Performance-Based Budgeting:
a primer for legislators

John G. Morgan
State of Tennessee
Comptroller of the Treasury
Office of Research

May 2003

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

May 9, 2003

The Honorable John S. Wilder
Speaker of the Senate
The Honorable Jimmy Naifeh
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is a primer on performance-based budgeting prepared by the Office of Research. Public Chapter 875 of 2002, "The Tennessee Governmental Accountability Act of 2002" implements a system of strategic planning, performance-based budgeting, and performance review for all agencies of state government. This report is intended to provide members of the General Assembly with basic knowledge about performance-based budgeting and strategic planning, information about other states' experiences with similar efforts, and guidance on implementing such a budgeting system. The report also includes recommendations for the General Assembly and the Department of Finance and Administration regarding the ongoing implementation of the Act.

Sincerely,

John G. Morgan
Comptroller of the Treasury

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Margaret Rose, Senior Legislative Research Analyst
and
Greg Spradley, Senior Legislative Research Analyst

Ethel R. Detch, Director
Douglas W. Wright, Assistant Director
Office of Research
505 Deaderick St., Suite 1700
Nashville, TN 37243
615/401-7911
www.comptroller.state.tn.us/orea/reports

John G. Morgan
Comptroller of the Treasury
Office of Research
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What gets measured gets done.

David Osborne and Ted Gaebler
in Reinventing Government

Introduction

For several years, most states as well as the federal government have attempted to connect funding decisions with accountability. Governments usually create such reforms to "reinstate the belief among taxpayers, citizens, and clients that governments perform well and spend money wisely."[1] These reforms are known by various names, including zero-based budgeting, governing for results, managing for results, quality management, and *performance-based budgeting* (PBB).

The Tennessee General Assembly passed the Tennessee Governmental Accountability Act of 2002 (Public Chapter 875) that establishes a system of *strategic planning*, performance-based budgeting, and *performance audits* to measure the *effectiveness* and *efficiency* of government services. The Act requires all state departments, agencies, boards, and commissions to participate.
(Note: Definitions for italicized words are found in the Glossary, Appendix A.)

Methodology

Office of Research staff reviewed professional journals as well as publications from numerous other states. Additionally, researchers interviewed staff from several other states with histories of performance-based budgeting.[2]

Office of Research staff interviewed staff from Tennessee's Division of Budget in the Department of Finance and Administration, and reviewed budget instructions and other Tennessee government budget documents, as well as strategic plans for several state agencies and the United States General Accounting Office.

Theoretical Overview of Performance-Based Budgeting

The idea behind PBB is that if policymakers base funding decisions objectively, by measuring effectiveness and efficiency rather than engaging in "politics as usual," then they and the public will be able to more clearly discern how well government is performing. Citizens in Tennessee and across the country increasingly question the government's ability to manage public finances. Performance-based budgeting offers policymakers a way to strengthen governmental accountability by linking budget decisions and government performance.[3]

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[1] Gerald J. Miller, W. Bartley Hildreth, and Jack Rabin, *Performance–Based Budgeting*, An ASPA Classic, Westview Press, 2001.

[2] Florida, Iowa, Kentucky, Louisiana, Maine, Minnesota, North Carolina, Oregon, South Dakota, Texas, Virginia, and Washington.

[3] Gerald J. Miller, W. Bartley Hildreth, and Jack Rabin, *Performance–Based Budgeting*, An ASPA Classic, 2001, p. 1.

What are the benefits expected from performance-based budgeting?

- increased accountability
- increased efficiency
- increased knowledge about state services and *programs* on part of policymakers
- improved public management
- enhanced program evaluation
- identification of opportunities for multi-agency coordination
- improved communication with citizens

Theoretically, performance-based budgeting maximizes the quality of services and programs.[4] Agencies must focus on the results of their activities in addition to the activities themselves. The process seeks to answer the following questions: Where are we now? Where do we want to be? How do we get there? How do we measure our progress?

Strategic planning is the foundation for all performance based budgeting models. Common components of strategic plans include *mission statements*; *vision statements*; *goals* and *objectives*; *strategies* and action plans; *performance measures*; and monitoring, tracking, and reporting.

What are the characteristics of a successful strategic planning process?

- clear definition of responsibilities and timetables,
- coordination by someone who has the "big picture",
- consideration of an *agency's* capacities and environment,
- adequate funding and personnel *allocations*,
- accountability for results by setting targets for performance,
- method to check progress,
- guidance for ongoing operational and capital plans and budgets, and
- meaningful performance measures with overall agency strategies to bring about positive change.

Measuring performance is good management because it clarifies what is important to the organization and provides direction for the future, enables agencies to improve program performance, helps agencies to improve customer service, strengthens accountability for the state's use of tax dollars, and empowers employees by giving them a clearer understanding of how they contribute to achieving goals and objectives.

Agency personnel should resist the temptation to identify performance measures for every activity of the agency. Agencies should develop measures for activities primarily related to their missions. The following questions can help agencies focus on the ultimate use for measures:

- What are the most direct effects of each *strategy* on the agency's *stakeholders*?

[4] Blaine Liner, Pat Dusenbury, and Elisa Vinson, *State Approaches to Governing–for–Results and Accountability*, December 2000, p. 5.

- What information does management need to track movement toward key goals and objectives?
- What performance measures best reflect the expenditures of the agency's budget?
- Do these performance measures clearly relate to the agency's mission, goals, objectives, and strategies?

A suggested hypothetical strategic planning model for the Board of Probation and Parole is in Appendix B to this report.

What are the challenges in implementing performance-based budgeting?
Enacting performance-based budgeting statutes may not necessarily improve budget decisions. Although PBB may provide policymakers with better information about the agencies and programs to which they appropriate funding, it does not necessarily make funding decisions easier. For example, lawmakers could face additional questions about whether to provide additional resources to programs that have performed well so that they can do a better job or to cut funding because the purpose has been achieved. They may observe programs that have not performed well and be faced with deciding whether they should end them or provide more resources to do a better job.[5] Measuring performance might give an endangered agency a way to demonstrate its effectiveness and prolong its existence.

One of the more important considerations will be to distinguish between "*output*" and "*outcome*" measures. "Output" measures indicate the actual product or service delivered by a *state agency*, while "outcome" measures indicate the actual impact or public benefit of the program. A simple example might be to measure the number of miles of new roads constructed as a Tennessee Department of Transportation "output," and indicators of reduced traffic congestion as "outcome" measures for the department.

How do we create an environment that supports performance-based budgeting?
Performance-based budgeting cannot simply be imposed on top of the existing bureaucracy. In order to create and sustain a workable process, it is necessary to:

- Obtain and maintain visible commitment from top management;
- Adopt a supportive organizational structure and management style;
- Increase communication among those involved;
- Go slowly and resist the temptation to do everything at once;
- Provide extensive training and technical assistance; and
- Work toward some early successes which are publicized, celebrated, and built upon.

Tennessee's Current Budgeting/Strategic Planning Procedures

Tennessee's traditional budget allocation process employs *inputs*, dollars, numbers of positions, salaries, materials, and supplies. Although the executive branch has engaged in strategic planning for many years, researchers found that Tennessee's efforts have not included many of the key characteristics associated with performance based budgeting,

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[5] Ibid., pp. 8–9.

including appropriate goals, measures, and evaluations. This places legislative control on the front-end of the budget with limited reporting on the results of state appropriations and expenditures.

A state budget office cover letter to agency budget officers accompanying the budget instructions for FY2003-04 suggests, rather than requires, that state agencies link each improvement request to the agency's strategic plan. The letter further suggests that agencies submit meaningful performance measures for each allotment code or program and to provide outcome measures "to the extent possible." The budget office also advises agencies not to resubmit measures that the budget office did not consider acceptable last year "as evidenced by their not being published in the FY2002-03 Budget Document." A review of the Budget Document, however, illustrates that few agencies submitted measures that legislators can use to assess actual outcomes.

Overview of Public Chapter 875 of 2002

Public Chapter 875 of 2002 states the legislature's intent that the act will constitute a new approach to the budgeting, planning, and accountability process rather than adding to existing procedures. The statute will be null and void unless the General Assembly appropriates funds to implement its provisions each year. The General Assembly appropriated a "sum sufficient" for FY2003-04.

What is the starting point?

The Commissioner of Finance and Administration (F&A) will develop a schedule for state agencies to implement the process, beginning with three agencies for FY2004-05. The schedule extends to all state agencies by FY2011-12.

The act requires the Director of the Office of Legislative Administration to develop and submit to the joint legislative services committee proposed instructions for developing performance measures for the legislative department by June 30, 2003. The committee may revise or amend the proposed instructions and will adopt the final instructions.

Likewise, the Administrative Office of the Courts (AOC) will submit to the legislature by June 30, 2003, a list of programs that the AOC recommends could operate under a performance-based budget. By January 1, 2004, the AOC will submit performance measures and *standards* for its programs to the legislature. The General Assembly may develop statutory procedures for evaluating those programs.

What will state agencies do?

The Commissioner of Finance and Administration will distribute annual instructions for developing performance measures and standards. Each agency subject to performance-based budgeting will submit a strategic plan and proposed performance measures for each program, including:

- output*s* produced by the programs,
- outcomes resulting from the programs,
- *baseline data* associated with each performance measure, and
- performance standards.

Beginning July 1, 2003, each state agency subject to performance-based budgeting will prepare a strategic plan for delivering services that includes:

- the statutory and constitutional objectives of the agency,
- the scope of services the agency is required to provide and the best means to provide those services,
- optional services the agency may provide, if resources permit, and the best means to provide those services,
- means to maximize federal or other non-state revenue sources,
- means to avoid unnecessary costs,
- means to address changes in objectives or services since the previous strategic plan,
- obstacles to meeting objectives and delivering services,
- means to overcome obstacles, and
- future challenges and opportunities.

The heads of state agencies participating in the process will submit their performance measures and standards to the Commissioner of Finance and Administration for review, revise them if necessary, and include them in the budget request. The Tennessee Higher Education Commission will submit a single strategic plan for all higher education units, with advice from The University of Tennessee, the state university and community college system, and the Tennessee Student Assistance Corporation. The Comptroller, the State Treasurer, the Secretary of State, and the Attorney General will submit their plans separately. The Administrative Office of the Courts will prepare the plan for the court system, the District Attorneys General Conference, the District Public Defenders Conference, and the Office of Post-conviction Defender. The joint legislative services committee will prepare a plan for the legislature.

Agencies subject to performance-based budgeting must furnish the following documentation with their program performance measures, standards, and budget requests:

- identification of the customers, clients, and users of each program,
- the purpose of each program or the benefit derived by the customers, clients, and users of the program,
- costs of each program,
- all sources of funding for each program, classified as appropriations from state revenues or reserves, specifying appropriations from dedicated taxes and fees, and departmental revenues by type, as determined by the Commissioner of Finance and Administration,
- information on fees collected and the adequacy of those fees in funding each program for which the fees are collected,
- an assessment of whether each program is conducive to performance-based budgeting, and
- an assessment of the time needed to develop meaningful performance measures for each program.

Agencies must also provide any documentation the commissioner requires about the *validity* and *reliability* and appropriateness of performance measures and all other components of the strategic plan. Before transmitting the budget document to the General Assembly, the Governor may also revise, add, or delete performance measures and standards. Agencies will submit their strategic plans to the Governor and the General Assembly by September 1 every year and cover the fiscal year in effect as of the date of the report. The Commissioner of Finance and Administration will consolidate plans for all executive branch agencies. The General Assembly has final approval of all strategic plans, performance measures and standards, and may increase, reduce, eliminate, or otherwise alter the appropriations to state agencies.

After an appropriations act becomes law, state agencies may submit adjustments to their performance measures and standards to the Commissioner of Finance and Administration, who will in turn report on the adjustments to the chairs of the finance, ways and means committees of the legislature. Agencies may not amend or establish programs or performance measures on their own; rather they must propose revisions to the Commissioner of Finance and Administration.

What is the evaluation process and how will the information be used?

Beginning in FY2005-06, the Commissioner of Finance and Administration will evaluate participating agencies' compliance with their strategic plans and performance measures and submit a report on such to the Governor and to the finance, ways and means committees of the legislature. The finance, ways and means committees are to use the reports for consideration of the appropriations act. Reports may contain recommendations about *incentives* or disincentives related to performance.

Incentives may include, but are not limited to, additional flexibility in budget management; additional flexibility in salary rate and position management; retention of up to 50 percent of unspent and unencumbered balances of appropriations that may be used for non-recurring purposes such as bonuses, employee training, or productivity enhancements such as technology; and additional funds for expenditures such as bonuses, employment training, or productivity enhancements.

Disincentives may include mandatory quarterly reports to the Governor on progress in meeting performance measures; mandatory quarterly appearances before the Governor to report on the agency's progress; eliminating or restructuring the program, which may include transferring or outsourcing the program; reducing the total positions for a program; restricting or reducing the program's appropriation; and reducing managers' salaries.

What are the duties of the Comptroller?

The act authorizes the Comptroller to employ, through competitive bidding, outside consultants and entities with expertise in governmental finance and performance review to conduct performance reviews or fulfill other duties.

The act states that “Each state agency shall be subject to a performance review of its activities by the Comptroller of the Treasury.” The performance reviews will include matters the Comptroller deems appropriate, including, but not limited to:

- the efficient use of state and federal resources and user fees,
- additional non-state revenue or cost savings that the entity could achieve, and
- the extent to which the entity has achieved the objectives in its strategic plan.

The act does not address frequency of these performance reviews and is not clear whether the Comptroller is required to review each agency’s activities. The act also does not change the current “Sunset Law” provisions contained in TCA Title 4, Chapter 29.

The statute requires state agencies to cooperate with the Comptroller and timely provide all documents and requested information. The Comptroller will include lack of cooperation in reports along with the agency’s reasons for not furnishing documents or information.

The statute further provides that strategic plans, performance reviews, and information generated solely for the plans and reviews may not be admissible in judicial proceedings or administrative hearings, but will be public records.

What is the Accountability Commission and what will it do?

The Tennessee Governmental Accountability Commission, comprised of the Comptroller as chairman, the Executive Director of the Fiscal Review Committee as vice chairman, and the Director of the Office of Legislative Budget Analysis as secretary, will annually review the performance report submitted by the Commissioner of Finance and Administration. The commission will comment and make recommendations to the finance, ways and means committees of both houses on the strategic plan and the performance of the agencies participating in performance-based budgeting and on the reasonableness of performance measures and standards. The statute requires the commission to provide its comments and recommendations in time for the finance, ways and means committees to consider them in the appropriations bill.

Other States’ Experiences

Searching for a Model

Staff from all states contacted indicated that lawmakers may have increased knowledge of state agencies’ services and programs, but that the subjectivity has not been removed from the budgeting process. The amount of time other states have participated in performance-based budgeting varies from the late 1980s to 2001. Staff from each state interviewed reported that none of their systems is yet “mature” enough to evaluate whether performance-based budgeting increases government accountability and effectiveness. A 2001 report from the Kentucky Legislative Research Commission states that “there are no model states with long term success that Kentucky can emulate. . . .the jury is still out — and may be for some time — on whether the reform accomplishes its missions of making government more accountable and effective."[6] Staff from Virginia challenged researchers to find data that supports a true linkage between budgeting and performance.[7]

Laws

Louisiana, Florida, and Oregon, like Tennessee, have passed an accountability act requiring PBB. Other states, including Virginia, Texas, and Minnesota, do not have accountability acts in general law, but do reference PBB in their budget codes. A commonality among all states having PBB is the requirement for strategic planning and performance measurement.

Staffing

Few states added new staff to implement PBB, while others trained existing staff or designated selected staff to coordinate PBB efforts. In Virginia, only two large agencies added new staff. Minnesota agencies did not add new staff. Texas agencies used existing staff for the most part, while some executive branch agencies added offices for strategic planning. In Louisiana, some agencies contracted with private vendors to develop their strategic plans. Florida changed the duties of existing staff. A few agencies in Oregon hired additional specialized staff, but most agencies simply added duties to existing staff.

Training

According to staff in other states, the quality of strategic planning varies among the agencies. Each state related difficulty in educating agency staff on developing strategic plans and understanding the differences in outcome measures and program outputs. Because of the learning curve experienced in most states, staff noted the importance of an entity independent of the executive branch *verifying* baseline and outcome data provided by agencies for completeness, accuracy, and relevance to the strategic plan.

The states varied widely in the number of staff trained and the intensity of content. Some states used consultants for training while other states advised against outsourcing. In addition to training budget and program staff on how to execute PBB, some states offered limited training to familiarize legislators with the basics.

Information Needs

Accurate, reliable, and timely data is essential to measure performance. Most states, including Louisiana and Texas, developed new or modified existing information systems to capture data related to performance measures. Florida and Oregon did not develop a statewide information system, but rather individual agencies invested in data collection changes to comply with the requirements of performance measurement. Some states,

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[6] Greg Hager, Ph.D., Alice Hobson, and Ginny Wilson, Ph.D., *Performance–Based Budgeting: Concepts and Examples*, Kentucky Legislative Research Commission, June 14, 2001.

[7] Telephone interview with Herb Hill, Associate Director of the Strategic Planning, Research, and Evaluation Division, Virginia Department of Planning and Budget, and Charlie Bennett, Ph.D., State Planning and Performance Coordinator for the Commonwealth of Virginia, July 2002.

including Minnesota, built expensive, sophisticated systems while other states, including Virginia, collected data on programs created in-house with Excel or Access software.

Discontinued PBB Efforts in Other States

In 1994, the North Carolina legislature enacted the Executive Budget Act, which funded program areas (health, human services, justice & safety, corrections, general government, environment, cultural resources, and education) rather than state agencies. The state took a long time to get the process underway. A new administration did not see its value and abolished the state planning agency which was responsible for implementation.[8]

South Dakota had a performance-based budgeting statute since the 1980s, but the act was never funded. In 1999, during budget discussions, the appropriations committee questioned the commissioner of finance and management about why PBB was not implemented. When the commissioner explained funding, staffing, and training needs, the legislature decided to repeal the statute.[9]

[8] Telephone interview with John Dorman, former Assistant Director of the North Carolina State Planning Agency, December 17, 2002.

[9] Collin Keeler, Director of Financial Systems, South Dakota Bureau of Finance and Management, December 16, 2003.

Recommendations

The General Assembly may wish to consider amending Title 9, Chapter 4, Part 56, *Tennessee Code Annotated* to clarify the frequency of performance reviews by the Comptroller and to include verification of documents presented to show progress.

The General Assembly should develop specific training and educational opportunities for members, especially those most responsible for budget decisions, to learn how PBB information can be best used in decision-making.

The General Assembly may wish to request periodic reviews of the implementation of Public Chapter 875.

The Department of Finance and Administration should consult with other states, particularly Florida, Texas, Louisiana, and Virginia before developing instructions for the development of performance measures and standards because of these states' expertise in strategic planning, performance measurement, and data collection.

The Department of Finance and Administration should evaluate existing data capabilities and enhance as necessary.

The Department of Finance and Administration should encourage agencies to begin with a few key measures based on the agencies' missions, evaluating the need to add new measures or amend measures as warranted.

The Department of Finance and Administration should ensure that all agencies' program and budget staff are properly trained in strategic planning and performance measurement before performance based budgeting is implemented.

The Department of Finance and Administration should require that all state agencies include a performance measure addressing efficient and effective use of federal funds as part of their strategic plans.

Appendix A

Glossary of Key Terms

- **Agency** or **state agency —** any unit of organization of the executive department, including any official, officer, department, board, commission, division, bureau, section, district, office, authority, committee, or council or any other unit of state government, however designated, including, without limitation, higher education. For purposes of the Governmental Accountability Act of 2002, agency or state agency does not include the governor's office, the judicial department, or the legislative department. For the purposes of the Governmental Accountability Act of 2002, judicial department means the court system, district attorneys general conference, district public defenders conference, and the office of post-conviction defender.
- **Allocation –** funds set aside for a specified purpose; in government usage, generally funds distributed to various programs, departments, agencies, or activities through budgeting procedures; or the distribution of resources within agencies or departments for particular programs or activities.
- **Baseline data –** indicators of a state agency's current performance level, pursuant to guidelines established by the commissioner of finance and administration.
- **Effectiveness –** successful, or achieving the desired result of a governmental program or agency (from Cambridge Dictionary); producing a decided, decisive, or desired effect (from Merriam-Webster).
- **Efficiency –** cost per unit of outcome[10]; effective operation as measured by a comparison of production with cost (from Merriam-Webster).
- **Goal –** a general purpose toward which the efforts of an agency are directed.
- **Incentive –** a benefit to encourage improved performance.
- **Input –** any resource used to implement a policy, program, or specific service.
- **Mission statement –** a broad comprehensive statement of an organization's purpose and reason for existing.
- **Objective –** a specific and measurable target for achievement which describes the exact results sought, which is expressed in an outcome-oriented statement that may reflect effectiveness, efficiency, or quality of work.
- **Outcome –** an indicator of the actual impact or public benefit of a program.
- **Output –** the actual service or product delivered by a state agency.
- **Performance audit –** According to the GAO's *Government Auditing Standards*, "A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action." Performance audits may be either (1) economy and efficiency audits, which determine whether the entity is acquiring, protecting, and using its resources economically and

[10] William G. Holland, Illinois Auditor General's presentation to the National State Auditors Association, June 8, 2001.

efficiently; the causes of inefficiencies or uneconomical practices; and whether the entity has complied with laws and regulations on matters of economy and efficiency; or (2) program audits, which determine the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; the effectiveness of organizations, programs, activities, or functions; and whether the entity has complied with significant laws and regulations applicable to the program. In Tennessee, in addition to other special reviews, performance audit includes the limited program review audits intended to aid the review of the Government Operations committees of the General Assembly pursuant to Tennessee Governmental Entity Review statute contained in TCA Title 4, Chapter 29.

- **Performance-based budget** – a budget that incorporates program statements and performance measures.
- **Performance measure** – a quantitative or qualitative indicator used to assess state agency performance, including outcome and output indicators.
- **Program** – a set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives. Such program shall be a budget unit included in the budget document for which an appropriation is provided in the general appropriations act.
- **Reliability** – accuracy, consistency, and dependability.
- **Stakeholder** – an individual or organization with an interest in the agency's programs and services.
- **Standard** – the desired level of performance of a program measured by outcome or output.
- **Strategy** – the actions taken to accomplish the objectives of an agency.
- **Strategic Planning** – the process of agency self-assessment and objective setting which considers an organization's purpose, capacities, and environment, and determines a path to achieve meaningful results.
- **Validity** – the extent to which the data adequately represent actual performance.
- **Verify** – to determine truthfulness and accuracy through documentation and evidence.
- **Vision statement** – a compelling image of the organization's desired future.

Appendix B

Hypothetical Abbreviated Model for Board of Probation and Parole

The following illustrates a partial representation of a strategic plan for the Tennessee Board of Probation and Parole. Office of Research chose the Board of Probation and Parole to develop this illustration for the sole purpose of providing an example of a strategic plan and how performance measures should show the impact the agency has achieved in relation to the mission and goals of the agency. The Office of Research intends for agencies to use the elements of this example only as a guide for developing strategic plans of their own, and does not contend that this example is complete.

Vision Statement

The Tennessee Board of Probation and Parole will be a partner with the citizens of the state in promoting public safety and lead accountability efforts for the management of probation, parole, and community corrections programs.

Mission Statement

The mission of the Tennessee Board of Probation and Parole is to:

- Protect the public by thoroughly investigating and processing inmate cases and making responsible, just, and equitable parole decisions while balancing punishment and rehabilitation;
- Respond to the needs and concerns of crime victims and their families;
- Use agency and community resources as a bridge to help probationers and parolees reach self-sufficiency and stable citizenship;
- Supervise probationers and parolees skillfully and return to prison those who demonstrate they will not by choice abide by their release conditions; and
- Administer the Community Corrections Act effectively and efficiently.

Goals

Goal 1

The Board will make sound recommendations regarding parole, pardons, reprieves, and commutations based on public safety, objective criteria, and the merits of individual cases.

Objective:

- To reduce number of non-violent offenders in the state prisons by XX percent without endangering the public by (date).

Strategies:

- Review all court documents related to the offense(s)
- Review inmates' criminal and social histories
- Review inmates' participation in rehabilitative programs
- Adhere to reasonable criteria for making decisions, applying mitigating or aggravating circumstances to deviate from the criteria.

Performance Measure:

- Percentage reduction of non-violent inmates in state prisons

Goal 2

Staff working under the director of probation and parole will maximize the opportunities for probationers and parolees to succeed.

Objective:

- To increase the number of probationers and parolees who successfully complete their terms of supervision by (date).

Strategies:

- Conduct thorough and unbiased investigations to accurately portray the offender's potential for success or failure in a community setting or whether the offender should be incarcerated
- Research innovative methods used in other jurisdictions
- Develop and implement plans for supervision and case management which will enhance the prospects for offenders doing well in society
- Dedicate more time to direct contact and service provision with probationers and parolees

Performance Measures:

- Percentage reduction in probationers and parolees committing further crimes
- Percentage reduction in probationers and parolees committing technical violations resulting in incarceration

Goal 3

The agency will award Community Corrections grants to applicants that demonstrate the ability to discourage behavior in their clients that would lead to incarceration.

Objective:

- To reduce the incarceration rate of community corrections clients by XX percent by (date).

Strategies:

- Review the services, programs, and methods employed by community corrections applicants for best practice implementation
- Research innovative methods used in other jurisdictions
- Monitor existing grantees for reductions in recidivism and violations of terms of supervision
- Reallocate grant funds from less successful agencies to those that perform according to the contract

Measures:

- Percentage reduction in incarceration rate of community corrections clients

Appendix C

PUBLIC ACTS, 2002

CHAPTER NO. 875

HOUSE BILL NO. 2789

By Representatives Fitzhugh, McMillan and Mr. Speaker Naifeh and Representatives Lois DeBerry, Scroggs, McDaniel, White, Maddox, Sands, Bone, Briley, Lewis, Kisber, Hood, Shepard, Bowers, Brooks, Kent, Newton, Brown, Pinion, Head, Bittle, Wood, Givens, Ralph Cole, Chumney, Curtiss, Phelan, Fowlkes, Vincent, Montgomery, Hagood, Brenda Turner, Ridgeway, Todd, Hargett, Pleasant, Sharp, Ulysses Jones, Dunn, Buttry, Sargent, David Davis, Black, Beavers, Stanley, Rowland, Bunch, Goins, Tindell, Fraley

Substituted for: Senate Bill No. 2919

By Senators Clabough, Haun, Crowe, Carter, Rochelle, Miller, Cooper, Burks

AN ACT to amend Tennessee Code Annotated, Title 4, Chapter 3 and Title 9, Chapter 4, relative to state government.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 9, Chapter 4, is amended by creating the following new, appropriately designated part:

> 9-4-5601. This part shall be known and may be cited as the "Tennessee Governmental Accountability Act of 2002."
>
> 9-4-5602. The general assembly finds and declares that accountability in program performance is vital to effective and efficient delivery of governmental services, and to maintain public confidence and trust in government. To maximize accountability, a system of strategic planning, performance-based budgeting, and performance audits should be implemented to measure the effectiveness and efficiency of governmental services. It is of paramount public importance that this system encourages full and candid participation by all agencies of state government. This system will generate information necessary for the public to be informed fully and for the general assembly to make meaningful decisions about the allocation of scarce resources in meeting vital needs.
>
> 9-4-5603. The strategic planning, performance-based budgeting, and performance review requirements of this part shall apply to all state departments, agencies, boards and commissions.

9-4-5604. For purposes of this part, the following terms shall have the following meaning unless the context requires otherwise:

(1) "Agency" or "state agency" means any unit of organization of the executive department, including any official, officer, department, board, commission, division, bureau, section, district, office, authority, committee, or council or any other unit of state government, however designated, including, without limitation, higher education. For purposes of this act, "agency" or "state agency" shall not include the governor's office, the judicial department, or the legislative department. For purposes of this act, "judicial department" means the court system, district attorneys general conference, district public defenders conference, and the office of post-conviction defender.

(2) "Baseline data" means indicators of a state agency's current performance level, pursuant to guidelines established by the commissioner of finance and administration.

(3) "Commissioner" means the commissioner of finance and administration.

(4) "Outcome" means an indicator of the actual impact or public benefit of a program.

(5) "Output" means the actual service or product delivered by a state agency.

(6) "Performance-based program budget" means a budget that incorporates program statements and performance measures.

(7) "Performance measure" means a quantitative or qualitative indicator used to assess state agency performance, including outcome and output indicators.

(8) "Program" means a set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives. Such program shall be a budget unit included in the budget document for which an appropriation is provided in the general appropriations act.

(9) "Standard" means the desired level of performance of a program, measured by outcome or output.

9-4-5605.

(a) It is the legislative intent that the requirements of the Tennessee Governmental Accountability Act of 2002 constitute a new approach to the budgeting, planning, and accountability process, rather than an addition to existing procedures.

(b) The comptroller of the treasury shall have authority to employ outside consultants and entities with expertise in governmental finance and performance review for the purpose of conducting performance reviews or otherwise fulfilling his duties under this part. The performance reviews required under this part may be conducted by a private entity selected by the comptroller subject to the competitive bidding requirements of title 4,chapter 12.

9-4-5606.

(a) The commissioner of finance and administration annually shall issue instructions for the development of performance measures and standards for each program for which a state agency will submit a budget request as provided by Section 9-4-5103(b).

(b) By July 1 each year, each state agency subject to performance-based budgeting is required to submit to the commissioner of finance and administration, in a form to be specified by the commissioner, a strategic plan and proposed performance measures and standards for each program for which a budget request must be submitted pursuant to Section 9-4-5103(b). Such state agencies shall also identify the outputs produced by each program, the outcomes resulting from each program, baseline data associated with each performance measure, and performance standards. Performance measures and standards shall be reviewed by the commissioner of finance and administration, revised as deemed necessary by the commissioner of finance and administration, and included in the budget request required by Section 9-4-5103(b). In reviewing budget requests and transmitting the budget document to the general assembly in accordance with Section 9-4-5105, the governor, with the assistance of the commissioner of finance and administration, may revise, add, or delete performance measures and standards as the governor may deem necessary.

(c) Notwithstanding the programs, performance measures, and standards recommended in the budget document submitted pursuant to Section 9-4-5105, the general assembly shall have final approval of all strategic plans, performance measures and standards through the appropriations act and shall have discretion in the appropriations act, consistent with otherwise applicable requirements of general law and the constitution of Tennessee, to increase, reduce, eliminate, or otherwise alter the appropriation to a state agency.

(d) Each state agency subject to performance-based budgeting shall submit to the commissioner of finance and administration any documentation required by the commissioner regarding the validity, reliability, and appropriateness of each performance measure and standard and regarding how the strategic plan and the performance measures are used in management decision-making and other agency processes.

(e)(1) Annually, at a time to be determined by the commissioner of finance and administration after the general appropriations act becomes law, state agencies may submit to the commissioner any adjustments to their performance measures and standards based on the amounts appropriated for each program by the general assembly. The commissioner of finance and administration shall report on the adjusted performance measures and standards to the chairmen of the senate and house finance, ways and means committees upon approval of the work program allotments required by Section 9-4-5110.

(2) At any time during the fiscal year in which a state agency, by restraining order, injunction, consent decree, settlement, or any final judgment of a court of competent jurisdiction, or by law or executive order, is required to modify its operations, or the state agency receives additional federal or other funding, the state agency may submit to the commissioner of finance and administration any necessary adjustments to its performance measures and standards.

(3) When such adjustment is made pursuant to subdivisions (1) and (2), all performance measures and standards, including any adjustments made, shall be submitted to and reviewed and revised as necessary by the commissioner of finance and administration. The commissioner shall maintain the official record of adjustments to the performance measures and standards and shall report such adjustments to the chairmen of the senate and house finance, ways and means committees.

(f) A state agency subject to performance-based budgeting shall not have the authority to amend or establish programs or performance measures but may propose a revision to the commissioner of finance and administration, who shall have authority to revise and approve programs and performance measures submitted pursuant to subdivisions (e)(1) and (e)(2) in connection with establishing original work program allotments and revisions thereto pursuant to Sections 9-4-5110 and 9-4-5112.

9-4-5607. The commissioner of finance and administration shall develop a schedule for including state agencies within performance-based budgeting and review, beginning with three (3) agencies selected for fiscal year 2004-2005. All agencies of state government shall be included in performance-based budgeting and review not later than fiscal year 2011-2012.

9-4-5608.

(a) Beginning in fiscal year 2005-2006, for agencies included in performance-based budgeting, the commissioner of finance and administration shall at least annually, and more frequently if necessary, evaluate each state agency's compliance with its strategic plan and performance-based measures and shall report to the governor and the senate and house finance, ways and means committees concerning each agency's compliance with its strategic plan and performance-based measures. Such reports shall include comments from the state agency. Such reports shall be timely furnished, and updated if necessary, for use by the senate and house finance, ways and means committees in consideration of the appropriations act.

(b) The commissioner of finance and administration's report as to each state agency's compliance may contain recommendations to the governor and the senate and house finance, ways and means committees concerning the following nonexhaustive performance measure incentives or disincentives for potential inclusion in the appropriations bill:

(1) Incentives may include, but are not limited to:

(A) Additional flexibility in budget management;

(B) Additional flexibility in salary rate and position management, notwithstanding the provisions of Title 8, Chapter 23, or any other law to the contrary;

(C) Retention of up to fifty percent (50%) of unexpended and unencumbered balances of appropriations, excluding special categories and grants in aid, that may be used for non-recurring purposes including, but not limited to, lump-sum bonuses, employee training, or productivity enhancements, including technology and other improvements; and

(D) Additional funds to be used for, but not limited to, lumpsum bonuses, employee training, or productivity enhancements, including technology and other improvements.

(2) Disincentives may include, but are not limited to:

(A) Mandatory quarterly reports to the governor on the agency's progress in meeting performance standards;

(B) Mandatory quarterly appearances before the governor to report on the agency's progress in meeting performance standards;

(C) Elimination or restructuring of the program, which may include, but not be limited to, transfer of the program or outsourcing all or a portion of the program;

(D) Reduction of total positions for a program;

(E) Restriction on or reduction of the appropriation for the program; and

(F) Reduction of managerial salaries, notwithstanding the requirements of Title 8, Chapter 23, or any other law to the contrary.

9-4-5609.

(a) In the fiscal year beginning July 1, 2003, and each year thereafter, each state agency subject to performance-based budgeting (but a year before the schedule provided by Section 9-4-5607) shall prepare a strategic plan for delivering the services and achieving the objectives required of it under the laws of the state of Tennessee and any federal program in which the state of Tennessee participates. The strategic plan shall include, but not be limited to, the following matters:

(1) The statutory and constitutional objectives of the entity;

(2) Identification of the scope of services the entity is required to provide and the best means of providing such services;

(3) Identification of any optional services the entity may provide, resources permitting, and the best means of providing such services;

(4) Means of maximizing federal or other non-state sources of revenue;

(5) Means of avoiding unnecessary costs and expenditures;

(6) Means of addressing any change in objectives or services since the previous strategic plan;

(7) Obstacles to meeting objectives and delivering services;

(8) Means of overcoming such obstacles; and

(9) Future challenges and opportunities.

(b)(1)(A) Each state agency shall submit its draft plan to the agency head, who shall prepare a single comprehensive plan for the agency and transmit the plan to the commissioner of finance and administration for review, modification, and approval. The Tennessee higher education commission shall submit to the commissioner a single strategic plan for all higher education budgetary units, with the advice of the university of Tennessee, the state university and community college system, and the Tennessee student assistance corporation.

(B) The comptroller of the treasury, state treasurer, secretary of state, and attorney general shall prepare their plans separately.

(C) The administrative office of the courts shall prepare a plan on behalf of the court system. Such plan shall include the court system, the district attorneys general conference, the district public defenders conference, and the office of post-conviction defender.

(D) The joint legislative services committee shall prepare a plan on behalf of the legislative department.

(2) Each strategic plan shall be submitted to the general assembly and the governor not later than September 1 of each year and shall cover the fiscal year in effect as of the date of the report. Plans for the executive branch agencies, including higher education, shall be consolidated and submitted by the commissioner of finance and administration.

9-4-5610.

(a) Each state agency shall be subject to a performance review of its activities by the comptroller of the treasury.

(b) The performance review shall include such matters as the comptroller of the treasury deems appropriate related to the manner in which the entity is delivering its services and achieving its objectives, including but not limited to:

(1) The efficient use of all state and federal resources and user fees;

(2) Additional non-state revenue or cost savings that the entity could achieve; and

(3) The extent to which the entity has achieved the objectives of its strategic plan.

(c) Each entity subject to a performance review shall cooperate fully with the comptroller of the treasury and shall timely provide all relevant documents and requested information. If any entity refuses to provide any requested documents or information, the comptroller shall include such refusal in its report, as well as the reasons given by the entity for not furnishing the documents or information.

9-4-5611.

(a) Notwithstanding the provisions of subsection (c) of this section, to achieve full and candid participation in the planning and audit process, no strategic plan or performance review, or any information generated solely for or by any such plan or review, shall be admissible in any judicial proceeding or administrative hearing.

(b) Any documents or information referenced in any such plan or audit that exist independently of the planning and review process shall not be subject to the prohibition of subsection (a). The admissibility of such documents and information shall be determined in accordance with the rules of evidence and standards otherwise applicable to any such proceeding.

(c) Each strategic plan and performance review shall be a public record under the provisions of Title 10, Chapter 7.

9-4-5612. Not later than June 30, 2003, the director of the office of legislative administration shall develop and submit to the joint legislative services committee proposed instructions for the development of performance measures for the legislative department in accordance with the criteria established in Section 9-4-5103(b). The joint legislative services committee shall review such proposed instructions, may revise or amend the proposed instructions, and shall adopt final instructions for the development of such performance measures.

9-4-5613. Not later than June 30, 2003, the judicial department, acting through the administrative office of the courts, shall identify and submit to the general assembly a list of programs that the administrative office of the courts recommends could operate under a performance-based program budget under the criteria established in Section 9-4-5103(b). By January 1, 2004, the administrative office of the courts shall submit to the general assembly performance measures and standards for such programs. Notwithstanding any other provisions of this act, the general assembly, in consultation with the judicial branch, may develop statutory procedures for evaluating the effectiveness of such programs.

SECTION 2. Tennessee Code Annotated, Title 9, Chapter 4, is amended by adding the following new section:

9-4-5614.

(a) There is hereby created the Tennessee governmental accountability commission, to be comprised of three ex officio members: the comptroller of the treasury, who shall be chairman; the executive director of the fiscal review committee, who shall be vice chairman; and the director of the office of legislative budget analysis, who shall be secretary of the commission. The members shall serve without additional compensation, except for travel expenses, to be provided in accordance with the applicable state travel regulations.

(b) The commission, at least annually, beginning in fiscal year 2005-2006, shall review the performance report submitted by the commissioner of finance and administration pursuant to section 9-4-5608. The commission, in writing, shall comment and may make recommendations to the senate and house finance, ways and means committees on the strategic plan and actual performance of agencies subject to performance-based budgeting in the previous fiscal year, on the reasonableness of performance measures and standards recommended in the budget document for those agencies subject to performance-based budgeting in the next future fiscal year, and on any other strategic plan and program performance matter the commission deems appropriate.

(c) The commission shall provide the comments required and recommendations authorized by subsection (b) in sufficient time for use by the senate and house finance, ways and means committees in considering the appropriations bill.

SECTION 3. Tennessee Code Annotated, Section 9-4-5103, is amended by designating the existing language as subsection (a) and by inserting the following new language as subsection (b):

(b) Any state agency subject to performance-based budgeting requirements under Title 9, Chapter 4, Part 56, shall include with its budget request the program performance measures and standards required by Section 9-4-5606. The following documentation shall accompany the budget request in a form to be prescribed by the commissioner of finance and administration:

(1) Identification of the customers, clients, and users of each program;

(2) The purpose of each program or the benefit derived by the customers, clients, and users of the program;

(3) Costs of each program;

(4) All sources of funding for each program, classified as appropriations from state revenues or reserves, specifying appropriations from dedicated taxes and fees, and departmental revenues by type, as determined by the commissioner of finance and administration;

(5) Information on fees collected and the adequacy of those fees in funding each program for which the fees are collected;

(6) An assessment of whether each program is conducive to performance-based budgeting; and

(7) An assessment of the time needed to develop meaningful performance measures for each program.

SECTION 4. Tennessee Code Annotated, Section 9-4-5106, is amended by inserting the following new language in subdivision (a)(3), as amended by Acts of 2002, Public Chapter 510, following the word and punctuation "chapter;": it also shall include a performance-based program budget for all state agencies subject to performance-based budgeting, including program statements and performance measures;

SECTION 5. Tennessee Code Annotated, Section 9-4-5108, is amended by adding the following new subsection:

(e) Notwithstanding the provisions of any other law to the contrary, the appropriations bill may specify incentives or disincentives relative to performance-based budgeting.

SECTION 6. Tennessee Code Annotated, Section 9-4-5102 is amended by deleting the words "zero-based" and inserting in lieu thereof the words "performance-based program".

SECTION 7. Tennessee Code Annotated, subsections 9-4-5106(b) and 9-4-5115(b) hereby are repealed.

SECTION 8. This act shall be null and void unless appropriations necessary to implement its provisions are made in each general appropriations act for fiscal years 2002-2003, 2003-2004, and any future years in which the requirements of this act are being extended to additional state agencies. The commissioner of finance and administration shall certify to the Tennessee Code Commission any fiscal year in which appropriations necessary to implement the provisions of this act are not made in the general appropriations act.

SECTION 9. No expenditure of public funds pursuant to this act shall be made in violation of the provisions of Title VI of the Civil Rights Act of 1964, as codified in 42 United States Code 2000(d).

SECTION 10. This act shall take effect upon becoming a law, the public welfare requiring it.

PUBLIC ACTS, 2002, Chapter No. 875, PASSED: July 3, 2002

Offices of Research and Education Accountability Staff

Director
◆Ethel Detch

Assistant Director (Research)
◆Douglas Wright

Assistant Director (Education Accountability)
Jason Walton

Principal Legislative Research Analyst
Phillip Doss
◆Kim Potts

Senior Legislative Research Analysts
Denise Denton
◆Margaret Rose
◆Greg Spradley
Emily Wilson

Associate Legislative Research Analysts
Bonnie Adamson
Brian Doss
Richard Gurley
Russell Moore
Alisa Palmisano
Melissa Jo Smith

Legislative Research Interns
Jennifer Hause
Bintou Njie

Executive Secretary
◆Sherrill Murrell

◆indicates staff who assisted with this project