Peter G. Peterson Foundation
Our America. Our Future.

THE PEW CHARITABLE TRUSTS

THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Performance Budgeting

The Peterson-Pew Commission on Budget Reform

DECEMBER 13, 2011

Peterson-Pew Commission on Budget Reform

To modernize an outdated congressional budget process in light of the daunting economic challenges facing the nation, the Peter G. Peterson Foundation, The Pew Charitable Trusts and the Committee for a Responsible Federal Budget have launched a landmark partnership to build bipartisan consensus for a core set of reforms. The Peterson-Pew Commission on Budget Reform has convened the nation's preeminent experts to make recommendations for how best to improve the nation's fiscal future and how best to strengthen the federal budget process. The Commission began its work in January, 2009. In December of that year issued its first report, Red Ink Rising, and in November issued its second report, Getting Back in the Black. www.budgetreform.rg

Founded by Peter G. Peterson with a commitment of $1 billion, the Peter G. Peterson Foundation is dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future and to accelerating action on them. To address these challenges successfully, we work to bring Americans together to find and implement sensible, long-term solutions that transcend age, party lines and ideological divides in order to achieve real results. www.PGPF.org

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. The Trusts apply a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life. The Trusts partner with a diverse range of donors, public and private organizations, and concerned citizens who share a commitment to fact-based solutions and goal driven investments to improve society. www.pewtrusts.org

The Committee for a Responsible Federal Budget is a nonpartisan, non-profit organization committed to educating the public about issues that have significant fiscal policy impact. Its Board is made up of many of the past leaders of the Budget Committees, the Congressional Budget Office, the Office of Management and Budget, the Government Accountability Office, and the Federal Reserve Board. www.crfb.org

Performance Budgeting

Summary

Facing major budget adjustments necessary to stabilize the debt, the federal government must find more productive ways to budget its diminished resources. In this paper, the Peterson-Pew Commission on Budget Reform outlines a new way to budget that would allow spending and tax policy decisions to be informed by the relative performance of competing claims for scarce resources. A "do more with less" approach involves three elements:

- Measuring policy and program results;
- Identifying the highest policy priorities; and
- Instituting new budget procedures that apply evidence of results to decisions on how to advance the highest priorities.

Drawing on the experience of other nations and the U.S. States, this paper suggests a possible sequence of steps to institutionalize consideration of performance during the budget process. It outlines a crosscutting "portfolio" approach that brings together in a single review process all tax and spending programs related to a common set of outcomes. These reviews would identify opportunities to drive improved performance through reallocation of resources and changes in policy.

A new "portfolio budgeting" process would reduce and reallocate resources to: (1) address the highest-priority national policy objectives; (2) redirect resources to more cost-effective approaches and higher-return investments; (3) leverage the government's contributions to improve the performance of governmental and non-governmental federal partners; and (4) increase transparency and improve public understanding of the budget. This more strategic approach to the budget also would inform priority setting and provide a bridge between broad policy aspirations and specific decisions on resource uses and policies to achieve them.

The Government Performance and Results Modernization Act of 2010 provides new opportunities to make effective use of performance information in the budget process. Its requirements for multiple agencies to plan and budget for cross-cutting federal priority goals and its alignment of strategic planning requirements with national electoral cycles and with federal priorities could, over time, support smart budgeting that shifts resources to higher priority and more effective uses.

Such an approach will only work if policymakers already have strong incentives to achieve savings on the spending and revenue sides of the budget. Accordingly, portfolio-focused performance budgeting must be implemented in the context of a plan to stabilize the debt while prudently using more limited budget resources to advance high priority public objectives.

Introduction

A former budget director established a credo for the process of fiscal retrenchment: we should cut weak claims, not weak claimants. Easy to say; but for it to happen, budget decisions must be made using a performance-based approach to focus most budget reductions on policies, spending programs, and tax expenditures that have failed to achieve expected results and to redirect some savings to more productive uses.

In a July 2011 conference, the Peterson-Pew Commission on Budget Reform brought together officials from several nations to describe how they had deployed a performance-based approach to help close a fiscal gap. A program review process helped Canada climb back from debt approaching nearly 100 percent of their economy to achieve years of budget surpluses. The Netherlands has relied on a review of multiple overlapping programs for years, achieving notable performance improvements and deficit reduction at the same time. Over two decades, both Australia and the U.K. have used an array of approaches and techniques to improve both performance and the fiscal outlook.

A performance-informed process would reduce and reallocate resources to: (1) address the highest-priority national policy objectives; (2) redirect resources to more cost-effective approaches and higher-return investments; (3) leverage the government's contributions to improve the performance of governmental and non-governmental federal partners; and (4) increase transparency and improve public understanding of the budget.

In general, a performance budgeting approach complements the traditional focus of decisions on inputs ("how much money will each agency get?") with an emphasis on improving measurable results ("what can the government achieve with this money?"). The shift to performance budgeting is predicated on improving both the supply of and demand for information about results.

As international and U.S. experience demonstrates, linking resources to results is no small challenge. It is important, therefore, to be clear about what a new performance budgeting initiative can and cannot do to improve budget decisions. The use of performance information for budgeting cannot, and is not intended to, take politics out of budgeting or supplant the judgments of elected officials with those of evaluators and analysts. Budget decisions must be based on multiple criteria including value judgments about needs and equity in the sharing of benefits and burdens. Given the complexity and number of choices, priorities among competing claims–while they can be informed by analysis—are ultimately best resolved through the political process. The goal of performance budgeting in the public sector, therefore, is not to provide the answers to inherently political choices in the budget process but rather to provide a new set of questions whose answers will inform those choices.

Our experience to date shows that implementing any performance-informed approach to the budget will require careful planning and sequencing of the necessary changes. Still, we see the great potential of a new, performance-informed approach to drive improvements in government performance and to contribute to the more productive use of resources throughout the economy. Fortunately, as summarized in the next section, federal agencies, the Office of Management and Budget (OMB), and even Congress have been hard at work on these challenges for the better part of 30 years. We can build on what we have learned there and by observing the experience of other governments.

Performance Measurement and Budgeting: Recent U.S. History

Performance-based management and budget reform now has a substantial history in the U.S. at all government levels, with state and local governments often in the lead. Since passage of the Government Performance and Results Act of 1993 (GPRA), the federal government has both sought to develop performance goals and measures and to integrate them into its budget process. While there have been differences across the three presidencies, all shared an emphasis on using performance information systematically to formulate and review the president's budget and to hold agencies accountable for results.

As shown in Appendix 1, the evolution started by GPRA laid a foundation of performance goals and measures in federal agencies and led to their increasing use by OMB and for congressional oversight. The Bush Administration's Program Assessment Rating Tool (PART) process shifted emphasis to more active use of performance information for budget decisions and better program management. OMB worked with agencies to rate every major program in the budget over a five-year period, albeit with considerable congressional and agency push back. The Obama Administration has continued the emphasis on performance but with a more selective focus based on priority goals set by the agencies themselves, accompanied by OMB-led quarterly performance reviews of agencies' progress.

Assessing the Federal Government's Experience

Some notable successes in federal agencies show that performance-informed policies and budgeting will lead to sustainable changes in agency outcomes and operating culture. Whether it is framing new ways of thinking about goals, or assessing and overseeing employees, contractors, or grantees, improved data on performance has given agencies powerful new tools to reach their goals; see Box 1.

Box 1. Payoffs of Successful Uses of Performance-Based Policy Reform Payoffs[1]

- Coast Guard realized major reductions in accidents under its marine safety program. The advent of performance analysis prompted a shift from monitoring the number of inspections and condition of marine vessels to a focus on the reasons for underlying trends in accidents. Finding that human error and industry practice were primarily responsible for poor safety outcomes, the agency worked with the marine industry on training programs. The result was a dramatic cut in the numbers of accidents per 100,000 employees, from 91 to 27 over four years.

- FDA's office of generic drugs used performance targets and monitoring to reduce the time to review generic drug applications. As a result, the percent of applications reviewed within 180 days went from 35 to 87. In addition to tracking overall progress, performance data were used on a real time basis to monitor workload across units, enabling the agency to break through bottlenecks by shifting work to less burdened units.

- The Department of Veterans Affairs (DVA) health care system has systematically reformed its delivery by using health outcomes as the basis for defining what is to be achieved by its regional health services networks. The underlying trend data were used both as a basis for funding the networks but also to analyze best practices. The analysis of cardiac surgery outcomes among VA health care units, for instance, promoted the introduction of best practices throughout the system, leading to reduced morbidity in cardiac procedures.

The past 18 years of federal performance initiatives have built a performance "supply chain" of information, measures, goals and data on results. Agencies have invested significant staff time and effort, buttressed by consistent pressure from OMB and even from select congressional committees.

However, the difficulties associated with articulating performance goals and developing measurement systems should not be underestimated. Many agencies have multiple goals that need to be reconciled and prioritized. Agencies must develop valid data and logic models to link their program outputs to the ultimate outcomes they are trying to influence. Often the most important outcomes are those that are most difficult to measure. For instance, programs like Head Start in the investment arena can relatively easily quantify the near term benefits received by children, but not so easily measure the longer term impacts that early intervention can yield for their lives as productive adults. Ultimately, gaining the confidence of stakeholders and other experts in the relevant communities involves many iterations and years of close engagement.

The enriched and expanded supply of performance information has not been met by an equal growth of demand by budget decision makers. Top policymakers in Congress and even to some extent the Executive branch have only selectively used performance data to inform budget decisions. In some cases, congressional committees have chided agencies for including a performance budget in their congressional budget submissions. Some authorizing committees have weighed in on performance plans and information, as have oversight committees. Appropriations committees rely on a wide range of performance data on inputs and outputs submitted by agencies, but to date have not used performance information systematically. The Government Accountability Office's (GAO) latest survey of federal employees in 2008 found that while more managers have performance measures than before, their overall use in decision making has not changed in the past 10 years.[1]

Most agencies now routinely display performance information in their budget presentations. This is an important step, but more must be done to link resource decisions to results.

- Performance targets – Agencies should be setting performance based targets for programs or sets of programs, expressed either in outcome or output terms for the coming year or multiple years. These targets should be the basis for the budget requests and congressional resource allocation decisions.
- Performance-based accountability – Agency leaders and managers need to be held accountable for achieving these targets, both by Congressional committees and top leaders of agencies themselves. Transparent information can be part of this process, as federal programs can be publicly assessed based on whether they have met their performance targets and expectations.
- Performance reviews and assessments – Formal assessments can be done periodically to either achieve savings or to reallocate scarce funds from programs with weaker performance to those with greater promise for impact.

The International Experience

Given the obvious challenges involved in establishing performance budgeting systems, we convened an international meeting in Washington, D.C., on July 14th, 2011, to discuss and draw lessons from experiences in select other nations and in the U.S. at both federal and state levels. We considered the experiences of four leaders in the use of performance information for budgeting and policy making: Australia, Canada, the U.K., and the Netherlands.

Many OECD nations have sustained a form of performance budgeting now for a decade or more. Most of these systems require agencies to provide measures of outcomes and outputs with their budget requests. Some go further, holding civil servants or agency heads accountable for achieving quantified performance goals.

[1] Bernice Steinhardt, "Government Performance: Lessons Learned for the Next Administration on Using Performance Information to Improve Results", statement delivered before the Subcommittee on Federal Financial Management, Information, Federal Services, and International Security. U.S. Senate Committee on Homeland Security and Governmental Affairs, July 24, 2008.

According to the OECD, the reforms of the mid-1990s concentrated on reallocating funds and cutting back expenditures, while those of the late 1990s and early 2000s concentrated on developing and improving results-based management and accountability.

- Canada, for instance, has been using some form of performance-based evaluation since the 1970s. More recently, Canada turned the focus to budget issues and a "results-based expenditure management system." Under the Federal Accountability Act of 2006, Canada established a parliamentary budgetary office and implemented a results-oriented approach requiring formal program evaluations by every department. Canada is currently using comprehensive strategic reviews to find budget savings sufficient to achieve balance by 2015.

Other nations have sought to implement a "portfolio" approach to budgeting. Cabinet ministries in some nations with parliamentary systems are, for instance, held accountable for budgeting across an entire portfolio of direct spending, tax expenditures, grants and credit programs that share common goals and missions. The ministers are encouraged to make tradeoffs based on the relative performance of these differing tools in achieving outcomes.

- Australia has long established a portfolio approach to budgeting, with parliamentary appropriations for outcomes. Building on that foundation, the nation is now embarking on a select number of strategic reviews each year on cross agency themes, including tax expenditures.

- The Netherlands' performance assessment reviews are conducted both on particular programs and for broader crosscutting areas selected for each budget cycle, with participation by working groups of central budget and departmental staff as well as external experts, resulting in a public report with recommendations. According to the OECD, the process has been in place since 1981 and has led to significant savings as well as many reforms of major policy areas. In their broader crosscutting reviews, called Interdepartmental Reviews, the government selects about 10 areas for review each year. These reviews address an entire policy area or government-wide management concern. They are collaborative, involving a partnership of the budget office, agencies, and outside researchers and academics.

Priority Setting in Resource Allocation

At the highest levels, use of performance in budgeting requires a resource allocation process that compares competing claims with one another across the range of programs, agencies, and governmental tools contributing to each major mission. Congressman Charles Stenholm (D-TX) best described the competition that the congressional budget process was intended to inspire: "This process will require many tough choices as priorities are set among worthy programs. But essentially, all programs will be together in the same boat, competing for priority status as we seek to determine how best to allocate the revenues coming into the U.S. Treasury."

Whether explicitly or implicitly, budgeting addresses such big priority questions as:

- What proportion of the nation's resources will be allocated by the federal government?
- Who will pay for government spending and when?
- What budget savings are required to stabilize the debt and align spending, and revenues and where will these come from?
- What mix of current consumption spending and investments in education, infrastructure, or other national assets will improve economic growth?
- Where will the savings come from to pay projected higher costs for pension and health commitments to a growing elderly population?

Budget processes connect aspirational goals of political leaders with concrete targets, strategies to achieve those, and identification of policy changes and budget allocations needed to support goal achievement. To accomplish this most effectively, the budget process should aim to:

- Include all significant costs for each program or activity in the budget;
- Foster competition among all significant related programs and activities;
- Ensure that programs have comparable information on costs and performance;
- Permit tradeoffs across the various programs and categories in the budget; and
- Provide for periodic reconsideration of existing programs and claims.

Ideally, important political, economic and programmatic questions should be raised when considering competing claims in the budget. Key questions include:

- Which goals are most important to the nation?
- Which programs and policies will most effectively achieve those goals?
- Which programs offer greatest efficiency, i.e., will achieve goals at least cost?
- Which programs will best achieve goals of fairness and equity in the distribution of benefits and costs?

The comparison of competing claims can occur on a number of levels. Overall priorities among broad areas or missions, such as defense and nondefense discretionary spending, might be at times the focus of high-level budget deliberations. In their policy domains, appropriations committees and federal agencies alike must make choices among competing programs and administrative bureaus for resources. From time to time, policymakers may consider the relative efficacy of competing tools of government, such as tax loans and grants, to assess which has greatest promise in achieving policy goals. However, it should be noted that in the present budget process the set of policies and programs considered in annual reviews typically ignores mandatory, i.e., direct spending programs as well as spending through the tax code, i.e., tax expenditures. Thus, even cross-cutting policy reviews usually leave out two of the largest parts of the budget.

The planning and budgeting cycles established by the GPRA have often been out of sync with electoral cycles, hampering leaders' ability to translate promises into concrete program and resource decisions. To help correct this, provisions of the GPRA Modernization Act of 2010 (GPRAMA), passed in December of that year and signed by the President on January 4, 2011, are designed to promote better alignment between agency strategic planning cycles and national, especially presidential, electoral cycles, and between agency and crosscutting wide priority setting.

Institutional Barriers to Resource Allocation

While it is impossible to explicitly assess the tradeoffs among all claims in the budget process, the U.S. budget process has erected unnecessary walls that constrain tradeoffs among similar programs addressing common goals. The resource allocation process is stymied by institutional barriers to considering tradeoffs across the categories of discretionary spending, mandatory spending, and tax expenditures. While the declining share of budgets devoted to discretionary spending is reviewed each year, there is no such annual review for the largest pieces of the budget – entitlements and tax expenditures.

The federal budget process typically focuses tradeoffs on programs or activities within a single agency rather than comparing similar programs across the government. In most cases, tradeoffs are constrained by committee jurisdictions, with tax expenditures being considered by the revenue committees notwithstanding their functional equivalence with related spending programs. Particularly in the congressional process, jurisdictional fragmentation and procedural obstacles prevent savings achieved in mandatory or tax expenditure programs from being reallocated to investments on the discretionary side of the budget.

The result of such a resource allocation process is a pattern of multiple and often conflicting programs chasing common goals:

- Tax expenditures exist in a separate orbit from related spending programs, often sending conflicting signals and incentives. The mortgage interest deduction drives up the price of housing at the same time other housing programs on the spending side help select groups of buyers pay the tab. The exclusion of health care insurance from taxation promotes higher health care costs, even as other federal tools, including provisions of the 2010 health reform law, aim at curbing costs.

- The federal government supports a confusing welter of tax credits, loans and grants for higher education—produced by different committees—which confuse parents and have been shown to promote higher tuition.

- Surface transportation policy constrains tradeoffs between highway spending and other transportation modes, including mass transit, by budget rules that require spending for highways to automatically reflect the amount of revenues that are collected each year from the highway excise tax.

- Programs work at cross purposes. For instance, federal flood insurance provides incentives for people to locate in harm's way in flood and hurricane prone areas, giving rise to higher federal disaster relief costs elsewhere in the budget.

GAO has reported many more examples of fragmentation, overlap, and apparent duplication, in which multiple government agencies and programs serve the same or closely related objectives (GAO, 2011). To take just one example, fragmentation in the nation's food safety inspection system causes significant performance shortfalls and quality control problems. This fragmented system is the key reason GAO added the federal oversight of food safety to its high-risk list in 2007. Fifteen federal agencies collectively administer at least 30 laws related to food safety, with inconsistent oversight and ineffective coordination. Federal spending across two major agencies involved – USDA and FDA – is mismatched with these agencies' relative responsibilities; FDA with responsibility for 80 percent of the food supply spends only 24 percent of total federal food safety dollars. Other countries' food safety systems integrate activity across the entire food supply chain, from "farm to table" by placing primary responsibility for safety on producers; separating risk assessment and risk management; conducting risk-based inspections; and taking steps to ensure certain food imports meet equivalent safety standards.

While performance planning could be the linchpin for achieving greater coherence and coordination across programs, the federal performance movement largely reinforced the current fragmented approach to governance. Both GPRA and PART were agency and program focused. Although OMB was required to develop a government-wide performance plan, this was not accomplished, with the singular partial exception of a performance plan included in the President's FY 1999 budget that presented performance goals for 19 budget functions, such as natural resources, international assistance, and housing and commerce.[2]

[2] Some of the presentations illustrated the potential value by showing how several different agencies, as well as related tax expenditures and regulatory programs, addressed common goals. For instance, the Natural Resources and Environment chapter included an extended discussion of the many agencies involved in federal land management, presented in the context of three government-wide federal land management goals: protecting human health and safeguarding the natural environment; restoring and maintaining the health of federally managed lands, waters, and renewable resources; and providing recreational opportunities for the public to enjoy natural and cultural resources. Moreover, the discussions included not only discretionary programs but the involvement of other tools of government such as tax expenditures and regulations in promoting the broad missions of the government. Government Accountability Office, The Results Act: Assessment of the Governmentwide Performance Plan for FY 1999 (GAO-AIMD-GGD-98-159, 1998).

Institutional Reform: The Need for a Portfolio Approach for Budgeting and Performance

One lesson learned from the years of performance budgeting initiatives is that achieving any important results or outcomes involves parallel and coordinated efforts cutting across the narrow confines of budget accounts, bureaus, and departments. Outcomes measures are what we all care about – the ultimate results of government programs. Whether it is achieving more equitable and effective schools or improved protection from terrorist attacks, improving government outcomes will call for a resource allocation process that is organized far differently than it is today.

The GPRAMA has the potential to launch an outcomes-based approach to budgeting. The new law requires OMB to identify a set of government-wide 'federal priority goals' that will be cross-cutting and will focus on high priority outcomes. These goals are to be included in a government-wide performance plan submitted with the budget and serve as the basis for quarterly progress reporting and reviews.

Such a government-wide performance planning approach has long been needed to afford policymakers and the public a broader view of the outcomes achieved by interrelated portfolios of programs and subsidies. This 'portfolio perspective' could reframe budget formulation in both the executive branch and Congress by changing the primary unit of analysis from individual programs to sets of programs intended to influence a broad outcome. Making plans and budget choices on a portfolio basis would highlight the potential gains from broad adoption of this new approach. Should the results of the first rounds of choices using this approach prove to be compelling to high-level policymakers, planning and budgeting in both the executive branch and Congress may never be the same.

Identification of multiple related programs scattered across agencies and congressional committees should trigger additional analysis for the entire portfolio to identify potential gains in efficiency, improved delivery or services, and possible budgetary savings. Gains in productivity might come through consolidation or reorganization that increases the efficiency of the administration. The gains might come from shifting resources from less to more effective uses or strategies, including the elimination of less effective programs. They might come from redesigning programs to make them work better, or from replacing spending or tax expenditures with non-budgetary strategies, e.g., regulatory mandates or voluntary standard-setting. We have illustrated what the building blocks of such a portfolio review might look like in Appendix 2, which shows the range of federal policy tools used to address low-income housing across the federal budget, including tax expenditures.

The challenges of a portfolio approach to planning and budgeting should not be underestimated. These arise both from the complexity of the major tasks the government is expected to perform and from the proliferation of fragmented programs insulated from comparisons and tradeoffs in the budget as discussed above.

However designed, a revitalized budget allocation process will be increasingly important as fiscal constraints become more binding. As health, Social Security, and other mandatory programs continue to eat away at the discretionary room in the budget, there will be fewer resources to respond to new and emergent problems and issues as required in a dynamic environment for a growing and changing population.

Executive Agenda for Crosscutting Performance Budgeting

Seizing the opportunities presented by the new GPRA law will require institutional changes in both the executive and legislative phases of the budget process. In the executive branch, performance-informed budget reviews focused around major cross-cutting missions will shift attention from agency/constituency interests to broader policy objectives.

Given the challenges and high stakes involved, we propose an approach that would focus on selective review and assessment of performance for a few crosscutting missions or goals. At least initially, the majority of budgetary resources would be allocated through traditional agency and program-based processes. Over time, if these selective reviews prove to be compelling, the entire federal budget process might evolve toward a portfolio-based model.

To take maximum advantage of opportunities present in the GPRAMA, we propose the following:

- Congressional partnerships - Engage congressional leaders in setting the performance agenda by capitalizing on the Act's requirement for OMB to consult with Congressional committees at least once every two years. Early and more frequent consultation is a chance to engage House and Senate leaders in focusing and shaping the portfolio reviews, thereby integrating congressional and presidential perspectives at the outset and periodically helping to reset policy priorities.

- Selective focus - Be selective in the crosscutting reviews undertaken each year. PART tried to undertake too many reviews, to the point where it exhausted both the suppliers and potential audience. Given the demanding nature of the analysis as well as the coordination and political challenges faced by these reviews, concentrating OMB's initiatives on a vital few areas each year would help ensure that they get the high level attention necessary.

- Integration across federal tools - Integrate related spending, tax expenditures, regulation, and management initiatives in a single annual review process. OMB has the opportunity to use its centralized budget formulation process to transcend the fractured approach characterizing the budget process today.

- Marshaling best available information on performance for portfolios of programs - OMB should lead an initiative to steer evaluation funding to agencies and external researchers to provide deep understanding of the relative contribution of portfolios of government programs and tools to broader outcomes. This investment in performance assessment could build on the Administration's current initiative to boost funding for program evaluation.

- Effective leadership and accountability - Leadership, clear personal responsibility, and accountability for achieving the federal priority goals are critical to driving improvement through a portfolio approach. The designation of leaders for portfolio reviews – whether from one of the main participating agencies, from the White House, or elsewhere – is a critical step. Accountability for the results requires regular, candid and credible public reporting and analysis, especially when outcomes fall short of expectations.

- Public engagement - The budget process could be opened up and made more transparent. Nonfederal actors with stakes in federal missions should participate in the reviews, including state and local partners, academic experts, and others whose livelihoods are affected by federal missions. The Netherlands conducts crosscutting reviews by engaging academic experts in interdepartmental reviews of selected areas of federal activity. Creative uses of collaborative technology, building on the open government initiatives of recent years, would enable citizens and federal partners to engage meaningfully during deliberations of portfolio priorities.

- Information on performance and costs - Institutionalizing the capacity for crosscutting reviews in the budget will demand a realignment of accounting for costs and results around enduring functions/missions. Fortunately, OMB has maintained budget information not only by budget account, object class of expenditure, and agency, but also by budget function and subfunction. The 80 or so subfunctions correspond to discrete mission areas of the government. One advantage is that these functions already are rooted in the budget information system and readily produce information on spending, both mandatory and discretionary, across all programs and agencies contributing to those missions. Nonetheless, it will take time to realign systems to link benefits and costs and, in some cases, to collect new kinds of information about both dimensions of performance.

Performance Budgeting in the Congressional Process

Congressional involvement will be critical to the development and ultimate success of performance budgeting. Given the strong role that Congress plays in both budgeting and management oversight, greater Congressional involvement in the design and use of performance assessments will prove vital in reinforcing the importance of performance assessment and ensuring that such a process reflects a broader base of values and interests.

Congressional involvement is particularly critical to the success of the new crosscutting performance reviews. Congress is, of course, the fountain from which springs forth an often fragmented array of programs and tools that confound policymakers and the public alike. Is there hope that a crosscutting framework could be employed by such a fractionated and fractious body?

While committees and subcommittees are indeed fragmented, congressional leadership has strengthened during the past several decades. Whether it involves developing health reform or negotiating budget deals with the White House, Congress has shown that it is capable of making major policy decisions on a more centralized basis than it has in the past.

When thinking about models for congressional involvement with the new crosscutting portfolio reviews, three broad pathways come to mind: collaboration, congressional oversight and congressional budgeting:

- Collaboration – Congressional leaders could reach out to the Administration to meet and reach agreement about those areas to be assessed in each budget year. Congress could help ensure that areas ripe for reexamination, such as those up for reauthorization, would get attention in the executive review process. Such a process would require changes from both institutions. Congress would have to be willing to articulate its oversight and reexamination priorities more centrally. OMB would have to be willing to open up its own process to become more collaborative with Congress in development of performance assessment – a prospect that has been resisted in the past.

- Congressional Oversight - House and Senate government oversight committees have formal authority to coordinate oversight plans of congressional committees. While such authority has not been exercised with noticeable impact to date, new crosscutting reviews may help stimulate such an initiative.

  Indeed, Congress has started such reviews itself by imposing a new mandate on GAO to conduct periodic reviews of duplication and overlap. The committees can build on GAO's work, as well as OMB-led cross cutting reviews, by undertaking their own reviews of portfolios of programs. The Peterson-Pew Commission recommended that Congress work with GAO to trigger these reviews.[3]

- Congressional Budgeting - The Budget Committees could be the vehicle to accomplish performance assessments by reporting a "congressional performance resolution" as part of the budget resolution. Such a resolution could be the vehicle to engage the full Congress in debate over those areas most ripe for review and assessment each year. The resolution could be viewed as a requirement that other committees undertake assessments through hearings, GAO studies and other vehicles they deem appropriate to reexamine the program areas identified in the resolution.

  These assessments could feed into the congressional budget process in the following year. In year two, the committees could report their findings and policy recommendations as part of the Views and Estimates process, an established part of the budget process.

  Alternatively, the assessments could become the basis for a new performance based reconciliation process the next year when committees would be required to take actions on their findings, with the protections of the reconciliation process in place. This alternative would obviously be controversial with the committees as well as many stakeholders. However, if a reconciliation bill already was in the cards for that year, such a process would help provide committees with better inputs for setting reconciliation targets than the current process.

The roles contemplated here for the budget committees are more significant than is typical today. Accordingly, the budget committees may need more authority and leverage to implement such a performance-based congressional budget process. The Peterson-Pew Commission's 2010 report, *Getting Back in the Black*, recommended that the budget committees be reconstituted as leadership committees to empower them to coordinate the achievement of more ambitious debt reduction targets. Such a reform may very well be essential if these committees are to assume a lead role in focusing congressional budget choices on performance.

[3] Peterson-Pew Commission on Budget Reform, Getting Back in the Black, November 10, 2010

Conclusions

Further development of performance budgeting in the U.S. has a hard-to-quantify but possibly game-changing potential to transform the way resource decisions are made. If done well, it would accelerate gains in public sector productivity and thereby aid the accomplishment of all important national objectives. But, such gains will be elusive unless both the executive and legislative branches are committed to a more open, more collaborative, more results-driven approach to developing annual budgets. The Commission sees the careful, sequential implementation of changes facilitated by the new GPRA Modernization Act as the best opportunity to establish this new approach.

If we are to deal with today's fiscal challenge, the budget process needs to do a much better job of prioritizing the use of resources, based on careful analysis of the federal role and the cost-effectiveness of budget and non-budget alternatives. To that end, then, the Commission recommends the following:

- The executive branch needs to continue its development and improve its use of sophisticated measures of federal performance and productivity, including return on investments, organized by major missions and objectives, to compare and prioritize budget and policy alternatives.

- The executive branch, in consultation with Congress, should test and develop a portfolio-based performance approach to budgeting that weighs the relative contributions of various programs and policy tools – including direct spending, regulation, and tax expenditures—to achieving federal priority objectives. Attention should be focused in the near term on a small number of high-priority cross-cutting outcome goals where there is opportunity to make major performance and productivity gains.

- The requirements of the new GPRA Modernization Act should be the framework for agency strategic planning and portfolio-based analysis and decisions to support this focus should be anchored in an unprecedented process of executive-legislative collaboration and include other stakeholders such as state and local partners.

- The executive branch should undertake a longer-term effort to realign cost and performance information, integrate tax expenditures into the budget process, use new displays and information technology to increase transparency and public engagement, and change the structure of federal accounting to facilitate a broader application of a portfolio-based performance budgeting approach.

- Congress should use its regular budget process as a foundation for a new annual performance-focused budget resolution that includes policy guidance and a prescribed process to give greater attention to the highest priority crosscutting performance issues.

Appendix One

Past Use of Performance Information in the Budget Process

The Government Performance and Results Act (GPRA): Passed in 1993, GPRA was the first legislated government-wide framework focused on managing for results, enhancing accountability of government for the results of programs, and providing greater managerial flexibility. GPRA provides a statutory foundation for required agency-wide strategic planning, annual performance plans and annual performance reports, and establishes a link between results and resources. Agencies published their first strategic plans during the Clinton Administration, in consultation with their stakeholders, and have updated them every few years since. They annually publish required performance plans and performance reports.

Implementation was left primarily to each department or agency, resulting in a variety of approaches to meeting the Act's requirements. The early emphasis was on developing a suite of performance measures – often too many and poorly chosen – and a capacity to regularly collect, analyze, and report information on progress. Most agencies reported their financial and performance information annually, but few integrated the two sets of information either in their accounting or in their reports. OMB did review agency performance plans to ensure they were consistent with the budget allocations received by each agency before they were published. Congress – led by the Office of House Majority Richard Armey (R-TX) – engaged in active review of agency plans, with periodic scoring of agency plans and oversight hearings.

Bush Administration management initiatives: In 2002, the Bush Administration introduced the Program Assessment Rating Tool (PART) process and a five-part President's Management Agenda. These executive initiatives were intended to reinforce the goals of the PART or, as then-OMB Director Mitch Daniels said at the time, to put some teeth into GPRA. PARTs were drafted by agencies, but completed by OMB in consultation with the agencies. They provided highly visible, standardized scoring of program performance. PART scores rewarded programs that set clear multi-year outcome goals and measured their progress annually. PART also rewarded rigorous program evaluations, although the Administration made no across-the-board effort to standardize agency approaches to evaluation or to fund them. The PART scoring favored programs that could produce evidence of positive results. Over five years, all major programs were rated, with scores and explanations published for each on the web (www.ExpectMore.gov). In conjunction with the PARTs, the Administration worked to link performance information to the budget process at both the agency level and in OMB's budget reviews. At the agency level, more performance information was used to justify budget requests and "report cards" were prepared and published showing progress for five Presidential management initiatives (setting negotiated agency-specific targets for improving IT, procurement, personnel, financial management, and "budgeting and performance integration"). The Bush Administration also, after 2005, designated performance improvement officers (PIOs) in each agency and a government-wide performance improvement council (PIC) of the agency PIOs led by OMB.

The PART process was assessed by GAO and others. The process did make performance assessments a more explicit feature of OMB budget reviews and provided agencies with a powerful incentive to improve their performance data and measures, if for no other reason than to protect themselves in this review process in the future.[4] However, the PART process also raised vexing questions about the ability to develop a "bottom line" rating for complex government programs. Given the multiple purposes and goals reflected in most programs, OMB staff invariably had to make judgments on how to answer yes/no questions on such issues as whether the program was effective in reaching its goals and whether the costs of the program were reasonable. Notwithstanding claims that PART rests on "objective" ratings, this is often not possible in the high-stakes world of federal budgeting, where multiple stakeholders have their own interpretations of seemingly straightforward numbers.[5]

The PART process focused on individual programs and narrow budget accounts as the units for which performance was assessed. While having the advantage of tying into the building blocks for the budget, this focus lacks the breadth to assess how effectively the federal government is pursuing its broader outcome goals. Whether it is providing low-income housing, food safety, or job training, the outcomes pursued by the government are invariably administered by a number of related budget activities and programs, usually in partnership with other governments and private actors.

Obama Administration Approach: The PART process was dropped by the Obama Administration, and its approach to performance-based budgeting is still evolving. PIOs and the PIC were retained and eventually codified in the GPRA Modernization Act. An effort is underway to shift the initiative for performance improvement away from OMB to the agencies. In its FY 2010 budget, the Obama Administration published a limited number of high priority performance goals, three to eight for each department or agency, which could be achieved in 18 to 24 months and did not require new legislation or additional resources. Some are outcome-focused and challenging; many are not. Agencies report on a quarterly basis on these goals, and OMB has instituted a quarterly review process. In its first budgets, the Administration provided bonus funding to strengthen department/agency evaluation capacity and for specific high-priority program evaluations. Like its predecessors, it has not attempted to impose a uniform approach to evaluation and use of evaluation findings across all agencies. The Administration has emphasized transparency of reporting, testing new ideas for this on the Recovery Act public website, *recovery.gov*, and has worked with agencies to reduce and focus the number of performance measures collected and reported. It recently launched a new website, *performance.gov*, to provide better public access to indicators of progress toward high priority goals; based on previews of the new site, it is more usable than current agency-by-agency efforts to make such information accessible and will serve as a user-friendly central source for the federal government's most important goals and measures.

[4] U.S. Government Accountability Office, Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress (Washington, D.C.: GAO, 2006, GAO-06-26)

[5] U.S. Government Accountability Office, Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the FY 2004 Budget (Washington, D.C.: GAO, 2004, GAO-04-174)

Appendix Two

Portfolio Analysis

The long-term fiscal outlook promises stringency as far as the eye can see. Greater budget pressure will, or should, fall on the parts of the budget that represent lower national priorities and less cost-effective means of achieving important national objectives. This is the context in which major portfolio reviews will be undertaken. The following suggests how one major portfolio including federal spending programs, tax expenditures, and regulatory policies might be reviewed. The review would reconsider federal policy priorities and assess the relative cost-effectiveness of alternatives, with the aim of identifying major opportunities to redeploy resources to improve productivity and results.

The Budget for Housing: An Illustrative Portfolio Review

An outline for a strategic housing policy review and suggestion of what it might yield may serve as a model for the selective conduct of strategic reviews beginning with the FY 2013 budget process, as authorized in the GPRA Modernization Act of 2010. The outline serves to: (1) illustrate how such strategic reviews, conducted for each major federal mission/portfolio, could use a period of fiscal stringency to repurpose and improve returns on federal resources, simultaneously increasing performance and yielding budget savings; and (2) frame the issues for housing policy in a way that could help move public debate in a constructive direction. Absent such an approach, debate is likely to polarize between defenders of the *status quo* and those who simply want to slash and devolve.

In the near future, the federal housing budget – which in FY 2010 included over $54 billion in annual appropriations, $188 billion of revenue losses from tax expenditures for homeownership and modest-income rental production, and $40 billion in subsidies to two former government-sponsored enterprises, Fannie Mae and Freddie Mac – will be in the crosshairs. Even if this were not so, a sky-to-ground strategic review of federal housing policies is overdue. There has not been one since James Lynn's "Housing in the 70s" studies in the Nixon years, which led to suspension of the Government's major low-income housing construction subsidy programs and, informed by large-scale housing allowance experiments, led to the use of portable housing vouchers – now held by over two million renter households – as the primary method of low-income housing assistance.

Current Policies

The first step would be to clarify and prioritize the federal government's housing roles by defining a more focused and clearer federal mission and better quantified outcome targets. The large federal role in subsidizing housing and supporting homeownership arose in part from historical inequalities across states and regions, patterns of discriminatory treatment, and broader concerns about poverty and lack of opportunity. The latter are addressed not only by housing assistance but by many other forms of cash assistance, education, and other services. The two most-often given objectives of federal housing policy are to: (1) increase homeownership opportunities and, (2) give poor households access to decent, affordable housing. Both objectives need to be reconsidered. The first has been discredited in many eyes by the mortgage market's collapse and failure of Fannie and Freddie. The second is overdue for rethinking in the wake of welfare reform and in light of broader policies for families, the elderly, and the disabled. Housing has become a policy backwater, cut off from the mainstream of social policy evolution (cf., Redburn, 2006).[6] It should be reconnected to broader aims such as helping families build assets, improve their economic prospects, and insulate themselves from financial risk, or helping the poorest elderly and disabled who cannot work to supplement their incomes in high cost housing areas.

Current appropriations for low-income housing subsidies are probably unsustainable in light of other budget priorities. However, major opportunities are available to rationalize the programs administered by the Department of Housing and Urban Development and the Department of Agriculture to benefit more households at a lower average subsidy cost.

Tax expenditures for housing have fuelled overproduction and diverted economic resources from more productive uses. As part of major income tax reform, tax expenditures for homeownership – including deductibility of mortgage interest and property taxes, and the non-taxation of net imputed rental income of homeowners – are prime candidates for review and probable curtailment. The same is true of poorly targeted and often counterproductively applied low-income housing tax credits.

The intergovernmental division of responsibilities for financing and administering housing policies is ripe for rethinking. Opportunities to devolve responsibility to state and local governments should be explored jointly with those levels of government.

Among the biggest near-term challenges will be liquidating older federal commitments to maintain and operate subsidized projects owned by local governments and private landlords. Refinancing and maintenance of these assets will be complicated by the collapse of the non-profit community-based housing finance market that has been supported until now by Fannie and Freddie and has used complex financing schemes combining federal tax credits, HOME block grants, and various forms of subsidized lending to stay afloat. The Administration's FY 2011 budget proposal to make many project-based subsidies portable, coolly received in the last Congress, suggests a possible area of bipartisan agreement.

Options to Boost Performance of the Housing Portfolio

Below we suggest the possible outcomes of a housing portfolio review for some of the primary objectives these programs address:

Homeownership and credit support. The case for spending federal resources to promote homeownership over other forms of tenure and savings is weak. A stronger case can be made for limited federal credit support to stabilize housing markets in times when private

[6] http://www.newamerica.net/ publications/policy/rethinking_federal_low_income_housing_policies

credit is withdrawn – properly priced using a market valuation approach as recommended in ***Getting Back in the Black.*** This federal role as a backstop and stabilizer during regional and national downturns and for federal regulation to protect consumers and police the marketplace, especially to limit systemic risk, is consistent with its well-establish responsibility for economic stability and orderly growth. Credit support to housing should have no net budget cost, eliminating the risk of large mandatory costs such as those paid since 2008 for FHA, Fannie Mae, and Freddie Mac. The mortgage interest and property tax deductions could be gradually curtailed or eliminated; other tax expenditures for homeownership, such as non-taxation of imputed rental value of owner-occupied homes would be reduced or offset to save well upwards of $50 billion annually.

Poverty and opportunity. The case for deep, unconditioned, open-ended rental housing subsidies for families is weak. When welfare reform reoriented cash assistance to poor families toward work transitions and work preparation, housing assistance was left behind. It continues to be open-ended and unconditional, usually awarded locally on a first-come-first-served basis. Housing assistance to families with children should be focused on short-term help to the displaced – those facing foreclosure, youth aging out of foster care, released prisoners -- and others whose economic mobility would be aided directly by this form of assistance. Awards should be made by the same local providers who work with these families through local services. Payments would be restructured to emphasize shorter-term, one-time, or time-limited assistance, combined with waiver of the usual rent payment increases tied to income gains that would support work and encourage savings. The effect could be to reduce the duration of assistance, allowing many more families to be aided over time within the currently budgeted amounts. A strong case can be made for expanding assistance to the poorest elderly and disabled who cannot work, but these subsidies can be better targeted to those with the least resources. Likewise, programs to move disabled persons from the street or emergency shelters to subsidized apartments linked to services have already reduced the chronically homeless population substantially and could be expanded. An estimated $10 billion of appropriated amounts for low-income housing assistance would be saved and redirected to help more families, with a large portion of the remainder going to successful approaches to reduce homelessness and expand aid to the neediest elderly and others unable to work.

Housing development. Although older low-income housing construction programs have been replaced in part by portable housing vouchers, large discretionary programs and the low-income housing tax credit continue to support new construction of tens of thousands of units annually. Rental vacancy rates have been in double digits now for a decade, while at the same time older affordable supply has been lost to premature abandonment or to upgrading required to meet improved local standards; tax credits and other production subsidies are counterproductive in these paradoxical market conditions. The largest barriers to low-cost housing development arise from local building and land regulation and local social and environmental conditions, and are not best addressed through federal spending. If the Low-Income Housing Tax Credit (LIHTC) were to be retained, it could be limited to places where its production will not be offset by driving older affordable properties into bankruptcy. Curtailing both this tax expenditure and remaining discretionary programs oriented mainly to construction could conservatively save $9 to 10 billion annually.

Table 1 summarizes current budget resources for housing. These can be compared with a hypothetically refocused, more productive allocation. Notionally, well over $60 billion of annual budget savings could be generated as described above through rigorous review of this portfolio. A portion of these savings could be reinvested in more cost-effective strategies to support low-income families through short-term housing assistance to elderly and disabled (including chronically homeless persons) through open-ended assistance. Resources could be redirected, through states, to help disrupted or damaged communities stabilize and restore local conditions for development. More people would be aided to become self-sufficient, chronic homelessness could be ended, and other gains in productivity could be realized within this portfolio. In an actual application of this approach, rigorous evidence would be marshalled and both budget savings and improved outcomes would be estimated more precisely.

Table 1. Federal Housing Budget – FY 2010

	$s in Millions
Low-income Housing Assistance	
Housing Vouchers	18,084
Project-based Subsidies	15,991
Reducing Homelessness	1,852
Low Income Housing Construction	3,621
FHA, Ginnie Mae Mortgage Guarantees	4,883
Veterans home loans (DVA)	571
Community Development	5,968
Administrative and Other	3,069
TOTAL - HUD and DVA	**54,039**
Fannie Mae and Freddie Mac	**40,000**
Housing Tax Expenditures:	
Low-income Housing Tax Credit	5,650
Other Rental Housing	8350
Deductibility of Mortgage Interest on Homes	79,155
Deductibility of Property Taxes on Homes	15,120
Non-tax of Imputed Net Rental Value	41,200
Other Homeownership	38,550
TOTAL Revenue Loss from Tax Expenditures	**188,025**
TOTAL for Housing	**282,064**

Source: OMB FY 2012 Budget; CBO for Fannie and Freddie.

References

Anderson, Barry (2008) *Performance Budgeting, A Users Guide.* Mexico City, International Conference on Performance Budgeting, June 9-10.

Curristine, T., Z. Lonti and I. Joumard (2007) "Improving Public Sector Efficiency: Challenges and Opportunities", *OECD Journal on Budgeting*, 7(1), pp. 161-201.

Curristine, T. (2005a) "Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire", *OECD Journal on Budgeting*, 5(2), pp. 87-131.

Curristine, T. (2005b) "Government Performance: Lessons and Challenges", *OECD Journal on Budgeting*, 5(1), pp. 127-151.

Hawke, Lewis, (2007) "Performance Budgeting in Australia" by Lewis Hawke. OECD Journal on Budgeting, http://www.devex.com/en/articles/global-health-what-you-need-to-know .

Joyce, P. (2003) *Linking Performance and Budgeting: Opportunities in the Federal Budget Process.* Washington, D.C.: IBM Center for the Business of Government.

Joyce, P. (2011) "The Obama Administration and PBB: Building on the Legacy of Federal Performance-informed Budgeting?" *Public Administration Review*. May/June.

Küchen, Thomas and Nordman, Pertti (2008) "Performance Budgeting in Sweden," *OECD Journal on Budgeting,(8)1.*

Manyika, James, et al. (2011) *Growth and Renewal in the United States: Retooling America's Economic Engine.* McKinsey Global Institute: February.

Metzenbaum, Shelley H. (2009) *Performance Management Recommendations for the New Administration.* IBM Center for the Business of Government.

Newcomer, K. and Redburn, F.S. (2008) *Achieving Real Improvements in Program Performance and Policy Outcomes: The Next Frontier.* Washington, D.C.: National Academy of Public Administration.

Noman, Zafar (2008) "Performance Budgeting in the United Kingdom," *OECD Journal on Budgeting,(8)1.*

Office of Management and Budget (2011), "Delivering High-Performance Government," chapter 7, *Analytical Perspectives, Budget of the United States Government*, FY 2012.

OECD (2005), *Modernising Government: The Way Forward*, ISBN 978-92-64-01049-9, € 30, 236 pages.

OECD (2007), *Performance Budgeting in OECD Countries*, ISBN 978-92-64-03403-7, € 40, 222 pages.

Organization for Economic Cooperation and Development (2008) *Performance Budgeting, A User's Guide.* Policy Brief, Paris, March.

Osborne, David, and Hutchinson, Peter (2004) *The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis.* New York: Basic Books.

Posner, P. and Fantone, D. (2008) "Performance Budgeting: Prospects for Sustainability," in Redburn, Shea, and Buss, *Performance Management and Budgeting, How Governments Can Learn From Experience.* Armonk, NY: M.E. Sharpe.

Redburn, F. Stevens (2006) *Rethinking Federal Low-income Housing Policies.* Washington, D.C: New America Foundation working paper.

Robinson, Marc, and Last, Duncan (2009) *A Basic Model of Performance-based Budgeting.* Washington, D.C.: International Monetary Fund, September 1.

Schick, A. (2003), "The Performing State: Reflection on an Idea Whose Time Has Come but Whose Implementation Has Not", *OECD Journal on Budgeting*, 3(2), pp. 71-103.

U.S. Government Accountability Office (1998) *The Results Act: Assessment of the Governmentwide Performance Plan for FY 1999*. GAO-AIMD-GGD-98-159.

U.S. Government Accountability Office (2005a) *Performance Budgeting, Efforts to Restructure Budgets to Better Align Resources with Performance.* Washington, D.C.: GAO-05-117SP, February.

U.S. Government Accountability Office (2005b) *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690.

U.S. Government Accountability Office (2008) *Federal Disability Programs: Coordination Could Facilitate Better Data Collection To Assess the Status of People With Disabilities*, GAO-08-872T, June 4.

U.S. Government Accountability Office (2011) *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars and Enhance Revenue.* Washington, D.C.: March.