

Testimony before Joint Senate Appropriations Committee & Senate Policy Committee Performance-Based Budgeting

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History of Program Budgeting in Pennsylvania

In 1968, Governor Raymond P. Shafer installed a Planning, Programming and Budgeting System that structured program decision making around program performance in relation to stated objectives. This approach to budgeting was a complete departure from any of the methods previously employed in the state. The determination of program value was based on the combination of results achieved and cost, as opposed to focusing on cost alone. The new process was highly dependent on analysis, not only for the development and maintenance of the data, but also to show the degree of linkage between cost and results.

Ten years later in 1978, Section 610(a) of the Administrative Code of 1929 (P.L. 177, No. 175) was enacted to require preparation of program measures and efficiency metrics, along with other provisions now familiar in our current budget process. The new system required all programs appearing in the budget to have stated objectives describing desired results and a group of measures to quantify program performance in terms of results obtained.

Current Program Budgeting Process in Pennsylvania

While the current budgeting process in Pennsylvania remains rooted in the Planning, Programming and Budgeting System codified in 1978, it has evolved significantly since then. For example, a section of the governor's budget book has since been added to include General Fund tax expenditures, recognizing that tax policies have revenue consequences and must be part of overall budget decision-making.

Today, Pennsylvania continues to employ a program budgeting system. Our program budget focuses on the objectives to be accomplished through activities underwritten, either wholly or in part, by state revenues. This implies that whether the activities are conducted directly by the Commonwealth or are carried out by another entity through a transfer payment, the program budget must justify that expenditure by explaining the resulting ultimate outcome. The budget process is designed to answer the question: What is the result of a government program in terms of its effect on people and the environment?

The distinguishing features of Pennsylvania's budget process can be summarized as follows:

- The use of clearly stated objectives for each program.
- The use of performance measurements that gauge the progress toward an objective and which show the more direct result of the activities conducted.
- The use of total costs, regardless of source, associated with each program.
- The use of an extended time horizon (5 years) over which to project all data.
- The use of Budget Instructions which explicitly guide agencies in the development of their budget requests.
- The use of program audits and evaluations to test the relationship between outputs and impacts and search out more effective means to accomplish desired results.

The 2017-18 budget planning process continues to emphasize performance measurement goal-setting as a core component of budget planning. Pennsylvania's public servants are entrusted to expend and invest the public's money on the public's behalf. In return, citizens expect results and accountability. In the 2017-18 Budget Instructions, agencies were directed to identify key performance indicators along with strategies for achieving key results. Agencies must identify how their funding requests relate to the high-level goals in their annual performance plans. A core goal of the budget review process is to evaluate the impact each agency's proposed expenditure levels would have on the achievement of its mission and programmatic goals, utilizing the most efficient methods possible.

Governor's Metrics

In February 2016, Governor Wolf announced the beta launch of a new website – Governor's Goals – to make government more transparent by introducing measureable goals to align to the governor's three key priorities – Jobs that Pay, Schools that Teach, and Government that Works. While this is the first phase of the website, future iterations will track the progress of these administrative goals and make the data used to measure the goals available to the public. The Wolf Administration is currently compiling data from Pennsylvania government agencies, which will be verified by the Governor's Budget Office prior to being released.

In this iteration of the site, each measure has a goal set for 2020. Progress toward this 2020 goal will be tracked and marked as "On Track," "Near Goal," and "More Work to Do." As data are updated, agencies will be able to monitor goal progress and focus attention and resources as available on goals that are not being met. The measurement of goals, with an increased emphasis on progress tracking, is the next step toward making Pennsylvania government more accountable to citizens.

As agencies prepare 2017-18 budget plans, thorough review of existing metrics is a priority, ensuring that all measures align with the governor's overall goals to better guide decision-making. Agencies were directed to evaluate the history of program areas as opposed to simply re-proposing prior-year line items. Agency funding requests will be driven by data collected about each program's effectiveness in achieving its purpose. Agencies will work with the Office of the Budget to match the performance of operations to the spending request as part of their overall performance report.

GO-TIME

The Governor's Office of Transformation, Innovation, Management and Efficiency (GO-TIME) is working to modernize government operations in order to reduce costs and continuously improve services. GO-TIME works with agencies, boards and commissions to identify opportunities to share resources, collaborate and engage employees in transformation. GO-TIME also seeks partnerships with external entities to bring new ideas and best practices into state government.

GO-TIME has identified over 200 projects with cost savings and other benefits. During the 2015-16 fiscal year, state agencies saved over \$156 million. These savings are being reinvested into programs and used to absorb rising costs in other areas of the budget so we can continue to deliver high-quality services to our citizens. With the first savings goal of \$150 million exceeded, the governor is now challenging GO-TIME to build upon this success by achieving \$500 million in savings by 2020. For the first time, GO-TIME savings will be aligned with associated programs in the 2017-18 agency budget submissions, which will then also be reflected in the governor's budget book.

Government that Works in Practice

Justice Reinvestment Initiative

In recent years, policymakers have worked cooperatively to face particular budget challenges requiring special attention. A good example of such efforts is the Justice Reinvestment Initiative. A growing prison population and rising corrections expenditures that continue to exceed \$2 billion annually prompted decision-makers to take action.

In 2012, Pennsylvania enacted legislation based on a justice reinvestment policy framework (Act 122 and Act 196) to reduce corrections spending and reinvest savings in strategies to reduce recidivism and improve public safety. As a result of these and other policies, the state has experienced a decrease in the prison population, averting significant corrections costs.

In October 2015, Governor Tom Wolf, Chief Justice Thomas Saylor, Senate President Pro Tempore Joseph Scarnati, House Speaker Mike Turzai, and Department of Corrections Secretary John Wetzel joined to begin a renewed effort to build on prior successes and to increase public safety and reduce corrections spending. A bipartisan, interbranch Justice Reinvestment Working Group has been meeting throughout the year to prepare new recommendations to guide the governor's proposed budget for the General Assembly's consideration in 2017.

Additionally, in 2015, the Department of Corrections was one of several agencies that received the Boston-based Pioneer Institute's "Better Government Award" for its work in the area of incorporating performance goals and measures of recidivism reduction into contracts with privately operated halfway houses. Financial incentives for recidivism reduction and penalties for increases in recidivism were used in contracts in an effort to reduce recidivism by making community corrections facilities more accountable for public safety outcomes.

Community Health Choices

In the area of health and human services, under Governor Tom Wolf's leadership, the Pennsylvania Departments of Human Services (DHS) and Aging (PDA) are developing a new program for older Pennsylvanians and adults with physical disabilities called Community HealthChoices (CHC). The program will roll out in three phases over three years, beginning in July 2017.

The commonwealth plans to coordinate health and long-term care services and supports (LTSS) through CHC managed care organizations (CHC-MCOs). The CHC rate model will include value-based incentives to increase the use of home and community-based services (HCBS) and meet other program goals. CHC will use standardized outcome measures at both the program- and participant-level to assess overall program performance and improve the CHC program over time. Measures to ensure ongoing improvements to the CHC model will include stakeholder engagement to provide participant input.

CHC MCOs will be accountable for outcomes for the target population and responsible for the overall health and long-term support for the whole person. Quality of life and quality of care will be measured and published, giving participants the information they need to make informed decisions. The program will increase the efficiency of health care and LTSS by reducing preventable admission to hospitals, emergency departments, nursing facilities and other high-cost services, and by increasing the use of health promotion, primary care and HCBS. These outcomes will impact policy priorities and budgetary decisions in future fiscal years.

Open Data Initiative

Transparency and accountability continue to be key priorities for the governor as they are important parts of process improvement and reform. In April 2016, Governor Wolf signed an executive order to release agency data to the public in open, machine readable formats. Open data refers to data in a format that can be understood by a computer and used freely by anyone. By releasing state data, it increases the ability for researchers, businesses and citizens to find innovative solutions to improve public and private services.

In August 2016, Governor Wolf and the Office of Administration launched OpenDataPA, a website designed to enhance access to valuable information by creating a central repository to share the commonwealth's data with the general public. OpenDataPA launched with 12 valuable datasets, including information about job creation, school performance, bridges that are being repaired, and more, that relate to Governor Tom Wolf's Schools That Teach, Jobs That Pay, and Government That Works priorities. In the coming weeks, we will release a performance dashboard that uses these 12 datasets to track Governor Wolf's performance goals. These datasets will be used to inform 2017-18 policy development as well as budget processes and decision-making.

Continuous Process Improvement Pilot

Over the coming year, the commonwealth will begin a program of continuous process improvement. The Governor is a big believer in continuous improvement, which he employed in his own company. This program will be introduced to the commonwealth as a strategy to improve service delivery and reduce inefficiency and duplication. The GO-TIME office will be working with agencies to develop this program throughout the next few months.

Other Agency Examples

- **PennDOT** – In her recent budget testimony before the Senate Transportation Committee, Sec. Richards cited PennDOT's Transportation Investment Plan as a newly developed tool for providing strategic direction for PennDOT investments to restore and enhance our transportation system. This plan is a performance-based, asset management approach that aims to ensure that resource allocation decisions give first priority to restoring then maintaining the commonwealth's highway and bridge infrastructure in a state of good repair.

The Investment Plan operates as a planning check that requires our regional and metropolitan Planning Partners (RPOs and MPOs) and PennDOT engineering districts to benchmark highway and bridge conditions under their stewardship against statewide performance goals. Where conditions do not meet set thresholds, those Planning Partners are required by PennDOT to commit a larger portion of their state and federal funding to repair and maintenance projects, as identified in their biennial Transportation Improvement Plans (TIPs), before funding of expansion or enhancement projects. The success of this effort will manifest in the out-years of the 12-Year Transportation Plan, as measured by improved performance indicators for bridge structural deficiency and general pavement conditions.

- **PDE** - Keystone STARS is an initiative of the Office of Child Development and Early Learning (OCDEL) to improve, support, and recognize the continuous quality improvement efforts of early learning programs in Pennsylvania. The four levels of Keystone STARS Performance Standards provide the foundation for the program. Each level builds on the previous level and utilizes research-based best practices to promote quality early learning environments and positive child

outcomes. The standards address staff qualifications and professional development, the early learning program, partnerships with family and community, and leadership and management.

Pay for Success Projects

Another strategy that enables the state to fund services by taking achieved budgetary savings and social benefits into account is a Pay for Success project. These projects improve economic opportunity, health and safety that the state otherwise might not be able to afford in the short-term, directing funding toward programs that have a strong evidence base and record of effectiveness. Initially proposed in the 2015-16 budget, Pay for Success performance contracts provide an innovative strategy to finance proven programs through public-private partnerships on a straightforward proposition: taxpayers will only pay for services that get results and save money in the long run. Payments are tied to the achievement of specific, pre-established performance goals that are set forth in the contract, and only occur after rigorous evaluation.

Having concluded a competitive procurement process that evaluated a wide range of potential projects, the commonwealth is currently in the project development stage for two Pay for Success projects that aim to reduce adult and juvenile recidivism. The adult recidivism project will help young men who have a high risk of reoffending to successfully reenter their communities by providing life skills education, transitional employment, full-time job placement, and post-placement services. The juvenile recidivism project will deliver a holistic community-based care model to youth who would otherwise face costly, and potentially harmful, out-of-home placements. In keeping with the Pay for Success model, payments on these contracts will be conditional on the achievement of specific, measurable outcomes that improve public safety in Pennsylvania and save taxpayers money.