INDEPENDENT FISCAL OFFICE

TO: Honorable Members of the Performance-Based Budget (PBB) Board

FROM: Matthew Knittel, Director
Independent Fiscal Office

DATE: January 5, 2024

RE: PBB Board Motion for IFO to Review Initial PBB Reports

On April 24, 2023, a PBB Board motion directed *"… the Independent Fiscal Office (IFO) to review each performance-based budget and tax credit performance review completed by the IFO in the prior five-year period for purposes of determining the following:*

- *Whether commonwealth agencies implemented the performance metrics recommended by the IFO, how the metrics were used, and the impact the metrics had on improving programmatic outcomes;*
- *Whether commonwealth agencies and the General Assembly used the performance-based budget reports and tax credit reviews to inform budget and policy decision-making, including any specific examples of such use by the agencies or General Assembly;*
- *Whether the General Assembly or the commonwealth agencies reviewed by the IFO have any recommendations on ways to improve the performance-based budget and tax credit review process and the IFO's evaluation of those recommendations.*

The review conducted by the IFO pursuant to this motion shall be in lieu of conducting any performance-based budget or tax credit reviews in calendar year 2023. The IFO should present its findings and recommendations to the board in January 2024."

This memo provides the results from the PBB review. A separate memo provides results from the tax credit reviews. The office would like to thank the Office of the Budget for its assistance with agency surveys, all agency staff who answered surveys and General Assembly staff that met with the IFO to provide feedback.

Background

Act 48-2017 directed the IFO to develop PBB plans (also referred to as "reviews") for each agency under the Governor's jurisdiction every five years and submit those plans to the PBB Board for approval. The review schedule for the first five-year cycle was as follows (submission month of reports to the Board in parenthesis):

- **Year 1 (January 2019)**: (1) Department (Dept.) of Criminal Justice, (2) Pennsylvania Commission on Crime & Delinquency, (3) Juvenile Court Judges' Commission, (4) Dept. of Banking and Securities and (5) Dept. of General Services.
- **Year 2 (January 2020)**: (1) Dept. of Community & Economic Development, (2) Dept. of Human Services (DHS, Part 1 of 3), (3) Dept. of Health, (4) Dept. of Environmental Protection, (5) Emergency Management Agency and (6) Dept. of State.
- **Year 3 (March 2021)**: (1) Dept. of Transportation, (2) DHS (Part 2), (3) State Police and (4) Military and Veterans Affairs.
- **Year 4 (January 2022)**: (1) Dept. of Education, (2) DHS (Part 3), (3) Dept. of Aging, (4) Historical and Museum Commission, (5) Dept. of Agriculture and (6) Dept. of Labor and Industry.
- **Year 5 (January 2023)**: (1) Dept. of Drug and Alcohol Programs, (2) Dept. of Insurance, (3) Dept. of Revenue, (4) Executive Offices and (5) Dept. of Conservation and Natural Resources.

On April 24, 2023, the PBB Board met and approved a motion that required the IFO to evaluate the effectiveness of the first five-year review cycle.

For PBB reviews, the IFO surveyed agencies to gather feedback on (1) if the PBB reviews helped inform budget or policy decision-making, (2) if the PBB review process was useful to conceptualize how resources are allocated across agency activities, (3) recommendations on how the PBB review could be improved and (4) the top three to five performance metrics that best reflect the primary goals of the agency. The agencies were also asked to provide detail on any recommended performance measures they now collect as a result of the PBB review. The IFO also met with legislative staff to (1) determine how PBB reviews were being used by the General Assembly and (2) gather input on ways the PBB review process could be improved. The three sections that follow discuss the review Methodology, Summary Findings and Recommendations.

Methodology

In August 2023, a survey was sent to all executive agencies requesting (1) feedback on the PBB review process and the contents of the final PBB report and (2) any recommended metrics collected due to the review. In September 2023, IFO staff also met with General Assembly staff from the House and Senate Appropriations Committees to gather feedback on the PBB process and final product.

Agencies were asked to provide responses to these questions:

- *Were the PBB reviews used by your agency, other government officials/agencies or outside groups to inform budget or policy decision-making? If so, please briefly explain how they were used.*
- *Did agency and management staff find the PBB review process useful to conceptualize how resources are allocated across agency activities (as opposed to line items)?*

- *Does the agency have recommendations on ways the PBB reviews can be improved?*
- *Which three to five performance metrics best reflect the primary goals of the agency?*

Each agency also received an Excel worksheet that listed all recommended performance measures included in the agency's PBB review. For each measure, the agency was asked if they currently track the measure. For affirmative responses, they were asked if the data are used by the agency. For negative responses, they were asked for reasons they do not track the measure. An example of the Excel worksheet provided to the Department of State appears below.

Recommended Measures Survey (Department of State)

	Measure	Agency Tracking (Y/N)?	Comments: If no, list reasons you did not track it. If yes, is it used within the agency?
	Activity 1: Elections and Notaries		
1	Share of online absentee ballot applications		
2	Share of notary applications processed in 3 days		
	Activity 4: Professional and Occupational Affairs		
3	Number of transactions processed per activity FTE		
4	Activity cost per transaction processed		

For meetings with General Assembly staff, the IFO solicited input to these questions:

- *Did the General Assembly use the PBB reviews to inform budget and policy decision-making? If yes, include any specific examples of such use.*
- *Does the General Assembly have any recommendations to improve the PBB review process?*

The next section provides a summary of recommended measures the agencies do and do not track and common themes for suggestions made by agencies and legislative staff.

Summary Findings

Executive Agency Comments on the PBB Process

The IFO reviewed survey responses from the executive agencies for general themes and common issues the agencies encountered during the review process. Below is a summary of these themes.

Question 1: Were the PBB reviews used by your agency, other government officials/agencies or outside groups to inform budget or policy decision-making?

Based on survey responses, most agencies (approximately two-thirds) used the reviews and associated metrics, but to varying degrees. For agencies that responded affirmatively, usage was all internal (none were aware of usage by outside groups or policymakers), and details regarding specific applications were limited.

Question 2: Did agency and management staff find the PBB review process useful to conceptualize how resources are allocated across agency activities (as opposed to line items)?

While most agencies found the reviews useful for internal purposes, fewer agencies found the activity-based resource allocation process useful. Overall, just over half of agencies saw value in this approach. Some agencies noted that little value was added because the activities were very similar to current agency structure. Others noted that while activity-based analysis is an additional tool, the state budget is still line item-based, and staff are more familiar with that approach.

Question 3: Does the agency have recommendations on ways the PBB reviews can be improved?

Certain themes were noted frequently by agencies. The following excerpts are representative of survey responses.

The PBB process is intensive and time-consuming.

- *The PBB is a heavy lift. On many occasions the activities associated with the project fell to one person at the department, substantially increasing that person's workload and impacting other work. Agencies would benefit by knowing in advance how long other agencies have taken to provide data, challenges they faced and how to avoid/address them, and points of contact in other agencies who may be able to offer advice.*
- *…We'll be looking to streamline who is responsible for the data to reduce time between the ask and the response for future updates to PBB reports.*

Agencies requested more input on recommended measures and comparisons.

- *There were several recommended measures that aren't helpful … A recommendation would be for the IFO to work with the program areas to determine what information is truly necessary to evaluate for resources and policy considerations.*
- *…Place greater emphasis on aligning the measures in the IFO report with the measures the agencies are already submitting as part of the Governor's annual budget.*
- *…The process to include recommended measures could be made more efficient by working directly with the program offices to pick measures that can benchmark program progress towards intended goals.*
- *Collecting data from other agencies and outside entities is difficult to gather for metrics comparisons. Additionally, some comparisons may not truly reflect how the program is progressing since they are different on a base level.*
- *…It seems counterproductive to go outside of the agency to find information (of which the agency has no controls for how the data is collected and summarized) …*

PBB expenditures are different than standard reporting.

- *How agencies collect expense data does not match how the IFO wants it for the PBB report. This misalignment made it difficult to provide and verify the data.*

- *Because our agency is currently using an accounting method for tracking expenditures and not yet engaging in an outcome-based methodology, we struggled to provide an apples-to-apples comparison between the IFO findings and how our agency budgets.*
- *We would recommend making a closer connection to the agency measures and the agency budget request, so that it is clear how the measures tie into the budget request.*
- *If the intent is to continue monitoring the same select metrics, agencies should be able to plan for the data that will be necessary in years they are not undergoing the process so that in years they are under review they are prepared and are not hit with any surprises.*

Executive Agency Responses to Recommended Measures

Currently, nearly half (46%) of the measures recommended by the reviews and approved by the PBB Board are tracked by agencies. Common reasons why an agency does not track a recommended measure include:

1. **Time**: Many agencies noted that they did not have sufficient time to implement the necessary framework to track certain recommended measures. Year Five agencies had a 32% track rate; agencies evaluated in Year One had a 69% track rate.
2. **Funding/Technology**: Agencies noted that some recommended measures, while valid, could not be tracked due to data system limitations. For some agencies, an expansion or upgrade would require funds that are not currently available.
3. **Voluntary/Disagreement in Validity**: Several agencies noted that they did not agree with the measure(s) recommended or did not see their value and elected not to track the measures.
4. **Statutory/Not Required**: Some agencies noted that they were not required by statute to track or collect the data.

Legislative Responses

The IFO met with staff from the four legislative caucuses regarding their usage of the PBB reviews. Although each group had unique perspectives and recommendations on how the process should work moving forward, there were two common themes noted which are closely related:

1. **Not As Intended/Not Integrated**: The Commonwealth uses a line item-based budgeting approach, and not the activity-based approach used by the PBB reviews. Staff noted that some policymakers may have expected this approach to eventually supplant the traditional, line item-based budgeting process, but those changes were not implemented.
2. **Too General/Overly Broad**: The reviews examined every executive agency, and every line item within those agencies. Only one agency, the Department of Human Services, was reviewed across multiple years (DHS was reviewed as a three-part series in Years 2, 3 and 4). Due to the extensive coverage, reviews were lengthy (often more than 50 pages) and covered a wide range of budget areas. There was no consensus among the four caucuses on an approach best suited for PBB reviews moving forward, but there was consensus that the reviews would be more useful if they were streamlined and more focused.

Some staff noted that they used the reports on an ad hoc basis for budget- and policy-related issues. The IFO considered the suggestions and concerns raised by caucus staff and attempted to incorporate them into the recommendations in the section that follows.

Recommendations

After reviewing the responses from executive agencies and legislative staff, the IFO presents two options for consideration by the PBB Board. Both options streamline the review process for executive agencies and provide a more concise and focused final product for the General Assembly. These summaries are high-level and deal mainly with the review process and general report content. For either option the IFO could perform interstate and/or county/regional comparisons. The IFO could also provide more specific recommendations and timelines if desired.

Option 1: Limited Agency Approach

- The PBB Board would identify specific agencies, possibly between six to eight, for review on an annual or biennial basis.
- The IFO could work with the PBB Board and the agency to identify a list of 10 to 20 performance measures to track and review.
- Reports could include specific areas of focus that feature analysis for current events, high-priority budget areas or performance measures that have unusual trends since the prior review.

With a fixed inventory of agencies, the review process would be easier to replicate each year for both the IFO and affected agencies. Staff turnover and the current five-year gap between review years make the process burdensome for agencies as new staff need to become familiar with the review process. The General Assembly would also be able to focus on high-impact agencies and budget areas. At the Board's discretion, one or two agencies could change each year, but sufficient lead time would be required to work with new agencies to develop and track meaningful metrics.

Option 2: Limited Program/Topic Approach

- Rather than agency reviews, the PBB Board would identify programs, or program areas to review. At their discretion, the Board could designate different programs annually.
- A program could be contained in a single line item or program area within an agency, an agency's bureau or division, or even program areas across multiple agencies. Examples include:
  - Program: State Correctional Education and Training (Criminal Justice)
  - Bureau/Division: Managed Care Operations (DHS)
  - Multi-Agency: Job Training & Workforce Development Programs (DCED, DLI, Education)

A limited program-based approach could offer more comprehensive insights into changes necessary to improve final outcomes, or to address gaps/shortcomings in state programs that span multiple bureaus, divisions or agencies. While this more focused approach would allow greater variation between years compared to a fixed inventory of agencies (prior option), it would imply that some new agency staff learn the PBB process each year if programs selected for review change.