|  |  |
| --- | --- |
| **Priority-Based Budgeting/****Washington State’s Priorities of Government**A Report Prepared for the**Committee on Efficiency in State Government**ByTaryn PurdyPrincipal Fiscal AnalystLegislative Fiscal DivisionSeptember 5, 2012

|  |
| --- |
| LFD-logo-color.png |

 |

This report provides a brief description of priority-based budgeting (PBB). There are basic concepts of priority- based budgeting, portions of which are shared with a plethora of strategic planning, performance measurement, performance auditing, and other processes that go by a multitude of names and particulars around the country and around the world.

This report begins with a brief outline of the basic principles of PBB. This discussion is taken from several sources, including those governmental entities currently using the basic premise. An overall discussion as presented by the Governmental Finance Officers Association (GFOA) paper entitled “Anatomy of a Priority- Driven Budget Process”, can be found at the following website:

<http://www.gfoa.org/downloads/GFOA_AnatomyPriorityDrivenBudgetProcess.pdf>

This report then turns to the State of Washington for two reasons:

* The program has been in place for several years and has an established infrastructure
* A state entity has more complications for implementation than other governmental entities, notably the separation of the branch that executes functions of government (the executive branch) from the branch that appropriates the funds and consequently prioritizes funding (the legislature). Therefore, Washington State’s experience can provide real world responses to potentially unique state government implementation issues

# Basic Principals of PBB

PBB is a budgeting process that makes a systematic effort to determine government-wide priorities, the most effective way to address those priorities, and the most cost-efficient and operationally efficient ways of achieving desired results. It has been established in numerous municipalities and counties in both the United States and Western Europe. It essentially addresses several questions:

* What resources are available? What factors drive revenues?
* What are the most important functions of government and what results should be expected (priorities)?
* What should be monitored to ensure meeting the priorities/getting the results?
* What strategies should be pursued to achieve the desired results?
* What are the most programmatically effective and economically efficient?
* How can you tell?
* How will resources be divided among the priorities and strategies?

Attachment A takes a flowchart from “Anatomy of a Priority-Driven Budget Process” that illustrates specific steps.

# State of Washington Priorities of Government

The following outlines the process used in Washington State’s in Priorities of Government (POG budget approach). It is structured to show the process, the players that are involved, and the basic types of information gathered and analysis done.

## Process

The following provides salient points on the four main components used in Washington State:

1. Determine the most important values
2. Determine the results you want to achieve
3. Determine how progress toward success will be achieved and measured
4. Develop a results-based prioritization of activities that most directly accomplish the desired outcome

A schematic of a portion of the process can be found as Attachment B and the following website:

[http://www.ofm.wa.gov/budget/pog/documents/process\_description\_sc hematic\_2012.pdf](http://www.ofm.wa.gov/budget/pog/documents/process_description_schematic_2012.pdf)

##### Determine Most Important Values

* Create advisory council for purposes of coordinating and gathering input
* Conduct hearings around the state to get citizen input
* Washington State identified the following as its most important values:
* Improve student achievement in elementary, middle, and high schools
* Improve the value of postsecondary learning
* Improve the health of Washingtonians
* Improve the security of Washington's vulnerable children and adults
* Improve economic vitality of businesses and individuals
* Improve statewide mobility of people, goods, and services
* Improve the safety of people and property
* Improve the quality of Washington's natural resources
* Improve cultural and recreational opportunities throughout the state
* Strengthen government's ability to achieve results efficiently and effectively

##### Determine the results you want to achieve

* Consensus process
* State government and citizens
* Washington State identified six statewide results they wished to achieve:
* Value world-class student achievement
* Improve health and support of Washingtonians
* Provide for public safety
* Protect natural resources and cultural/recreational opportunities
* Promote economic development
* Improve state government efficiency

##### Determine how progress toward success will be achieved and measured

* Determine key indicators of success
* For “provide for public safety”, one indicator of success was identified, with several measures. The full document can be found at the following website:
* <http://www.ofm.wa.gov/budget/pog/safety.asp>
* Measure and review performance and maintain over time
* According to Washington State legislative staff, there are approximately 900 measures across state government
* Measures for the corrections portion of public safety are included as Attachment C and can also be viewed at the following website:

<http://performance.wa.gov/FinalPublicSafety/PS061912/prisonoperations/Pages/Default.aspx>

* Identify proven or promising strategies

##### Develop a results-based prioritization of activities that most directly accomplish the desired outcome

* Use this prioritization to inform the budget
* While agencies are individually named and budgeted, the prioritization, etc., is done on a multiagency level where appropriate

#### Use by Governor

* Agency teams used frameworks to determine priorities
* Was used as an advisory tool by the Governor in developing the budget

#### Involvement of Citizens

Citizen groups must be formed and staffed, and the means of gathering data determined (public meetings, etc.). In Washington these groups:

1. Help determine most important values
2. Help determine desired results
3. Review and comment on results through accountability forums

#### Involvement of State Agencies

Agency involvement and workload is very significant. In addition, states have had limited success in maintaining continuity of commitment and process when executives change. In Washington State, agencies:

1. Answer eight essential services questions (for the latest budget development)[[1]](#footnote-1)
	1. What are we doing now?
	2. What are the most essential functions?
	3. Are they being provided effectively at best cost?
2. Help determine desired results and strategies for achieving them
3. Collect, maintain, and review performance measurement information
4. Aid in prioritization

#### Role and Involvement of Legislature

The legislature is essential to the incorporation of any results into the budget and the budgeting process. States have had very mixed results over the years in fully incorporating the information from the various prioritization and performance measurement activities and budget building through the entire process.

As stated, use of this process by states presents an additional challenge due to the separate branches of government and the critical role each plays in determining what state government is. Nonpartisan legislative budget staff from both the Washington State House and Senate provided the following comments on how the Washington State legislature uses priority-based budgets, summarized here: Both staff agreed that the legislature does not use the information in a systematic way or use it to establish priorities.

1. One staff member stated that the legislature essentially did not develop a list of priorities beyond the normal determination of priorities through the budgeting process and “what gets the votes”.
2. A second staff member indicated that there was no formalized process for using any of the information gathered through the process, except that:
	1. The information was all public and available, including all of the executive performance information
	2. Some of the higher level information was given to all involved, with the remainder dependent upon individual members (including their expertise level and involvement in particular areas) and staff approaches and initiative as to how or whether it was used

## Primary Resources

Given the information-centric nature of the process and as can be seen from the brief summary above, a large volume of information is both generated and used at various stages. The following highlights some of the main sources and uses and provides electronic and/or attached examples. Please note that the techniques will cross processes.

### Washington State Institute for Public Policy (WSIPP)

To aid in determining which programs are producing the best results, in 1983 Washington State created the WSIPP. This organization is overseen by a board representing the legislature, the executive, and the university system and conducts research at the direction of the Washington State Legislature.

This office conducts systematic, evidence-based cost/benefit analyses that are used by legislators to allocate resources that have been shown to be most effective in achieving desired results. A report on prevention and intervention written by the office can be found at the following website, a portion of which is Attachment D:

<http://www.wsipp.wa.gov/rptfiles/11-07-1201.pdf>

The Pew Center on the States is partnering with a number of states to adapt the models developed by the WSIPP in a number of public policy areas to their own states. Further discussion can be found in this report under “Results First”.

### Governmental Management Accountability and Performance (GMAP)

This area has within it a number of functions and processes. Among other duties, the Office of Financial Management (OFM) assesses performance of a number of functions of state government and oversees POG. It is within the Governor’s Office.

#### Agency Performance

There are a number of processes that take place under this general category. As stated, state agencies have a very significant involvement and workload in priority-based budgeting.

##### Statewide Results

The identified indicators of success and measures, along with identified strategies, can be found at the following website:

<http://www.ofm.wa.gov/budget/pog/default.asp>

The direct link to the “safety” indicator of success for “provide for public safety” is found at the following website:

<http://www.ofm.wa.gov/budget/pog/safety.asp>

###### Other Performance Reports

Other reports are available that report on identified measures for addressing the desired statewide results. They can be found at the following website:

<http://www.accountability.wa.gov/reports/vulnerable/default.asp>

The “dashboard” report for corrections with the statewide result of “provide for public safety” is included as Attachment C and can be found at the following website:

<http://performance.wa.gov/FinalPublicSafety/PS061912/prisonoperations/Pages/Default.aspx>

##### Performance Results

Each agency has a number of performance measures. A sample from the Department of Corrections is included as Attachment E, and the following links are to sites that show the full Department of Corrections report and the reports of all agencies:

Department of Corrections: <http://www.ofm.wa.gov/budget/activity/11-13/310inv.pdf>

All agencies: <http://www.ofm.wa.gov/performance/directory.asp>

Assessments conducted by OFM of various functions can be found at the following website:

<http://www.ofm.wa.gov/performance/assessments/docassessment.pdf>

##### Eight Essential Questions

As stated earlier, agencies address eight essential questions to determine necessity, priority, and funding of services. An example for public safety that illustrates the questions is included as Attachment F. A link for public safety and for which other agencies can be accessed is found on the following website:

<http://www.ofm.wa.gov/budget/instructions/operating/2011_13/05_public_safety.pdf>

#### Lean

The current Governor incorporates Lean principles and methods. Lean is based on the Toyota production method and is designed as a way to use “... principles, methods and tools to develop a culture of continuous improvement that encourages employee creativity and problem solving skills.” The following links provide more information:

<http://www.lean.org/>

<http://www.accountability.wa.gov/leadership/lean/documents/Getting_Started_with%20_Lean.pdf>

#### Performance Audits

The State Auditor’s Office has the authority to conduct performance audits. The website for this function is:

<http://www.sao.wa.gov/EN/AUDITS/PERFORMANCEAUDIT/Pages/PerformanceAudit.aspx>

The Washington State Legislature has a Joint Legislative Audit and Review Committee (JLARC). Information on the committee can be found at the following website:

<http://www.leg.wa.gov/jlarc/Pages/default.aspx>

# Results First

Results First is being conducted by the Pew Center on the States (Pew) in partnership with several states to implement a cost-benefit analysis model to aid in identifying policy options that provide the best outcomes. Pew is a partner with the National Conference of State Legislatures (NCSL) and the John D. and Catherine T. MacArthur Foundation. This brief discussion is due to its relevance to the evaluation of the effectiveness of any budgeting system with a performance-based component, including Priority-Based Budgeting (PBB). Quoting the project website:

“Results First helps states assess the costs and benefits of policy options and use that data to make decisions based on results.”

The model was first developed by the WSIPP and can be used to assess programs in a number of public policy areas, including criminal justice, education, public assistance, and others. The Results First project is working with volunteer states that were willing and able to devote the resources and provide the necessary information to adapt and apply the WSIPP model to their own states. Because this project is in process and will then be ongoing, the following link is provided for interested persons who wish to follow the project over time:

<http://www.pewstates.org/projects/results-first-328069>

According to Pew, the approach of the WSIPP that makes it unique from other cost/benefit efforts is based on the following factors. It:

* Analyzes all available studies from throughout the nation and documents what works and what doesn’t
* Predicts the impact of each policy option for Washington State by applying the study data to Washington’s data
* Calculates the benefits and costs of those impacts for Washington State
* Reports the projected benefits, costs, and risks of all options in the style of a Consumer Reports guide to policy options
* Analyzes the combined benefits and costs of a package of policies instead of judging each program in isolation
* Identifies ineffective programs that could be cut or eliminated to make room for investment in more cost-effective programs
* Makes the analysis accessible to policymakers in terms that can be understood
* Conducts follow-up studies to determine whether the predicted benefits actually materialized

### How Results First Will Be Used and Expanded Into Other States

Currently, 13 states are partnering with Pew to adapt the WSIPP model to their states. Over time, Pew will also assist with maintaining the models and helping other states incorporate their own information into the model for use in their own states.

According to Pew, Results First:

* Provides models to states
* Trains staff in using cost-benefit analysis
* Provides technical assistance in getting the models up and running
* Helps interpret cost benefit analysis results
* Helps states share lessons learned and strengthen policymaking
* Periodically updates models

This project will continue to be monitored as it proceeds.

1. <http://www.ofm.wa.gov/budget/instructions/operating/2011_13/05_public_safety.pdf> [↑](#footnote-ref-1)