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## Performance-Based Budgeting in the States

By Erica MacKellar

State legislatures are always striving to improve budgeting and ensure that citizens' tax dollars are spent efficiently and effectively. One of the strategies states have employed to achieve this goal, with varying degrees of success, is performance-based budgeting (PBB).

Traditionally, states budget incrementally from the prior year's budget—increasing or decreasing line-items over time based on agencies' caseloads, population and other factors. This strategy largely focuses on input costs, or what governments buy, such as the price of adding another lane to a highway, rather than an overall outcome, like reducing traffic congestion. Over the years, lawmakers have attempted to change the budgeting process to focus more on outcomes. This outcomes-focused budgeting is usually referred to as performance-based budgeting.

Performance-based budgeting requires programs and agencies to work toward a larger purpose, while meeting specific goals and performance measures. To that end, programs and agencies usually have more flexibility in how allocated money is spent, and data is collected to determine whether performance goals are met.

There are many benefits to performance-based budgeting. PBB allows lawmakers to prioritize spending and outcomes, which can be especially useful during an economic downturn. Performance measures also require agencies and programs to collect data on the services they provide. Data collection can help ensure that programs are transparent and accountable, and it promotes efficiency.

Despite many theoretical benefits to performance-based budgeting, there are many practical challenges. One of the key elements of PBB is deciding

### Performance-based budgeting



**A POSITIVE:** Performance measures require agencies and programs to collect data on the services they provide. Data collection can help ensure that programs are transparent and accountable, and it promotes efficiency.



**A CHALLENGE:** One key element of PBB is deciding what the goals of programs should be. This can be difficult because there could be many, potentially contradictory, goals. For example, what is the primary goal of state parks—to increase the number of park visitors or protect the environment and wildlife?

### Did You Know?

- Thirty-one states use performance-based budgeting for at least a portion of higher education funding.
- Performance-based budgeting focuses more on outcomes than traditional budgeting.
- Data collection is key to successfully implementing performance-based budgeting.

National Conference  
of State Legislatures

Executive Director  
William T. Pound

Denver  
7700 East First Place  
Denver, Colorado 80230  
Phone (303) 364-7700  
[www.ncsl.org](http://www.ncsl.org)

Washington, D.C.  
444 North Capitol Street, NW, Suite 515  
Washington, D.C. 20001  
Phone (202) 624-5400

what the goals of programs should be. This seemingly straightforward task can be very difficult because there could be many, potentially contradictory, goals. For example, what is the primary goal of state parks? Is the goal to increase the number of park visitors? Or is the goal to protect the environment and wildlife? Should state parks be self-sustaining from entrance fees? Or should park visitation be free to ensure access to everyone? This is one example of the challenges lawmakers and program managers face when determining performance measures.

Challenges can also arise when deciding the consequences of not meeting goals. For example, if a social service program designed to decrease homelessness by 10 percent only reduces homelessness by 5 percent, should the program budget be decreased as a result? Or does failure to meet the goal mean the program needs more resources and the budget should be increased?

Finally, other practical challenges to performance-based budgeting include an inability to collect reliable program data, the resources and time necessary to analyze that data, and the short length of many legislative sessions.

Despite these challenges, many states have successfully incorporated performance-based budgeting into all, or parts, of their budgeting process.

## State Action

New Mexico historically has had one of the most robust performance-based budgeting systems. The state's 1978 Accountability in Government Act (AGA) established a framework for agencies to be evaluated based on their outcomes. To achieve this goal, the Legislative Finance Committee (LFC) has dedicated personnel that conduct program evaluations, and the LFC publishes "[report cards](#)" for agencies quarterly. The process is supported by both the legislative and executive branches, often a key component of success for PBB systems.

Mississippi has had a performance-based budgeting system since 1994. However, the process made it difficult for lawmakers to effectively use the data agencies provided to inform budget decisions. Agencies submitted data and strategic plans, but the data was not accompanied by analysis to provide context. Over the past few years, the Legislature has taken steps to strengthen PBB. The state developed a [statewide strategic plan](#), and directed agencies to align goals and performance measures with overall state goals. This process, along with improved technology, will allow lawmakers to better evaluate agency performance, and direct funding to programs that reflect the state's priorities.

New Mexico and Mississippi are examples of states that use performance-based budgeting broadly, but there are many states that use performance-based budgeting for smaller portions of their state budgets. In the last few years, several states have integrated PBB into higher education budgets. Traditionally, universities are rewarded based on student enrollment, rather than student achievement. Tennessee is a prominent example of a state that provides university funding based on student graduation rates instead of enrollment figures. Thirty-one other states also have a formula in place to allocate at least a portion of university funds based on student outcomes.

## NCSL Contact and Resource

Erica MacKellar  
(303) 856-1403

[NCSL's Performance-Based Funding for Higher Education](#)

## Additional Resources

[A Legislator's Guide to Revitalizing Performance Budgeting in Mississippi](#)

[Legislating for Results](#), New Mexico Legislative Finance Committee