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*Zero-based Budgeting and
Legislative Use of Performance Information*

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Introduction

In the effort to address the shortcomings of traditional incremental, line-item budgeting, many legislatures and governors have studied and to some extent adopted the practices of zero-based budgeting and performance-based budgeting. This paper provides a short discussion of those two budgeting techniques, accounts of some states' experience with them, and an evaluation of the challenges legislatures, in particular, have encountered along the way.

Definitions and Terminology

Zero-based Budgeting (ZBB) is a process designed to analyze an agency, program, or department to determine its worth and value to the government and its citizens. ZBB can take many forms, but in its purest form this process assumes the agency does not exist and builds its programs, operations, and budget from zero to its optimum level. The agency is forced to rank its organizational purposes and programs and to focus on the priorities of and alternatives to the entity's operations. It is intended to help policymakers establish priorities for funding.

Performance-Based Budgeting is linked to such terms as performance management and performance reporting. In whatever term it is described, in the public sector it is intended to link agency performance and funding. It may be limited to a description of what agencies have done with the funding they have been provided--a measure of efficiency--and it may include measures of how successfully agencies have met their basic responsibilities--a measure of effectiveness. A rigorous performance information system includes these steps:

- Establishing strategic plans,
- Setting agency goals and objectives,
- Identifying ways to meet them,
- Measuring how well they are accomplished over time and
- Reporting to policy makers and stakeholders.

Performance measures are maintained in most states. Regular performance reporting to the legislature occurs in about half the states. A few legislatures, most notably those of Arizona, Florida, New Mexico and Texas, have used performance measures extensively in the legislative budgeting process.

Zero-based Budgeting

ZBB's appeal lies in its requirement of a fundamental reconsideration of all the activities an entity carries out. Rebuilding the budget from zero holds a great attraction that governments have found difficult to realize in practice.

In its original sense (explained in detail in Attachment 1), ZBB would put all existing and proposed programs in government on an equal footing. It would end the traditional state government practice of altering existing budget lines by small amounts every year or two and

call for justification of all spending decisions. The process requires managers to provide alternative "decision packages" justifying program continuation at different levels of expenditure, with workload and performance measures included. Higher-level managers prioritize the decision packages. Top agency officials use the prioritized packages to design budget requests to go to governors and legislatures.

The process was very heavy on paperwork, but an even more fundamental difficulty was ranking the "decision packages." The desirability or undesirability of a program is often a matter of political perspective, not a technical issue. Even Georgia, where Governor Jimmy Carter introduced ZBB to state budgeting in 1971, found the full process impossible to put into effect, and only modified forms have been used in state governments.

One modification, used in Iowa in the 1990s, informed agencies that only 75 percent of their previous year's funding would be continued. Agencies had to present sets of budget proposals, called decision packages, for additional funding. The agencies were not required to provide specific justification for the base 75 percent. The decision packages, however, required detailed justification and priority-setting, making them an effective way to present information for legislative consideration. The process continues in a less formal fashion than in the 1990s and has been altered to put more emphasis on performance reporting and less on alternative decision packages.

A more widely-used modification of ZBB has been to ask agencies to demonstrate the results of funding programs at various levels, for example 10 percent or 15 percent below the existing level, at the existing level, and at some percentage above the existing level. States have particularly used this technique in times of fiscal stress. Like the Iowa technique, this can be a useful source of information for legislators on the impact of budget changes.

In 2000, Florida undertook a more elaborate process of agency budget justification under the title of zero-based budgeting reviews. Legislation similar to Pennsylvania's House Bill 2521 of 2008 required a detailed and comprehensive examination of each state agency's effectiveness and efficiency, under a schedule that would cover all state agencies in eight years. Although a number of such studies were carried out, they proved to be so demanding of staff time and resources that the practice was discontinued by 2004.

In conclusion, the simplified form of ZBB that requires agencies to submit alternative budget levels with an explanation of the different spending levels' impact on programs, can be helpful to legislators, especially in a time of fiscal stress. The original form of ZBB has not been demonstrated to work successfully in any state government. The form adopted in Florida provided agency reviews of outstanding quality and usefulness. Their cost in terms of agency and legislative staff time and the mass of material produced appear to have been the reasons the reviews were halted.

Legislative Use of Performance Information

Probably every state collects information on agency performance. The concern of this paper is its systematic collection across state government for use in the budget process, with these hallmarks:

- Existence of a strategic plan for agencies and the government;
- Specific agency goals and objectives;
- Explicit plans for meeting the goals and objectives; and
- Measurement over time how well they have been met.

According to a survey of legislative fiscal officers NCSL carried out in 2007, about half the states link some form of performance information to their budget process. The states' responses are collected in attachment 2 of this report. These are the broad objectives many legislators have expressed for collecting performance information:

- Better understanding of state programs
- Improved state program effectiveness (how well a program carries out its purpose)
- Enhanced state program efficiency (the productive use of resources)

Legislators have reported these specific uses for performance information:

- Performance data provides helpful background on the purposes of state-funded programs and the results they achieve.
- Performance information can help explain the results of previous legislative funding decisions.
- Performance indicators can help with estimating and justifying the potential consequences of new funding decisions.
- Examining performance measures in budget deliberations can encourage deeper legislative understanding of agency activities.
- Performance information has the potential to communicate to taxpayers what they receive in return for their taxes.

Legislators and staff report that performance information has its greatest impact when it is explicitly linked to agency funding, although actually linking performance information to the amount of appropriations is rare. The remainder of this presentation focuses on two large states where performance information has been extensively used in the legislative budgeting process for extended periods.

Only two large states have a record of extensive use of performance information in the budget process: Florida and Texas. Like Pennsylvania, they are among the 10 largest states, both in terms of population and state spending. Texas began its performance budgeting process in 1991 and has the longest record of performance budgeting of any state. Florida's performance-based budget process was initiated in 1994.

Texas

Legislation enacted in Texas in 1991 required each executive branch state agency and each institution of higher education to develop a multi-year strategic planning process. The

legislature hoped that strategic planning could provide statewide direction in key policy areas and allow the state to move away from crisis-driven decision making.

Legislative institutionalization of the process was guaranteed when it was put within the control of Texas's unique Legislative Budget Board (LBB). The LBB consists of the Lieutenant Governor (the presiding officer of the Senate), the Speaker of the House, chairs of two House and one Senate finance committees, and additional appointed members, two from the House and three from the Senate. The board has a large staff and writes the version of the state budget that is considered by the legislature.

In 1992, the LBB and the executive branch adopted a strategic planning and budgeting system in order to integrate strategic planning and performance-based budgeting. The system was structured to recognize the relationships between funding and performance, between accountability and resource allocation, and between spending and results. The goal was to focus on the quality of services provided.

The system includes several elements:

- A performance and achievement based budgeting system;
- Legislative monitoring of budgets;
- Development of standardized unit costs;
- State auditor's certification of performance and achievement; and
- Appropriation levels based on outcomes.

Since 1993, the legislature has included agency goals, strategies, and performance targets with each agency's appropriation in the general appropriations act. The act includes goals and strategies, program outcomes, and output measures.

The LBB and the Governor's Office of Budget and Program Planning work in conjunction with state agencies to develop strategic plans. As a part of the strategic planning process, agencies develop performance measures— more than 6,600 of them at present, of which 2,000 are itemized in the budget.

LBB staff are responsible for tracking performance measures and bringing key measures to the attention of legislators. State agencies submit quarterly and annual reports that show planned and actual performance in terms of outcome and explanatory measures (reported annually) and output and efficiency measures (reported quarterly). The system includes measures to reinforce the accuracy of agency reporting. Agencies are required to establish controls to ensure the data are properly collected and reported. The State Auditor's Office audits and certifies performance measures. The audit report on performance measures includes a report on the adequacy of controls in reporting data and the accuracy of agency reporting on actual performance.

Legislative use of performance measures

LBB staff report that measures are used in policy and funding decisions, for legislative oversight, for budget development and monitoring, internal decision-making, and as an

information resources for other states and the federal government. The users include legislators and staff, state agencies, the public, other states, and the federal government. The LBB assessments are distributed to all legislators, committee staff, the governor's office, the state auditor's office, the sunset commission, and the public by means of the LBB web site.

Texas legislators have several opportunities to review performance information. For example, agencies appear before the legislature for budget hearings every two years. At the beginning of each session the LBB makes a summary performance report available to each legislator. In the course of budget hearings, legislators review agencies' performance in meeting their targets and goals, and ask for explanations of missed targets. Variance explanations include factors that caused the variance and how the agency plans to address the circumstances. They are required for performance that is 5 percent or more above or below the quarter and the year-to-date targets.

According to a recent survey of the House Appropriations Committee and the Senate Finance Committee, legislators generally thought the system was informative and useful in the appropriations process. Sixty-five percent said the system "always" or "almost always" improved accountability, implying that it also helped to maintain compliance with legislative intentions.¹

Some had concerns, however, about the number of measures included in the appropriations bill itself and in the system. One legislator commented, "We measure too many things." Even so, two-thirds indicated that the quality and types of information available to them either "always" or "almost always" improved with performance-based budgeting.

Texas agency directors report that legislative appropriations staff knew how to use performance information, but demands on legislators' time steered their focus away from performance budgeting. The majority of directors indicated that their agency used performance data to make critical internal decisions, but only 28 percent believed that the legislature based budget allocation decisions on performance data in the appropriations process.

Florida

In 1994, the Florida Legislature enacted the Government Performance and Accountability Act, which established a system wide, performance-based budgeting system for state government.² The act requires all state agencies to develop performance measures for their

¹ Joe Adams, "Using a Performance Budgeting System: Lessons from the Texas Experience," in John M. Kamensky and Albert Morales, eds., *Managing for Results 2005*, IBM Center for The Business of Government. Lanham, Md.: Rowman & Littlefield Publishers, Inc., 2005.

² This analysis of performance budgeting in Florida is based upon Martha Wellman and Gary VanLandingham, "Performance-Based Budgeting in Florida: Great Expectations, More Limited Reality," in P. Julnes, F. Berry, M. Aristigueta and K. Yang (eds.), *International Handbook of Practice-Based Performance Management*. Los Angeles: Sage Publishers, 2007.

programs and to include data on these measures in their legislative budget requests. The appropriations act includes standards for agency performance. Until 2006, performance measures were included in the state appropriations legislation to emphasize their link to agency funding.

Initial expectations for Florida's performance-based program budgeting varied. Some stakeholders hoped that the new budgeting system would improve public perception of government and make the public more willing to pay taxes in return for high-quality government services. Other expected the system to make government more efficient and identify low-performing activities that could be eliminated. Most stakeholders agreed that Florida's performance-based program budgeting should accomplish the following objectives:

- Better inform citizens about the benefits of government services.
- Make legislative budget and policy decisions more rational.
- Increase agency budget flexibility by focusing funding on outcomes, not inputs.
- Facilitate a common understanding of the goals and objectives of government programs between the legislature and the executive branch.
- Improve legislative oversight of agency and program performance.
- Develop incentives for agencies to be more efficient and effective.

Perhaps the greatest expectation about performance-based program budgeting was that it would allow legislators to consider performance in policy and budgeting decisions. Legislators hoped to have the knowledge to reward programs that performed well with more funding, and to decrease funding of programs with poor performance.

These aspirations have not been met. The legislature has considered performance information in its policy and budget deliberations, but the reform has not materially changed the legislative process. The legislature has not used performance data to make decisions about programs and appropriations only in rare instances, generally when considering increased agency funding for new programs. Agencies have not routinely discussed their performance measures when presenting budget requests, nor does the appropriations committee process routinely consider performance measures when making funding decisions.

The legislature's use of performance information in its policy deliberations has been similarly limited. While legislative committees initially spent considerable time reviewing and discussing performance measures, this is no longer the case. During the first two years of the reform effort, committees regularly held special hearings to discuss the programs and measures proposed by agencies and to debate the performance standards to be set for each measure. These special hearings are no longer held. However, agencies and legislators do at times refer to measures during committee hearings, generally when they wish to make a point regarding agency performance.

Performance information has been of limited use in legislative funding and policy decisions for three major reasons:

- Most budgeting and policy decisions involve core values and are not informed by performance information.

- Rewarding good performance and sanctioning poor performance makes little sense for critically needed services.
- Performance information does not by itself explain why performance meets or does not meet expectations.

Budgeting and policy decisions involve core values

Performance information has been of limited use in Florida's legislative decisions because it is generally most useful in overseeing already enacted programs and legislators' attention generally is focused on value decisions about whether a new policy should be enacted or how to allocate limited resources among programs with very purposes. Performance data are compiled for existing programs and do not exist for new programs. Budgeting and policy decisions are intrinsically political and involve core values, and legislators generally look to their personal beliefs, those of their supporters, and the will of their constituents, rather than performance data, when making these decisions.

Rewarding or sanctioning performance makes little sense for most public programs.

A second reason why performance information has been of limited use in legislative decisions is that as long as programs are deemed to serve a needed public purpose, rewarding those that perform well and punishing those that perform poorly makes little sense. Legislators often believe that programs that are attaining their objectives are simply doing their jobs and do not need additional resources. In contrast, advocates of programs that are failing to meet performance targets often attribute the failure to inadequate resources and advocate for additional funding rather than budget cuts.

Performance information does not explain good or poor performance.

Finally, performance information can show that a program is doing well or badly but generally cannot explain why. Nor can it recommend a course the legislature should follow to address the issue. Public program outcomes are subject to influences such as overall economic conditions, changing citizen characteristics, or broad social trends that are outside the control of a government program. For example, many Florida programs failed to meet performance standards in 2004 and 2005 because several major hurricanes caused widespread disruption in the state. Program outcomes were beyond the control of agency managers. It would have been pointless for the legislature to impose sanctions. Overall, the legislature has not explicitly used the performance incentives and disincentives available under the act since the early years of the program.

Improvement in legislative oversight

Florida's performance management initiative has been successful in improving legislative oversight of agency activities. The annual reporting of performance data has provided more information the legislature can and does use routinely to monitor agency operations.

The legislature has continued to support the concept of performance measurement, and it has mandated that most newly created programs establish performance measurement or other accountability systems. Legislative staff regularly review agency performance data to identify trends, compare performance to standards, and notify legislators of potential

problems. While this type of oversight may not be the focus of legislative committee meetings, it serves to remind agencies that their performance is being monitored.

In addition, the legislature's oversight agency (the Office of Program Policy Analysis and Government Accountability) has conducted numerous detailed studies of agency programs. Such studies strengthen the legislature's oversight authority and give it independent information about policy and budget options. In 1999, the legislature required agencies to report the unit costs for their outputs, and, in 2006, it mandated that a uniform method be developed to allocate indirect costs among program entities.

How well were expectations met?

While Florida's performance data have not played a materially greater role in most legislative appropriations or policy decisions, the initiative has improved legislative oversight of state agencies and programs. It has helped create a stronger common understanding of program goals and objectives, even though legislative term limits have eroded this shared understanding. Further, although it has not resulted in substantially greater budget flexibility for state agencies, the initiative has helped enhance the efficiency and effectiveness of agency services. Thus, despite its shortfalls, the initiative has generally been a success. Many agencies are using performance information to manage their programs, and the legislature has mandated performance reporting for most new programs or initiatives.

Final Considerations

1. The principal value of performance data for legislators is educational. It does not provide a substitute method of decision making.
2. Constraints on legislators' time emphasize the importance of staff in analyzing information and bringing key points to legislators' attention.
3. For the last point to be fully realized over time, a performance budgeting process should be established in statute and institutionalized with responsibilities for managing and maintaining it assigned to appropriate legislative and executive branch agencies.
4. Cooperation between the executive and legislative branches is essential.
5. The executive branch's concern for management and the legislature's concern for policymaking may require performance measures tailored to the interests of each.
6. Only a commitment from legislative leadership will guarantee that measurement is a substantive part of the budgeting process.

Attachment 1

THE CLASSIC FORM OF ZERO-BASED BUDGETING

Zero-based budgeting is a general management tool that provides a systematic means of evaluating operations and programs. It refers to a process of

- Identifying all substantive aspects of agency operations,
- Establishing priorities for funding, and
- Providing performance measures and need indicators.

Rather than assuming the current level of funding and operations as a base, zero-based budgeting theoretically begins at ground zero and builds from there. In practice, it is focused not on a zero-based but on the margins near the current budget level. Usually three or more alternative budgets have to be submitted for each program ("decision packages" in ZBB terminology). Usually at least one of the alternatives has to be less than the current budget. Often a specific percentage reduction is mandated.

What are the criteria for zero-based budgeting practices?

As applied in most states, zero-based budgeting has been a two-step process for justifying and reviewing programs from the ground up, i.e., from some point below the current service level.

The first step is the disaggregation of all state activities into decision packages. Each decision package represents one of a number of alternative levels of cost and service for an activity. Sometimes it also represents one of the number of ways of performing a given activity. Each decision package thus can be both an incremental budget request and alternative to another budget request.

The second step is the ranking of these packages in an order of priority. Priority rankings are the most pervasive zero-based budgeting element.

What is the process for zero-based budgeting?

Program managers first rank the decision packages above minimum service levels; department heads can then review and revise these orderings. These priorities are then sent to the executive budget office which attempts to set overall program budget levels according to the rankings identified by the agencies.

The Legislature can also use the ranked decision packages to determine appropriations levels incrementally above the minimum funding level. An important feature of ZBB is that it can be integrated with any existing budget system (line item or program budget).

What are the advantages of zero-based budgeting?

Managers have the opportunity to recommend how money should be spent, evaluate their programs' effectiveness and recommend changes to improve efficiency or effectiveness.

High priority new programs can be funded by improving cost performance or by reducing or eliminating current programs with lower priorities. These priorities can be established by managers throughout each agency. Participation by all managers of agencies improves management development, communications with policymakers, and discussion of key issues and problems at all levels.

What are the disadvantages of zero-based budgeting?

The main disadvantage is the large amount of paperwork that can be generated. In a 1976 publication, the Council of State Governments indicated that a state's budget document might have to be tripled or quadrupled in size in order to accommodate ZBB presentations. The number of appropriation accounts also would have to be multiplied if the activity level at which decision packages are evaluated becomes the level at which appropriations are made. The Georgia budget process produced approximately 10,000 decision packages, and the governor had to concentrate on only a few.

Literal across-the-board zero-based budget review of all state programs at the level of the political decision-making process is probably not possible on an annual or biennial basis. For this reason, many states have staggered their sunset procedures; the same could be done with zero-based budgeting to some extent.

What lessons were learned from previous experiments with zero-based budgeting?

The following areas are, to a large extent, problem areas with any budget system. States considering zero-based budgeting might note that:

- Agency preparation of two budget documents (one for the executive and one for the Legislature) should be avoided if possible.
- Zero-based budgeting will not deter agencies from including unjustified cost increases in decision package costing. The Legislature still has to scrutinize these decision packages in order to determine cost effectiveness.
- Historic cost and performance data may not be available by the decision unit, although much more information is available today than in the early days of ZBB.
- The idea of a reduced level of funding for the initial funding level is threatening to agency personnel.
- Agencies may attempt to manipulate priority rankings by ranking popular items lower than items that otherwise would have little chance of funding. This necessitates the alteration of priorities during legislative budget review and leads to agency complaints that their priorities are ignored.
- Budget preparation time needs to be substantially lengthened during the implementation of a new system. Legislators and legislative staff may have to spend many more hours than they have done in the past.
- Agencies operating on several sources of earmarked funds, usually federal grants, find it difficult to rank program priorities. Federal grants requiring little or no state participation are difficult to refuse, no matter what their purpose or justification.
- Zero-based budgeting makes the decision process more explicit and open to scrutiny. Some agencies see this openness as a threat to the manager's flexibility; others view it as a managerial tool.

Attachment 2

PERFORMANCE BUDGETING IN THE STATES

An NCSL survey of legislative fiscal offices in 2007 found that 22 states and the District of Columbia use performance measures in the legislative budget process. Legislative responses to questions about their state's "predominant budget approach" and the use of performance information in 2007 follow:

- **Arizona**—The General Appropriation Act includes performance measure targets that legislators can use to evaluate requests.
- **California**—The legislature's review of departments' performance is done on a case-by-case basis.
- **Colorado**—The General Assembly has entered into performance-based memoranda of understanding with certain departments or agencies.
- **Connecticut**—In 2007, Connecticut concluded a two-year pilot program applying Results Based Accountability (RBA) to programs involving multiple agencies delivering services to pre-school kids. In addition, RBA has been used to evaluate two programs in the Department of Environmental Protection: clean water and parks. Connecticut will expand RBA to new and expanded programs and integrate the analysis, discussion and funding into the legislative appropriations process.
- **Delaware**—Starts with a zero-based budget, but combines this with performance and traditional approaches. Performance measures are seldom used for program questioning during budget hearings but are required in agency budget requests.
- **District of Columbia**—Performance-based budgeting is used in the District of Columbia. Performance measures are listed for each program and are monitored by the Council through its oversight of the budget.
- **Florida**—The Legislature in Florida created a performance-based program budgeting process in 1994 to link funding to agency products or services and results. The 1994 Government Performance and Accountability Act required the governor to submit performance-based program budgets for the executive agencies to the Legislature. During the early years, the legislature was very active in selecting and monitoring the performance measures and results. In 2006, the legislature separated the approval of performance measures and standards from the legislative appropriations process. Agencies now provide information on their legislatively approved performance measures and standards in their long-range program plans. To delete or amend these measures and standards, agencies must obtain approval from the Office of the Governor and the Legislative Budget Commission. (Florida Statutes §216.1827).
- **Georgia**—Program budgeting is used in Georgia. Officials hope to start bringing performance into the process, but there is currently almost no review of performance measure in the legislative process.
- **Hawaii**—Performance measures or program goals are a standard part of the budget submittals from the executive and judicial branches. They are included annually along with the budget request. In addition to the budget documents, state law requires the submittal of "variance reports." These reports detail the variations to performance goals and provide explanations for those differences.

- **Iowa**—Statutes require a modified zero-based approach. Performance measures are available in agency budgets for legislative review.
- **Kansas**—Although the budget is largely based on traditional methods, performance measures are requested from agencies and reviewed by the governor and legislature in formulating the budget.
- **Kentucky**—Some components of performance based budgeting have been adopted in Kentucky. KRS 48.810 requires each program cabinet to develop and submit a four-year strategic plan and to provide periodic progress reports. KRS 48.810 also requires agencies to submit the Strategic Plan with their biennial agency budget requests. Agencies are required to discuss program performance and provide output and outcome measures when available. Agencies must use quantitative data and other information to explain the program's purpose and justification for expenditures. This information can be used by legislators in their deliberations when appropriating funds.
- **Louisiana**—Act 1465 of 1997 mandates performance budgeting. Performance data are reviewed during the appropriations process.
- **Maryland**—Performance measurement data are reported in conjunction with the budget and considered as the budget committees deliberate on agency level funding changes.
- **Mississippi**—In 1997 the legislature began including performance targets in the appropriations of 21 agencies accounting for approximately 85 percent of the state's general fund. All agencies are required to include performance measurement information in their annual budget submissions, and report semi-annually on attainment of performance targets.
- **Missouri**—A variety of approaches are incorporated in Missouri's budgeting process, including the requirement of performance measures and outcomes, traditional/incremental budgeting and a core review of agency budget requests that is zero-based in approach. Also, during the interim, both Senate and House appropriations committee staff are required to analyze performance measures for their usefulness.
- **Montana**—The state is making a major effort to incorporate more performance measures into budgeting.
- **New Mexico**—The Legislature in New Mexico combines traditional/incremental and performance-based budget approaches in its appropriation process. Agency appropriations include the purpose of the program, appropriations by category and performance measures with proposed targets for the ensuing fiscal year. The Accountability in Government Act requires all state agencies to submit performance-based budget requests and key agencies to submit quarterly reports that compare actual performance with targets to the Department of Finance and Administration and the Legislative Finance Committee. During the appropriations process, both the House and Senate budget committees review and adopt performance measures and targets for the agency for the ensuing fiscal year.
- **North Carolina**—In 2006, the General Assembly adopted a major revision of its core budget law. It leaves the governor free to select a budget format without specifying the styles to be applied but requires that line-item information be made available within each program. For the 2007 session, the Office of State Budget and

Management revised the governor's budget presentation to begin including program descriptions and rudimentary output/outcome measures along with line-item detail.

- **Oklahoma**—As part of a move from incremental budgeting to program budgeting, the state has begun to move toward program-based budgeting, with mixed results. Oklahoma has been using performance-based budgeting since about 1999.
- **Oregon**—While the budget process is predominantly incremental, it includes agency key performance measures approved by the legislature, program-based (sub-agency or program level identification), and zero-based options – a discussion of 10 percent to 20 percent reductions. There has been more of an emphasis on the performance-based elements over the last two budget cycles. The legislature, through the Joint Committee on Ways and Means, reviews and approves a series of key performance measures and targets for each state agency as a component of the budget process. Before increases to programs can be considered, agencies must identify the impact on their key performance measures. State agencies are required to provide annual reports to the legislature and public on their key performance measures.
- **South Carolina**—Legislators frequently use Agency Accountability Reports as supplemental information in budget policy making.
- **Tennessee**—According to statute, budgeting is zero-based. However, the state practices a continuation of required programs plus essential improvements. The traditional/incremental approach is still used but Tennessee incorporated performance measures into the budget request process in 2002. The legislature has authority to review and comment on all performance measures that are reported. In 2007, the administration proposed eliminating many of the performance-based initiatives but the change was deferred until 2008.
- **Texas**—Texas is a performance-based budgeting state. The staff of the Legislative Budget Board are responsible for tracking the performance measures and making sure that key measures are brought to the attention of legislators. Texas legislators can see reports submitted by state agencies that show planned and actual performance in terms of outcome and explanatory measures (reported annually) and output and efficiency measures (reported quarterly).
- **Vermont**—A combination of traditional and performance-based budgeting is used.

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