AN UPDATE ON PERFORMANCE BUDGETING IN SOUTH DAKOTA GOVERNMENT

Introduction

Performance-based budgeting is a familiar topic in industry as well as government. At a previous Governor's request the Legislature mandated that all branches of state government implement "performance budgeting" (*1994 Session Laws, Chapter 22*). The Legislature repealed those mandates five years later (*1999 Session Laws, Chapter 21*) at the next Governor's request. Despite the initial mandates, only the Board of Regents had adopted anything resembling a performance budgeting system.

What is Performance Budgeting?

Performance-based budgeting (PBB) is a management idea that ties allocation of funding, such as state general fund dollars for programs, to objective measures of outcomes or results of those programs. (*See* Issue Memorandum #94-5 for a discussion of PBB and another management idea, Total Quality Management.) If a program is judged successful or attains its goals established at the outset of the funding, the funding can be reinstated for another cycle, continuing the program. Theoretically, if a program fails to meet its goals, the funding can be reduced or eliminated, thus ending the program. Also theoretically, however, if a program is successful, funding could be increased to attain even greater success.

Many states have implemented PBB to various degrees of visibility. Some have undertaken major legislative efforts to target societal reforms and enact the related performance measures into law, then followed those efforts with in-depth evaluations and assessments. States have addressed such goals as improving high school graduation rates or reducing infant mortality. For example, Oregon several years ago adopted statutory "Benchmarks" as the societal goals they wanted to see accomplished and then assessed progress toward those goals with PBB. Minnesota also has enacted into law performance goals for programs funded in that state. On the other extreme, Hawaii has been using PBB "for years," according to *GOVERNING* magazine, but the legislature "apparently hadn't noticed."[1] Hawaii's legislature in 1998 mandated a task force study to determine whether they should start PBB.

The South Dakota Legislature, at the request of Governor Walter Miller, mandated PBB for all of state government (*1994 Session Laws, Chapter 22*). According to law, the Governor was to "implement a performance budgeting system that incorporates strategic planning and performance measurements for all programs of state government including the Board of Regents and elected officials' offices." He was to have a PBB system in place for the Fiscal Year (FY) 1997 Budget delivered to the 1996 Legislature. The Legislature's Executive Board was to implement PBB for all of its programs, likewise the Unified Judicial System.

None of this happened, however. Aside from the Board of Regents[2], no entity of state government complied with that law. The Auditor General asked more than once whether the Governor and the Bureau of Finance and Management were going to comply with the law. According to *GOVERNING*, the Commissioner of the Bureau of Finance and Management said it was "something he'll consider for some agencies in the 2001 budget."[3]

In 1999, at Governor William Janklow's request, the Legislature repealed the 1994 mandate (*1999 Session Laws, Chapter 21*). The Commissioner testified that no agency had yet implemented PBB, and the administration was tired of justifying that to inquiring parties such as *GOVERNING* magazine.

Performance Budgeting Controversy

Like other management ideas, PBB has its detractors. According to *GOVERNING* magazine, no "state or city has been able to perfect its use of [PBB]—in fact, nobody is even close."[4] Thus, it would be unlikely, given that statement, that PBB has been successful anywhere in state-supported higher education. Yet, *THE CHRONICLE OF HIGHER EDUCATION* reports that almost "every state may soon link some spending on public colleges to institutional performance."[5] Thus, the Board of Regents (BoR) is not alone in its implementation of PBB. Their system is too new to have any sort of track record yet, however, so its worth cannot be determined.

While the Legislature has implicitly agreed to what the BoR is doing, it also went along with the Governor's request that the rest of state government not bother with PBB. While this may appear on the surface to be unfair, the BoR requested that it be able to implement its own system in lieu of continuing its former enrollment-driven Higher Education Funding Formula. With regard to the Legislature mandating PBB for all of state government, both the mandate and the repeal were Governors' requests. There was no great amount of testimony or deliberation entertained in either the mandate of PBB or its repeal.

At Governor Janklow's request, the Legislature repealed the mandated implementation of PBB before it was even begun by non-BoR agencies. This contrasts with Governor Miller's implementation of Total Quality Management (TQM) through budget transfers of nearly a half million dollars. Presumably no expense was incurred with the lack of implementation of PBB. As the TQM idea was implemented in a costly, though short-lived exercise, presumably there should have been some savings as a result.[6]

As mentioned above, there was very little public discussion in South Dakota, particularly in the legislative forum, of the merits of any management idea. In fact, most of the discussion at the time of Governor Janklow's recommended repeal of the PBB mandates concerned his idea that it be a part of the General Appropriation Act for FY 2000.[7]

Discussion of PBB in other states, rightly or wrongly, has prominently featured the role of the Legislature in budgetary control. As previously mentioned in this paper, strict application of PBB could actually result in justification for increases in program funding. “[There] are squads of government officials who fight [PBB] like they would an outbreak of anthrax. Some of their arguments don’t hold up to critical analysis; they are attempts to preserve the myth that legislators can reduce government spending exclusively through cuts in waste and inefficiency.”[8]

Conclusion

Traditionally, legislators do not like to increase funding for programs, especially if they feel it is because they have no choice. They would much rather seek the opportunity to report to constituents that they had reduced the size of government by cutting funding. Of course, that mentality has trouble with increasing funding for wide ranges of programs, even those that PBB may show to be successful and hence deserving of increases.

This issue memorandum was written by Mark Zickrick, Principal Fiscal Analyst for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.

Endnotes

[1]Barrett, Katherine and Richard Greene, “Performance Phobia,” *GOVERNING* (May 1999), p. 52.

[2]The Board of Regents has adopted a “Funding Framework” policy wherein five percent of its universities’ funds are reserved for incentive funding based upon attainment of Board-established goals. Individual goals are set by the universities themselves but must meet Board approval. The Board then distributes the incentive funds to the universities that meet their goals.

[3]Barrett and Greene, “Grading the States,” *GOVERNING* (February 1999), p. 78.

[4]Barrett and Greene, May 1999.

[5]Schmidt, Peter, “States Increasingly Link Budgets to Performance,” *THE CHRONICLE OF HIGHER EDUCATION* (July 24, 1998), p. A26.

[6]No final report or study of South Dakota’s massive TQM effort or its results was ever written. (*See* Issue Memorandum #94-5.)

[7]During final committee deliberations on the General Appropriation Bill, the Commissioner of the Bureau of Finance and Management presented to the Appropriations Committee a request that the bill be amended to include repeal of the PBB mandates §§ 4-7-35 to 38, inclusive. The committee defeated that proposal, mostly based upon a very recent state Supreme Court decision (*South Dakota Education Association, et. al v. Barnett*) concerning the contents of the General Appropriation Act. The Senate found a vehicle for repealing the PBB mandates by amending House Bill 1004, a bill that originally dealt with increasing vehicle license fees and the excise tax on motor fuels.

[8]Barrett and Greene, May 1999.