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BUDGETING FOR RESULTS

Highlights of the BFR Commission Report

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"Budgeting for Results" is designed to improve the state budget process in Illinois by establishing priorities, meeting performance-based goals, and ensuring that available resources are used effectively. Recently enacted provisions of the State Budget Law stipulate that beginning with fiscal year 2013, both the Governor and the General Assembly "must adhere to a method of budgeting where each priority must be justified each year according to merit rather than according to the amount appropriated for the preceding year" (15 ILCS 20/50-5).

Last summer, pursuant to a related section of the statute (15 ILCS 20/50-25), Governor Quinn appointed a Budgeting for Results Commission, which was charged with making recommendations for improving state budget process and ensuring that state resources are spent on those programs that are most effective at delivering results. The BFR Commission is chaired by Senator Dan Kotowski, who co-sponsored the enabling legislation. The Commission includes four other members of the General Assembly, the Lieutenant Governor, and representatives from the business community, the foundation community, advocacy groups, and academia. On November 1, the Commission submitted its first report to the Governor and the General Assembly.

The Commission's major findings and recommendations provide a framework for reforming the state budget process, but numerous challenges remain. As the Budgeting for Results process moves forward, the Governor's Office of Management and Budget, together with other agencies in the executive branch, must continue to develop and implement strategies for setting goals, allocating resources, and evaluating programs. Moreover, both the executive and legislative branches must improve transparency and accountability in the budgetary process. Policymakers, community-based service providers, and the broader public all have a stake in focusing on the results of budget decisions, including the impact on children, families, and communities across Illinois.

Statewide Priorities

The BFR statute stipulates that the Governor should establish "a reasonable number of annually defined statewide goals defining state priorities for the budget." The main purpose of the Commission is to advise the Governor in setting goals and priorities. As part of his proposed FY 2012 budget, the Governor identified six priority areas representing the major functions and responsibilities of state government: education, economic development, public safety, human services, quality of life, and government services. The BFR Commission has determined that health care

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should be designated as a seventh priority area — distinct from the rest of human services. Accordingly, *the BFR Report proposes the following statewide prioritized goals (or results)*:

- Government services: Efficiency, effectiveness, and transparency in state government.
- Education: Quality education system that provides equal opportunity for growth for all students.
- Economic development: Sufficient opportunities for residents to achieve economic well-being.
- Public safety: Adequate mechanisms and infrastructure to protect lives, safety, and property.
- Health care: Access to quality affordable health care.
- Human services: Assurance that all residents — particularly children, the elderly, and disabled — are able to experience a quality life.
- Quality of life: Quality of cultural and environmental resources for state residents and visitors.

Budget Allocations

The BFR statute specifies that the Commission's report "shall propose a percentage of the total budget to be assigned to each proposed outcome and goal." *The Commission determined that for the FY 2013 budget, it is premature to recommend specific allocations until better performance data about state spending and programs are collected and analyzed.*

The BFR Report does, however, include a series of recommendations regarding the process for determining budget allocations:

- Allocations proposed by both chambers of the General Assembly should be based on a common set of General Funds revenue estimates.
- To the extent possible, decisions regarding allocation of available revenue should distinguish between state resources and federal resources and should also consider state resources outside the General Funds.
- The state should develop a plan to fully fund its Medicaid liability each fiscal year. Growth rates for Medicaid should be analyzed separately for expenditures from the General Revenue Fund and expenditures from other state and federal funds.
- For each of the five state-funded retirement systems, the state's pension contributions should be calculated and reported for both the "normal cost" and "payments toward unfunded liability."
- Improved transparency in the budgeting process should be a core goal of Budgeting for Results.
- The Governor's annual budget book should present clear and accessible summary data on revenues and expenditures. The introduced budget should also include itemized data on transfers into and transfers out of the General Funds, as well as itemized data on federal revenue sources for the General Funds.
- All appropriations bills considered or approved by the General Assembly should include summary data on amounts appropriated by agency and fund.

Mandated Expenditures

The BFR statute calls for the Commission to "review existing mandated expenditures." The Commission recognizes that many of these mandates serve important and legitimate purposes:

> "Nonetheless, mandated expenditures must be periodically reviewed to determine whether they continue to fill the original purpose intended, whether that purpose is consistent with the overall goals of the state, and whether the state can afford them in light of other priorities and obligations."

The Commission also recommends an evaluation of statutory transfers from the General Funds to other state funds:

> "In most instances, funding through statutory transfers should be subject to the annual appropriations process. Exceptions would include revenue-sharing with units of local government, transfers to debt service funds, transfers to revolving funds, and cash-flow transfers."

Evaluation of mandated expenditures and statutory transfers will be part of the BFR Commission's ongoing work. Before proposing the elimination of any particular mandates, the Commission will establish a sub-committee to undertake an analysis of mandated expenditures; request that each state agency provide a list of mandates that are considered unduly burdensome or unnecessary; and offer an opportunity for outside groups to make suggestions regarding mandated expenditures.

Implementation Issues

The Report acknowledges the challenges of implementing Budgeting for Results. The development of performance measures for specific programs is a complex task, especially for human service programs that may require long-term follow-up to assess results. The Report also notes that the BFR process should consider that producing outcomes may be affected by funding cuts or by delayed payments to providers.

The Commission's report incorporates important recommendations regarding implementation based on testimony at public hearings convened in Chicago and Springfield in October:

- "Engage and communicate with relevant stakeholders throughout the duration of the Budgeting for Results process."
- "Strive for increased intra-agency and inter-agency cooperation as a means to eliminate redundancies in provider applications, monitoring, and other relevant paperwork."
- "Work with agencies to make appropriate plans to adopt new budgeting procedures and communicate these to outside stakeholders."
- "Increase access to the appropriate digital and technological infrastructure needed by providers to monitor and quantify results."
- "Consult with providers about existing performance metrics found within their infrastructure. Many organizations evaluate outcomes for their own use and for foundations and endowments that support them."
- "Remain cognizant of the potential unintended consequences of Budgeting for Results. As funding becomes more closely linked to organizational abilities to demonstrate outcomes, a vacuum may be created in which providers may target easier-to-serve populations to achieve more measurable outcomes, while the most challenging client populations are not served."

• “Account for the challenges in measuring outcomes. There are inherent difficulties in attempting to measure the absence of a negative outcome and in quantifying results for prevention programs.”

Next Steps

The BFR Commission will continue to meet throughout the year and will be paying close attention to the formation of the Governor's proposed budget, the legislative appropriations process, and the implementation of Budgeting for Results. The Commission’s ongoing agenda will include reviewing mandated expenditures and statutory transfers, considering additional proposals for improving budget transparency, and examining ways to address the state’s outstanding accumulated liabilities within the context of Budgeting for Results. The Commission may issue addenda to its report throughout the year as it receives additional testimony and input.

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative (BTPI) at Voices for Illinois Children provides timely, credible, and accessible information and analysis on fiscal issues that affect children, families, and communities in Illinois. BTPI is a member of the State Fiscal Analysis Initiative (SFAI), a network of nonprofit organizations in more than 35 states. SFAI is coordinated by the Center on Budget and Policy Priorities, a Washington, D.C.-based research organization and strategic policy institute that works on a range of federal and state issues.

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