**Budgeting for Results Commission**

**February 17, 2012**

**1:00 – 3:00 PM**

**Springfield: Room 205 State House/ Chicago: Room 16-100 JRTC**

Opening Remarks: Senator Kotowski welcomed Senator Steans as the newest member of the Commission. Senator Steans replaces Commission member Senator Antonio Munoz.

1. **Approval of January Minutes**

Commissioners unanimously approved the minutes without modification.

1. **Presentation by Gary VanLandingham, Pew Center on the States**
2. **Results First**

Opening Remarks: Results First directs funding and policy towards programs that produce results for citizens. It will support the work of Budgeting for Results.

Illinois is not alone in facing a tough budget situation. States have cumulatively cut half of a trillion dollars from their budgets. Costs for programs are rising faster than revenues in many states. For example, in Florida, general funds have decreased while Medicaid and Education costs have increased. The national economy is turning around but revenues are not on par with the costs of programs. Adding to these pressures, the federal government faces uncertainty in tackling the national budget deficit. Many expect the federal government to solve its budget crisis by reducing the amount of funding given to states. Consequently, tough choices will become the new norm for states.

States need to triage their spending because their resources cannot pay for their operations. This presents states with a challenge because many state legislatures lack information about what their programs are doing, how well their activities are performing, and how their programs compare with one another. State budget systems were not originally designed to address the problems presently facing them. Traditionally, budgets were incremental and based on two key assumptions: (1) all programs work equally well; and (2) states have the same amount of funding from year to year so the state should only debate budget changes from one year to the next year. The first assumption proves incorrect because some programs are more effective than others, and the second assumption is wrong because states have less revenue than they did in the past.

State systems confront several key challenges in triaging their spending. First, they need to determine the strategic goals of the State. Second, states need to develop performance metrics to determine how to measure the activities of state agencies, and then they will need to collect new data from the agencies. This will help States create user-friendly reporting systems. One of the challenges that remains most important to the success of performance-based budgeting consists of exercising strong and consistent leadership over time. Linking performance outcomes to the budget can be difficult. Often, more information leads to more questions than answers. Additionally, once performance measures are developed, the manner in which the information is reported to the legislature proves critical. Illinois will need to determine how it wants to package information in a user-friendly way and to various audiences of legislators, staff, and members of the public. Software makes data presentation easier than in the past. Graphics and trend lines also make this information easy to digest.

Results First will partner with Budgeting for Results to examine programs with a set of common criteria. Results First is a software program that provides a cost-benefit analysis of agency activities. It is difficult to compare programs that use different cost-benefit techniques. The Results First model avoids this problem by using a common metric to examine all programs with the same methodology and same assumptions. Results First employs cost-benefit analysis to analyze key state policy areas. It uses the following 3-step approach:

1. It aggregates the best national research to identify evidence-based programs that are effective;
2. It estimates these programs’ impact if they were implemented in Illinois, based on the State’s population characteristics; and
3. It uses Illinois’ fiscal data to estimate the total costs and benefits for each program.

This approach produces a predicted State return on investment for each program. Results First identifies the return on investment by finding alternate ways to achieve a goal and allows legislators to pick the best programs (based on return on investment). For example, Washington has a “Functional Family Therapy” Program. Results First calculates the benefits produced by this program for families: reduced crime ($32,000 per family); increased high school graduation ($6,000 per family); and reduced health care costs ($300 per family). The benefits per dollar of cost for the program are $12.00. By providing a return on investment calculation, Results First helps legislators look at the long-term policy consequences of their decisions. In another example of a Results First analysis of a Washington State program (the “Nurse Family Partnership”), the benefits per family included: reduced child abuse and neglect ($1,000); educational gains ($20,000); reduced crime ($6,000); health care and mental health ($5,000); and a surprising increase of K-12 costs (-$2,000). The benefits per dollar of cost were $3.00.

Results First has the potential to produce a consumer’s guide to program investment and funding in Illinois. It ranks programs from the most to the least successful. For instance, an incredibly popular, low-cost program in the Washington State legislature was “Scared Straight,” a program in which former gang members spoke to school children about the dangers of gang participation and violence. In the Results First ranking of Criminal Justice Programs, it was revealed that Scared Straight had a negative cost-to-benefit ratio. Indeed, Scared Straight was found to glorify criminal activity and incentivize children to engage in criminal offenses. The intentions of the program did not align with its outcomes. Results First helps legislators see that some programs are more effective than others. Additionally, it helps them determine which programs prove better for the State.

Importantly, the Criminal Justice policy area in the Results First model is “the most built-out area” of the nine policy areas included in the model. The policy areas of the model are: (1) Criminal Justice; (2) K-12 Education; (3) Child Welfare; (4) Substance Abuse; (5) Mental Health; (6) Public Assistance; (7) Housing; (8) Teen Birth Prevention; and (9) Public Health. The Pew Center is working with Washington to develop an expanded version of the model, but the other eight policy areas will not be as built out as the Criminal Justice policy area.

**Discussion:**

* Accuracy of Results: The first question from Commissioners centered on how the Pew Center could determine the accuracy of the model’s results. This model was developed by the Washington State Institute for Public Policy and has been successfully used for the past 15 years. The Washington State legislature used this model to save $1.3 billion per biennium and reduce its crime rate. It has simultaneously lowered the cost of juvenile justice programs and produced increased outcomes. Indeed, Washington’s crime rate fell faster than the national average from 1990 to 2006.

However, it remains important for the State to pay attention to how its programs are managed. When providers implement programs as designed, they produce results. When providers are not implementing programs as intended, then the programs perform poorly. This is why Washington developed quality assurance program monitoring.

* Return on Investment Comparisons across Policy Areas: Commissioners then questioned whether the Results First model could compare the return on investment for things that are not in a specific program. The model looks at funding in programs that have been evaluated and can predict how they will work when they are properly implemented. It is difficult to use the Results First model for Administrative Services. Additionally, the model does not look at everything. It needs good evaluation data in order to work effectively.
* Breadth of the Model: The Commission then inquired how much of the Washington budget the model can analyze. The model currently cannot measure Medicaid (which is a huge portion of the budget). However, in determining the future of the model, its designers need to look at the available research on programs and where funding is going. Additionally, some Commissioners questioned why workforce and economic development were missing from the policy areas of the model. It was established that the model has not been developed to encompass those areas yet. The Pew Center is working to build out the model to encompass these policy areas. Aging and workforce development are great policy areas, but it will take time to expand the model.
* Data Contained within the Model: Commissioners questioned whether Results First infers the performance of programs from literature as opposed to the actual observation of programs. Phase I of the model uses literature to evaluate programs. Phase II uses State-specific evaluation data to supplement national literature. Ultimately, the model will use national literature to look at programs that states do not have data about and it will build-in State-specific information in the model.

The Pew Center provided the Results First model to ICJIA and ISPAC. The Pew Center is optimistic that the model will be operating in Illinois by mid-summer. Illinois needs to decide if it wants to build-out the model to encompass other policy areas. The Pew Center can build-out the model by mid-summer. The Pew Center is working with twelve states to create a learning community that will share any innovations on the Results First model. Additionally, the Pew Center is working with founders to update and expand the model.

* Methods of Measuring Programs: Some Commissioners noted that the biggest measurements came from assumptions. They questioned whether the Results First model uses follow-up surveys. Additionally, they wanted to know where the best money would be spent on measurements. The Pew Center stated that Washington has engaged in “good research,” whereby individuals have been followed for 40 years after participating in programs. A common technique in generating data for Results First consists of long-term studies of a program’s participants. Linking different research is another option for collecting measurements. The BFR Commission can leverage research and predict the long-term impact of programs by linking the evaluation studies of different programs.
* Modeling State-Specific Programs: Other Commissioners noted that no other states have a pre-school program like Illinois’ large-scale pre-school program. They wondered how Results First would model state-specific programs that have no national comparison. The challenge in Results First is developing a portrait of the programs that the State is funding, with descriptions of those programs, and then comparing those programs to other programs that states currently implement. Most states have similar programs across the country. Illinois will need to determine what information is available for its unique programs and how it can compare those programs with the programs offered by other states. In this instance, the model will need to start with Illinois-specific research. The model will have to incorporate Illinois-specific research into its design (assuming that the research already exists).
* Infrastructure Implementation Costs: Commissioners inquired how much it would cost the State to implement the Results First model in agencies that lack the capacity to perform cost analyses. Some national research has already been conducted on state programs. If the model does not cover the specific policy area, then Illinois will have to develop the data for that policy area. Illinois could implement the model in the Criminal Justice program area of the budget (as there is already robust national research associated with this policy area). The cost of implementing the infrastructure necessary for Results First depends on: the specific policy area, what research has been gathered nationally, and what data has been developed at the state level. These factors present the state with several resource considerations in implementing Results First.
* Comparisons across Policy Areas: Commissioners sought confirmation that the model compares programs within a single policy area with similar policy areas and that the model does not compare different programs with different policy goals. It was confirmed that policymakers have to make policy choices based on values. Models help determine the best investments, but they do not help legislators make policy choices. The Results First model does not take the politics out of the budget process.
* Immaterial Outcomes: Commissioners noted that some outcomes (or benefits) cannot be monetized. For example, “Quality of Life” is captured in national data, but it is not a monetary benefit. It was established that the Results First model cannot monetize everything.

1. **Performance-Based Budgeting Best Practices and Challenges**

This presentation identified four major challenges that prevented other states from successfully implementing Results First Budgeting (or BFR by a different name). First, states began looking at Results First Budgeting in the early 1990s. They looked at this new form of budgeting in response to the 1991/1992 recession, but because the rest of the 1990s was very profitable for states, the interest in a better way to spend fell by the wayside. The imperative to do something different proves crucial to the success of BFR. Initiatives to implement BFR in the 1990s were hurt by 8-9% revenue growth throughout the decade. States must realize that these levels of revenue growth will not reoccur. The constrained economic situation will force states to look at BFR.

Second, states tried to move too quickly in implementing BFR. They had unrealistic timeframes. No one asked hard questions or demanded answers to hard questions. As a result, they did not obtain information that was useful to policymakers. States need to implement two practices in response to this failure: (1) think strategically about goals; and (2) think about what information agencies should report. Logic modeling will prove critical in this respect. These two practices are crucial for the success of BFR.

Third, a high level leadership commitment remains important to BFR. The legislature has to maintain a commitment year after year to BFR enforcement. It takes time to collect data and to determine performance metrics. Additionally, determining the costs of services is not easy at the government level (because governments usually do not track costs at the unit level). It takes time to determine what programs cost.

Lastly, many states utilized ineffective methods of communicating results to policymakers. Many states struggle with making information readily usable. In Connecticut, agencies submit information and staff presents a two-page summary of every program to the legislature. Additionally, they use graphics and trend lines to communicate information about state programs. The leadership commitment is crucial to BFR success. A small group has to consistently enforce BFR across agencies by communicating instructions, reviewing, and approving agencies.

Discussion:

* BFR Applicability to All Agencies: Commissioners noted that Iowa used performance-based budgeting in charter agencies. Washington State seeks to apply BFR to its entire budget. Commissioners questioned whether any states have successfully applied BFR to all of their agencies. The Pew Center confirmed that no state has applied BFR to all of their agencies. Some of the problem in seeking to apply BFR to all agencies lies in the separation of powers. Agencies will seek to shift money away from things that seem less important. However, the less important programs have statutory mandates and are important to some communities. Shifting changes from elected leaders to the bureaucracy needs to be approved by the legislature. Furthermore, the legislature has to repeal statutes based on shifts in program funding.
* Implementation and Administrative Costs of the Results First Model: Commissioners recognized that improved performance-based budgeting requires a set-up cost and expenses for administrative management. They asked the Pew Center to identify, as a percentage of the budget, the set-up and administrative costs of Results First. The Pew Center stated that a couple of people are needed part-time to implement the model for a few months. Performance-based budgeting depends on the data agencies have and what it will take to obtain better data. Illinois needs to consider the costs of not implementing performance-based budgeting…Commissioners restated that they wanted to know how much more Illinois will need to spend in funding on the infrastructure of the Results First model.
* Illinois’ Current IT Investments and Results First: Some members of the general public pointed out that HFS is developing IT. They inquired whether the HFS IT program can give Illinois data for the Results First model. The Pew Center confirmed that it is cheaper to build something into the system rather than to retroactively put it into the system. Illinois needs to think about this while the HFS IT system is being developed. Additionally, Illinois will need to invest in quality assurance programs, in addition to agency capacity.
* Results First Costs and Coverage: Commissioners questioned how much Washington spends on the Results First Program. Washington spends about $1.5 million annually and employs ten full-time employees for the program. Commissioners then questioned what percentage of a budget the Results First model covers. The Pew Center answered that the model only covers a minority of the budget. Indeed, the model only covers about 5% of the budget. However, the Pew Center plans to work with Washington State to expand the model. Commissioners responded by inquiring again about the infrastructure costs of the Results First model in terms of training employees and capturing data. The Pew Center explained that Washington’s $1.5 million cost does not include quality assurance measures. Also, Washington has been investing in metrics for a long time, and those costs are likely not reflected in the $1.5 million price tag for Results First.
* Results First Support Staff: Commissioners concluded their discussion with questions about support staff for Results First. They inquired if Washington State provides support to the programs that are collecting data. The Pew Center replied that the support staff unit is accessible to both policy makers and the Governor’s Office. Additionally, the support staff has a reputation for producing good data. The Results First model has to be user-friendly and accessible. Commissioners agreed that program evaluation staff has to be located in the agencies in order to implement the Results First model.

Gary will return to Illinois on February 27th to speak to the Donor’s Forum and the Spending Reform Commission. The Commission is encouraged to invite legislators to these meetings.

1. **Budgeting for Results Implementation**
2. **General Comments on the Joint Appropriations Committee Hearing and the FY 13 Budget**

Commissioners began by discussing the Joint Appropriations Committee Hearing in the Senate. They agreed that Steve Schnorf did an excellent job presenting to the Committee and referenced a news article as evidence of his superior testimony. Steve Schnorf and Roger Myerson gave open and honest feedback on the BFR Commission. It is important to have members of the Commission speak about BFR because it lends credence to this effort. Commissioners explained that some Appropriations Committee members confuse budget cuts with BFR, and this creates a communication challenge for the Commission.

Additionally, Commissioners recognized that the Governor will give his Budget Address on Wednesday, February 22nd. John Kamis encouraged Commissioners to attend the Budget Address and the budget briefings. Importantly, the Governor’s budget will be based on real revenues. Previously, the Governor’s budget was based on imaginary revenues. COGFA was not prepared for a single revenue estimate this year. However, the two revenue numbers will likely be very similar. The Commission could consider changing COGFA’s statute mandating when it releases its revenue estimate.

Lastly, the Governor’s Office has developed a list of potential BFR topics for the November report. Commissioners should review this list and add any additional topics that they would like the group to consider for the next report.

1. **John Kamis’ Presentation Recap**

Budgeting for Results starts with available revenues, determines the State’s priorities, and directs available resources to the programs that best address the needs of Illinois citizens. Budgeting for Results is a multi-year process in which the state must follow a process of introducing, indentifying, measuring, and evaluating. Illinois has engaged in the “Introduction” phase of implementing BFR. This means that Illinois has: introduced BFR, developed goals for each outcome, created a 7th outcome (healthcare), begun program identification, and will present an FY 13 introduced budget by program. In the “Identification” phase of BFR implementation, Illinois will begin using a new performance reporting system, develop logic models for programs, and begin the development of outcome metrics. In FY 13 and beyond, Illinois will enter into the “Measure” and “Evaluate” phases, meaning that it will: begin collecting outcome data in a performance reporting system, report outcome data, and institute ongoing performance management with all agencies. In the FY 13 Budget Book, Illinois will identify programs, attach them to goals, and show how they lead to outcomes.

BFR has made considerable progress in FY 12 and has established goals for FY 13, but it faces challenges in successful implementation. In FY 12, Illinois developed a strategic plan, developed initial goals for each outcome area, conducted initial program identification, and has begun the process of developing logic models. FY 13 goals include: the development of an enhanced internal performance reporting system, creation of a public-facing performance website, engagement in strategy mapping to refine goals, determination of performance metrics and continuing data collection, and implementation of performance management through the use of the Strategic Management Accountability Reporting Tool (SMART). Illinois faces several challenges in BFR implementation, including: capacity; timeline and expectations; collection, development, and incorporation of metrics; agency and stakeholder engagement; and change management.

Illinois will need the following to successfully implement BFR: (1) increased capacity; (2) professional development in performance management; and (3) IT infrastructure and expertise. Illinois is coordinating with the Pew Center on the State, Government Finance Officers Association, and the foundation community to increase its capacity.

1. **Conclusion**

The meeting concluded with general comments about stakeholder engagement. The BFR subcommittee of the Human Services Commission will help providers “tie-into” the BFR Commission’s efforts. The Commission has engaged in tremendous outreach to providers, despite only holding two public hearings. The Commission will continue to go above and beyond what statute requires in its efforts to work with providers on BFR implementation.