

Performance-Based Budgeting

Performance-based budgeting is an approach to budgeting that ranks expenditures in order of their priority – increasing governmental accountability for the efficient use of tax dollars.

Under this approach, policymakers:

- 1) Outline their broad policy goals, in order of priority.
- 2) Define the performance metrics that will be used to measure progress toward those goals.

Thus armed, they next direct public monies specifically toward the accomplishment of those top goals.

In 2011, Governor Brian Sandoval submitted the Silver State's first performance-based Executive Budget document.¹ Later that year, Nevada lawmakers passed a bill that institutionalizes the performance-based approach into state law.²

The 2011 legislation was a tremendous step forward, but fails to envision the performance-based approach in its highest form, which entails a competitive bidding process.

Key Points

Prioritize the results, not the intentions. A performance-based budgeting process cannot succeed unless policymakers first establish their broad policy goals. Policymakers should be discriminating with their use of tax dollars, recognizing that the results of state programs – not policymaker intentions – are what matter. Not all spending programs produce results that taxpayers value. The International Monetary Fund has developed a helpful guide to implement performance-based budgeting.³

No offices are entitled to public money. Bureaucrats often approach lawmakers with funding requests based upon the expectation that just because a program has existed in the past, it should continue to receive funding into the future – regardless of its results.

The burden of proof should be on agency directors to demonstrate that each program operating within an agency reflects lawmakers' broad policy goals and is a worthwhile use of tax dollars. In effect, agency directors should "sell" their product to lawmakers, who in turn should act as taxpayers' vigilant stewards.

Government monopoly is not the only way to provide public services. If lawmakers are convinced that a particular program merits the use of tax dollars, they should "shop" for the most cost-effective supplier of that program. That supplier may not always be an existing state office.

Once lawmakers have decided on a list of worthwhile programs, they should issue a request for proposals to administer those programs. Any state agency or local government should be free to bid to administer a program – as should any potential private-sector or non-profit competitor. Lawmakers can then select from among the most cost-effective bids.

Competition spurs innovation. When the state of Washington pioneered the performance-based budgeting

¹State of Nevada, Department of Administration, Division of Budget and Planning, "2011-2013 Executive Budget: Priorities and Performance Budget."

²Nevada Legislature, 76th Session, Assembly Bill 248.

³Marc Robinson and Duncan Last, "A Basic Model of Performance-Based Budgeting," IMF, September 2009.

process in 2003, its policymakers realized significant cost savings by submitting the delivery of public services to a competitive process. Facing competition, state agencies reinvented themselves to become more efficient – partnering with other agencies to streamline operations and avoid duplication.

As a result, Washington taxpayers were able to save more than \$2 billion in the 2003–2005 budget cycle, while also receiving far greater value from their state government. The approach remains in use today and has allowed Washington to navigate fiscal headwinds without further burdening the private economy.⁴

Recommendations

Incorporate a competitive bidding process into the performance-based budgeting method. Nevada taxpayers deserve the highest value possible for their tax dollars. Competitive bidding through an open RFP process, even for services currently performed by existing state agencies, is crucial to that effort.

Washington Lawmakers' Statements of Prioritized Policy Objectives

1. Washingtonians value world class student achievement in early education, elementary, middle and high schools and postsecondary institutions.
2. We must improve the health of Washingtonians and support and keep safe our children and adults who are unable to care for themselves.
3. Washington must promote economic development in a growing competitive environment.
4. Efficient state government services are important to the people of Washington state.
5. It is our responsibility to provide for the public safety of people and property in Washington state.
6. Protect natural resources, cultural and recreational opportunities.

⁴State of Washington, Office of Financial Management, "Priorities of Government" website, accessed Oct. 2011; see also, David Osborne, "The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay," Reason Foundation, 2010.

Washington's 2009–2011 Purchase Plan for Student Achievement (Sample Items)

Priority	Rank	Agency Name	Activity	Strategy	Current/New
High		Supt of Public Instruction	Bilingual Education	Give students individual attention	Current
High		Supt of Public Instruction	General Apportionment	Provide general education support	Current
High		Supt of Public Instruction	Learning Assistance	Give students individual attention	Current
High		Supt of Public Instruction	Special Education	Give students individual attention	Current
High		Supt of Public Instruction	Student Transportation	Provide general education support	Current

Low	17	Supt of Public Instruction	Student Transportation	Provide general education support	Current
Low	18	Supt of Public Instruction	General Apportionment	Provide general education support	K-4 enhancement
Low	19	Supt of Public Instruction	General Apportionment	Provide general education support	All-day K
Low	20	Department of Early Learning	Early Learning Programs	Support early education and learning	Current
Low	21	Supt of Public Instruction	General Apportionment	Provide general education support	Skills centers
Low	22	Supt of Public Instruction	Student Health	Provide general education support	Current
Low	23	Supt of Public Instruction	Professional Development	Strategic and individualized preparation for education staff	Current

Buy Next	54	Supt of Public Instruction	Local Effort Assistance	Provide general education support	Current
Buy Next	55	Supt of Public Instruction	Student Achievement Fund	Provide general education support	Current
Buy Next	56	Supt of Public Instruction	Curriculum and Instruction – Programs	Align curriculum, Instruction and Assessment	Math and Science Standards
Buy Next	57	Supt of Public Instruction	Highly Capable Student Education	Support parent and community connections	Current

Do Not Buy	73	Supt of Public Instruction	Vocational Student Leadership	Support parent and community connections	Current
Do Not Buy	74	Department of Early Learning	Child Care and Early Learning Quality Initiatives		QRIS Pilot Expansion
Do Not Buy	75	State School for the Blind	Off-Campus Services to Students/Districts	Support parent and community connections	Teacher Recruitment