

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

REPUBLICAN POLICY COMMITTEE HEARING

STATE CAPITOL
RYAN OFFICE BUILDING
ROOM 205
HARRISBURG, PENNSYLVANIA

WEDNESDAY, JANUARY 28, 2009
2:08 P.M.

PRESENTATION ON
BUDGET REFORMS:
PERFORMANCE DRIVEN BUDGETING

BEFORE:

HONORABLE STANLEY E. SAYLOR, CHAIRMAN
HONORABLE KAREN D. BEYER
HONORABLE JIM CHRISTIANA
HONORABLE CRAIG A. DALLY
HONORABLE GARY DAY
HONORABLE SHERYL M. DELOZIER
HONORABLE GORDON DENLINGER
HONORABLE MATT GABLER
HONORABLE GLEN R. GRELL
HONORABLE SETH M. GROVE
HONORABLE SUSAN C. HELM
HONORABLE SCOTT E. HUTCHINSON
HONORABLE BOB MENSCH
HONORABLE RON MILLER
HONORABLE MICHAEL PEIFER
HONORABLE TINA PICKETT
HONORABLE KATHY L. RAPP
HONORABLE SAM ROHRER
HONORABLE MARIO M. SCAVELLO
HONORABLE CURTIS G. SONNEY

JEAN DAVIS REPORTING

7786 Hanoverdale Drive • Harrisburg, PA 17112
Phone (717) 503-6568 • Fax (717) 566-7760

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE (cont.'d):
HONORABLE JERRY STERN
HONORABLE WILL TALLMAN
HONORABLE MIKE TURZAI

ALSO PRESENT:
ANDREW J. RITTER, JR.
EXECUTIVE DIRECTOR

DEBRA B. MILLER
REPORTER

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

TESTIFIERS

<u>NAME</u>	<u>PAGE</u>
DAVID THORNBURGH EXECUTIVE DIRECTOR, FELS INSTITUTE OF GOVERNMENT, UNIVERSITY OF PENNSYLVANIA.....	7
RONALD SNELL DIRECTOR, STATE SERVICES DIVISION, NATIONAL CONFERENCE OF STATE LEGISLATURES (NCSL).....	34
JONATHAN WILLIAMS DIRECTOR, TAX AND FISCAL POLICY TASK FORCE, AMERICAN LEGISLATIVE EXCHANGE COUNCIL (ALEC).....	67
ALAN B. SMITH EXECUTIVE DIRECTOR, AMERICAN LEGISLATIVE EXCHANGE COUNCIL (ALEC).....	67

P R O C E E D I N G S

* * *

CHAIRMAN SAYLOR: Good afternoon, everyone.

I am State Representative Stan Saylor from York County. I am the Republican Policy Chairman.

I wanted to welcome everybody here today, and as you are each aware, the Commonwealth is facing a historic challenge and many difficulties.

However, as Winston Churchill once said, "The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty."

Today, I have brought the Republican Policy Committee together, led by our Budget and Economic Policy Task Force, which Representative Gordon Denlinger and Representative Craig Dally are the Chairmen of that task force, to begin exploring the opportunities that exist and the difficulties we face.

One opportunity we have is to structurally and fundamentally change how we budget in this Commonwealth. Instead of budgeting solely on political decisions, knee-jerk reactions, and continuously adding funding to each line item, it is time to statutorily implement the practice of making budget decisions based on data and results,

1 information and performance.

2 Studies have already proven the benefits of
3 such budgeting. Dr. Mark Crain from Lafayette
4 College published a study that indicates that the
5 States with properly structured performance budgeting
6 spend up to \$242 less per capita than States without
7 performance-based budgeting.

8 Today's hearing will be the first of several
9 hearings on this topic. We are working on scheduling
10 a hearing later in February to begin by bringing in
11 Jim Mercer, possibly the country's most renowned
12 expert on performance-based budgeting, to discuss the
13 specifics on how we must structure a performance
14 budgeting process to get the data we need to make
15 effective decisions.

16 Today's hearing is designed to be slightly
17 broader in nature and to begin to lay the groundwork
18 for an understanding of how best to proceed on this
19 issue.

20 With that all being said, I would like to
21 recognize our first witness, Mr. David Thornburgh,
22 the Executive Director of the University of
23 Pennsylvania's Fels Institute.

24 But before he starts his comments, I would
25 like to ask Representative Mike Peifer to start as we

1 introduce all the members of the House Republican
2 Caucus.

3 REPRESENTATIVE PEIFER: Sure. Mike Peifer,
4 representing the 139th District, which is Pike,
5 Wayne, and Monroe Counties.

6 REPRESENTATIVE GABLER: Representative
7 Matt Gabler. I represent the 75th District,
8 Clearfield and Elk Counties.

9 REPRESENTATIVE SONNEY: Curt Sonney,
10 Erie County.

11 REPRESENTATIVE RAPP: Kathy Rapp. I
12 represent the 65th District of Warren, Forest, and
13 McKean Counties.

14 REPRESENTATIVE BEYER: Representative
15 Karen Beyer, 131st District, Lehigh and Northampton
16 Counties.

17 REPRESENTATIVE DALLY: Craig Dally,
18 Northampton County, co-chair of the task force
19 together with Gordon Denlinger.

20 REPRESENTATIVE MENSCH: Bob Mensch,
21 Montgomery County.

22 REPRESENTATIVE ROHRER: Sam Rohrer, Berks
23 County.

24 REPRESENTATIVE TALLMAN: Will Tallman, parts
25 of Adams and York Counties.

1 REPRESENTATIVE MILLER: Ron Miller, 93rd
2 District, York County.

3 REPRESENTATIVE GROVE: Seth Grove,
4 196th District, York County.

5 REPRESENTATIVE SCAVELLO: Mario Scavello,
6 176th District, Monroe County.

7 REPRESENTATIVE STERN: Representative
8 Jerry Stern. I'm the Republican Caucus Secretary.

9 REPRESENTATIVE GRELL: Glen Grell,
10 Cumberland County, the 87th District.

11 REPRESENTATIVE DENLINGER: Gordon Denlinger,
12 the 99th District, eastern Lancaster County, and the
13 other co-chair with Representative Dally.

14 REPRESENTATIVE CHRISTIANA: Jim Christiana,
15 15th District, Beaver County.

16 REPRESENTATIVE DAY: Gary Day, Lehigh
17 County/Berks County.

18 REPRESENTATIVE HELM: Sue Helm, the
19 104th District of Dauphin County.

20 REPRESENTATIVE PICKETT: Tina Pickett,
21 Bradford, Sullivan, and Susquehanna Counties.

22 REPRESENTATIVE SAYLOR: Okay.

23 Mr. Thornburgh, you may proceed. Thank you.

24 MR. THORNBURGH: Thank you, Mr. Chair, and
25 it is my pleasure to be here to share a few thoughts

1 with you about this important topic at an important
2 time.

3 Let me first give you a little background on
4 the Fels Institute of Government. If you are not
5 familiar with us, we are the University of
6 Pennsylvania's graduate program in public policy and
7 public management.

8 We have been in existence for about over
9 70 years now, and I think one of the things that is
10 distinctive about our program is that it is a very
11 practice-based program. In an Ivy League
12 institution, we would like to think that we take a
13 very applied, pragmatic look at the kinds of issues
14 that you have in front of you.

15 We are pleased to have among our alumni, our
16 recent alumni, I think some of your colleagues and
17 past colleagues and, as noted on the PowerPoint,
18 Senator Rob Wonderling; Fritz Bittenbender, former
19 Secretary of Administration; former Budget Secretary,
20 Mike Masch; and the current Governor's Policy
21 Director, Donna Cooper.

22 I also wanted to take a chance to introduce
23 a couple of my staff members: Leigh Botwinik, who
24 actually teaches performance management now at
25 Fels, and she's our Director of Full-Time Students;

1 Allison Brummel, who is our Director of Consulting
2 and Research; and we also are pleased to have one of
3 our students here with us today, who made the trip up
4 from Philadelphia, Casi Kroth. So we are all
5 delighted to be here.

6 My intent over the next couple of minutes is
7 to, I hope, set the table for your discussions about
8 performance-based budgeting and to do that in a
9 fairly informal way and at a fairly high altitude,
10 just to make sure that we are all focused on the
11 right set of issues, and maybe introduce some of the
12 terminology of the practice.

13 I have been following this issue of outcome
14 or performance-based budgeting probably since the
15 early nineties. At that point, I was the Executive
16 Director of the Pennsylvania Economy League in the
17 Philadelphia area.

18 And you all may remember the publication of
19 a book called *Reinventing Government* in about 1995,
20 and that had a major impact on the thinking about
21 government and budgeting in particular, and then what
22 stemmed from that was a major Federal effort, the
23 *National Performance Review*, that had a significant
24 impact on Federal practices.

25 Despite the fact, in my view, that this

1 thinking in terminology and the increasing level of
2 practice has been in existence for now coming up on
3 really 20 years, 18 years, I think the practice of
4 the kind of budgeting that you suggested is still
5 moving into the mainstream, and I want to talk about
6 some of the benefits and the challenges around that
7 as you move forward in your thinking. So I will give
8 a quick overview of some of the concepts of
9 performance-based budgeting, and again, some of the
10 challenges and benefits as well.

11 Starting with the basics -- and no surprises
12 to you here -- budgets, to my mind, are fundamentally
13 expressions of priorities. Having established those
14 priorities, and people differed on priorities,
15 usually differ more on the "how" questions than the
16 "what" questions, but the next set of questions is,
17 on what basis should we decide to allocate an amount
18 of dollars, either to activity A or to activity B, to
19 produce the kind of outcome that we are interested
20 in?

21 It is helpful to think about budgets and the
22 types of budgets in a couple of different ways. The
23 time-honored and in many ways, I think, very
24 inadequate way of looking at budgets is the
25 traditional line-item focus, where you classify

1 expenditures and different kinds of commodities or
2 services, and it is simply a mechanism of controlling
3 expenditures without particular regard for the
4 outcomes that they produce.

5 Probably since the mid-sixties -- and I know
6 that the representative from the NCSL is going to
7 address this in more specifics -- there has been an
8 interest in what is called zero-based budgeting,
9 which, in my head, you could substitute sort of
10 "blank sheet of paper" budgeting, which is to say
11 every year, rather than just taking last year's
12 expenditures and bumping up or down a few percentage
13 points, you try to start all over and really get to
14 the fundamentals of what you are trying to accomplish
15 in that given budget year or that budget cycle and
16 start from there.

17 That has a more strategic overview than
18 obviously the line item more incremental approach and
19 has its own kind of experience and practice that I
20 know you will talk about later.

21 Program budgeting is another variation on
22 the theme that focuses more on, I think, the kinds of
23 things that you are interested in -- the
24 achievements, final outcomes, or consumer outputs,
25 and that has a planning function as well.

1 And then finally -- and these are not in
2 hierarchical order necessarily -- but the sense of
3 performance budgeting is, again, a variation on a
4 theme that looks specifically at the tasks and
5 activities that are produced by a certain kind of
6 expenditure and gives you the ability to compare and
7 contrast different approaches and come to some
8 conclusions about which is getting you where you want
9 to be.

10 In reality, all budgets are hybrids of all
11 of the above. You can find a little bit of each in
12 everything, and I think this translates down to your
13 sort of household budget level as well -- a variety
14 of different circumstances, a variety of different
15 purposes, whether that is controlling expenditures
16 and managing expenditures, which you do in a
17 line-item sense, or the strategy planning and
18 management that you get with the other kinds of
19 budgets.

20 One of the consistently interesting and
21 challenging questions starts out as a simple one,
22 which is, how do you understand some level of
23 measuring performance? How do you understand
24 performance by a particular program, by a particular
25 line item, by a particular budget approach?

1 The deceptively simple answer to the
2 deceptively simple question is, well, you define the
3 kinds of outcomes that you are trying to realize, you
4 determine how to measure those outcomes and you come
5 up with the right indicators, and then you put a
6 system in place to collect the data to see if you are
7 achieving the outcomes that you want.

8 Pretty well established now in the kind of
9 lexicon of measuring performance is this sense of
10 inputs, outputs, outcomes, and performance
11 indicators. And we quote one of the legends in the
12 performance measurement and performance budgeting
13 field, Harry Hatry, who has been at the
14 Urban Institute for a number of years and has
15 literally written one of the most important books,
16 and I would recommend that to staff as a good
17 starting point.

18 But just to kind of run the table on these
19 terms, inputs are traditionally what people focus on
20 in budgets. That is usually money, how much is in
21 the line item, and we will go back and forth on
22 that.

23 But I guess the field of performance
24 budgeting recognizes that if you just focus on how
25 much goes into a particular outcome, you are really

1 missing a good part of the discussion.

2 So next in the hierarchy is essentially the
3 outputs, which is what you are buying with the
4 inputs. And here, those are expressed in terms of
5 activities, and the example we used here, maybe the
6 number of miles of road repaired or speeding tickets
7 issued. So you spend money; you get a particular set
8 of outputs from spending that money.

9 Outcomes is a richer and more sophisticated
10 sense of impact, and there are different kinds of
11 outcomes at the end of the road, sort of the ultimate
12 outcomes that I think I know you all and those that
13 you serve with are interested in, things like a
14 quality education or safe neighborhoods or healthy
15 people.

16 Ben Franklin, I think, sort of summed this
17 up all nicely once when he said, you know, talked
18 about healthy, wealthy, and wise. I mean, those are
19 sort of the three buckets that you could put most
20 outcomes in the public process into.

21 The performance indicators are different
22 ways of getting a handle on and describing those
23 particular measures along the way, and as I said,
24 that is an art unto itself.

25 I mean, just again to sort of give a quick

1 overview on the process of performance-based
2 budgeting, kind of a pretty straightforward one-step
3 plan: You identify the objectives in a strategic
4 plan; you develop indicators from those objectives;
5 you measure the performance after the fact from the
6 expenditures that you make; that you then use those
7 results to fold into a budget request, so you are
8 more focused on, again, the outcomes and the movement
9 of the indicators than you are on the raw dollars
10 that appear in the budget. And then, again, if this
11 all comes full circle, you have the ability to make
12 funding decisions that are grounded, as you
13 suggested, more on the performance and the data that
14 supports the performance rather than just arguing
15 about the inputs and the dollars that come in.

16 Let me spend a little bit of time talking
17 about some of the challenges in implementing a
18 performance or outcome-based budget.

19 You obviously need -- and I had reversed the
20 order in the slide -- you need leadership buy-in,
21 both among legislative leadership and, obviously,
22 Executive branch leadership. You need time in the
23 budget cycle to develop the performance measures that
24 you are after. There's a real sense of needing to
25 redesign the traditional budget process, again,

1 because you are in pursuit of a different kind of
2 outcome than just the line items on the page.

3 There is a need, I think, for consistency
4 over time, and particularly, again, the sponsorship
5 and the leadership at the highest level, and I think
6 we will talk about the experience in other States is
7 really important to keep us moving ahead.

8 And then finally -- and this happens within
9 the departments and within operations -- there is
10 probably a consistent pushback that says, you really
11 can't measure what we do; this is somehow mystical or
12 unknowable to mere mortals. And that just comes up
13 again and again and again and again, and I think
14 anybody who has been in a management role recognizes
15 that.

16 The second challenge really reflects the
17 systems changes, both in information technology,
18 information systems, and in human resources needed to
19 collect and analyze data.

20 There is a significant change in management
21 outlook and management capacity, again, within
22 departments necessary to make all of this work.
23 That, in turn, will divert staff time from their
24 traditional responsibilities, maybe requiring a new
25 training and performance measurement.

1 A third challenge that I think all recognize
2 is the potential to game the system.

3 The flip side of expressing budgets in clear
4 indicators is that you can find all kinds of
5 different ways to maneuver around that if you are
6 clever, and I think that folks within departments
7 across States and cities and at the Federal level
8 have found all kinds of ways to game that, whether
9 that is delaying the production of data, producing
10 so much data that it swamps the process, et cetera,
11 et cetera. I think that I will leave the rest to
12 your imagination.

13 I talked about the systems change and new
14 processes and new forms, new training, required in
15 implementing such a system.

16 There is always the potential for
17 information overload. The acronym that you are
18 "data rich and insight poor" I think comes up again
19 and again. Big systems, big governments, produce a
20 lot of information. It is not always used
21 particularly well, and the right kind of information
22 doesn't always show up at the right time.

23 The final, I think, reality or
24 acknowledgment is that all budgets, however you
25 approach them from line item to performance, will

1 have, continue to have, a political play in the
2 system, and I would argue that is at it should be. I
3 think that is part of your job in working with your
4 constituents, both at home and here in Harrisburg, to
5 make those kinds of decisions.

6 So I think the most realistic approach to
7 performance or outcome budgeting is that it can be a
8 very helpful tool, but I think we would be fooling
9 ourselves to think that you can mechanically
10 substitute that for a process, an alternative
11 process, that has endured for literally
12 generations.

13 Finally and importantly, back to the
14 benefits. I think in keeping with what I last said,
15 it is important, as they say, not to let the perfect
16 stand in the way of the possible.

17 I think given the public's interest in
18 accountability, performance results, clearly the
19 legislative interests, the Executive branch
20 interests, that there are steps that can be taken to
21 improve the current budget process and move it closer
22 towards or start to build towards more of an outcome
23 basis, even if it is not a perfect end-of-the-line
24 goal, and that in doing that you find that -- and
25 again, from a management sense -- people are

1 providing incentives to develop useful comparative
2 information, develop a consistent set of benchmarks,
3 help and identify alternatives that can provide
4 citizens value, and so on and so forth. So there is
5 enormous value in engaging in this kind of pursuit,
6 again, even if you do not get to the ultimate goal
7 line.

8 I know my colleagues from the NCSL are going
9 to talk some more about experiences in other States.
10 One of the longest standing kind of continuing
11 experiments you may have heard of is in the State of
12 Oregon, where an Oregon Progress Board was
13 established about 20 years ago now that works with
14 the Executive branch and the Legislature to develop
15 both benchmarks of how Oregon and Oregonians are
16 doing and the kinds of outcomes that they ought to be
17 heading toward, and are slowly but surely, I would
18 say, integrating those benchmarks and outcomes into
19 the legislative process.

20 Frankly, I think that these kinds of
21 indicators really start to show their value, when
22 they show up in actual budget debates between
23 different sides of the aisle or different sets of
24 advocates, when they become useful to you and
25 established as kind of the coin of the realm and sort

1 of the center of the debate. And there is
2 considerable value, I think as Oregon did, in
3 consistently promulgating a high quality set of
4 benchmarks and outcomes over time.

5 So I hope, as I suggested, that that gives
6 you at least a starting point for your discussions,
7 and I again appreciate the time, the chance to be
8 with you, and I would be happy to answer any
9 questions.

10 CHAIRMAN SAYLOR: Mr. Thornburgh, I thought
11 about wearing my Fels sweatshirt today, but it didn't
12 go with my Steelers black-and-yellow colors today in
13 support of the Steelers.

14 But myself and former Senator Conti, now
15 Executive Director of the Liquor Control Board, and
16 Senator Mary Jo White took a class at Fels a number
17 of years ago for government officials.

18 MR. THORNBURGH: Sure.

19 CHAIRMAN SAYLOR: So it is a great
20 institution.

21 MR. THORNBURGH: I am actually headed over
22 to visit with former Senator Conti afterwards to talk
23 about that, so.

24 CHAIRMAN SAYLOR: We had a great time.

25 MR. THORNBURGH: Thank you.

1 CHAIRMAN SAYLOR: I want to, before we take
2 questions, I want to introduce members who have
3 joined us since we started: Representative
4 Tina Pickett; Representative Scott Hutchinson;
5 Representative Sheryl Delozier. I know
6 Representative Turzai, who is our Republican Whip,
7 walked in. Sue Helm, you were here when we started,
8 I thought. Okay; very good.

9 Did I miss anybody? Representative
10 Jerry Stern also, who is our Caucus Secretary, but I
11 believe you were here as well.

12 At this point for questions, I will turn it
13 over to Representative Beyer.

14 REPRESENTATIVE BEYER: Are you any relation
15 to the former Governor?

16 MR. THORNBURGH: My dad.

17 REPRESENTATIVE BEYER: Oh, it's your father.
18 Well, see, I didn't know that, but thank you for
19 joining us.

20 I had introduced a measure last session,
21 House Bill 2521, which was zero-based budgeting, and
22 I am preparing to reintroduce it again this year.
23 And I suppose my frustration, and, you know, now
24 entering my third term as a Legislator here, is in
25 the appropriations process, just watching it unfold

1 and seeing that programs are not tested and, you
2 know, we are told that things work.

3 For example, in education, I sat on the
4 Education Committee and we heard consistently, well,
5 this program is worthy because the points on a
6 child's test score went up one or two points or
7 something. And I became convinced essentially that
8 it would have been easy to scam us, that the scamming
9 part, the generation of data, suggests a program is
10 working when it isn't, and the justification process
11 is probably the most concerning I have in dealing
12 with performance-based budgeting.

13 And I think in some measure, State
14 Government has been operating that way, that we are
15 relying on our Cabinet Secretaries to come in before
16 Appropriations and tell us that these programs are
17 working, and here's the measure, here's the measure
18 that we used, and this is why we think this program
19 was worthy, even though it is fully known that other
20 agencies are doing the exact same program but it is
21 duplication of services, even though all kinds of,
22 you know, kind of red flags are pointed out by
23 Legislators, well, why are you doing this and why do
24 you need this increase?

25 So I want to just focus you a moment on this

1 whole idea of, you know, the generation of data to
2 suit the purposes and whether or not that is probably
3 the biggest flaw in the performance-based side of
4 budgeting.

5 MR. THORNBURGH: Well---

6 REPRESENTATIVE BEYER: Just expand on that
7 for me.

8 MR. THORNBURGH: Sure.

9 REPRESENTATIVE BEYER: And thank you,
10 Mr. Chairman.

11 MR. THORNBURGH: I mean, I would tend to
12 agree with you, and the word that comes to mind in
13 listening to your comments is the need for
14 consistency over time and also for numbers to be
15 generated not only consistently but by respected
16 authorities in some way, shape, or form so that you
17 don't bicker over whose numbers are the better
18 numbers, because that can be a consuming sport all
19 its own.

20 And, you know, again I will reflect on what
21 I know of the Oregon experience. The other important
22 thing is to try to establish over time a clear sense
23 of how Pennsylvanians are doing -- Pennsylvanians
24 also, not just in the aggregate, but how are they
25 doing in Erie; how are they doing in the southwest

1 and the southeast and the northeast and so forth and
2 so on, and I think that is one of the contributions
3 that has been made in Oregon.

4 We, when I was still with the Pennsylvania
5 Economy League, started down that path with projects
6 that some of you may have seen called *Issues PA*, and
7 it is still on the Web. There is a consistent set of
8 outcome measures around education, health, economic
9 development, and so forth and so on.

10 I think that level of consistency is really
11 important because, you know, some things do go up and
12 down. People actually change behaviors, get
13 healthier, get less healthy, better educated, less
14 educated, and you need to start with that level.

15 And then when it comes down to the program
16 side, which is really where things can get extremely
17 noisy, you know, again, the more consistency that can
18 be developed -- and ideally, you know, consistency
19 between the Executive and the House and Senate --
20 really helps. I know that is asking a lot. But
21 otherwise, I totally concur; it turns into cacophony.

22 And it also, you know, as a consumer of sort
23 of the different arguments, I have to believe that
24 you don't know where to ground your own viewpoints,
25 because you get hit by different data, seemingly

1 data-based arguments, from a number of different
2 advocates. So I don't envy you in that.

3 REPRESENTATIVE BEYER: Thank you,
4 Mr. Chairman.

5 CHAIRMAN SAYLOR: Thank you.
6 Representative Denlinger.

7 REPRESENTATIVE DENLINGER: Thank you,
8 Mr. Chairman, and thank you, Mr. Thornburgh, for your
9 testimony.

10 And I really appreciated Representative
11 Beyer's comment. I think it was excellent. I was
12 reading this last evening that in the city of
13 Detroit, roughly 50 percent of the adult population
14 is illiterate, and I am wondering, you know, I was
15 thinking as I was reading that what collection of
16 programs that were, I am sure, judged to be highly
17 successful along the way that led to 50-percent
18 illiteracy in the city of Detroit.

19 And it does lead into a question: Are there
20 two tiers of measurements that should be looked at as
21 you move toward performance-based budgeting, not only
22 those metrics that tie to a specific line item in
23 the budget or an agency but then the broader
24 societal outcomes. Could you comment and elaborate
25 on that?

1 MR. THORNBURGH: Absolutely. I think that
2 is the point I was trying to reinforce earlier, the
3 need for these benchmarks about how Pennsylvanians
4 are doing.

5 And, you know, we also have to recognize,
6 and we probably won't have to make this argument too
7 hard in this caucus, that it is not just government
8 programs that affect those kinds of outcomes. There
9 are complicated societal and economic forces going
10 on, cultural things at work.

11 Having said that, it is really important to
12 try to establish that sense of how we are doing, even
13 knowing and budgeting government dollars, tax
14 dollars, towards those programs that we think make a
15 bigger difference than a lesser difference, even
16 though you can't always make the last-mile difference
17 or the last-mile jump between the impact of the
18 program or the budget and the eventual outcome, just,
19 again, because there are so many things at work.

20 REPRESENTATIVE DENLINGER: And then one
21 other quick question, if I may.

22 Looking through the literature, you
23 mentioned the Oregon example, and there are a few
24 other States that have some history with this. I
25 think Texas and Florida were two.

1 Do you know, at the onset of an attempt to
2 move toward performance-based budgeting, was there a
3 dominant one-party control of those States or were
4 both parties working together, or was it Executive,
5 you know, gubernatorial vision that led them there?
6 Or how did they get there?

7 MR. THORNBURGH: I honestly don't know the
8 answer to that question, and my colleague from NCSL
9 may have a better sense.

10 My guess is, though, that there is always,
11 whether in the Legislature or in the Executive
12 branch, there is someone who is possessed by this,
13 who is just bound and determined to see something
14 change in a productive way. And that may be -- it
15 may, I am guessing, may more often be a Legislator or
16 a group of Legislators, just because their longevity,
17 at least, unless you are term limited, you know, may
18 be longer than the Executive. But you just need that
19 kind of champion, I think, to move something---

20 REPRESENTATIVE DENLINGER: Somebody that is
21 a bulldog and wants to go after it.

22 MR. THORNBURGH: Yes.

23 REPRESENTATIVE DENLINGER: Very good. Thank
24 you.

25 Thank you, Mr. Chairman.

1 CHAIRMAN SAYLOR: Representative Mensch.

2 REPRESENTATIVE MENSCH: Mr. Thornburgh,
3 thank you for joining us today. And there is a theme
4 already developing between my thoughts and the
5 questions asked by the first two.

6 In industry, though, if I were to say to
7 employees that it is incumbent on you to do
8 performance-based measuring of your activities, they
9 would tell me also it is not possible. So that is
10 not alien just to government. People generally tend
11 to believe and feel that way.

12 So what we do in government, in industry
13 rather, is we use numerical measurements. When
14 Mrs. Beyer was speaking, she talked about the
15 Secretaries coming in, and they tend to talk in more
16 emotional, higher level kinds of objectives and
17 measurables, but when you look at it, there is no
18 mathematical quantification of their measurements or
19 their goals.

20 In industry, we do liquidity leverage,
21 activity profitability, and we would always have
22 something, but when we do those kinds of activity
23 ratios, we know that we can go to a Moody's or a
24 Standard & Poor's and we can pull down an industry
25 standard against which we can benchmark, okay? Is

1 there anything like that for government?

2 MR. THORNBURGH: That is a good question. I
3 don't know of any in the business sense with the kind
4 of consistency that you talked about.

5 I think probably when you get into -- I
6 mean, if I were looking to get the definitive
7 answer, I would look at organizations like the
8 Government Finance Officers Association or
9 controllers, those kinds of folks.

10 And in doing that, I think it is important
11 to kind of look at measures, and there are two kinds
12 of measures. One is efficiency measures, which is
13 really about productivity, you know, how many forms
14 does a given person process in a given day? And then
15 there is the effectiveness measures, which I think
16 are harder to come by, which really get at the
17 ultimate outcomes, not just it is good that you
18 processed all the forms, but what was the impact of
19 that result on people, communities? It would even
20 make you question whether you needed that form to
21 begin with.

22 So my hunch is, to the extent there are
23 kind of comparable indicators, sort of
24 Standard & Poor's-type things, they are more on the
25 efficiency measures than on the effectiveness

1 measures.

2 But, you know, again I go back to it is
3 important not to let the perfect stand in the way of
4 the possible, that just pushing the envelope on these
5 kinds of issues, particularly these days, is, I
6 think, really important.

7 REPRESENTATIVE MENSCH: My concern would be
8 that if we pursued performance-based budgeting -- I
9 think it is a great idea -- that we would begin to
10 use 2008-2009 as the base year when we already have a
11 deficit, if we were to establish some of those
12 standards ourselves. So whatever we calibrated
13 moving forward, we would always be starting out in
14 the negative, okay? So we would need something more
15 empirical upon which to base our conclusions.

16 So thank you very much.

17 MR. THORNBURGH: Sure.

18 CHAIRMAN SAYLOR: Representative Gabler.

19 REPRESENTATIVE GABLER: Thank you,

20 Mr. Chairman.

21 My concern about, especially just over time
22 the way government tends to grow and get out of hand,
23 is it always starts from, we look at last year's
24 numbers and we make some incremental change, and that
25 is how we go from there. And so my question is, as

1 far as performance-based budgeting goes, would it
2 involve actually starting from last year's starting
3 point of funding and then going from there based on
4 the performance indicators?

5 And if so, I can see us getting to a point
6 where an argument can always be spun, and I guess
7 that is this business, but if a program is performing
8 poorly, then that will be a justification for why it
9 needs more money, and if a program -- you know,
10 because it wasn't funded well, is what they are going
11 to say. And if the program is performing well, then
12 they are going to come back and say, we are doing
13 great; think what we could do with more.

14 So how do we control the urge to start from
15 last year's baseline and just increment off of it
16 rather than tying ourselves to something more
17 appropriate to how to justify the actual spending?

18 MR. THORNBURGH: Right. Well, one thought
19 that comes to mind is I think the more ambitious the
20 changes that you contemplate in the budgeting
21 process, the more thoughtfully you ought to
22 transition into those.

23 It may mean that to head towards the -- if
24 you wanted to head towards more of that zero-based
25 kind of program budgeting or outcome budgeting that

1 you described and if you think through the process
2 thoughtfully, it may be hard to do that in one budget
3 cycle. It may be impossible to do that in one budget
4 cycle. So maybe you program them in over a 2- or
5 3-year period of time. Because I wouldn't -- and
6 this is, again, one of the consistent challenges -- I
7 wouldn't minimize the transition costs, the
8 disruptions, the need for--- I think successful
9 implementation of these kinds of approaches really
10 requires good, strong, certainly leadership from the
11 top but also good, strong middle- and senior-level
12 management, you know, within the departments, and if
13 you head into this kind of thing without building
14 that capacity, you are going to, I think, have
15 trouble.

16 So it is one of those things, you do want to
17 keep the urgency of the moment in front of you and
18 not turn this into, you know, a 10-year transition
19 plan. You need to, you know, clearly indicate the
20 direction and move forward but also just recognize
21 the practical realities of implementation.

22 And, you know, again, I am not aware of --
23 but again, my colleague may be -- I don't know that
24 any State in the Union has moved towards the kind of
25 zero-based budgeting that maybe we anticipated back

1 in the mid-sixties when a lot of this stuff started
2 percolating.

3 So there are a lot, but there are a lot of
4 hybrids, a lot of experiments, and some clearly that
5 are closer to that than others, and those are
6 probably worth a good look.

7 REPRESENTATIVE GABLER: Thank you.

8 CHAIRMAN SAYLOR: Is that it? Thank you.

9 Thank you, Mr. Thornburgh. I appreciate
10 your coming here today, your time, and particularly
11 in this kind of weather.

12 Your father, many of us have had
13 opportunities to hear from him many times, and he is
14 still one of our heroes here. He had an opportunity
15 to talk to us, particularly as Republicans here
16 today, about what a Republican is a number of --
17 about a year or so ago, and it was very entertaining.

18 MR. THORNBURGH: Well, thank you.

19 CHAIRMAN SAYLOR: So thank you for your
20 time, and God bless your family.

21 MR. THORNBURGH: My pleasure.

22 CHAIRMAN SAYLOR: Also I wanted to mention
23 before we move to the next testifier that, and
24 Representative Beyer mentioned it earlier, but she is
25 the prime sponsor of zero-based budgeting.

1 Also, we have Representative Scott Perry,
2 who is the sponsor of the performance-based budgeting
3 bill that has been introduced here in the House.

4 So at this time I would like to ask
5 Ron Snell, who is the Director of the State Services
6 Division of the National Conference of State
7 Legislatures, to come forward for testimony
8 purposes.

9 Welcome, Mr. Snell.

10 MR. SNELL: Thank you, Mr. Chairman and
11 members of the committee. It is a real pleasure and
12 a privilege to be here before you.

13 For the record, I am Ron Snell. I am
14 Director of State Services at the National Conference
15 of State Legislatures in Denver.

16 I have been with NCSL for about 20 years,
17 and I have worked on performance-based budgeting
18 issues and other performance information issues over
19 that period of time.

20 We are, obviously, an organization of the
21 State Legislatures, and so our focus in looking at
22 these issues has always been legislative use of
23 performance-based budgeting.

24 And I think it is consistent with that to
25 respond to what Mr. Ritter asked me to bring to you

1 today to talk largely about the legislative use of
2 performance-based budgeting, and I think that
3 Mr. Thornburgh's very well put remarks provide a very
4 firm foundation for that.

5 Mr. Ritter also asked me to say something
6 about other States use of zero-based budgeting, so
7 let me talk about that briefly and then move on to
8 the performance-based budgeting issue.

9 Zero-based budgeting, as Mr. Thornburgh
10 indicated, is the suggestion, the practice, that
11 Jimmy Carter tried to introduce to State government
12 when he was the Governor of Georgia, which basically
13 does ask that budgeting begin with a blank sheet and
14 that the justification for an agency's expenditures
15 be rebuilt periodically from the ground up.

16 And then the practice itself, as outlined in
17 the textbooks of the sixties and seventies, is a
18 fairly complicated procedure that involves managers
19 who are closest to the delivery of services, putting
20 together what were called decision packages of groups
21 of services and costing those out at various levels
22 of cost and performance, those being prioritized and
23 that, being moved up through the system, until
24 finally top-level managers were able to make a budget
25 request to the policymakers.

1 This is a model that -- and some of you
2 could speak better to this than I could -- this is a
3 model that seems far better suited and in practice
4 has seemed far better suited to some activities in
5 the private sector than it has in government. And in
6 fact there has been no State Government, not even the
7 government of Georgia under Governor Carter at the
8 time, that has been able to carry this out as
9 originally designed.

10 There was too intensive of paperwork, but
11 there was a deeper issue, and that was the question
12 of prioritizing these decision packages: Is this a
13 group of services that should be preferred to this
14 group of services?

15 That is an almost impossible question for
16 Executive branch managers to make in a way that
17 satisfies policymakers, because the question about
18 what is preferential isn't a technical question; it's
19 a question of policy. You can say that this is cost
20 effective and this is less cost effective and this is
21 even less cost effective, but the question remains,
22 does this activity, lacking as it is in apparent cost
23 effectiveness by all the objective measures we can
24 apply, is that something we should rank as less
25 desirable to do than something that is more efficient

1 to do?

2 It's a policy question that, as it turns out
3 in practice, you have to make, you and your Executive
4 branch counterpart, the Governor, have to make. It
5 isn't really a technical question at base. You can
6 get additional information from this means, but you
7 don't get an answer to the question, where should we
8 put our money, because you have to decide that.

9 So I think that has been an insuperable
10 obstacle to the State Government use of zero-based
11 budgeting. So there have been adaptations of it of
12 substantial use and interest, even though this
13 classic form is not really workable in State
14 Government.

15 One modification that Iowa used extensively
16 in the 1990s, and it continues to be used to some
17 extent in Iowa State Government, was the practice of
18 informing State agencies that they could count on
19 75 percent of their previous year's budget being
20 renewed with almost no questions being asked. But
21 beyond that point, they had to justify what the
22 Legislature and Governor should give them for the
23 coming budget period in groups of alternative kinds
24 of activities with alternative costs. And this
25 presented, first of all, information and decisions

1 for the Governor to use in his budget recommendations
2 to the General Assembly, and then information for
3 Legislators to use in evaluating those
4 recommendations from the Governor.

5 That practice continued until around the
6 turn, the beginning of this century when the Governor
7 at that time chose to move Iowa to put more emphasize
8 on performance reporting. But it is a model that is
9 out there of saying we will guarantee a base level of
10 support, 75 percent, but beyond that, we need
11 justification for activities.

12 A modification that has been used much more
13 broadly is, especially in times of fiscal stress, for
14 agencies to be informed that they need to provide
15 alternatives of what they would do if their funding
16 was at 85 percent or 90 percent of existing level;
17 what impact the reduction would have on agency
18 programs; what effects there could be; what they
19 would do if there was more money provided. So that
20 is a question of staged levels.

21 And a third alternative is not dissimilar to
22 Representative Beyer's bill, 2521, from last year --
23 and I haven't seen your bill from this year,
24 Representative, but I read last year's bill -- and it
25 is quite similar to the process that Florida

1 undertook starting in 2000 when the Legislature
2 called for a zero-based review of all State agencies,
3 a few agencies per year over an 8-year period, and
4 the work itself was to be carried out by principally
5 legislative staff, with which Florida is rich,
6 working with agency personnel obviously, but the
7 caucus staff, the bipartisan Budget Office staff,
8 various audit staff, and agency staff collaborating
9 in the legislative interim to produce these
10 reports.

11 There were a number of them produced in
12 2001, 2002, and 2003, if I recall correctly, and
13 those that I read struck me as remarkably well done,
14 highly informative. They were somewhat like the
15 old-fashioned sunset reviews, if any of you are
16 familiar with those. The sunset process back in the
17 seventies and eighties presumed that an agency would
18 be terminated at some date, and then it had to
19 justify its re-creation.

20 These were as searching as those. They
21 looked at agencies in great detail and provided a
22 wealth of data on how agencies operated -- what was
23 weak; what was strong; what could be done better.

24 But the Legislature discontinued the
25 practice in 2004, largely, I think, because it was so

1 demanding of staff time and resources. That's the
2 only formal comment I have heard from legislative
3 sources on the discontinuation of the process.

4 I would guess also that the bulk of material
5 provided was so huge that Legislators didn't find it
6 useful. It was simply too intimidating and too
7 time-consuming for them to work with.

8 So I would agree with Mr. Thornburgh that
9 there is no State that uses zero-based budgeting
10 consistently as a basis for its entire budget
11 process.

12 There certainly are very valuable lessons to
13 draw from what other States have seen, but the
14 classic form seems to be unworkable in a State
15 Government. The variations at present are not the
16 predominant budget approach in any State that I am
17 aware of, though the elements are there in some
18 places.

19 On performance-based budgeting, as I said at
20 the outset, the focus of work that we have done has
21 been on legislative use of performance-based
22 budgeting.

23 We have produced a substantial amount of
24 material. As you are probably aware, the amount of
25 material available on performance-based budgeting is

1 mountainous. I meant to bring you a small mountain
2 of that today, but my luggage didn't arrive with me,
3 and I will forward that on to you later on.

4 We do have a book that we put together
5 in conjunction with the Urban Institute, with
6 Harry Hatry and others, that talks about how
7 Legislators make use of performance information. It
8 is a series of very short papers that I think you
9 might find useful, and I hope to provide that to
10 you.

11 We also are working at present with a number
12 of other intergovernmental organizations on
13 performance management of best practices and
14 recommendations to government. The other
15 organizations include the Council of State
16 Governments, the National Association of State Budget
17 Officers, the Government Finance Officers
18 Association, and so forth. We hope to wrap that
19 project up in the course of the next 12 months or so
20 and publish that material.

21 As I am sure you are well aware from having
22 looked at the subject to this degree, every State
23 collects performance information of some sort, and
24 your concern, like ours, is not simply collecting
25 performance information but doing so systematically,

1 with some consistency over time, so that it is a
2 useful source of information for policymakers. And
3 Mr. Thornburgh outlined for you the nature of such a
4 process, the existence of a strategic plan with
5 agency goals and objectives and the plans for meeting
6 those, measuring over time how well that is done,
7 and, of course, reporting.

8 Many States do this to one extent or
9 another, and in the last attachment to the written
10 testimony I gave you, we have summarized the results
11 of a survey we did of the States in 2007, asking
12 legislative fiscal offices how they use performance
13 information. You will see that the quality of those
14 responses varies substantially, some of them saying
15 basically, yes, we use performance information, and
16 some of them getting into some detail.

17 In my written testimony I have reported on
18 page 4 comments we have received from Legislators but
19 their use of performance information, and I will let
20 you read those comments, but I would summarize them
21 this way: They find it highly valuable for
22 informational purposes, but you will see that we
23 weren't able to include a comment -- and believe me,
24 we looked for one -- that said, it helps us decide
25 what to do. We gain a lot from reviewing performance

1 information, Legislators seem to say, but no one goes
2 to the length of saying, this actually makes
3 decisions or even helps us make decisions.

4 So I would like to talk briefly about the
5 experience of the two large States, States like
6 Pennsylvania, among those with the largest 10 percent
7 of the population, with the largest budgets among the
8 50 States. The two States that have a long record of
9 using performance information in the budgeting
10 process, as you know, are Texas and Florida.

11 Texas has had a performance-based budgeting
12 system since 1991. It is highly institutionalized in
13 the Legislative Budget Board, which is a very
14 powerful board that in Texas actually drafts the
15 budget that the Legislature considers.

16 The board is made up of the Lieutenant
17 Governor, who is the presiding officer of the Senate,
18 the Speaker of the House, the chairs of the money
19 committees in both chambers, and a few other
20 Legislators appointed by the leadership.

21 They have a complete model,
22 performance-based budgeting system, along the lines
23 that Mr. Thornburgh and I have described, and the
24 written budget that the Legislative Budget Board
25 submits to the chambers ties performance measures to

1 specific amounts of money agency by agency.

2 It includes agency goals, strategy,
3 performance targets, and if that is a direction that
4 this committee is interested in going, I think you
5 could do nothing better than examine Texas by any
6 appropriation bills as a model of how this is done in
7 practice. There isn't anything else quite like it.

8 An important feature in Texas is that the
9 Legislative Budget Board has a large professional
10 staff which is responsible for tracking these
11 performance measures, for collating the quarterly and
12 annual reports from agencies on how well they are
13 meeting their performance objectives, and the system
14 includes measures that are intended to respond to the
15 issues that Representative Beyer raises, the
16 fundamental question here, how can we trust the
17 numbers?

18 In Texas, this agency, which is responsible
19 only to the Legislature, is responsible for making
20 sure, to the extent it can, that the numbers are
21 valid. And the State Auditor's Office, a separate
22 legislative agency, audits the performance measures
23 for their utility and audits the responses of
24 agencies to those measures for their accuracy. So
25 that is their response to that very significant

1 question.

2 Then the final point is, what use is made of
3 this information in the appropriations process? And
4 that is probably your key question and certainly one
5 that we have tried to explore year in and year out,
6 and a very difficult question to get a good answer
7 to.

8 Everybody shares the agreement that
9 performance information is very, very important and
10 it needs to be accurate; it needs to be complete; it
11 needs to be relevant to your concerns. A common
12 agreement there.

13 But the question is, what difference does it
14 make when you are voting on a budget? When you are
15 considering a recommendation for the Department of
16 Human Services, what difference does this information
17 make in practice? And that is where the answers to
18 us become evasive.

19 Either when we survey legislative fiscal
20 staff or when we survey Legislators or when we talk
21 one on one with Legislators involved in the budgeting
22 process, it is very hard to pin down how your
23 colleagues make use of this information.

24 All I can say with any sense of real
25 accuracy is that it informs your decision but it

1 doesn't necessarily lead you to a given decision. It
2 is informative.

3 I will come back, after I mention Florida's
4 experience, with a couple conclusions about this, but
5 let me say something about Florida also.

6 Florida enacted its legislation calling for
7 a performance-based budget in 1994, and through the
8 nineties and into the early years of this decade, I
9 would say that the Legislature was as committed and
10 as focused on performance-based budgeting as the
11 Texas Legislature was.

12 Much of what I have to say in my written
13 testimony about Florida is drawn from a remarkably
14 insightful analysis of the system that was written by
15 an insider, Gary Van Landingham of legislative staff,
16 who saw it from the inside, and he comments that the
17 goals of the Florida system were to make budget and
18 policy decisions more rational, to provide a common
19 language for discussing budget issues, to improve
20 legislative oversight of agency and program
21 performance, and to give incentives to agencies to be
22 more efficient and effective.

23 It's a pretty comprehensive range of goals,
24 and certainly from our conversations with Florida
25 Legislators, we would bear out, we would

1 corroborate what Gary Van Landingham had to say about
2 that.

3 His conclusion was that over the 15 years or
4 so that this program was probably -- well, I would
5 say 10 or 12 years -- this program was in its fullest
6 flower in the Florida Legislature, these aspirations
7 were not met, that performance information was used
8 in policy and budget deliberations but didn't
9 materially change the legislative process or change
10 the way the Legislature analyzed agency reporting.

11 I see a significant typographical error in
12 my text right in the middle of page 7 where it should
13 say -- that sentence that says the Legislature has
14 not used performance data, only in rare instances,
15 got rather confused. What I meant to say was, the
16 Legislature has used performance data in rare
17 instances, particularly when creating new programs,
18 to judge those programs down the road a year or
19 two.

20 But the consensus, the report from Florida
21 seems to be that the consistent use of performance
22 information to guide budget decisions has been rare
23 indeed. The information is there, it is valuable in
24 informing legislative thought, but it has not been a
25 particular guide to decisionmaking.

1 And then Gary offered some reasons why he
2 thinks this is the case, and I would say my
3 experience corroborates these in the case of other
4 States as well.

5 One is that policy decisions -- budget
6 decisions are basically policy decisions, and policy
7 decisions are based on many things besides the
8 quantitative data that an agency can provide.

9 First of all, performance data are backward
10 looking, and certainly you have to be forward looking
11 when you are making a budget. What has happened in
12 the past is not necessarily a guide to what you can
13 expect in the future and certainly is not a guide to
14 what you can expect from a new program.

15 And policymakers' decisions are policy
16 decisions, and so hard, quantitative information can
17 be an element in those but it does not answer all of
18 your questions.

19 The goal in Florida, which was also a goal
20 in Texas and has been in most States that have looked
21 at performance-based budgeting, the goal to reward
22 programs that work well and undercut the funding or
23 reduce the funding of those that don't work well does
24 not necessarily work out in practice, as the
25 Legislator over there suggested.

1 You can argue that a program has performed
2 badly because it is underfunded. That may or may not
3 be the truth, but it can be argued. But it can also
4 sometimes be the truth, and it can also be the case
5 that an agency that has performed well does not need
6 to be rewarded; it doesn't need more money. There
7 are other considerations there. So that one-to-one
8 expectation has proved to be a bit naive, at least
9 inadequate over time.

10 And then finally, I think the point Gary
11 makes, the third point here on page 8 of my written
12 testimony, is that performance information does not
13 explain satisfactory or unsatisfactory behavior; it
14 only documents it.

15 This is important. It is important to have
16 that information, because it raises questions for you
17 to pursue, but it doesn't answer those questions:
18 Why is the infant mortality rate in North Carolina
19 one of the highest in the country? Why is that the
20 case in a State that spends so much money on programs
21 to reduce infant mortality? There are issues there
22 to be pursued, but the raw data only raise the issue;
23 they don't answer the question.

24 For final considerations, I would certainly
25 agree with what I take to be the consensus of this

1 committee and with Mr. Thornburgh, that performance
2 data are enormously useful and valuable.

3 In the legislative process in the States, in
4 the large States that have tried to use such
5 information consistently over a long period of time,
6 it is still an open question how practically useful
7 it is to Legislators.

8 Now, that is not to undermine the importance
9 of performance-based budgeting. My own point of view
10 on this, if I can indulge myself for a minute, would
11 be, it is an essential Executive branch tool, that
12 managers have to have this information and they
13 should report it to you. But in the reporting, some
14 issues can arise. You can be overwhelmed with it.
15 You can have so much that it is impossible to work
16 with.

17 The *Minnesota Milestones* project, which was
18 a very elaborate, well funded, well designed program
19 of reporting State performance information in that
20 State in the eighties, floundered because the reports
21 that came to Legislators were stacks of books taller
22 than the State budget itself, and there was simply
23 too much information for the Legislature to deal
24 with.

25 So one point that you would have to wrestle

1 with at the outset is, what do you want to know? How
2 much information do you want, and what specifically
3 should that information be?

4 I would say, in addition to the final
5 considerations I have written out for you, there is
6 one point you might think about that is not there.

7 There are a few States -- Texas, Arizona,
8 and New Mexico in particular -- that have a long
9 record of linking performance information to their
10 budgets and making consistent use of it in the
11 budgetary process. I focused on the two largest
12 States because they are most comparable to
13 Pennsylvania, but it is also true for Arizona and
14 New Mexico.

15 Something else that links those States,
16 different as they are in size and politics, is that
17 they have very strong, independent legislative
18 budgeting processes. And in all three of those
19 States, Legislators and legislative agencies draft
20 the budgets that go to the Legislature. They are not
21 strong Executive budgeting States, as most of the
22 50 States are.

23 And what that has meant is that they have
24 very strong fiscal office capacity within the
25 Legislature. They have bipartisan, joint budget

1 offices of considerable professional skill that have
2 made it possible, through their staffing and the
3 staff sense of what Legislators want to know and need
4 to know, has made it possible for them to transfer,
5 the staff to translate agency performance information
6 into a usable form for Legislators, to use it to draw
7 your attention, your counterpart's attention, to the
8 issues that you are most likely to want to know
9 about, and to serve as a medium of translation and
10 communication.

11 I don't think this is a coincidence. I
12 think the existence of that kind of staffing is one
13 of the things that has made it possible for those
14 Legislatures to make very effective use of
15 performance information.

16 Beyond that, I would say that
17 Mr. Thornburgh's points are all absolutely the points
18 I would make: that you need strong leadership, you
19 need collaboration between the Executive branch and
20 the legislative branch, and you need continuity.

21 And I would echo his point that in many
22 States, a strong performance budgeting effort has
23 grown from the work of one or two leaders. The
24 downside of that has been that when that leader or
25 those leaders have left the Legislature, that focus

1 on the process has diminished.

2 Institutionalization, I would say, is
3 extremely important, and that has been a hallmark of
4 what exists in Texas, Arizona, and New Mexico. To a
5 less extent in Florida, where I think the process has
6 been weakened by term limits and the rapid turnover
7 of legislative leadership.

8 I will stop there, Mr. Chairman. I would be
9 happy to try to answer any questions.

10 CHAIRMAN SAYLOR: Thank you, Mr. Snell.

11 Representative Beyer.

12 REPRESENTATIVE BEYER: You know, Mr. Snell,
13 I have never had an occasion where I was in a
14 hearing, you know, talking about one of my bills
15 where I had a witness so resoundingly and
16 convincingly suggest that my legislation absolutely
17 wouldn't work. And I have never had, by the way, a
18 testifier use my name and Jimmy Carter's in the same
19 sentence, something I found quite troubling,
20 actually.

21 I am not going to introduce this measure.
22 Based on what you are suggesting, I am not going to
23 introduce this measure, because I don't -- you know,
24 you have the professional expertise and you suggested
25 it doesn't work and it has not worked in any other

1 State, and I take all that very seriously. But I do
2 think there probably could be a hybrid of sorts on
3 zero-based budgeting and performance review.

4 But, you know, all of the models that we are
5 looking at, when you suggested we look at Texas as a
6 model of the performance based, these are all newer
7 States with, you know, not the aging infrastructure
8 they have, not this kind of the institutional way
9 that Pennsylvania operates. And I am not seeing
10 any models of like New York, New Jersey, like the
11 13 colonies kind of thing, you know, and I think that
12 matters, though. I think that matters in a big way,
13 because having been prior military and lived in
14 Western States, the whole mentality and the
15 philosophy is very, very different than it is here.

16 But having said that, I just wanted to tell
17 you I thank you, and I will be looking at the Texas
18 model. And Andrew Ritter has promised me he is going
19 to redraft something else for me that doesn't quite
20 meet this. But thank you for your testimony today.

21 Thank you, Mr. Chair.

22 CHAIRMAN SAYLOR: You're welcome.

23 Representative Denlinger.

24 REPRESENTATIVE DENLINGER: Thank you,
25 Mr. Chairman, and thank you, Mr. Snell.

1 I am not quite as pessimistic about the
2 whole idea, I will admit, Representative Beyer,
3 because I think there are some benefits to be
4 gained.

5 Are there States that have done perhaps
6 pilot programs for, you know, perhaps areas of their
7 government that are less divided along policy
8 differences?

9 For instance, road paving, paving per miles,
10 is not a highly ideological issue; it is just, how
11 many miles of road did we pave? It would seem to me
12 that there would be some functions of government that
13 are really depoliticized where we could go to this
14 type of a system. It would seem like those would be
15 the pockets to go after to try to succeed with it
16 first; the low-hanging fruit, so to speak.

17 MR. SNELL: Representative Denlinger, I
18 think you are absolutely right, and in fact in State
19 Governments -- Mr. Thornburgh mentioned Oregon -- in
20 other State Governments as well where the Executive
21 branch has instituted performance-based budgeting,
22 Departments of Transportation in particular have been
23 enthusiastic advocates of it, because they can use it
24 to demonstrate explicitly -- I almost said
25 "concretely" -- what they are doing. And they have

1 an output that is measurable in quantitative fashion,
2 in straightforward ways, and certainly pilot projects
3 are the ideal way to begin this.

4 And if I could, just in response to
5 Representative Beyer, I did not mean to say this is,
6 that performance-based budgeting is not a desirable
7 means of looking at budgets. I think it is difficult
8 for Legislatures to be the only advocate of them, and
9 Legislatures have found it difficult to use. But as
10 an Executive management tool, I think it is essential
11 to modern government.

12 CHAIRMAN SAYLOR: Mr. Snell, I just wanted
13 to check with you and make sure you are correct, is
14 that you just said performance-based budgeting. Do
15 you not mean zero-based budgeting?

16 MR. SNELL: I do not mean zero-based
17 budgeting. That has not seemed to work out well in
18 other States -- in any State.

19 CHAIRMAN SAYLOR: In other words, which one
20 do you think does not work the best? I am sorry to
21 interrupt that.

22 MR. SNELL: I think performance-based
23 budgeting is valuable. Zero-based budgeting, in its
24 classic form, has not worked out.

25 CHAIRMAN SAYLOR: Okay. I just wanted to

1 make clear on your statement. Okay.

2 MR. SNELL: Yes, sir.

3 REPRESENTATIVE DENLINGER: No further
4 questions. Thank you.

5 CHAIRMAN SAYLOR: Thank you.

6 Representative Day.

7 REPRESENTATIVE DAY: Thank you,
8 Mr. Chairman.

9 And thank you, Mr. Snell, for coming today.
10 I appreciate your testimony.

11 You know, many times decisionmakers get out
12 in front of a popular issue and declare, you know, I
13 have supported this issue and I have helped pass and
14 get allocated \$5 million to this particular issue or
15 effort, and what I find is there is no measurement of
16 the impact or the efficiency of those tax dollars
17 being spent on such an initiative, or whether it even
18 had to be spent at all.

19 I would like to think that, the way I
20 understand, and I like the idea of zero-based
21 budgeting. It does create -- well, that is another
22 question. But I like the idea, and I would think
23 that it would allow the policy debate to come to the
24 Legislature and not be just in the Executive branch,
25 to allow us to set policy, which I think a lot of

1 Legislators believe that we should be doing in giving
2 direction to the Executive branch.

3 My question is, do most entities that
4 travel, either these passed performance-based or
5 zero-based budgeting passed, do they require each
6 agency to become experts in presentation and
7 presentment before the Legislature, or do they
8 create a body within government that would do that
9 for them?

10 MR. SNELL: I think they require the
11 individual agencies to make their presentations to
12 the Legislature.

13 REPRESENTATIVE DAY: Okay.

14 And, you know, the big question for me on
15 the negative side of going this path is, do you have
16 any documentation or any information about the costs
17 of going through this path? Because, you know, it is
18 obvious to me that it would require more work, more
19 preparation, to present the budget or components of
20 the budget this way.

21 Is there any reporting? I didn't get to
22 read everything that you have here; it might be in
23 here, and that is my question.

24 MR. SNELL: I think that one of the primary
25 costs that many local governments have found and that

1 State Governments have found when they have gone down
2 the path of a more rational budgeting system is data
3 management, that what performance-based budgeting
4 calls for is a very careful systematic, consistent,
5 and government-wide collection of data, and that
6 certainly in the eighties and nineties, many State
7 Governments were simply not up to the task, that we
8 were not up to the demands that such a system
9 required of them. So there is a cost there in your
10 data management system and its consistency across the
11 entirety of State Government.

12 For example, your Executive budget staff
13 would have to have access to detailed data in each
14 State agency on a consistent basis, and you would
15 probably want your legislative budget staff to have
16 access to the same data. Well, that was not always
17 the case in the past, and I doubt that it is
18 presently the case in some State Governments, that
19 everything is available to every authorized person.
20 So there is one.

21 It is undoubtedly more time-consuming in
22 terms of agency personnel to report to you in detail
23 the accomplishments of their agency than for them not
24 to do so.

25 REPRESENTATIVE DAY: Sure.

1 MR. SNELL: It is a whole lot easier for
2 someone to come in and say, you know we have been
3 doing a great job; we have a few challenges, but we
4 have been doing a great job; and you are well aware
5 of this, Representative Day, because we have told you
6 about this before. That is a far cry from having to
7 give you chapter and verse on a whole bunch of
8 issues. So there would be costs that are hard to
9 quantify before the fact.

10 REPRESENTATIVE DAY: And have, in these
11 efforts, have performance metrics been established
12 that would help guide us if we would want to draft
13 or amend legislation that has been proposed? Are
14 there performance metrics that are used across
15 governmental agencies that we could use to help us in
16 this effort?

17 MR. SNELL: I am not aware of any model that
18 you would be able to import in any substantial
19 fashion.

20 I think what you could see would be if you
21 looked at, you know, former appropriation bills from
22 Florida, current appropriation bills from Texas, from
23 other States that use performance measurement, you
24 could see the sorts of things that they have
25 developed, and those are suggestive.

1 There have been efforts to establish
2 benchmarks, which would be standards to allow
3 comparison between State Governments or between
4 municipality and municipality, but none of those is
5 really far enough along to give you explicit
6 guidance.

7 Our recommendation on the point of specific
8 measurements is that you work them out with the
9 agencies involved, because what really matters here
10 is that you have the information you need in the form
11 that you need it.

12 Left to themselves, as Minnesota's example
13 proved once and for all, an agency will measure
14 everything conceivably that it does, because no one
15 wants his or her achievement and efforts gone
16 unnoticed. No one wants to be overlooked. So masses
17 of information that you can't use. You have to
18 indicate, the policymakers have to show the agencies
19 what you want. So this becomes a time-consuming
20 process in itself.

21 REPRESENTATIVE DAY: My last question is
22 just the cost.

23 Have some of these States moved away from
24 these types of systems because of the cost and the
25 legislative staff that you had mentioned that it took

1 in Florida and that it may take here if we would
2 want to do this? Is it cost? Has anyone done a
3 study that shows that the cost outweighed the
4 benefits?

5 MR. SNELL: Well, it is -- no, I am not
6 aware of a study of that sort.

7 REPRESENTATIVE DAY: Thank you.

8 No further questions, Mr. Chairman. Thank
9 you.

10 CHAIRMAN SAYLOR: Thank you.

11 At this time, Representative Mensch.

12 REPRESENTATIVE MENSCH: Let me just
13 follow-up and continue that line of questioning, very
14 briefly.

15 An old friend of mine used to say -- he
16 taught operations research at Wharton -- and he used
17 to say that the more data you think you know about or
18 you need to know about an issue demonstrates that you
19 really know very little about the issue. Said
20 another way, it is paralysis through analysis.

21 Knowing how this -- I'm only in my third
22 year -- but knowing how this Legislature works
23 generally, we would probably seek an awful lot of
24 information, and we would constantly be drowning
25 ourselves in analysis.

1 To Representative Day's point, what States
2 actually have a good, a comprehensive, an effective
3 workable list of objectives and goals that they use
4 in their performance-based budgeting?

5 MR. SNELL: I don't think I could give you a
6 full list, Representative Mensch, but I would respond
7 to you, as I did to Representative Day, that I think
8 it would be useful to look at the kinds of goals that
9 were developed over time in Florida, that have been
10 developed over time in Texas, possibly in New Mexico
11 and Arizona, because though the size of the
12 government varies greatly from yours, the issues are
13 parallel, and I think those would serve as good
14 examples.

15 I wouldn't want to say that any State has a
16 comprehensive list that you could simply pick up on.
17 It seems to me that the issues have to be tailored to
18 your particular concerns.

19 REPRESENTATIVE MENSCH: My concern would be,
20 though, that starting where we are today, having
21 none, and trying to build it, we don't know what we
22 don't know.

23 MR. SNELL: Correct.

24 REPRESENTATIVE MENSCH: And so we would
25 probably have too high an expectation and set a goal

1 for too much data.

2 So that is why I am trying to wean this, if
3 I can, get it down to a more manageable, in my mind,
4 conceptually a more management list, somewhere we
5 could start.

6 MR. SNELL: If I could respond to that
7 point.

8 I think that the example of Texas would be
9 informative to you, because in Texas, the legislative
10 staff has had and have worked with the Legislature --
11 they have had the responsibility of reducing the list
12 of performance measures that are used by Executive
13 branch agencies to a number that is useful to the
14 Legislature.

15 So they have been facing your issue head-on
16 for a number of years, and I think it remains an
17 issue even when you are not starting from scratch on
18 a process.

19 So the material that appears in their
20 legislative budget bill is a reduced list that the
21 Legislators and staff find most relevant to
22 legislative concerns.

23 REPRESENTATIVE MENSCH: Mr. Snell, thank you
24 very much for your time today. I'm sorry you lost
25 your luggage. Good to see you here.

1 MR. SNELL: It has always reappeared, in my
2 experience.

3 CHAIRMAN SAYLOR: Representative Grell.

4 REPRESENTATIVE GRELL: Thank you.

5 To follow up on Representative Mensch, are
6 you familiar with States that might do sort of a
7 targeted performance-based budgeting, where the State
8 might identify a particular need -- let's say,
9 graduation rates among our high schools -- and set
10 aside a limited portion of the total education budget
11 that would be divided among the school districts
12 within the State that do the best at achieving that
13 goal?

14 Or another example, perhaps the Department
15 of Transportation issues highway occupancy permits to
16 allow, you know, businesses to connect to the
17 highways, and you might set aside a portion of the
18 transportation budget that would go to the agencies
19 that do the best job of issuing those permits in a
20 timely fashion.

21 Are there States that do things like that
22 that we might look at, sort of as a "tip your toe in
23 the water" kind of approach to performance funding?

24 MR. SNELL: Representative Grell, one
25 example I know that exactly fits what you are asking

1 about is Florida's use of incentive grants for higher
2 education, that indeed one of the measures of quality
3 in higher education was satisfactory graduation
4 rates, and a certain amount of State higher education
5 funding was set aside to be distributed by formula to
6 institutions that met certain criteria. I think just
7 as you are---

8 REPRESENTATIVE GRELL: Well, we do that in
9 Pennsylvania also through our higher education.

10 MR. SNELL: Yeah; and that's the only
11 example of that sort that I'm aware of.

12 MR. GRELL: Okay. Thank you.

13 CHAIRMAN SAYLOR: Mr. Snell, thank you.

14 MR. SNELL: Thank you very much.

15 CHAIRMAN SAYLOR: Mr. Snell, one other note
16 before you leave.

17 If you wouldn't mind, we would appreciate if
18 you would get to us any information you have on the
19 Arizona and New Mexico State performance budgeting.

20 MR. SNELL: Yes, sir.

21 CHAIRMAN SAYLOR: And if you would see
22 that my Executive Director, Andrew Ritter, gets
23 that and we can see that the information gets
24 distributed.

25 But thank you for your appearance today.

1 MR. SNELL: Thank you very much,
2 Mr. Chairman and members of the committee. Thank
3 you.

4 CHAIRMAN SAYLOR: Next to testify is
5 Jonathan Williams, the Director of the Tax and Fiscal
6 Policy Task Force of the American Legislative
7 Exchange Council.

8 MR. WILLIAMS: Well, thank you, Mr. Chairman
9 and members of this committee, for inviting us to
10 speak today.

11 And if you would all indulge, I have our
12 Executive Director of the American Legislative
13 Exchange Council, Alan Smith, who made the trip from
14 Washington with us this morning and would like to
15 just say a quick 90-second welcome.

16 MR. SMITH: With your indulgence,
17 Mr. Chairman, I had not plotted to say anything, but
18 I had wanted to share a single thought with you,
19 actually two thoughts.

20 The first is to, since it is January and our
21 first trip to Harrisburg, congratulate the newly
22 elected folks -- Representatives Delozier, Grove,
23 Day, Tallman. Congratulations to you all.

24 I am not an expert, but I did read the book
25 *The Price of Government* written by this guy who was

1 the coauthor of *Reinventing Government*, and I just
2 wanted to share a very simplistic, like first-grade
3 approach to the first part of performance-based
4 government budgeting, because they tried a recent
5 experiment which we were going to bring to your
6 attention.

7 What they did in Michigan about 3 years ago
8 in the House is they had this fellow in and, you
9 know, he facilitated a session. They actually did
10 the whole State budget that year. And the reason
11 that I am going through this is because there is one
12 guy you can talk to who knows everything about it and
13 it is in stark contrast to everything else they have
14 ever done. The Senate didn't go along; it didn't
15 eventually happen, but they did it, and, you know, so
16 it is different than what else they have done.

17 What they did is this: The first part, I
18 think, is very powerful, and again, this is a very
19 simplistic version of it, but what they did is they
20 said, okay, the people elected us to do these things:
21 provide a court system; educate kids; you know,
22 provide medical care and food for kids that can't
23 afford it; build roads and maintain bridges,
24 da-da-da-da-da, a list, 10, 12 things, whatever it
25 was.

1 And basically then they said, okay,
2 everything, every dime that the State spends, is
3 going to go into one of these categories or we are
4 not going to do it.

5 So if you start out that way and then you
6 go to some other form of it, the more sophisticated
7 things mentioned by Mr. Thornburgh or my friend,
8 Mr. Snell, then, you know, you really got something
9 going; then you do, you know, zero-based. Now that
10 you have decided what you are going to spend the
11 money on, you can decide how much money to spend.

12 Anyway, that is all I wanted. I just wanted
13 to share the thought because of this one single
14 resource, who is Chairman of Ways and Means up there,
15 who can really give you the whole Michigan story,
16 and they got it firsthand from the fellow who, or
17 at least one of the people who invented the
18 process.

19 Thank you, Mr. Chairman.

20 CHAIRMAN SAYLOR: Thank you for coming to
21 Pennsylvania today.

22 MR. WILLIAMS: I will say, it was nice to
23 see all the snow up here this morning, although it
24 was a little tough to drive. I'm from Michigan
25 originally, so it makes me feel from home.

1 And being from Michigan, I should feel it is
2 in order to congratulate the Steelers on a great
3 season. Our team in Michigan, the Lions, probably
4 wouldn't have had a winning season if they played in
5 the Big Ten, so---

6 I am Jonathan Williams, Director of the
7 Tax and Fiscal Policy Task Force at ALEC, and I thank
8 you for having us today.

9 Thank you to our ALEC State chair,
10 Representative Dally, and to our Tax and Fiscal
11 Policy Task Force members, Chairman Saylor and
12 Representative Rohrer. It's good to see you here.

13 Just to give you a little opening, I mean,
14 we are facing extremely difficult times, not only in
15 Pennsylvania but nationally. More than 40 States are
16 now reporting budget deficits for either fiscal 2009
17 midyear deficits or fiscal 2010, with the worst of
18 which being usually in 2010, and it doesn't look
19 like there is really a light at the end of the tunnel
20 yet. As well many of you know, State budget problems
21 generally lag the national downturn, and so probably
22 tougher times are still in store for States.

23 So we have been tracking this very closely
24 with our members. We have 2,000 Legislators
25 nationally who are ALEC members, and this is a huge

1 area of concern for them.

2 And this is really consuming the talk in
3 Washington as well today, with President Barack Obama
4 shepherding through Congress a stimulus package that
5 could include \$200 billion for the States, and so
6 this is certainly at the top of the headlines. I in
7 fact yesterday was on the Fox Business Network
8 talking about this very issue, and so it is something
9 that, you know, we have tried before.

10 In 2003, the Federal government gave the
11 States \$20 billion, because we were going through
12 really the last round of this economic downturn and
13 the States had large budget problems. So we find
14 that, you know, 10 times that amount now looking to
15 be given to the States.

16 So really today I wanted to focus on some
17 ideas on, you know, priority-based budgeting, whether
18 you call it performance-based budgeting or
19 priority-based budgeting. I tend to use
20 priority-based budgeting, because, you know, just
21 what Alan said a moment ago, that really you need to
22 start with three basic questions. And this is what
23 the government of New Zealand did some years ago
24 under the direction of Maurice McTigue, who is
25 finance director, the national Finance Minister

1 there, who now is based out of Washington, DC, at the
2 Mercatus Center, and he is very involved with us at
3 ALEC. You know, he would be a great person to bring
4 in some time as well.

5 The questions that they would ask, the
6 fundamental questions are, should it still be done by
7 the government? Who should do it? And who should
8 pay for it and how are we going to pay for it?

9 You know, then you have to, of course, look
10 at levels of government as well, you know, should it
11 be done at the Federal level? Should it be done at
12 the State level? Should it be done at the local
13 level? So those are fundamental questions to take a
14 look at.

15 But priority-based budgeting is very
16 important, because it recognizes that we live in a
17 world of limited resources, and that is something
18 very important to keep in mind.

19 You know, when States were having, you know,
20 huge budget surpluses in, you know, three or four
21 fiscal years preceding the current shortfall, we
22 didn't have to operate like we lived in a world of
23 limited resources. We didn't have to make the
24 decisions between needs and wants, but now those
25 decisions are critical if the States are going to

1 survive this economic downturn.

2 So I want to share with you what our Tax and
3 Fiscal Policy Task Force has put together and some of
4 our members have really assisted with, what we call a
5 Legislator's tool kit for making government more
6 accountable in performance and priority based.

7 And first of all, it recognizes that
8 Legislators do have the responsibility to be good
9 stewards over tax dollars, because when you as
10 Legislators take money, whether it is taxes or fees,
11 from private citizens, the message that you send to
12 them is, we have a higher use for the money than you
13 do. And so you must take that responsibility very
14 carefully and make sure that is really the case, that
15 you have a higher valued use for that money than
16 private citizens or private enterprise does. That is
17 one big question to answer.

18 Another is, taking a look at really the
19 approach of standard budget practice versus the
20 priority-based budgeting is, you know, usually in
21 standard budget practice, the agencies will come,
22 they will have an inflation and caseload increase,
23 and then they will take that, you know, use it as a
24 baseline, and say this is what we need for the next
25 year.

1 You know, we have seen that process doesn't
2 work. It is really the case that, you know, now that
3 40 States have budget problems, standard budgeting
4 practices are not going to get us through this
5 economic downturn.

6 The priority-based approach starts with core
7 governing principles, and this is something that
8 priority-based budgeting can't decide for you. This
9 is something that you as Legislators have to decide,
10 what are the core principles of government? Exactly
11 what Alan said, what Michigan and the House did.
12 The Chairman of the Ways and Means Committee,
13 Fulton Sheen, was the gentleman that was in charge of
14 that. They decided, what are the core principles of
15 government? What basically you are deciding is what
16 is the mission of government, what is the mission
17 statement of government?

18 And then they look at, how are we going to
19 advance these core principles? And if an agency or a
20 program doesn't advance the core principles, I think
21 you have to take a very hard look at eliminating that
22 program.

23 This is something -- it is kind of a funny
24 story. Governor Butch Otter of Idaho recently --
25 they are facing a budget shortfall, not as severe as

1 some States -- but he basically just commanded the
2 heads of the agencies to, you know, show their
3 programs, how they were lining up with the agency
4 mission statements. And, you know, surprise
5 surprise, if they were not lining up with agency
6 mission statements, they were going to be faced, you
7 know, with potential severe cuts or elimination.

8 Now, you would think this would be really
9 a no-brainer, right? The problem is that only
10 27 States today require agencies to develop mission
11 statements, to even develop a mission statement let
12 alone require their programs to fulfill the mission
13 statement.

14 So then I would get into the tool kit that I
15 discussed. First, as I had mentioned, you develop
16 core governing principles -- needs versus wants. And
17 like I said, good times don't require you to make
18 that decision, but now we certainly do.

19 Number two in the tool kit, the importance
20 of a nonpartisan revenue forecast, and that is
21 something that should be updated quarterly. It
22 should be set by a nonpartisan board.

23 Also, as I had mentioned, agency mission
24 statements. For instance, this is something that in
25 Washington State -- this is just an example -- the

1 Superintendent of Public Instruction, their agency
2 mission: The Office of Superintendent of Public
3 Instruction, in collaboration with families, local
4 communities, businesses, and government partners,
5 leads, supports, and oversees K-12 education,
6 ensuring the success of all learners.

7 So moving more from an input, governing how
8 much the agency is going to get, but focusing more on
9 the output -- what are the results; what is happening
10 with test scores. And this, well, is a challenge for
11 government. It was discussed earlier that it can be
12 done, and as one of the Representatives pointed out,
13 even if you take something as simple as miles of
14 roads paved, test scores, things that have tangible
15 results that you can easily measure, that is what you
16 begin with. You begin with the low-hanging fruit.
17 You shouldn't let, you know, the perfect be the enemy
18 of the good in this case.

19 Develop agency priorities by activity,
20 something that Governor Mitch Daniels of Indiana, who
21 ran the Federal Office of Management and Budget, a
22 very budget-minded Governor, has done. And the
23 budget process in Indiana is to require agencies to
24 come up with three categories to rate the
25 effectiveness of their own program. So you are just

1 asking the agency head to evaluate their own
2 programs. And he calls it a red light, yellow light,
3 green light system, where red light is the bottom
4 level of effectiveness, yellow the middle, and green
5 the best and most effective programs.

6 And what it really has done is forced,
7 forced those agency heads to really, as they are the
8 experts in overseeing the programs, forced them to
9 prioritize themselves and then require that, you
10 know, a certain, you know, a third, a third, a third
11 be in each category. So then you automatically, the
12 Legislature, is presented with the agency heads' list
13 of the most effective, the median core, and then the
14 least effective, which makes the decisionmaking
15 process a whole lot easier to allow you to delve
16 deeper into the details.

17 Another issue that has been helpful is,
18 talking about major purchase strategies for States,
19 the question is whether to apply the yellow book
20 test. If it is something that the private sector
21 does, we should really ask the question, should
22 government be competing with the private sector?
23 That answer, in my view, is a resounding no. You
24 don't want the government to be in competition with
25 the private sector. That is something that is

1 counterproductive.

2 And so a couple of neat things that have
3 been done recently on the privatization front is
4 really two very divergent examples, one accomplished
5 by a Republican in Georgia, Governor Sonny Perdue,
6 and one by a Democrat in Ohio, the State Treasurer,
7 Richard Cordray.

8 And what they did is in Georgia, they won
9 the 2007 Innovations Award that recognizes the
10 efforts to enhance efficiency and effectiveness in
11 State Government, and what they did was put together
12 a database with a risk management interface, total
13 cost of ownership details and portfolio management
14 over all of State assets.

15 And in Ohio, a bill recently sponsored by
16 outgoing Representative Tom Brinkman -- actually, a
17 member of our Tax and Fiscal Policy Task Force -- and
18 that was signed by Democrat Governor Ted Strickland,
19 it provides for transparency in government spending,
20 but also statutorily creates a council to coordinate
21 the management of property owned by the State,
22 including inventory and providing an assessment of
23 disposal potential.

24 So these are a couple really neat
25 privatization efforts that are out there today, and

1 so that is something that States need to take a look
2 at in priority-based budgeting.

3 And then finally, another budgeting practice
4 that we found to be very successful is the issue of
5 budget transparency and creating a searchable online
6 database of State spending to really increase
7 transparency and the accountability of government,
8 and what better way to allow the taxpayers of the
9 State of Pennsylvania to become the agents of
10 accountability over State spending and allow them the
11 access to the State budget online in a Google
12 government type format, where they can easily go
13 through in a searchable PDF and see where their tax
14 dollars are being spent. And this is something that
15 has really been a national effort, and I know there
16 was legislation introduced last year in Pennsylvania
17 on this, and hopefully that is the case again this
18 year.

19 We have seen, last year we had 30 States
20 introduce -- we have model legislation at ALEC on
21 this bill that was introduced in 30 States, and now
22 we have about 15 States that actually have it
23 implemented, either through Executive order or
24 legislation. And it has been tremendously
25 successful. The cost has been next to nothing to do

1 it in many of the cases.

2 It really originated as a Federal effort by
3 then Senator Barack Obama and Senator Tom Coburn.
4 You had a very conservative Senator along with a
5 liberal Senator come together on this. You had
6 Grover Norquest and Ralph Nader sign a coalition
7 letter supporting it. It is really something that
8 brings together the left and the right very well, but
9 you don't often find those two on the same
10 letterhead.

11 But it has really been a great -- it has
12 been one of the best things that we have seen happen
13 in the last 2 or 3 years at the State Government
14 level to increase transparency. So I would urge you
15 to take a look at that.

16 And then just in conclusion, I think that as
17 was pointed out earlier, really the optimist sees the
18 potential in every difficulty. That is something
19 that Legislators, really it would be terrific to
20 consider during these times, as things are pretty
21 dire.

22 We were just over testifying, you know, I
23 was testifying in Maryland where they also face a
24 couple billion-dollar shortfall, and they have
25 learned their lesson, that you can't tax your way to

1 prosperity in Maryland. They tried that. They
2 raised just about every tax you can think of last
3 year and in a special session the year before,
4 and they are still in the red by a very large
5 margin.

6 But we had Mitch Daniels come in to speak
7 before ALEC in early December in our Washington, DC,
8 conference, and what he said is that this is a
9 terrific time to shrink government. This is a great
10 time to do the things that probably should have been
11 eliminated well before but were easy to let slide or
12 beat back when the times are flush.

13 And he quoted then Governor Lamar Alexander,
14 now Senator Lamar Alexander, and I will leave you
15 with this, his saying that a budget crisis is an
16 opportunity to innovate, because the folks who were
17 able to turn a deaf ear before may just have to
18 listen to you.

19 And so I know that many members of this
20 group have been talking about fiscal responsibility
21 for years and about saving for a rainy day and about
22 not spending beyond our means, but now I encourage
23 you to take advantage of this opportunity, because
24 folks all across Pennsylvania are going to have to
25 listen to that message now that times are tough.

1 So again, thank you for this opportunity. I
2 will take any questions that the committee members
3 may have.

4 CHAIRMAN SAYLOR: Representative Peifer.

5 REPRESENTATIVE PEIFER: Thank you,
6 Mr. Chairman, and thank you, gentlemen. That was a
7 great presentation. I appreciate you making the trip
8 to be with us today.

9 Something about budgeting that we don't talk
10 enough about are the management of a fund balance or
11 excess revenues. I know we call it many different
12 things, whether it is at the county level, the State
13 level, the school board level, which are surpluses or
14 fund balances.

15 For example, our State relies so heavily on
16 personal income tax and sales tax to drive the
17 revenue figures in our budget, and we have a very
18 talented appropriations staff, many of which are here
19 today, but they don't have the ability to look
20 forward into a crystal ball; they don't have the
21 ability to see exactly what those revenues are. We
22 can control the spending number, but we cannot
23 control the revenue numbers.

24 Luckily, over a period of time, we have put
25 money in a Rainy Day Fund with the use of a

1 percentage off of that surplus from year to year
2 June 30. Luckily, we have done that, simply because
3 we have now in excess of \$700 million in a Rainy Day
4 Fund to support this, our State budget.

5 It is very difficult for me to understand, I
6 mean, I guess in a perfect world, we're not a bank,
7 we should not be accumulating money, and I guess we
8 would not have to accumulate money if we could
9 predict that. But we can't, okay? And I can see
10 that, and our schools and our townships and our
11 counties do the same. And the financial market right
12 now is rewarding every business out there that has a
13 strong balance sheet, that has the assets that aren't
14 leveraged.

15 It would just seem to me, and just to give
16 you an idea of, you know, the differences, I mean, we
17 went from June 30 of last year to having a \$600,000
18 surplus to, right now, having possibly a \$2 billion
19 shortfall by June 30. I mean, we could have a larger
20 than 10-percent swing in our budget just based upon
21 the downturns in the economy.

22 My question is this, and maybe you can get
23 me some information on what other States and a
24 rationale on what we should be maintaining in a
25 Rainy Day Fund. My idea is this, that if we could at

1 least put more money in a Rainy Day Fund, because
2 what happens is, when we see a surplus, everybody
3 sees that as money to spend, and now is the time to
4 look at our surpluses that we have accumulated over
5 the last several years and say, you know what? Maybe
6 we should have been putting a higher percentage of
7 money in a Rainy Day Fund; if nothing else, it will
8 stop the expansion of government.

9 MR. WILLIAMS: Well, absolutely. And this
10 reminds me that I was here last year when
11 Chairman Turzai had the chairmanship of the
12 committee, and I was asked to come and share thoughts
13 on Governor Rendell's proposal, on his budget last
14 year. And I remember him wanting to spend some of
15 the Rainy Day Fund last year, even though there was a
16 surplus, and I strongly cautioned against that.

17 And I think that a surplus, you know, Rainy
18 Day Funds do serve a very important purpose and we do
19 support them, because they can try to even out the
20 flows, the fiscal roller coaster, if you will, the
21 booms and busts of State Government budgets. And so
22 when they do serve that purpose to protect taxpayers
23 in the down time to avoid tax increases, I think they
24 are very, very valuable, although we do suggest that
25 they have well-defined limits.

1 As you mentioned, you don't want governments
2 becoming, you know, a bank where you are holding a
3 large percentage of State revenues that should be,
4 you know, given back to the citizens if they become
5 too large.

6 So in many cases, you know, we see States
7 where they have, you know, a threshold of 10 percent
8 of the State General Fund that they will allow the
9 Rainy Day to go up towards, and there will be maybe a
10 mechanism for automatic refund once it reaches that
11 level.

12 But be very cautious about, A, tapping a
13 Rainy Day Fund when it is not truly a rainy day; or
14 two, allowing government to go overboard and become a
15 savings and loan institution.

16 REPRESENTATIVE PEIFER: Thank you.

17 CHAIRMAN SAYLOR: Before I turn it over to
18 Representative Dally for questions and closing
19 comments, I want to remind the members that we will
20 be having our second public hearing tomorrow on the
21 budget at 10 a.m. in room 418 of the Main Capitol
22 Building.

23 Representative Dally.

24 REPRESENTATIVE DALLY: Thank you,
25 Mr. Chairman.

1 And I would just like to welcome the ALEC
2 folks and congratulate Alan on your new position with
3 ALEC. And I look forward to working with you, and
4 thank you very much for your testimony.

5 I just have a couple of questions. This
6 priority-based budgeting, you mentioned Michigan, and
7 what were the other States?

8 MR. WILLIAMS: Well, I have been aware of a
9 few that we have worked with, I know, in the past.
10 Michigan has done a very good job at the committee
11 level at the House of Representatives.

12 Also, Washington State is a good example to
13 look at, and I can get you some information from
14 Washington State. It was actually done during the
15 administration of Governor Locke, a Democrat, when
16 they faced a \$2 billion budget shortfall. They were
17 able to close the budget shortfall without raising
18 taxes. It was a very significant gain for the
19 movement of priority-based budgeting.

20 And we have task force members on our
21 Tax and Fiscal Policy Task Force that helped to
22 implement that project in Washington State that could
23 be very helpful, and I could certainly put you in
24 touch with them, as I think they could shed a lot of
25 light on your situation since it is a very remarkably

1 close budget deficit that you are facing yourself.

2 REPRESENTATIVE DALLY: If you could provide
3 that to Andrew from our committee, that would be
4 extremely helpful.

5 MR. WILLIAMS: Absolutely.

6 And then as well, you know, we have seen
7 others in the past that I think have been successful.
8 While he was Governor of Virginia, George Allen put
9 together a task force on government competitiveness,
10 and they have come up with some good recommendations
11 that I have seen. They have done something in
12 Arkansas on this that I have some information on.

13 And as well, probably, if not Mitch Daniels,
14 who I would also recommend getting in touch with, and
15 I have contacts with his staff, also the other
16 Governor that really comes to mind that does a
17 terrific job of priority-based budgeting is his
18 Executive budget is Mark Sanford of South Carolina,
19 who has really put priority-based budgeting and
20 really put it into practice better than almost any
21 other Governor that I have been aware of. So he is
22 another person that could be a great resource to your
23 efforts.

24 REPRESENTATIVE DALLY: Now, some of these
25 States that you have mentioned, do you see a

1 correlation between this priority-based budgeting and
2 where they are today as far as, you know, a deficit
3 situation? I mean, are they in better fiscal shape
4 than the other States?

5 MR. WILLIAMS: Well, if they stuck to it,
6 you know, sometimes that is not the case. Sometimes,
7 you know, it is an Executive prerogative and the
8 Legislature has other ideas.

9 But I think that, well, the point that was
10 made earlier is quite significant, that you really
11 need a champion for this, and it really helps to
12 have an Executive as a champion, and that is
13 really helpful with Mark Sanford's efforts in
14 South Carolina.

15 But I really think that there are some very
16 good case studies. I think that Indiana is a very
17 good example of a State that, to the most part, has
18 avoided major budget problems, an industrial
19 Midwestern State, which is very rare considering what
20 is going on in some of the other States -- Ohio,
21 Pennsylvania, Michigan -- and recently they announced
22 a small budget deficit in comparison to some of the
23 other States. But what they were able to do is just,
24 you know, Governor Mitch Daniels said, hey, we are
25 going to limit the government spending increase to

1 1 percent this year. If our private citizens have to
2 live within their means, government is going to as
3 well.

4 And so, you know, it may be a novel concept,
5 but I think it is something, you know, it was just
6 good old-fashioned budget restraint that stopped
7 overspending during the past couple of years and has
8 really put them in a comparatively good position,
9 whether you look at California which has a
10 \$40 billion budget deficit, and you may note that
11 they do have the highest income tax and the highest
12 sales tax rates in the nation and still have the
13 highest budget deficit. So I think that is an
14 interesting point to really put out there.

15 But the States that were able to avoid the
16 worst budget problems today are States with natural
17 resources that had extra revenue -- they had inherent
18 advantages -- or States that, you know, really tried
19 to control spending.

20 REPRESENTATIVE DALLY: Okay. Thank you very
21 much.

22 Any other questions from any of the members?

23 Seeing none, I would like to thank you on
24 behalf of my co-chair, Gordon Denlinger, and other
25 members of the committee for your attendance today.

1 I would like to thank Mr. Snell from the
2 NCSL organization and also Mr. Thornburgh, who
3 presented testimony. Certainly this information will
4 help us as we continue our deliberations and offer
5 what we think are good ideas for this budget cycle
6 and the fiscal problems that are facing the
7 Commonwealth. So thank you once again.

8
9 (The hearing concluded at 3:58 p.m.)

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

5

6

7

Debra B. Miller, Reporter

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25