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FROM: Brett Wilcox

TO: Theresa McHugh
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Budget & Management

SUBJECT: A New Priorities and Accountability System for Oregon's Budget Process

Thank you for inviting me to weigh-in on the critically important issue of budgeting for Oregon state government. Oregon's continuing budget crunch creates both a very big problem—how to meet essential needs with limited resources—and a huge opportunity—to put the various tools the state has been developing into a new, sustainable system for budget and management.

The key to solving both is to act now to put the essential steps in place for the FY2005-07 budget process. This requires starting both at the top—to define the priorities and goals of Oregon state government—and the bottom—to develop essential detailed budget and performance data. With concerted effort, these two efforts will meet in a consensus budget and a system to manage for continuously improving results.

Start at the Top With Priorities and Goals

Before the agency budget process begins in earnest, a publicly accessible, multi-stakeholder planning process should occur that establishes state government-wide priorities and goals. The process should establish the core functions of state government and, generally, allocate the projected resources across the different functions. Both the Washington State Priorities of Government process and the Oregon Business Council's proposed Re-Engineering Initiative would provide a strong structure for doing this.

Start at the Bottom on the Building Blocks for Budget and Management

Oregon has a strong budget and accounting system. It is also in the beginning stages of having a good system of performance measurements. What state government lacks is a clear link between its budget and the results expected for the dollars expended.

The single most important change that is needed is to tie each agency's budget to its performance measures. As the Governor suggested in his remarks to the Progress Board in January, this would best be done at the program level. Each department should specify each program's primary goal and the method for measuring progress toward that goal. In the budget presentation, the goal, performance measures, targets, related benchmarks and program cost would be presented in a single matrix. Program expenditures should total to the department's overall expenditures.

Performance measures provide the best gauge of the results Oregonians are purchasing for the program expenditure. Taken together, they define the agency's mission. It would be up to each agency to determine how to get the results defined through its performance measurements through the best mix of internal, external and other resources. You can get an idea of the *effectiveness* of the expenditure by looking at the absolute level of the change in results achieved through its program. You also can get an idea of the *efficiency* of the program by dividing the change in performance by total dollars and *productivity* by dividing the change in performance by personnel costs.

Meet in the Middle with a Consensus Budget

DAS will need to craft a process that allows the priority and goal setting exercise and the agency building block exercise to reconcile. From my outsider perspective, I believe this could best occur during the time period between receiving agency request budgets and creating the Governor's recommended budget. As I understand the process today, it is done on an agency-by-agency basis. Under this new model, choices would be directed by the priorities and goals of the high-level process, again, in a very transparent manner. Agencies would be informed early-on that their budgets will be partially judged by the quality and relevance of their performance measure linkages to budget requests.

Create a Long-term Perspective

Another key missing element of the state budgeting process is long-term revenue and expenditure estimates. I fully support the Oregon Business Council's proposal to develop a systematic process for projecting revenues and expenditures out 10 years. With these estimates in front of us, we can identify "reinvention targets" in areas such as K-12 education, corrections or higher education where we take a hard look at what service delivery and financing model will best achieve the results we are seeking. The long-term forecast will also help us to assess our total revenue needs as we analyze tax overhaul proposals.

Next Steps

I recognize that the current performance measure system is fragile and could be derailed with too many changes too soon. Agencies were not asked to develop program-by-program measures in FY2003-05. Nor was there an expectation that measures would be tied directly to budget. And the Legislature is expecting to see performance results from the existing measures during the next Ways & Means budget cycle.

That said, I still believe that a meaningful process can be implemented for FY2005-07. With strong support from the Governor, a full-fledged priority/goal setting process involving the twenty largest agencies (by spending level) could be undertaken. The "performance building blocks" used in the process would be less than perfect but far better than anything we have now. I was quite heartened by the amount of progress the participating agencies made during our child well-being and economic development case studies that were done for the Advisory Committee on Government Performance and Accountability. A less ambitious approach would be to build on those efforts, while including public safety and K-12.