarching goal of achieve government accountability. However, there is an omnipresent danger that a mere pretense of accountability will prevail, unless Florida government is truly dedicated to, as well as capable of supporting, the development of measurable outcomes that, not only are externally-driven, but also are reflective of competitive societal norms. The analytical challenges of achieving such measures can be a daunting task due to the political inertia that is so much part-and-parcel of the PB² process. The errant tendency is to allow internally-driven, static attributes of process the inputs and outputs of government performance rather than the dynamics of citizen-

defined measures of performance to become surrogate benchmarks of program accountability. Unless extreme caution is taken, PB² will become at best a zirconium bauble rather than the polished gemstone of government accountability that it aspires to be.

Lest it be forgotten, it was a citizen-led initiative demanding meaningful accountability and a better return on tax dollars which led the Florida Legislature, in 1994, to pass the Government Performance and Accountability Act. The Act requires state agencies to measure their performance and be held accountable for their products. It requires too that agencies justify their proposed performance measures to the Executive Office of the Governor and relate them to agency decision-making and strategic planning. The difficulty of ensuring government performance and accountability should not be underestimated. It is a daunting political and analytical undertaking for elected and appointed officials alike.

Performance-Based Program Budgeting (PB²) was explicitly required by the 1994 Act. The fundamental structural change to be brought about by PB² was a shift from a line-item format for legislative appropriations focusing primarily on workload and process to appropriations that provide greater flexibility to state managers in allocating resources so as to achieve goals and objectives prioritized by the Florida Legislature. In short, the basic objective was to focus on citizen outcomes, or how state programs benefit Floridians. In this process, each agency's annual Legislative Budget Request must include:

- the needs of the agency for operating expenditures;
- approved performance measures;
- agency outputs and outcomes;
- baseline data;
- performance standards, and
- evaluation of the agency's previous program performance.

After reviewing agency progress, the Executive Office of the Governor may recommend incentives or disincentives for agency performance. In addition, the 1994 Government Performance and Accountability Act (Chapter 94-249, Laws of Florida) calls for PB² to be phased-in incrementally based on a submission schedule, with all state agencies expected to be in compliance by the year 2002.

To determine whether PB² is tracking toward achieving its highest potential, Florida TaxWatch interviewed key policymakers and administrators in the Governor's Office, the Florida Legislature and state agencies currently implementing PB². The study also reviewed the current implementation of PB² and highlights several initiatives taken by Florida state agencies as pertains thereto. Unfortunately, several nagging concerns remain about how the current process is evolving. Several strategies are suggested for improving the process as it evolves. In addition to relying on interview data, the report features data and analysis from a previous case-study overview by the authors of the implementation of PB² in Florida government¹.

PB² Is Making Some Progress In Florida

As Florida approaches the mid-point of an eight-year phase-in of PB², 19 of 27 state agencies have presented PB² budgets for at least some of their programs. Many agencies have already taken creative and innovative steps to improve the implementation of PB². Examples include:

1. The Florida Department of Law Enforcement - The Florida Department of Law Enforcement (FDLE) has been very proactive in implementing PB², including volunteering to become one of the first agencies to do so. It was also the first agency to implement PB² "across the board" in all of its divisions. Much of this proactive approach, according to members of the agency, is due to the drive and commitment of FDLE Commissioner Tim Moore. As a result, FDLE has been asked to appear before legislative committees twice as a "model" of how to implement PB².

In 1997, FDLE unveiled its own version of an incentive program -- the Sustained High Performance Salary Model. It presented the model to other agencies, Florida TaxWatch and public interest groups before approaching the Florida Legislature to seek permission to use funds with which to "pilot test" the performance model at FDLE. Agency officials believe that its model, geared toward awarding pay increases to employees whose performance achieves individual, subunit, division or agency missions or goals, has the potential of becoming an archetype for an incentive-based state agency system. After an independent review and constructive modifications by Florida TaxWatch, FDLE's efforts paid off in 1998 when the Florida Legislature approved pilot usage of the Sustained High Performance Salary Model.

2. The Florida Department of Revenue - The Florida Department of Revenue (DOR) has been innovative in its efforts to integrate PB² with the agency's ongoing total quality and process re-engineering efforts. The resulting aggregation process is one that, in addition to enabling DOR to measure processes, requires substantive outputs and outcomes to be measured, thereby allowing DOR to budget according to results, not just practices. This allows DOR to:

- ◆ identify who the agency's customers are, what their products are and who their critical suppliers are;
- ◆ map the business process;
- ◆ develop key Performance Ability Measures (PAMS);
- ◆ analyze the measures for deficiencies and problems;
- ◆ strategic planning based on the measures; and
- ◆ continuously improve the business process using PAMs and team assessments.

DOR's incorporation of total quality management, process re-engineering and private sector learning has enabled the agency to go beyond less inclusive, more pedestrian applications of performance budgeting.

3. The Florida Department of Children and Families - The Secretary of the Florida Department of Children and Families (DCF) adopted PB² as a way to address managing a regionally-decentralized department. Using a strategic planning process that focuses on mission and major clients, DCF identified 15 major targeted client groups and developed strategic and key outcome measures for each group suitable for uniform application across the 13 regions. Performance standards and outcome measures, as well as best-practices from high performing regional programs, have been shared across the regions. This is quite an accomplishment for an agency having some of the most diverse and difficult issues to address, and which historically has encountered substantial problems in assuring efficient and effective services delivery. DCF's performance improvement testifies to the efficacy with which a public agency, through perseverance and initiative, can utilize performance measurement to meet the people's needs.

DCF also is leading the way in incorporating PB² into its strategic planning and evaluation processes. Among DCF's more impressive initiatives is its amalgamation of three major functions -- strategic planning, evaluation and PB² -- into one office, the Division of Standards and Evaluation. As part of the PB² implementation process, this office has developed a new strategic plan which has enabled DCF to identify client target groups and match broad outcomes with program and district inputs. Insiders report that this has better focused the agency's work, helping it to better educate the public and the Legislature about how well or poorly it performs.

DCF's strategic planning effort furthermore has helped staff better understand who the agency's clients are and how their programs contribute to changing the lives of children and families. Some administrators at DCF also suggest that the process of examining programs that serve target groups has helped the agency identify and reduce areas of program duplication.

4. The Florida Office of Program Policy Analysis and Government Accountability - A major resource that the Florida Legislature established in the 1994 Act to help implement and evaluate PB² is the Office of Program Policy Analysis and Government Accountability (OPPAGA), directed by John Turcotte. OPPAGA's mission is multifaceted: to provide objective, independent, professional governmental analyses of state policies and services; assist the Florida Legislature in its decision-making; ensure government accountability; and recommend to the Legislature the best use of public resources.

Over the last two years, OPPAGA has positioned itself as a bridge and coordinator between state agencies and legislators and their staff with regard to many PB² issues. OPPAGA's responsibilities under PB² include agency and legislative staff training; information database management; assessing the validity and reliability of performance measures for the Legislature; assessing agency progress in implementing PB² through agency performance evaluations and justification reviews; and, ultimately, making recommendations to the Legislature on whether programs should be modified or terminated.

One of OPPAGA's most ambitious projects has been development of the Florida Government Accountability Report (FGAR), an on-line Internet encyclopedia of Florida state government. Unique among state web sites, FGAR allows citizens and policymakers to compare information across programs over time, with performance measurement information being updated quarterly instead of yearly.

5. The Governor's Office of Planning and Budgeting - In an effort to address the incentives provision of the PB² Act, the Governor's Office of Planning and Budgeting (OPB) submitted a bill (House Bill 3481) recommending incentives and disincentives for agencies operating under performance-based program budgeting. House Bill 3481, which passed in the 1998 session, provides a framework for recognizing and rewarding agency performance that exceeds standards established by the Legislature in the General Appropriations Act. This is accomplished through performance contracts between the Governor and agency heads. Contracts are to be based on performance measures selected by participating agencies with approval of the Governor's Office of Planning and Budgeting. Performance contracts are to establish a framework defining the level of achievement necessary for agencies to receive incentive awards.

The Governor's Office attempted to improve the PB² process by:

- ▶ Clearly defining what an incentive can include;
- ▶ Increasing legislative participation by allowing agencies to submit PB² programs and measures to the Legislature before making PB² budget requests;
- ▶ Establishing contracting between the Governor's Office and agency heads that clearly define appropriate performance measures best suited for individual agencies; and
- ▶ Providing agencies with criteria for receiving incentive awards.

The bill passed during the 1998 general legislative session.

Concerns Remain About PB² Implementation

1. A General Lack of Coordinated and Clear Leadership

A major concerns with the current implementation of PB², according to key policymakers and administrators currently implementing PB2, is that nobody has taken charge of coordinating or directing the process. Most of the legislative "champions" who advocated passage of the 1994 Act are no longer are participants in the process or have lost contact with it. Additionally, many outside proponents have moved on to other issues. Agency heads report that the only guidance and support that they can rely on to help them implement PB2 is the "school of hard knocks." As a result, there is much variability of performance in the implementation process. Agencies having strong internal leadership and a coherent, well-defined and homogeneous institutional culture tend to do the best job of implementing PB2. FDLE is a case-in-point.

2. Lack of Appropriate Data to Track Outputs and Outcomes.

Of major concern, according to key policymakers and supporters of PB2, is the general lack of appropriate data at the state level for tracking outputs and outcomes over time.

OPPAGA specifically asserts that lack of data on program results may be one reason agencies often propose weak outcome measures¹. It is noteworthy that many agencies traditionally have tracked program processes and products--in some cases outputs but rarely have citizens' outcomes been tracked or otherwise accounted for in relationship to government services. Although some agencies are now collecting new data in order to develop good performance measures, agency performance data is often unreliable. Such data must be sufficiently complete and correct if it is to be useful.

3. Unclear standards and processes for performance measures

A third problem cited by key policymakers and administrators who currently are implementing and supporting PB2 is that state agencies are not developing adequate performance measures addressing their programs' critical functions. Nor are agencies purportedly assessing program outcomes adequately. This is attributed generally to a lack of data on program results, unclear standards and incomplete performance measures. Moreover, agencies are reluctant to provide outcome measures for functions over which they have or are perceived to have limited control. This is especially true if program performance is viewed as below par.

OPPAGA suggests that the evaluation process might be improved by providing explanatory factors which consider the role of external as well as internal influences of program results. For example, a job training program would report the unemployment rate as an external factor worth considering in evaluating the program's success in placing participants in jobs.

4. Tracking the cost to achieve outputs and outcomes

A fourth concern expressed by key policymakers and administrators currently implementing and supporting Florida's PB2 is that the state lacks a cost-accounting system suitable for tracking expenses in achieving desired outputs and outcomes. Unit cost data would better allow the Legislature to weigh the benefits of programs against their cost and improve decision-making.

Currently, most agencies lack access to unit cost data. They usually account for their spending by funding sources rather than in accordance with programs or services. Also, agencies typically do not allocate indirect costs such as overhead to individual programs. This is a fundamental deficiency that has been allowed to develop under the guise of market norms not being applicable to the public sector. For all practical purposes, constituents are "customers" receiving government services.

Key Florida policy analysts point out that the state's primary accounting system (SAMAS) does not readily support the allocation of all direct and indirect cost to programs and services. Consequently, the Legislature cannot easily consider the cost and the benefit of agency programs. In this age of computerized data systems, there is no justifiable reason for this accounting deficit to persist. Only with a more meaningful system of accounting, one which captures the costs and benefits derived from services, will real efficiency and effectiveness be achieved in the public sector. The lack of appropriate cost data delimits bonafide comparisons between business as usual in the

public sector as compared to privatization alternatives, thereby fostering bigger, less responsible, public/government monopolies.

5. Lack of clear standards and processes for awarding incentives or imposing sanctions.

A fifth concern cited by key policymakers and administrators relative to the current implementation of PB2 is the ongoing lack of clear standards and processes for awarding incentives or imposing sanctions. According to the 1997 OPPAGA report cited earlier, whereas Florida and Texas are the only two states that have created formal mechanisms for imposing incentives and disincentives based on agency performance, both states are simply paying lip service to their stated objectives.

The historical record shows that, in 1996, the only Florida agency that had been under PB2 long enough to be eligible for performance incentives or disincentives was the Department of Revenue. Whereas DOR was seriously considered by the Legislature eligible for retention of up to 50% of its unspent funds as an incentive for good performance in its General Tax Administration Program, no funding was awarded. The reluctance of the Florida Legislature to award earned incentives suggests that those assessing the agency's performance for the Legislature (legislative staff) may not fully understand the importance of fully promoting incentives and disincentives as a means of promoting future agency performance.

Agency officials, for good reason, are skeptical that they will receive incentives should they meet performance goals under PB2, yet equally worried about being sanctioned should they fail to meet performance-related goals. HB 3481, a Governor's Office initiative designed to address such concerns (summarized above) is a good first step in the right direction. However, only time will tell whether legislative intent will be fully executed.

Ways to Strengthen Implementation of PB²

Respondents in state agencies, legislative committees, and the Governor's office outlined the following leadership and structural changes they see are necessary in order to improve the current implementation of PB2:

1. Leadership must be exerted by those with "institutional wisdom" regarding the PB2 process, namely, those in state agencies implementing it and those in the Legislature monitoring it. Leadership that accesses the collective concern, participation and attention of all levels of employees is the only viable way PB2 can be implemented. A guiding principle in the quest for effective leadership is to utilize all the personnel resources and talents within groups to define their current circumstances and effectuate plans and practices for their futures. "Leadership" here refers to facilitating the sharing of intellect and competence of entire groups of participants rather than relying solely on the limited assets of status leaders.

Agency heads and legislative staff must, therefore, find ways to share ideas and coordinate actions. Some agency and Legislative leaders wisely call for the formation of a Leadership Council made up of representatives from the Governor's Office, the House and Senate, OPPAGA, Florida TaxWatch and state agencies to provide more direction for implementation of PB2.

Key members of the Governor's Office, legislative staff, state agencies and public interest groups should form an ad-hoc PB2 leadership committee. It would publicize successful experiences with agency implementation of PB2 and suggest ways in which the implementation process might be improved. In effect, this would facilitate institutional learning.

2. *Patience* (particularly by elected officials), **persistence** and an unrelenting **focus** on the customer are necessary to ensure successful implementation. Florida's PB² implementation process is, and was designed to be, incremental -- spread over a seven-year implementation period. Because of the time-lag, process results will not be immediately apparent. The success of as contextual an implementation process as Florida's PB2 depends in large part on the skills of agency administrators and legislative staff in adopting state policies to local conditions. It relies only to a limited extent on centralized activities and standardization.

3. *Increase Managerial Flexibility* - Florida's PB2 implementation is characterized by high ambiguity, particularly regarding goals, including:

- a) Increased legislative control and agency accountability;
- b) Increased managerial flexibility and thus effectiveness; and
- c) Greater Customer focus for better services and products (for less) for the citizens of Florida

Policy implementation experts contend that in cases where policy goals are multiple and conflictual, success depends heavily on the resources and actors in the implementing environment; namely, the state agencies. Agency heads and legislative staff must be given the freedom (managerial flexibility) and the resources to adapt programs to current conditions. In short, they must be encouraged to be performance entrepreneurs or failure will likely occur.

Enhanced managerial flexibility will allow for an important **learning** process to transpire. Because of the lack of central leadership and the nature of the PB2 itself, the only learning mechanism available to agencies is the "school of hard knocks". Agency leaders state that learning to implement PB2 properly is like learning to ride a bicycle for the first time. You have to fall off a few times before you get it right. Such "self-learning" requires time, persistence and innovativeness, all of which cannot occur without managerial flexibility.

4. *Install Full Cost Accounting Systems* - Agencies need to take steps towards installing a full cost accounting system that tracks the actual cost of program delivery as opposed to the current line-item accounting system which only tracks objects of expenditure.

Florida TaxWatch Supports Results-Oriented Budgeting

Florida TaxWatch is celebrating its 20th anniversary this year. Since its inception, TaxWatch has been, and will continue to be, an ardent supporter of results-oriented budgeting. Since 1986, it has publicly advocated and supported the introduction of performance-based program budgeting into the state's budgeting process. Florida TaxWatch believes that while PB2 thus far has had some positive impacts on the state's budgeting and accountability processes, it has not had a real impact on how money is allocated and which programs grow or are terminated.

Florida TaxWatch concludes that, until this changes, PB2 will not be a relevant and meaningful budget tool that can meet the needs of Florida's diverse and dynamically changing citizenry. Real change requires openness, insight, an incredible degree of commitment and courage, competent management and personnel, and a system of accountability and meaningful consequences that are routinely and evenly applied. Until this occurs and many taxpayers see and feel it in their own terms as well as those of government experts, government budgeting and performance throughout Florida will largely remain irrelevant, distant and disconnected from the lives of Florida's citizens. We can and must do better!

ENDNOTES

1. Berry, F. S. & Flowers, G. (Forthcoming). Public entrepreneurs in the policy process: Performance-Based Budgeting in Florida. Journal of Public Budgeting, Accounting and Financial Management.
2. Florida Office of Program Policy Analysis and Government Accountability (April, 1997). A Report on Performance-based Program Budgeting in context: History and comparison. Tallahassee, Florida: Florida Office of Program Policy Analysis and Government Accountability.

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