

August 2003

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY STUDY - BACKGROUND MEMORANDUM

House Bill No. 1497 (attached as Appendix A) provides for a Legislative Council study of state government performance and accountability practices. The study is to include 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 North Dakota's budgeting process.

House Bill No. 1497 as introduced and amended by the House (attached as Appendix B) would have created the Government Performance and Accountability Committee as a statutory committee and would have required the committee to select agencies to prepare strategic plans and to report on agency performance compared to performance indicators established by the committee for each selected agency.

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 C.

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.

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, that 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 programmatic line item rather than object code line item. The schedule below lists the types of line item appropriations for agencies for the 2003-05 biennium:

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

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

CURRENT PERFORMANCE REPORTING University System

Section 18 of House Bill No. 1003, approved by the 2003 Legislative Assembly, provides the accountability measures that are to be included in State Board of Higher Education performance and accountability reports required by North Dakota Century Code 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 biennium. The 2003-05 accountability measures relate to:

1. Education excellence, including:
 - a. Student performance on nationally recognized examinations 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. Ratio of faculty and staff to students.
 - g. 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:

- a. Proportion of residents of the state who are within a 45-minute drive of a location at which they can receive educational programs from a provider.
- b. 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. Administrative, instructional, and other cost per student.
 - e. Per capita general fund appropriations for higher education.
 - f. State general fund appropriations levels for University System institutions compared to peer institutions' general fund appropriations levels.
5. Financial operations, including:
 - a. Percentage of total University System funding used for instruction, research, and public service.
 - b. Percentage of total University System funding used for institutional support, operations, and maintenance of physical plant.
 - c. Ratio measuring the funding derived from operating and contributed income compared to total University System funding.
 - d. Deferred maintenance ratio measuring the size of the University System's outstanding maintenance as compared to its expendable net assets.
 - e. Viability ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
 - f. Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.
 - g. New construction and major renovation capital projects for which specific appropriations are made, including budget to actual comparison, use of third-party funding, and related debt.

The University System has submitted two performance and accountability reports--one in January 2002 and one in January 2003.

Department of Commerce

Section 9 of House Bill No. 1019, approved by the 2003 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 interim Economic

Development Committee. (The 2001 Legislative Assembly also had required the department to establish performance measures and to report to the Budget Section on the department's progress in meeting its measures after the first year of the 2001-03 biennium.)

The Department of Commerce is to report on the following North Dakota economic goals and associated benchmarks during the 2003-04 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

For the 2001-03 biennium, a section of legislative intent was included in 2001 House Bill No. 1043

providing that the Information Technology Department establish measures to assist the Legislative Assembly in determining the effectiveness and efficiency of the department's operations and report to the Information Technology Committee, the Budget Section, and the Legislative Audit and Fiscal Review Committee on the measures developed. The department provided the following information to the 2001-02 Budget Section on the department's performance measures:

Business Driver - Performance Measures	Baseline (2001)	Current Status (July 2002)	Target
Provide value to our customers			
Percentage of strategic initiatives completed	2000 - 35% 2001 - 50%	21.9% (with six months remaining)	65%
Percentage of completed strategic initiatives meeting objectives	Data not available	100% (with six months remaining)	2002 will establish baseline
Percentage of system availability	98.82%	98.89%	98.90%
Percentage of Information Technology Department projects completed on time within scope and budget	Data not available	76% on time 83% on budget	To be determined
Statewide direction and leadership			
Number of coordinated statewide initiatives	6	8	Maintain/increase
Information Technology Department's compliance with legislative mandates	100%	100%	100%
Information technology percentage of overall state budget	4.64%	4.64%	Monitor
Percentage of large information technology projects completed successfully	100%	100%	100%
Number of web-enabled applications available to citizens	19	33	Increase
Customer relationships and satisfaction			
Percentage of reported problems resolved within support center (unassigned)	72%	66.2%	75%
Percentage of reported and assigned problems responded to within one hour	74%	87.5%	90%
Median time working hours required to resolve reported and assigned problems	2.53	1.98	2.25
Percentage of statewide information technology budgets directed to the Information Technology Department	1999-2001 biennium - 25% 2001-03 biennium - 31%	31%	Monitor
Customer satisfaction indexes (percentages satisfied or very satisfied) relating to:			
Cost	90%	85.3%	92%
Timeliness	96.3%	94.9%	97%
Quality	96.5%	94.6%	97%
Knowledge	97.6%	95.9%	98%
Professionalism and courtesy	100%	98.6%	100%
Learning and growth			
Voluntary employee turnover rate	4%	2.4%	Maintain 4%-6%
Average training hours and dollars spent per employee	\$2,000 per FTE	\$2,700 per FTE	\$2,000 per FTE
Employee satisfaction index	1.96	1.98	2

2003 Legislative Session Information Request

During the 2003 legislative session the House and Senate majority leaders asked each agency to prepare a brief response to the following questions relating to the purpose and performance of the agency for review by the House and Senate Appropriations Committees.

1. What is the main purpose of your agency?

2. How do you measure the achievement of your purpose?
3. What can the legislature do, financially and otherwise, to help you achieve your purpose?
4. How can you report (measure) your results so the public can easily understand your purpose and evaluate your effectiveness?

Agencies submitted the responses to the Appropriations Committees. Copies of the responses of the Office of Management and Budget, Securities Commissioner, and Game and Fish Department are attached as Appendix D.

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.

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.
- Workers Compensation Bureau.
- Job Service North Dakota.
- Veterans Home.
- Child support enforcement program.
- Contracts for services.

PERFORMANCE BUDGETING AND REPORTING IN OTHER STATES

Based on a 2000 National Conference of State Legislatures report, 33 states have approved legislation providing for performance budgeting information. Appendix E lists the states involved. 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 the Legislative Assembly.

Texas

Texas requires each state agency to develop a strategic plan for its operations that must include indicators to measure its performance. The executive budget office and the Legislative Budget Board may jointly compile a long-range strategic plan for the state based on the state agency plans.

Texas requires each agency to prepare a performance budget report that compares its actual performance to the performance anticipated based on the agency's approved budget. A copy of the Texas General Appropriations Act, attached as Appendix F, includes agency goals, strategies, outputs, and outcomes.

Florida

Florida requires each agency's budget request to include information on:

1. Legislatively approved performance measures and any proposed revisions to measures.
2. Proposed performance standards, including justification for the standard and sources of data to be used for measurement.
3. Prior year performance comparisons and explanations of deviations from expected performance.

4. Unit costs for major activities.
5. Proposed performance incentives and disincentives.

Louisiana

Louisiana's appropriations acts include program objectives and performance indicators for state agencies. A copy of a Louisiana Appropriations Act is attached as Appendix G.

Alaska

Alaska requires each agency to identify results-based indicators to measure the agency's progress in achieving the desired results issued by the legislature. This information is presented along with an assessment of the degree to which the objectives of the program have been achieved and the performance, accomplishments, and costs for the last four fiscal years.

IMPLEMENTING PERFORMANCE BUDGETING AND REPORTING SYSTEMS

A 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.

The National Conference of State Legislatures in 2000 reported on the experiences of a number of states which 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 resulting in increased government accountability with more detailed oversight and better targeting of activities to citizens' needs. Disadvantages include heavy paperwork and increased staffing to collect data, monitor, and report, particularly in states where 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 decisionmaking 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 develop, validate, and use performance information. In states where 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 in 2000 also prepared a report 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.

STUDY PLAN

The committee may wish to proceed with the study as follows:

1. Receive information from the Office of Management and Budget regarding the performance budgeting pilot project operated by the Office of Management and Budget from 1995 through 2001.
2. Review other selected states' performance budgeting practices and strategic planning efforts and how those practices and efforts may apply to North Dakota and improve North Dakota's budgeting process.
3. Consider contracting with private organizations such as The Performance Institute, Panorama Business Views, or Turcotte Public Administration Consulting and Training for information regarding strategic planning, performance measurements, and accountability in government.
4. Receive testimony from representatives of state agencies involved in the performance budgeting pilot project operated from 1995 through 2001 and from agencies currently involved in performance and accountability reporting.
5. Receive testimony from other interested persons regarding government performance and accountability practices.
6. Consider options for improving state government performance and accountability.
7. Develop recommendations and prepare any legislation necessary to implement the recommendations.
8. Prepare a final report for submission to the Legislative Council.

ATTACH:7