Budgeting for Results Commission

August 19, 2011
11:30 AM - 1:00 PM
James R. Thompson Center, Suite 2-205, CMS Shared Conference Room
Office of Management and Budget, Stratton Building, Room 619

Attendees:

Commission Members Participating (Carbondale):

Lieutenant Governor Sheila Simon

Commission Members Participating (Chicago):

State Senator Dan Kotowski, Chairman, 33rd District
Carole Brown, Managing Director at Barclays Capital
Alderman Will Burns, 26th District
State Representative Will Davis, 30th District
State Representative Kent Gaffney, 52nd District
Larry Joseph, Director of Budget and Tax Policy for Voices of Illinois Children
Jim Lewis, Senior Program Officer at Chicago Community Trust
State Senator Tony Munoz, 1st District
Dr. Roger Myerson, Glen A. Lloyd Professor of Economics at the University of Chicago
Kevin Semlow, Director of Legislative Affairs at the Illinois Farm Bureau
Lyle Logan, Vice President at Northern Trust
Donna Sims Wilson, Executive Vice President at Castleoak Securities
Cristal Thomas, Deputy Governor at the Office of the Governor
John Kamis, Senior Advisor to the Governor at the Office of the Governor

Commission Members Participating (Springfield):

Steve Schnorf, Budget Consultant

Commission Members Participating (Telephone):

State Senator Pam Althoff, 32nd District

Commission Members not Participating:

John Bouman President of the Sargent Shriver National Center on Poverty Law
Alex Rorke, Co-Chair, Governor's Economic Recovery Commission

Participants not Commission Members (Chicago):

Austin Baidas, OMB
Chima Enyia, CMS
Scott Harper, OMB
Jack Kaplan, United Way
Baldemar Lopez, Office of the Governor
Julie O'Brien, OMB
Jennie Sutcliffe, Governor's Office
Ben Winick, Governor's Office
Delia Coleman, Donor's Forum

Participants not Commission Members (Springfield):

Bresha Brewer, Lieutenant Governor's Office
Kristen Clark, Governor's Office
Curt Clemons-Mosby, OMB
Dan Hohl, Senate President's Staff
Kelly Kraft, OMB
Nicole Saulsberry, Speaker Madigan's Staff
Leslie Sgro, OMB

Participants not Commission Members (Telephone):

Jim Foys
Scott Hurrelbrink

Meeting:

I. Welcome – Cristal Thomas, Deputy Director

Cristal Thomas called the meeting to order, thanked the Chair and Commission members, and provided a brief description of the report required of the Commission by November 1, 2011. The Commission's report to the General Assembly will encapsulate three core components: (1) recommendations on the Governor's proposed outcomes and goals; (2) allocations of a percentage of the FY 2012 budget to each recommended goal; and (3) reviews and recommendations on the termination of mandates. Participants in Carbondale, Chicago, and Springfield introduced themselves and indicated their expectations for the Commission. John Kamis noted the excused absences of Alex Rorke and John Bouman for the meeting. Cristal Thomas concluded the welcome by stating that the meeting would not solicit public comments, but rather, that the purpose of the meeting consisted of orienting the new Commissioners to the process of Budgeting for Results (BFR).

II. Budget Primer – Emily Monk, Governor's Office of Management and Budget

Emily Monk identified the Governor's six proposed outcomes: (1) education; (2) economic development; (3) public safety; (4) human services; (5) improvement of the quality of life; and (6) state government efficiency. She presented a primer documenting Illinois' recent efforts to implement BFR. The Governor's Office of Management and Budget (GOMB) initiated this process by asking state agencies two questions: (1) how the agency can meet the Governor's proposed outcomes; and (2) the cost(s) associated with achieving those outcomes. Each agency submitted a report detailing how they planned to satisfy the Governor's proposed outcomes. Agency reports varied from twenty to one hundred pages. An example of a report submitted to GOMB by the Department of Veterans' Affair appears in the primer. Thus, in taking the beginning steps to implement BFR, the Governor's Office gained three sets of data from state agencies: (1) agency priority outcomes and costs; (2) agency activities throughout the fiscal year; and (3) how agencies plan to achieve the Governor's proposed outcomes.

Emily Monk further compared the BFR process to the traditional process of state budgeting, whereby the Governor's introduced budget undergoes transformation by a variety of forces (such as the General Assembly) before its completion. This process was illustrated by the pie charts and tables in the primer. In contrast, the BFR process begins with revenue, defines the goals, allocates revenue to goals, measures performance, and finally evaluates outcomes.

Discussion:

Commission members began by discussing which funds the BFR Commission should examine. The debate vacillated between consideration of General Revenue Funds (GRF), tax expenditures, and Other State Funds (OSF). Some members believed that the Commission should examine all sources of state revenue. Chairman Kotowski stated that the choice of revenue proved an important issue for the Commission to consider. Corporate tax incentives constitute an additional source of revenue that remains vulnerable to misuse, as a recent situation with Sears illustrated. The Commission should consider the return on the investment and remember that corporate tax comprises a small percentage of state revenue. Discussion concluded by noting that BFR presents the Commission with a complex challenge and an evolving process that produces many long-term questions which will require answers over the next several years.

III. Budgeting for Results Background – Chairman Kotowski

Chairman Kotowski's presentation began by discussing the traditional budget process. He explained that the numbers from the previous year's budget provided the base from which to make the consecutive year's budget. This process places the responsibility on the politician to determine where to make hard cuts and where to raise the revenue to provide any increases in spending. In contrast, BFR provides no guarantee of funding based on historical levels. Instead, programs and agencies must demonstrate that they effectively produce desired outcomes for the citizens of Illinois through measurable results. Thus, unlike the traditional process of state budgeting, BFR allocates funding by results, not by previous levels.

The second portion of Chairman Kotowski's presentation described the three pieces of legislation passed in the previous general assembly to implement BFR. SB 3660 requires state agencies to submit outcomes and performance based measurements. SB 3708 provides taxpayers with access to quarterly budget statements. HB 5424 mandates the use of a realistic number when making revenue projections, meaning that proposed tax increases or other "anticipated" forms of revenue cannot receive inclusion in the budget.

Chairman Kotowski completed his presentation by delving into detail about the current BFR process. BFR tackles four central issues: (1) the amount of available revenue; (2) the outcomes desired by citizens; (3) the amount of revenue required to achieve each outcome; and (4) how the state can most effectively deliver the desired outcomes. BFR proves innovative because it begins with state revenues, not with the costs associated with state programs (or the traditional method of state budgeting). Additionally, BFR highly values the needs of citizens by soliciting their input when determining outcomes. The Governor's six proposed outcomes manifested as a result of citizen input. Part of the BFR Commission's duties consists of proposing recommendations about what percentage of the state budget to allocate to each outcome. This process will result in connecting a finite amount of money to each goal. Finally, both GOMB and the Appropriations Committees monitor performance and evaluate outcomes by asking agencies to explain roughly five components of their budgeting: (1) which prioritized budget outcome the agency intends to meet; (2) how the agency will achieve desired outcomes; (3) how much the agency services will cost; (4) how the agency will improve the services it provides; and (5) how the agency will measure the results.

Discussion:

Discussion centered on the topic of how the Commission will organize to analyze the BFR process and to develop recommendations for the November report. John Kamis explained that the Commission will divide into teams based on the three objectives of the November report: (1) recommendations on the Governor's proposed outcomes; (2) percentage allocations of the state budget to each outcome; and (3) reviews and proposed terminations of mandated state spending. Some Commission members believed that the Governor should more clearly set the tone for the Commission by defining BFR and by informing the Commission of how it should operate and how it should assist the state in spending its resources.

Discussion then moved to each of the three components of the Commission's report. Addressing the first component, John Kamis explained that Governor's six proposed outcomes constitute the state's core functions. The Commission decided to accept suggestions for outcomes and to potentially increase its subgoals. Some members raised concerns about the linear progression of the Commission's work from one objective of the November report to the next. The Commission decided that it could commence its work by assuming the Governor's six proposed outcomes, thereby allowing the additional two teams to commence their work on assigning percentages of the state budget to each goal, and reviewing mandated state spending, respectively. Any changes in proposed outcomes could receive consideration by the allocations group as the process moved forward. Commission members noted the truncated time frame posed a major challenge to compiling a report before the November deadline.

Next, the second objective of the November report, or the process of assigning percentages of the state budget to each outcome, received consideration. Chairman Kotowski clarified that BFR embodies performance-based budgeting, not zero-based budgeting. He stated that the Commission would not dismantle state agencies, but instead, it would work towards an outcome designed to better serve Illinois citizens. Commission members agreed that BFR differs from the traditional budget process in that it removes politics from the allocation of funds to state agencies and programs. They agreed that the state should leverage the resources it receives in order to align its spending with goals that satisfy citizens' priorities. Commission member Steve Schnorf expressed concern over BFR's reallocation of existing resources to outcomes and programs. He believed that this process creates "winners" and "losers" and that allocated funding will not reach the "losers." Other Commission members expressed the opinion that setting spending priorities constitutes a politicized process.

Many Commissioners questioned why the Commission failed to address all state revenues in its considerations. Specifically, the lack of the discussion about tax expenditures (which were identified as a political priority) concerned Commission members. Commission members expressed the need to examine the budget holistically, yet wanted to focus on producing a report by November 1, 2011. John Kamis reminded the Commission that BFR constitutes a challenging, complex process, and that Illinois has only begun its first year of implementation. Commission members identified simplification of the budget process as a long-term goal.

On the third topic of mandated spending, state mandates, unfunded federal mandates, and the process of eliminating mandates received consideration. GOMB identified 1700 state mandates, some of which provide core agency function. Commission members expressed concern over the Commission's lack of discussion about unfunded mandates imposed by the federal government. Alderman Burns informed the Commission that the General Assembly would need to make statutory changes if it intended to eliminate any mandates. He stated that BFR can provide an impetus to the General Assembly to make these changes.

IV. Budgeting for Results Update – John Kamis, Senior Advisor to the Governor

The first component of John Kamis' presentation outlined the statutory requirements of BFR. These include: (1) the development of a multi-year revenue forecast submitted by the Governor's Office; (2) the establishment of the Governor's priority outcomes; (3) the identification of goals by each state agency; (4) the submission of quarterly budget reports by the Governor's Office that detail actual versus budget results; and (5) the empowerment of Appropriations Committees to maintain or eliminate programs based on their ability to deliver goals and outcomes. Additionally, the BFR Commission must hold two public meetings annually and must deliver its first report to the GA by November 1, 2011. This report must include three objectives: (1) recommendations on the Governor's six proposed outcomes; (2) apportion a percentage of the state budget to each outcome; and (3) review state mandates and recommend mandates for termination.

The second portion of the presentation updated the Commission on Illinois' current progress in implementing BFR. Three major forms of progress include the creation of SMART, development of performance metrics, and the hiring of consultants. GOMB developed a Strategic Management Assessment Reporting Tool (SMART) to provide the Governor's Office with the capability of evaluating state agency programs. SMART's foundation rests on the federal OMB PART program. Additionally, GOMB collected data from state agencies to develop performance metrics. These metrics initially relied on metrics provided by state agencies, but GOMB plans to develop new performance metrics to evaluate the Governor's proposed outcomes and goals. GOMB will use these metrics to create a logic model for each state program. Lastly, the Governor's Office sent out an RFP and received eleven responses for consultants. Consultants would provide the Governor's Office with added advice and expertise, in addition to assisting state agencies with the transition to BFR.

The presentation concluded with challenges facing the Commission and FY 2013 BFR goals. Four main challenges exist: (1) the strict timeline for the November report; (2) funding for consultants in the FY 2012 budget; (3) agency and stakeholder engagement; and (4) the collection, development, and incorporation of GOMB metrics. FY 2013 goals include: (1) improved program evaluation (with SMART analysis); (2) identified progress by outcome; (3) increased data collected from state agencies; (4) enhanced tools for performance management; and (5) performance-based contracting.

Discussion:

Discussion began with John Kamis explaining that the Commission members will chose to participate on a team responsible for focusing on one of the three objectives of the November report. A Team Leader from GOMB will supervise each goal: (1) Outcomes: Ellen McCurdy; (2) Allocations: Julie O'Brien; and (3) Mandates: Curt Cleamons-Mosby. Commission members will rank their team interests in order of preference. Commission members then decided that all members will review the Governor's six proposed outcomes, including background information on the outcomes. Commission members will subsequently make suggestions on proposed outcomes by the next meeting. Commission members agreed that the Allocations Team could begin conducting business by assuming the Governor's six proposed outcomes. This allows the Allocations Team to meet prior to the Outcomes Team determining the final proposed outcomes. The Outcomes Team, the Allocations Team, and the Commission will make adjustments to the spending priorities as necessary.

Many Commission members raised concerns that the Commission should first agree on available revenue for FY 2012. The amount of available revenue results from subtracting required expenditures (such as pension costs) from the initial revenue in order to determine what the state actually has available to allocate to its prioritized outcomes. This process would base the Commission's work on a real revenue estimate. A concrete, accurate number would allow the Commission to assign a percentages (and even dollar amounts) of the state budget to outcomes and would add up to the total budget available after subtracting fixed costs. This process aligns with BFR, which first requires revenue, deducts fixed costs from revenue, determines priorities, and makes allocations to outcomes. Commission members expressed a desire for a range of revenue assumptions, coming from the Commission on Government Forecasting and Ability, the House of Representatives, the Senate, and the Governor. Commission members desired to make their recommendations based on a range of revenues. Both Julie O'Brien and Steve Schnorf explained that producing a revenue forecast for Illinois proves difficult, and that the amount of debt Illinois owes remains the only exact number known to GOMB.

Next Meeting:

The Commission's next meeting will occur sometime in September. Jennie Sutcliffe will inform members of the final date for the next meeting. The Outcomes Team (or all Commission members) will meet and propose their recommendations first, while Commission members will spread themselves between the Allocations and Mandates Teams.