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CALIFORNIA STATE GOVERNMENT ATTEMPTS MANAGING FOR RESULTS:

A CRITICAL ASSESSMENT OF RECENT DEVELOPMENTS

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Public Administration

by

Barbara Gallert

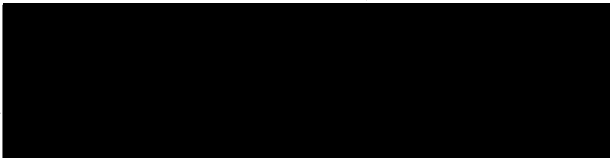
September 1999

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ABSTRACT

The State of California introduced several management tools for reinventing state government during the early 1990's. Mirroring the national movement of Managing for Results, the state implemented a performance-based budgeting pilot project, and required agency strategic planning. A comprehensive discussion of the legislation, effectiveness, and the results of these two programs is given. An analysis of the role of the California Department of Finance is also provided in order to gain further insight.

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Chapter I

INTRODUCTION

Like an infant taking its first tenuous steps, the State of California is undergoing a process of reinvention. Step by step, the state is embracing a burgeoning national movement that is known as Managing for Results.

This movement, which focuses primarily on what government is accomplishing, and not what they are doing, has slowly evolved during the past two decades. Public administrators, nationally and world wide, have begun to recognize that government needs to restructure based on customer-driven missions.

Transforming government into an accountable, proactive, and valued entity is a task that would surely challenge Queen Calafia, the noble ruler of the mythical island of California. But the pressure for reinventing government on the federal, state, and local level has become a cry that must be answered.

In this age of open skepticism of government, the clamor for broad public management reform can no longer be ignored. Bureaucrats entrenched in archaic civil service systems are now faced with demands to provide consumer-driven, quality services.

This paper will lay the foundation for generating a better understanding of the "reinventing government"

movement. At the federal level, the National Performance Review will be examined, as will the groundbreaking legislation known as the Government Performance and Results Act as passed by Congress in 1993.

At the state level, the effort made by California to provide more accountable government through strategic planning and performance-based budgeting will be reviewed. These two concepts work in conjunction with each other.

Performance-based budgeting requires strategic planning of an agency's mission, goals and objectives, and requires a mechanism that produces quantifiable data. This data in turn will provide the means to measure the agency's outcomes, or whether it has accomplished what it has been empowered to do.

Enacted during a time that parallels the national movement, the State of California has also passed performance-based legislation. The Performance and Results Act of 1993, and the State Government Strategic Planning and Performance Review Act passed in 1994, are some of the first steps taken by California to make government more accountable.

The Department of Finance was required by the state to undertake a performance budgeting pilot project that involves four departments. The results of this initial project involving the Departments of General Services, Parks and Recreation, Consumer Affairs, plus the Stephen P. Teale Data Center will also be examined.

Along the way, this dialogue concerning Managing for Results will take a critical look at performance measurement systems and the true value of implementing these efforts. A greater understanding of this subject is paramount because every level of government is increasingly aligning its services and strategic planning based on a system of measurement.

Setting the stage to develop a better picture of the national reform movement and how it has impacted government at the state and local level is a daunting task. To provide the reader with a comprehensive picture of the subjects under discussion, many methodologies will be employed. They include relevant academic literature, current government documents and interviews with key state personnel.

While the impacts of this public management reform effort are still too early to gauge, the underlying goal of Managing for Results is to restore the public's confidence in government. In spite of recent national events and administrations, the long-lasting impact of changing government should result in increased understanding and respect for this institution.

The true beauty of Managing for Results is that the average citizen can become a key player and influence steps that government is using to reinvent itself.

Chapter II

THE ELUSIVE PROMISE OF CHANGE

We've all heard of the \$600 government issue toilet seats, ash trays costing hundreds of dollars each and the Department of Housing and Urban Development (HUD) scandal involving political favoritism. Constant investigations into the Clinton Administration have also generated numerous insights on the workings of government.

According to a report issued by Vice President Al Gore as part of the National Performance Review, entitled Common Sense Government: Works Better and Costs Less, in 1963 more than three-quarters of Americans "believed the federal government did the right thing most of the time."¹ Nowadays this figure has plummeted to less than 20 percent as cited by Gore in his 1995 report.

What has changed in the way government operates in the last 36 years to warrant such a drop in the polls? Even before the latest Washington scandals and impeachment efforts, the public had seemingly lost its faith in an institution which was held with a large measure of respect

¹ Vice President Al Gore, Common Sense Government: Works Better and Costs Less, Third Report of the National Performance Review, (Washington DC., U.S. Government Printing Office, 1995) 15.

for so long. Quite simply put, one of the major reasons this has occurred is because the federal government has not changed with the times.

Just as private industry has always tried to meet consumer demands, Washington is finally in the process of changing the way it does business. The age of industrial-era bureaucracies can no longer function and compete in today's information age. Above all, these large bureaucracies, as noted by Vice President Al Gore, are so wasteful that they no longer serve the American people.²

The landmark Government Performance and Results Act, passed by Congress in 1993, attempts to address many of the concerns with today's federal government. The legislation commits the federal government to improve the efficiency and effectiveness of its programs through a system of goals for program performance and for measuring results.

Federal managers are now required to clearly state objectives, to justify budgets based on measurable progress against objectives and to establish baselines. This legislation also requires participating agencies to develop long-term strategic plans that will be used as benchmarks for review of the set objectives. As a result of the Government

² Vice President Al Gore, Creating A Government That Works Better and Costs Less, Report on the National Performance Review, (Washington DC., U.S. Government Printing Office, 1993) 3.

Performance and Results Act, accountability and performance of federal managers and employees will be promoted.

As part of the 1993 legislation, every federal agency was required by the end of the 1997 fiscal year to have a five year strategic plan in place. In addition, by the fall of 1997, every federal agency had to submit an annual performance plan to the Office of Management and Budget.

Senator William V. Roth (R-DE) is credited with first introducing the "Federal Program Performance Standards and Goals Act of 1990, (SB 20)." The bill was first sent to the Committee on Governmental Affairs for hearings which first took place in May, 1991, and continued for another year. Committee revisions made to the bill included the request for pilot programs to be enacted before full adoption of the bill by the federal government. The modified bill, which was by then renamed as the "Government Performance and Results Act of 1992" was reintroduced by the Committee on Governmental Affairs in January, 1993. The Committee voted to support the bill on March 27, 1993.

In the House of Representatives, H.R. 826 was introduced on February 4, 1993, by Reps. Conyers (D-MI), McDade (R-PA) and Clinger. The General Accounting Office, which had produced over 70 reports utilizing performance measures since 1973, also supported the bill, as did the Office of Management and Budget and the National Performance Review.

The House passed the bill on May 25, with the Senate giving its approval on June 23.

President Clinton signed the Government Performance and Results Act into law on August 3, 1993, at which time he was credited with calling it "an important first step in the efforts to reform the way the federal government operates and relates to the American people."³

This legislation takes the following steps to improve how the federal government operates:

- systematically holding federal agencies accountable for achieving program results;
- initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against these goals, and reporting publicly on their progress;
- improve federal program effectiveness and public accountability by promoting a new focus on results, service quality, and public satisfaction;
- help federal managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality;
- improve congressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of federal programs and spending; and
- improve internal management of the federal government⁴

³ Government Performance and Results Act of 1993. Available (Online) <http://www.acf.dhhs.gov/ACFPrograms/CSE/rpt/grprct.html>.

⁴ Government Performance and Results Act of 1993. Available (Online) <http://www.acf.dhhs.gov/>

With the announcement of these few passages, a "quiet" revolution began in earnest. After years of focusing on what the federal government is supposed to be doing, the emphasis has now shifted to attempting to measure what government is actually accomplishing. This revolution has now impacted all levels of government with the widespread implementation of Managing for Results.

Managing for Results represents a change from the rules of traditional public management. Established theories favor tight controls over budget and staff, with the responsibilities and accountability of top management clearly defined. Characteristics of results-oriented management include: an organization that spells out and defines its mission and goals; the development of measures and plans that are linked to the mission; and, the use of information about performance to improve the program results.

Managing for Results also involves several key phases and management tools as identified by Randi Miller and Guenther Kress in their paper entitled, "Managing for Results: An Assessment of the Newest Paradigm of Public Management Reform in the United States." The model developed by Miller and Kress reflects practices that the pioneers of Managing for Results have used throughout various levels of government.

According to their five step model, the first process in implementing Managing for Results involves the use of strategic planning in order to identify the desired mission, performance, goals and outcomes of an agency, department, or commission. Step two in this process is the actual development and implementation of strategies by using one or more of several tools, including operational planning, entrepreneurial management practices, reengineering or total quality management.

The third key phase in this process integrates performance measurement through the evaluation of outcomes. Step four is compiling a performance report with the assistance of a management information system. The final step of this process is the use of performance information that will result in shaping the budget process, policy development, and decision-making related to the program. Tools used to enact this last step include performance-based budgeting, capacity building, managerial decision making and policy analysis.⁵

⁵ Miller, Randi L. and Guenther G. Kress, Presentation at the International Speyer Workshop on Assessing and Evaluating Public Management Reforms Post Graduate School of Administrative Sciences and Research Institute of Public Administration. Speyer, Germany 1996, page 43.

While this method of management reform has been used by private industry, its application by government is still relatively new with the exception of the services provided through the General Accounting Office (GAO).

The General Accounting Office audits and analyzes federal programs as directed by Congress. Formed by the passage of the Budget and Accounting Act of 1921, its initial function was in the capacity of financial auditor. As an agency independent of the executive branch of government, the Office of the Comptroller General serves to evaluate the effectiveness of federal programs. The General Accounting Office, in addition to the Office of Management and Budget (OMB), and the National Academy of Public Administration strongly endorsed the passage of the Government Performance and Results Act.

As early as the 1970's, the GAO began to set up a system to measure the productivity of the federal work force. A booklet printed by the General Accounting Office in 1975 entitled, "Can Federal Productivity Be Measured?" mentions in the introduction that..."We know now that productivity measurement in government can be an aid to effective management. Used properly, it will contribute measurably to more efficient, less costly government."⁶ Of course, the

⁶ Comptroller General of the United States, Can Federal Productivity Be Measured? (Washington, 1975) I.

definition of productivity is a reflection of the 1970s, for the text goes on to define productivity as a ..."product of many factors but is usually measured by dividing units produced by man hours worked."⁷

According to a report issued in conjunction with the National Performance Review entitled, Creating a Government that Works Better and Costs Less, Managing for Results within the federal government means that the President, working as a team with his cabinet, needs to create a sense of purpose and vision. Included among the actions of this team would be to highlight improvements made in management and the achievement of results. The system of executive branch government governance would involve senior staff in the leadership and management process.

In addition, in order to adapt the philosophy of Managing for Results, the President shall instruct each agency head to select a chief operating officer, someone preferably already in the agency, to have line management responsibility. The President should then create a council representing all major federal agencies, with each agency having an appointed representative. It is the responsibility

⁷ Comptroller General, 4.

of this council to take the lead in reinventing programs and systems of management in support of the President's agenda. Lastly, the council is responsible for creating an atmosphere conducive to the acceptance of a management approach dedicated to Managing for Results.⁸

Within the federal government the concept of Managing for Results is patterned after management concepts outlined in the Government Performance and Results Act of 1993, as well as the Malcom Baldrige National Quality Award, which recognizes quality improvements in the private sector. The National Performance Review, which is based after an innovative program first introduced by Texas governor Ann Richards and Comptroller John Sharp, began in March, 1993, when President Clinton asked Vice President Al Gore to lead a team of seasoned federal employees to review the federal government for a six month period.

The initial focus of this review was to look at how government should work, not on what it should do. Even the name of these federal efforts to reform government has become synonymous with a broad reform, or a reinvention of government movement. When the White House first issued its guiding principles, they included the directive that before the federal government asks Americans to do more, American

⁸ Gore, Creating a Government, 1-2.

government must learn to do with less. It's time for government to show that it too, can live with less.

Under the National Performance Review, the objective is improving services and expanding opportunity, without increasing the size of bureaucracy. The effectiveness of private industry is noted as many successful companies have restructured their organizations in order to match global competition. The United States government, therefore, should also re-examine its policies and missions on a yearly basis, just as companies in the private sector do.

The next main principle spelled out in the National Performance Review includes the directive that the government should actually listen to the citizens of America, its "customers." It is vital to be responsive, successful, and positive in providing services, choices and allowing citizens a greater say in how their government operates.

The last guiding directive of the review notes that in order for change to occur, it must start within the federal government, and come from the workers who operate the bureaucracy. In other words, government must first be responsive to those individuals who work within the system, for they should know how to improve day-to-day operations of

their respective agencies (granted that someone will listen to their input).⁹

Under the directive of the National Performance Review, basic concepts such as: does this program work?; does it waste taxpayer dollars?; do we provide quality customer services, encourage innovation and reward hard work?; are questions asked by managers, auditors and front-line employees.

To date, preliminary observations on the effectiveness of the Government Performance and Results Act have been gathered by the United States General Accounting Office. While testimony given to the GAO indicates that some federal agencies are making progress in implementing meaningful, well-defined and sound performance measures, most agencies have a long way to go.

Information gleaned from the GAO website indicates that the following challenges to the federal government are emerging as it attempts to implement Managing for Results: 1) generating and sustaining top management's commitment to the Government Performance and Results Act; 2) creating the infrastructure for federal agencies to use the act and

⁹ The White House-Office of Domestic Policy, A Revolution in Government, (Washington, 1993) Available (Online)<http://gopher//gopher.tamu.edu.70/00/data/politics/1993/revolution.303>

process the performance information produced; 3) developing incentives to use the act, and encourage management to change the way it does things; 4) introducing the act into daily procedures; and 5) strengthening congressional oversight.¹⁰

In addition, while Managing for Results has received bipartisan support at all levels of government, a GAO survey conducted in 1997 indicates that only 11 out of the 24 executive branch agencies studied have informed congressional committees of their strategic plans. Meetings that have taken place have been reported to be very limited in scope.

The 1997 International Speyer Workshop addressed the topic, "The Political and Judicial Implications of New Public Management" and further insights were given on the status of implementing Managing for Results. During a presentation made by Guenther Kress, Randi Miller and Catheryn Grier, the effective institutionalization of Managing for Results was discussed.

According to the presenters, the following political prerequisites need to be followed: 1) that effective strategic planning will happen only if agencies and legislative bodies work with one another; 2) that the executive branch is guided by high quality political

¹⁰ Managing for Results: Status of the Government Performance and Results Act Available (Online)
<http://frwebgate.access.gpo.gov/cgi-bin>

leadership; and 3) that underlying structural changes in an agency's operation must occur in order to reduce fragmentation in the delivery of services.¹¹

While the adoption of Managing for Results is still searching for a foothold at the federal level, the impact of this new management style has already been felt at the state and local levels of government. A further examination of Managing for Results continues as this paper now takes a closer look at the State of California and its response to the increasing challenges faced by government. An overview of California government will be given in order to achieve a better understanding of how this bureaucracy operates.

¹¹ Kress, Guenther G., Randi L. Miller, and Catheryn Grier. Presentation at the International Speyer Workshop on the Political and Judicial Implications of New Public Management, October 15-17, 1997: An Examination of the Political Prerequisites for the Institutionalization of Managing for Results in American Public Management. Speyer, Germany, 1997.

Chapter III

MANAGING FOR RESULTS CALIFORNIA STYLE

The State of California, described routinely as being a "state of mind" and a land of contradiction and paradox, features the largest population in a nation that has a rich, multi-cultural heritage. As the state observes its sesquicentennial, it truly has much to celebrate, especially the national and world-wide prominence it enjoys.

As the most populous state in the union with more than 33 million citizens, it receives 54 electoral votes, or one fifth of the 270 total votes necessary to elect a president. Two of the last five presidents, Richard Nixon and Ronald Reagan have come from California, while several of the current U.S. Supreme Court Justices graduated from Stanford Law School.

The national prominence the state has achieved stems largely from three traditional sources of political power — namely population, publicity and money. If the state were ranked as a nation, the annual yield of goods and services produced would place it eighth in the world.¹² Politicians from everywhere flock to California, not only for

¹² Sohner, Charles P, and Mona Field. California Government and Politics Today. New York: Harper Collins College Publishers, 1993. pp. 1-2.

endorsements, but also to receive donations that stem from prominent business and entertainment leaders.

The state's executive branch is lead by the governor who is elected every four years, with a two term maximum. Just as with the president of the United States, the governor's powers are balanced by the state legislature and the judicial branches of government. In addition, the governor has the power to appoint people to commissions and boards, but most of these appointments must be confirmed by the state senate.

One of the primary responsibilities of the governor is the fiscal affairs of the state; namely the budget, which is subject to changes as approved by a 2/3 majority of the Legislature. The governor also has the power to diminish or delete items in the budget passed by the Legislature. This "line-item" veto is a very powerful tool that California governors wield. It should also be noted here that the Department of Finance reports directly to the governor.

The state constitution requires that the governor present a budget each January, which estimates the revenues and expenditures for the upcoming fiscal year that begins on July 1st. During Ronald Reagan's eight-year stint as governor, the budget doubled from \$5 billion to \$10 billion, whereas by the time Pete Wilson introduced the 1997-98 budget more than twenty years later, it totaled \$66.6 billion.

The battles between the Senate, Assembly and the governor over the passage of the budget are legendary, and one of the major reasons that the state has turned to reforming the way it does business. The longest budget gridlock was during the 1992-1993 budget year when it took a record breaking 64 days before the budget was passed.

Months before this budget crisis came to a head, SB 500, known as the "Performance and Results Act of 1993," was introduced in the senate. Authored by Senator Frank Hill (R), the bill recognized that California had no formal plan to require state agencies to operate more efficiently.

With the passage of the "Performance and Results Act of 1993" in September, California effectively set its course for aligning itself with the philosophies of Managing for Results. The general provisions of the bill note that state agencies and departments that participate in a performance budgeting pilot program will set strategic plans and use budget contracts. As a result of participating in this pilot program, increased managerial accountability and flexibility should occur.

Article Two of the bill articulates the principles of the pilot program that the Department of Finance is required to undertake. Four departments are to be selected, and then directed to work with the Department of Finance in a mandate to adopt a performance budgeting program for the 1994-95

fiscal year. The pilot project developed by the Department of Finance follows the principals listed below:

- a) Strategic planning is central.
- b) Outcome measures are the primary focus of management accountability.
- c) Productivity benchmarks measure progress towards strategic goals.
- d) Performance budgeting may work in conjunction with total quality management, which emphasizes an orientation toward customer service and quality improvement.
- e) Budget contracts between the legislature and the executive branch require departments to deliver specified outcomes for a specified level of resources.
- f) Budget contracts shall include evaluation criteria, and shall specify "gainsharing" provisions, in which 50 percent of savings resulting from innovation are reinvested in the program.
- g) Managers are provided sufficient operational flexibility to achieve stated outcomes.
- h) Legislative involvement is critical and is appropriately focused on strategic planning and performance outcomes.
- i) Innovation is rewarded, not punished.¹³

The Department of Finance selected the following four departments for the performance budgeting pilot: the Departments of Consumer Affairs, General Services, Parks and Recreation and the Stephen P. Teale Data Center.

¹³ The Performance and Results Act of 1993. Available (Online) <http://www.leginfo.ca.gov/pub/93-94/bill/sen/sb-045/-0500/>

These departments were chosen because they were ideal candidates for testing the pilot program. Each department was committed to the test project, was already well-managed, are medium sized, were prepared to start with strategic planning, and were departments that were internal service agencies and public service agencies.

Under Senate Bill 500, the Department of Finance is required to evaluate the pilot program and make a report to the chairperson of the Joint Legislative Budget Committee on or before January 1, 1996. In this report, the effectiveness of performance-based budgeting must be examined, along with whether government services have become any more cost-efficient and innovative.

While this paper will discuss performance-based budgeting in the pages ahead, it is important at this juncture to briefly give examples of this method of budgeting. Instead of measuring the effectiveness of a program based on the number of services provided (defined as outputs), a program's success is evaluated by outcomes. An outcome can be defined as the results achieved by a program as they relate to the organization's mission.

For example, the Department of Parks and Recreation could measure the number of visitors to state parks as one indicator that their department is meeting its goals. Indeed, when using performance-based budgeting, the use of outcomes takes precedence.

An outcome for Parks and Recreation could measure the level of satisfaction that visitors have after a trip to a state park. This information could be gathered through the use of surveys.

When the Performance and Results Act was passed by the California Legislature in September, 1993, it was done so with the expectation that there would be potential cost savings, improved program performance, greater accountability in the way state services were administered, and enhanced citizen satisfaction in the services provided. The results of these performance budgeting pilot programs will be discussed in further detail later on in this paper.

At this juncture it's necessary to introduce another innovative bill passed by the State of California in 1994. The State Government Strategic Planning and Performance Review Act (AB 2711) builds upon the progress forged in Senate Bill 500. In addition to stating that strategic planning is a prerequisite for effective performance budgeting, the bill embraces many of the doctrines proposed in Managing for Results.

Introduced by principal co-authors Assemblyman Bronshvag(D), and Senators Marks(D), McCorquodale(D) and Torres(D), among other members of the Legislature, AB 2711 directs the Controller, the Department of Finance and the Bureau of Finance in conjunction with the Legislative Analyst

Office, to undertake a plan for starting performance reviews of all state agencies.

The bill requires the Department of Finance to question state agencies for information regarding their strategic plans. Assuming they have one in place, the question is whether the Department of Finance recommends further development or updating of that plan. Agencies that have been selected to develop a strategic plan would be required to report to the governor and to the Joint Legislative Budget Committee. The report submitted would be required to entail the steps each agency is taking to develop and undertake a strategic plan.

The general provisions included in this act provide much insight into how the legislature views the operations of California state government. As examples, excerpts of these provisions note the following:

a) Waste and inefficiency in state government undermine the confidence of Californians in government and reduces the state government's ability to adequately address vital public means.

b) State government, in many instances, is a morass of bureaucratic red tape and regulations that ultimately stifle economic revitalization and further alienate the people the agencies were created to serve.

c) Legislative policymaking, spending decisions, and program oversight are seriously handicapped by insufficient attention to program performance and results.

d) Many of the basic components of performance-based government are missing from day-to-day operations in state government. These include strategic planning, performance measurement, management information systems,

performance budget contracts, and management flexibility...¹⁴

Implementation of this bill follows an exacting set of guidelines that must be carried out. Beginning March 1, 1995, and each March thereafter, it is the responsibility of the Department of Finance to follow through on a number of items after an initial consultation with the Legislative Analyst and the Bureau of State Audits.

This responsibility includes conducting an extensive survey of all state agencies, commissions, offices and departments (with the exception of the University of California and agencies mentioned in Article IV or Article VI of the California Constitution). The purpose of the survey is to determine who has completed or revised strategic plans, and the dates when this was last done. Those entities that have not engaged in strategic planning in any form are also identified.

If an agency has previously undergone strategic planning, it is the responsibility of the Department of Finance to determine whether their plan needs to be updated. While the Department of Finance needs to submit the results of their survey by March 1 of every year, it is the responsibility of each agency, commission, or department to

¹⁴ The State Government Strategic Planning and Performance and Review Act. Available (Online) <http://www.leginfo.ca.gov/pub/93-94/bill/asm/ab-2701-2750>

report to the governor and the Joint Legislative Budget Committee on the development/and or status of their strategic plan by April 1, 1995, and by each April 1 thereafter.

As defined by the articles of the State Government Strategic Planning and Performance Review Act, the report each agency, commission and department makes shall be comprised of the following elements: 1) a detailed listing of all the components in the strategic plan, 2) a description of the process for developing and adopting the strategic plan, and, 3) a timetable indicating when the plan will be complete.

In addition, when adopting the strategic plan, each agency, commission and department shall solicit feedback from various entities including employee organizations, the legislature, suppliers and contractors, and client groups served.

While these developments were occurring in aligning California with the national movement of Managing for Results, another key entity was introduced statewide in the form of the California Constitution Revision Commission. Under the directive of the governor and the legislature, this 23-member commission was empowered to review the California state government.

Chairman William Hauck observes in the opening statement of the commission's final report that the state government that was created in the nineteenth century, will not be

adequate for the twenty-first century. In addition, the legislation that created the commission, Senate Bill 16 authored by Senator Lucy Killea in 1993, notes that the Legislature finds that the budget process enacted in California to be totally inadequate in meeting current demands.

Over the course of several years the Commission held extensive meetings, workshops and public hearings in order to carry out its mission of reviewing the way state and local government operate. Their findings mirror conclusions previously noted, that government must learn to operate more efficiently, using existing resources. Voters don't feel that their taxes are being used wisely. Further, with over 7,000 units of local government in the state and more than 15,000 elected officials, the bureaucratic structure as we know it is overpowering, to say the least.

The California Constitution Revision Commission was asked to focus on the following key objectives:

- a) Examine the structure of state government and propose modifications that will increase accountability.
- b) Analyze the current configuration of state and local government duties and responsibilities and review the constraints that interfere with the allocation of state and local responsibilities.
- c) Review the state budgetary process, including the appropriate balance of resources and spending; the fiscal relationship between federal, state, and local governments; and the constraints and impediments that interfere with an orderly and comprehensive consideration of fiscal issues.

d) Consider the feasibility of integrating community resources in order to reduce duplication and increase the productivity of local service delivery.¹⁵

The commission arrived at some interesting observations about the executive function of government and the budget process that are of value to the discussion at hand. For instance, their final summary stated that one of the major goals, if not the primary objective, of the executive branch should be to promote efficiency and responsiveness in the implementation of state policy.

Another remark germane to this discussion, was that the governor and the lieutenant governor should be from the same party, so they can work together as a team. In California, these two key figures are often from opposing parties and the resulting struggle of who does what when the governor is out of the state has provided much debate over the years.

On the subject of budgetary matters, the report seeks to improve the state budget process through the creation of a long-term vision that brings with it increased fiscal discipline. The report goes on to note that there is no constitutional requirement for the state to maintain or enact a balanced budget. In addition, once a budget becomes unbalanced, there is no system in place for rebalancing it.

¹⁵ California Constitution Revision Commission, Executive Summary: Final Report and Recommendations to the Governor and the Legislature. Available (Online) <http://library.ca.gov/ccrc/pdfs/execsum.pdf>, 1996, page 5.

Other observations made by the commission are also of some significance. Because of the research and public forums conducted by the commission, the following conclusions surfaced: 1) the governor should be required to submit, with the legislature adopting, long-term goals for the state; 2) these goals should be related to performance measures linked to the budgetary process; and, 3) the governor must submit a four-year strategic plan to the legislation for deliberation and adoption.

This four-year strategic plan should identify policy and fiscal priorities of the State of California. In addition, performance standards that will gauge the productivity of state expenditures should be noted. Finally, a capital facilities and financing plan and a description of how programs will operate between the local and state governments should be noted in the strategic plan.

The conclusions drawn by the California Constitution Revision Commission mirror many of the observations and legislation previously noted. To what degree the commission's recommendations will be adopted by the governor and the legislature remains to be seen. The commission finished its work as of June, 1996, and is no longer in operation. However, in examining the observations in the final report regarding strategic planning specifically as it relates to budgeting, some inroads have been made.

Chapter IV

CALIFORNIA'S PERFORMANCE-BASED BUDGETING PILOT PROJECT

Now that a foundation has been built that establishes California's initial effort to implement Managing for Results, it is imperative to take this conversation to the next level. One needs to examine the actual implementation of performance budgeting and strategic planning in order to determine the effectiveness of California's attempt to reinvent itself.

One month after the Performance and Results Act (SB 500) was approved by the governor in September, 1993, the Legislative Analyst's Office (LAO) issued a report that reviewed the impact of this legislation. The summary of this paper found that the proposed pilot project (working with the four departments selected by the Department of Finance) fails to articulate enough details about how to enact performance based budgeting.

This report, entitled "Performance Budgeting: Reshaping the State's Budget Process," also stated that the timeline outlined in the bill was already running behind schedule. Despite these criticisms though, the LAO concedes that performance budgeting does have merit and is of value.

This method of budgeting is seen as being important because the emphasis is on program results. Because of

focusing on program outcomes, there is an opportunity for improving the delivery of services offered.

It also bears mentioning as a side bar to this report that a direct reference is made to the Clinton Administration effort to upgrade how government operates. It also cites the 1993 release of the "Report of the National Performance Review" regarding how to improve the federal government and its equal application at the state level.

This LAO report examines how performance-based budgeting is working in five other states, and provides recommendations in how to improve California's effort to fully utilize this management tool. While one month after the signing SB 500 may be premature to fairly evaluate how performance budgeting will work, some of the concerns expressed by the LAO are worth noting.

The Legislative Analyst's Office recommends that to realize the benefits of performance-based budgeting, the Legislature needs to change how it authorizes funds for the four pilot projects and how to proceed with legislative oversight. In other words, the Legislature should focus on long-lasting program goals and outcomes instead of expecting an immediate return.

These recommendations also suggest that a joint legislative oversight committee should be established. This committee would be comprised of members from both houses, including representation from policy and fiscal committees.

As a result, the four pilot departments' performance and budgets can be properly accessed.

This paper also cites a review of performance budgeting as generated by the federal General Accounting Office (GAO). In focusing on five states (Hawaii, Connecticut, Iowa, North Carolina and Louisiana) the GAO found that these states reported mixed results in their efforts to implement performance budgeting. It was also noted that asking an agency or department to undertake performance measurements takes some time to develop and implement.

Overall, conclusions drawn by the GAO in reviewing performance-based budgeting, and the budget process itself, of the five states include:¹⁶

- This process provided helpful budgetary decision-making information, but did not fundamentally change the budget process.
- It was not the "final arbiter" of funding decisions given the political nature of the budget process.
- It gave managers greater decision-making flexibility.
- Time, resources, and data constraints limited the use of performance information by the legislative and executive branches.
- Legislative and executive budget decision makers were dissatisfied with and questioned the reliability of performance measures.

¹⁶ Dell'Agostino, Bob and Craig Cornett. Performance Budgeting: Reshaping the States's Budget Process Sacramento: Legislative Analyst's Office, 1993. pp. 3-4.

- Performance budgeting complicated the budget process by highlighting trade-offs among the programs competing for limited-resources.

According to the Legislative Analyst's Office, California's administration views performance-based budgeting as a management tool for large savings, increased program performance, the potential for enhanced citizen satisfaction and for increased accountability in how state services are delivered.

Based on the LAO interpretation, the administration perceives performance budgeting to have seven key elements including: 1) yearly contracts between legislative budget writers and the administration; 2) operational flexibility, which in turn could provide exemption from statutory requirements; 3) incentives for efficiency and performance, including the opportunity to reinvest 50 percent of any funds saved into discretionary savings; 4) focus on long-term strategic planning; 5) development of performance measurements; 6) benchmarks for measuring the efficiency of an operation; and 7) that a commitment to quality improvement is made.¹⁷

The LAO then goes on to critique the selection of the four departments that were chosen to participate in the pilot project. As mentioned earlier, the Departments of General

¹⁷ Dell'Agostino, Bob and Craig Cornett, page 5.

Services, Parks and Recreation, Consumer Affairs and the Stephen P. Teale Data Center are the pilot departments. The LAO, at this early stage in implementing performance budgeting, states that these entities do not represent a diverse cross section within state government.

Two pilot departments, General Services and the Stephen P. Teale Data Center primarily serve other state departments. Of the other two, only Parks and Recreation has a substantial General Fund allocation and this amount is very modest when examining all the other state departments' budgets.

Given California's past annual struggles to get the budget approved and funded, the LAO recommends that another high performance department be selected for this project. The Department of Justice is suggested as a for-instance, or the Department of Rehabilitation. The Justice Department has a larger budget, and the Department of Rehabilitation operates with a traditional caseload budget. Either could perhaps provide better key input on performance measurements.

While the pilot project has rewards for good performance (the departments have the opportunity to reinvest 50 percent of any savings achieved during the year, and certain external controls may be relaxed) there are no sanctions in place for poor performance. Nor, as the LAO report points out, are any guidelines in place for independent analysis of performance results.

This insightful report arrives at many recommendations regarding the implementation of performance-based budgeting but for the sake of this discussion, one last point should be noted. The LAO observes that in order for performance-based budgeting to deliver potential improvements, the state legislature needs to alter its general view of the budget process.

Forming a joint legislative committee would assist with facilitating this new management tool. In addition, the legislature, during the course of the budget process, needs to display a willingness to lessen its control over some programs and departments. The body must learn to focus on new management tools for the program's mission, outcomes and goals instead of traditional forms of measurement such as inputs and processes. Last, the legislature must be realistic and revisit the timeline set for implementing these reforms; perhaps taking longer to enact the measures.¹⁸

Building on the preliminary observations made in October, 1993, there are several reports that were issued three years later. By 1996, performance budgeting had years to take effect, and it's timely to make an assessment at this juncture.

¹⁸ Dell'Agostino, Bob and Craig Cornett, page 11.

The Department of Finance (DOF), assigned to undertake this project with the four pilot departments, issued an evaluation of the pilot project in January, 1996. Within the preface of their report, entitled "The Performance Budgeting Pilot Project: An Evaluation of its Status," the DOF states "....that because the pilot project is still in the development stages, this report evaluates the Project's status with respect to these and other issues."¹⁹

Three years after the passage of SB 500, the Department of Finance views that in the short-term, the program has been a success. When it comes to long-term evaluation of its success, the DOF believed that it's too early to make a determination. The pilot departments were still putting the preliminary tasks and activities in place, including refining and developing on-going performance measurements and establishing data collection systems, among other items.

The DOF interviewed key staff within each pilot department and also reviewed each department's plans, budgets, performance measurements and data to assess the project.

It also should be noted at this juncture that the California Conservation Corps replaced the Stephen P. Teale

¹⁹ California State Department of Finance, The Performance Budgeting Pilot Project: An Evaluation of its Status, Sacramento, 1996. page I.

Consolidated Data Center, which no longer participated in the project after the 1994-1995 fiscal year. (When a key staff member in the Department of Finance was interviewed about this development, no insight was given regarding this substitution.) The Department of Toxic Substances Control also was added in 1994, but dropped out of the pilot program a year later.

Other highlights from the Department of Finance evaluation indicate that the short term success of these pilot departments can be linked to whether they have met the legislature's performance expectations. The DOF found that Parks and Recreation and the Conservation Corps have stated their expectations in their respective Memoranda of Understandings (MOUs) to the legislature. In turn, these expectations are reflected in budgetary act language. In comparison to the departments of General Services and Consumer Affairs, performance expectations are expressed in the budget rather than in MOUs.

Once again, it bears noting that as stated in the Governor's budget summary for 1995-96... "Performance budgeting allocates resources based on an expectation of performance levels, where performance is measured in specific, meaningful terms. It focuses on outcomes, rather than inputs or processes, in deciding how to allocate

resources...."²⁰ This particular report goes on to indicate that at the time this document was issued (January, 1996) none of the pilot departments had reported any savings which could be directly linked to the performance budget process.

The Department of Finance provides their own insight on how to improve the use of this management tool. Of note is that the DOF states that the measurement of program performance should be determined as part of the program's legislated functions.

At this juncture it is helpful to introduce more insights on performance budgeting as gathered by the Little Hoover Commission on California State Government Organization and Economy. Created in 1962, the commission is an independent, bipartisan body whose goal is to promote effectiveness, efficiency and economy in state programs.

In October, 1995, the Little Hoover Commission issued a report on performance budgeting entitled, "Budget Reform: Putting Performance First." Of note in this report is that key personnel from all four pilot departments were interviewed.

The introductory section provides commentary, including the recognition that when government does the same thing over and over again, instead of engaging the average voter, it can earn the disdain of taxpayers. This in turn could lead to

²⁰ Department of Finance, p. 1.

even more restrictions at the ballot box. As a result, those limitations impact the capability of government to provide a variety of services.

In addition, because California is becoming more of a multi-cultural and less homogeneous state, it is extremely difficult to identify a common thread that all population groups can agree upon. This has a direct impact when it comes to prioritizing real needs as opposed to popular needs, and arriving at decisions about the value of potential expenditures.

The report, issued by the Legislative Analyst Office in 1993, noted that the departments selected for the pilot project were too homogeneous. By 1995 the Little Hoover Commission Report noted that the departments selected were diverse in many respects, including size, areas of responsibility and the variety of programs.

For example, the California Conservation Corps with its 415 employees and a \$56.7 million budget is minuscule compared to the Department of General Services, with 3,740 employees and a \$503.1 million budget.

The Little Hoover Commission interviewed key personnel in order to compile this report and during the research they found that many managers mentioned the lack of guidance from the Department of Finance. As a result, each department was

forced to stumble along in learning how to implement performance-based budgeting.

The Little Hoover Commission also noted that the Legislative Analyst's Office commented that there were no guidelines detailing how a department is suppose to conduct budget negotiations with the legislature. In addition, no set formats or computer applications were provided to ease the transition into creating a performance-based budgeting document.

Worse yet, comments solicited from the Department of Finance emphasize their dilemma. The DOF views the departments selected for the pilot projects as being so diverse that it would be difficult to devise a standard format for each department to follow. Rather, it is DOF's contention that each department should develop their own without any constraints.

Many of the participants interviewed by the Little Hoover Commission embraced performance-based budgeting and saw it as a positive change to the way their departments operate. However, in marked contrast to this reaction, DOF personnel did not greet performance-based budgeting as a positive change. Rather, it was viewed as just one more attempt in a long line of reforms that has limited application to the way state government should perform.

The Chief Deputy Director of the Department of Finance, LaFenus Stancell, in his July, 1995 testimony to the commission stated:

... We continue to believe that not all agencies are well suited to performance-based budgeting. Our focus should remain on those agencies whose services mirror the private sector and which have identifiable measures of performance. Some agencies administer programs for the federal government; they operate under rules that we do not control in California. Other agencies have mandated responsibilities that are not amenable to the level of discretion necessary for performance-based budgeting to succeed.²¹

In stark contrast, while the Department of Finance did not view performance-based budgeting as being successful for every agency/department, participants from pilot departments that were interviewed have a very different response. Their testimony to the Commission includes:

... We believe that all state departments should be allowed to participate in performance-based budgeting once the pilots are complete. In fact, the process by which each department must develop performance and outcome measures may lead each department to examine the reason for its existence. Any process that requires government to refocus on its activities and the necessity for its existence is worthwhile in its application. Testimony from the Department of Consumer Affairs.

... The Department of Parks and Recreation has complex programs...with numerous funding sources. It is our assessment that if the pilot is successful for (us), it can be used with all state departments.

... Regardless of whether the California pilot project is successful in changing the emphasis of budgeting from line-item expenditure control to the allocation of resources

²¹ Little Hoover Commission. Budget Reform: Putting Performance First (Report #135), October, 1995. Available (Online) at: www.lhc.ca.gov/lhcdir/135pp.html

based on program goals and measured results, the CCC is evidence of how government departments can improve management by focusing on results and efficiency. Testimony from the California Conservation Corps.

... Performance budgeting offers a new way to achieve program accountability by replacing bureaucratic controls with documented accomplishments. Performance budgeting offers opportunities to show that public expenditures result in measurable benefits. Our experience to date suggests that successful performance budgeting requires the following capabilities and characteristics: leadership, project goals and evaluation criteria, resources, standards and rational consequences. Statement made by the Department of General Services.²²

In 1996, the Bureau of State Audits was requested by the Joint Legislative Audit Committee to review the preliminary performance-based budgeting plan submitted by the California Conservation Corps (CCC). It should be noted that the CCC, which provides education, training and employment opportunities for young men and women, requested the bureau to undertake this task.

The bureau audit revealed that the CCC had prepared the appropriate documents required by the pilot project, including a strategic plan. Given that at this point in time, very little input was received from the Department of Finance, this was an admirable accomplishment. However, according to the report issued by the bureau, "California Conservation Corps: Further Revisions Would Improve Its Performance-Based Budgeting Plan," the CCC still had a way to go before implementing an effective budgeting plan.

²² Little Hoover Commission (no page number cited).

During the audit, the bureau found that while the CCC plan began with the development of performance measurements, the benchmarks did not always accurately assess the desired results or outcomes.

For instance, one measurement used was a count of the corpsmembers who completed their leadership training courses. The CCC felt that this measurement was an accurate indicator of whether or not their corpsmembers were employable.

According to observations made by the Bureau of State Audits, this measurement was not fully developed as it did not compare the employment records of those who took leadership training with those who did receive any training. By doing this, the Bureau of State Audits observed, an accurate assessment of CCC leadership training and resulting employability of its graduates could be gauged.

Another observation made was that the CCC developed performance measurements based on resources that could potentially be biased, when more accurate unbiased references were available. This observation was made based on the fact that the CCC measured work competencies by relying on its own corpsmembers' reports.

In this instance one can see that there is the potential for biased reporting. However, in addition to this information, the CCC also planned to use staff observations of corpsmembers in work situations to measure an employee's

compatibility with others. If the observations made by the CCC employees are objective, then this technique could be more accurate.

The third critique made by the bureau at this early stage in the CCC's development of performance-based budgeting was that the department had not yet written surveys for its customers. These surveys, which were to target local governments and other groups for which the CCC provides services, had not been accurately designed to find out whether the CCC was meeting the needs of its customers and the training requirements of its corpsmembers.

This report then went on to state in its opening commentary that there was concern regarding the accuracy of the data used by the CCC in its reports to the legislature. The bureau found instances where the CCC's records did not back-up reported information regarding various subjects, including the number of corpsmembers who graduated from high school.

In addition to the brief summary of major concerns made by the Bureau of State Audits, the report is also insightful because it details just how the CCC went about in implementing performance-based budgeting and developing a strategic plan. From 1994 through the 1996 fiscal year, the California Conservation Corps estimates that \$1.4 million dollars was spent on developing the strategic plan,

re-engineering business procedures and working on performance-based budgeting.

In order to develop its strategic plan, which included their mission and established general performance goals, the CCC undertook this in two phases. The first phase identified and established goals and outcomes. In order to accomplish this, the following resources were used:

- Eighteen "focus teams" made up of 146 staff members met 41 times for a total of 30,000 man-hours;
- An independent consultant evaluated the strengths and weaknesses of the CCC by surveying employees;
- Three days spent by 14 CCC employees and an independent accounting firm to synthesize the findings and recommendations of the focus teams;
- Eight staff members met 11 times as a group to write the strategic plan; and
- Eleven staff people worked part-time over a 60-day period to develop and write the operational program (which is the second phase of the process that developed measurements to gauge whether the CCC attained its goals.)²³

While the focus of this paper is not to examine each pilot department for their establishment of goals, outcomes and performance measurements, the reader who desires to learn more about this process, should refer to the above-mentioned

²³ California State Auditor - Bureau of State Audits. California Conservation Corps: Further Revisions Would Improve Its Performance-Based Budgeting Plan (Report #95124), October, 1996. page 3.

report. That document undertakes a painstaking review of what the CCC has done, and includes the input of the Bureau of State Audits. In summary, it shows how the CCC needs to realign its performance measures to support the goals and mission statements of the department.

Since the issuance of those reports on performance-based budgeting, no recent assessment of the pilot projects have been published, other than self-evaluations published by each pilot department. While each continues to implement performance-based budgeting, no non-partisan assessment of these efforts has yet been discovered by this researcher.

A recent interview with a senior finance program evaluator with the Department of Finance generated the comment that after six years of trial, it was still too soon to tell what the principal impacts of performance-based budgeting are. This person went on to add that the pilot departments will say that this endeavor has invigorated their own departments, but whether one can actually identify whether a lot has been done is another matter.²⁴

Given the input cited (and depending on whose input is the most valid) one can conclude that to date the jury is still out in California regarding whether performance-based

²⁴ Telephone interview with senior finance program evaluator, California State Department of Finance, conducted on May 7, 1999.

budgeting makes a definitive difference in how departments operate.

The pilot departments, based on the testimony excerpted from the Little Hoover Commission report, appear to be enthusiastically behind this endeavor. In direct contrast, the Department of Finance, for all intent purposes has adopted a "wait-and-see" attitude.

Chapter V

STRATEGIC PLANNING ARRIVES ON THE SCENE

Just one year after performance-based budgeting was introduced in California, strategic planning was adopted through the passage of the State Government Strategic Planning and Performance Review Act (AB 2711). This legislation, as you may recall, requires the Department of Finance (DOF) to survey agencies on an annual basis.

The purpose of this survey is to gather specific information regarding strategic plans and to assess whether agencies (or departments/boards/commissions or offices) need to update or develop a strategic plan. AB 2711 requires the Department of Finance to implement a plan for doing performance reviews of state agencies that have finalized strategic plans. This act also emphasizes that ... "strategic planning is a prerequisite for effective performance review and performance budgeting."²⁵

Since the implementation of this act in 1994, much has occurred in the state's effort to carry out this endeavor. In 1996, the DOF recommended in a report (Government Code Chapter 779) that all state agencies should be required to

²⁵ California State Department of Finance, Strategic Planning Guidelines, Available (Online) <http://www.dof.ca.gov/html/osae/stratpln.pdf>, May, 1998.

have a strategic plan. In addition, starting with the preparation of the 1998-99 fiscal year budget, all strategic plans must be linked to the budget process. Therefore, any proposed budget changes, including those involved with capital outlay, will be considered for approval only if these changes are consistent with the agency's strategic plan.

Unlike what the research on performance-based budgeting determined, the DOF in this instance has generated many guidelines and reports to assist state departments in implementing strategic planning. Budget letter number 98-07, issued by the DOF on May 6, 1998, provides a how-to outline for implementing this management tool.

In this document, concise instructions are given to all department heads, agency secretaries, and department budget officers on how to submit their agency's strategic plan for the 1999-2000 budget year. In order for each agency's plan to be approved, it had to be submitted to the governor's office by July 1, 1998 for review.

These strategic plans must be in one of two formats:

- 1) a letter from the agency head stating that there have been no changes to the strategic plan already in place (which has been previously approved by the governor's office); or
- 2) a revised strategic plan is being submitted.

In addition to various budget letters issued, a visit to the Department of Finance website reveals a 40-page document entitled, "Strategic Planning Guidelines." Within this manual

instructions are given to assist an agency in implementing a strategic plan. A direct reference is made to the fact that "strategic planning is managing for results" and that..." strategic planning considers the needs and expectations of customers and stakeholders (including policy-makers) in defining missions, goals and performance measures."²⁶

This document also illustrates the link between strategic planning and budgeting in that these two tools are integral components of good management. Thanks to strategic planning, an agency's direction can be charted and guided with the budget providing the resources necessary to implement the plan. In addition, the action plan component of the strategic plan, along with any performance measures, offer the strongest links between the operating and capital outlay budgets.

For example, in a 1998 report issued by the Department of Parks and Recreation that evaluates their participation in performance-based budgeting, a direct correlation between performance measures and the outlay of funds is made. Under the subject "Facilities," the identified outcome is to provide and maintain infrastructure. The ways of measuring that this outcome is attained is through the accessibility of facilities, the public's perception of the quality of the

²⁶ California State Department of Finance.

infrastructure and the general maintenance of these facilities.

However, the Parks and Recreation report does not stop with these observations. The paper goes on to discuss the expenses incurred in order to attain this outcome. With over 70 million annual visitors to state parks, the amount of funding available does not keep pace with requests to repair infrastructure. For example, in 1998 approximately \$50 million in funds were available to maintain facilities, whereas more than \$190 million in requested repair projects were received.

As a result, the Parks and Recreation report concludes that ... "while the Department has upheld visitor satisfaction with the condition of the infrastructure through successful concealment of the deterioration, the impact of this decline is the eventual decrease in the satisfaction and subsequent drop in attendance."²⁷

Just one year prior to the issuance of this report, Donald W. Murphy, the former director for Parks and Recreation, voiced his concerns regarding his department. In a February, 1998, article published in "Cal-Tax Digest" he discusses the changes made during his six-year tenure as

²⁷ California State Department of Parks and Recreation, Performance Based Budgeting: An Evaluation of the Pilot (Online) <http://calparks.ca.gov/PUBLICATIONS/pbb.pdf>, page 15.

director. The article entitled, "Downsizing the California Parks and Recreation Department: Benefits to Taxpayers and the Parks" appeared several months after he had resigned from his position. (The article provides no insight on why Murphy resigned.)

Murphy stated that when he began his tenure as director in 1991, California was experiencing one of the worst recessions since the Great Depression. At that time, his \$200 million budget had been cut by \$40 million, but he still had to provide the same level of service to the public. In order to accomplish this challenging assignment, the department had to rethink their strategy. Instead of making across-the-board cuts, they decided to take a closer look at their objectives, and to whom they provided services. By taking this approach, a team was formed to perform a functional analysis of everything the department provided.

This new team was charged with implementing a quality service program that was consistent with the identified mission statement of the department. The group also aggressively sought to find public/private partnerships, and according to Murphy, this was a major change in the way things were done in Sacramento.

Instead of downsizing his department, Murphy likened this process to skilled pruning of a fruit tree, so that it would bear more desirable fruit in the long-run. By using a functional analysis approach, five administrative regions

were eliminated and 57 administrative districts were pared to 22. They also reduced overhead at headquarters by about 10 percent, thereby saving the taxpayer more than \$10 million dollars.

But the real story, Murphy states, is how the department was managed after these changes had been made. The governor sought volunteers to participate in a pilot performance-based budgeting project, and the department was chosen to participate. Part of the major function of implementing performance-based budgeting, Murphy says, is the development of key sets of outcomes and strategies. This means that the taxpayer will know exactly what their tax dollars have produced. And, in order to effectively implement this, the performance-based budgeting program begins with a strategic plan.

Some programs lent themselves to having accurate data collected and outcomes established that supported the departments' mission. However, other programs were more difficult to measure. More challenging, Murphy felt, was to preserve and protect the state's natural and cultural resources.

In this instance, the department had to start from ground zero to establish criteria that measured the health of the state's resources. Without doing this, no one would ever

know whether the money spent on resource management produced the identified end results.²⁸

The commentary written by Donald Murphy provides an insider's viewpoint on what it takes to implement the changes dictated by performance-based budgeting and strategic planning. As the director charged with making the changes, his views are more enriching than an outside analysis conducted by the Legislative Analysts Office. As a result, the following paragraphs from the same "Cal-Tax Digest" are noteworthy:

... The message is this: You can do all of the across-the-board cutting you want. But it will bear little long-term results in terms of efficiencies unless these cuts are coupled with a functional analysis, a quality program, and Performance-Based Budgeting. Every department director should be able to tell the California taxpayers what their dollars are buying. Every administrator in government should be held to the same standard of knowing what outcomes are being produced for the dollars they are spending. I believe the result of this would be less cynicism toward government, more efficient government, a greater willingness on the part of citizens to participate in government, government more accountable to taxpayers, and taxpayers more willing to pay for legitimate services which government must provide.

Performance-Based Budgeting has been a noteworthy success story at State Parks - but the system is not without a serious problem. California's great parks are suffering from a tremendous backlog in deferred maintenance. This deferred maintenance is often not visible to the park visitor. It may be a worn out

²⁸ Murphy, Donald W. "Downsizing the California Parks and Recreation Department: Benefits to Taxpayers and the Parks" Available <http://www.caltax.org/MEMBER/digest/Feb98/feb98-7.htm>

water treatment plant, leaking roofs, or campground loops that have been closed to the public. Worst of all, many of our historical structures and other cultural resources are in jeopardy of being lost forever.²⁹

The California Parks and Recreation Department story is an excellent illustration of how goals cannot be met if funding is not sufficient. The direct link between strategic planning and budgeting is shown in this example.

In order to assist agencies with developing viable strategic plans, quarterly workshops are provided by the state for government strategic planners. The Department of General Services also provides agencies with assistance in lining up an outside consultant to assist them with the development of their strategic plan.

This researcher had the opportunity to speak with an individual who recently attended a quarterly strategic planning workshop. Ms. Terry Gill, an associate governmental program analyst with the Department of Motor Vehicles, participated in a workshop where Steve Nissen was the featured speaker. Under the leadership of Governor Gray Davis, the Office of Innovation in Government has been created. This office is empowered to make government more responsive to California citizens and Nissen was recently appointed by the governor to head this effort.

²⁹ Murphy, p. 3.

Prior to joining the State of California, Nissen served as an executive director for the California State Bar for the past two years. In addition, he was the executive director of Public Council, the largest pro bono law office in the nation, from 1984 to 1997. He earned a bachelor of arts degree from Stanford, and a juris doctorate from the University of California, Berkeley.

According to Terry Gill, the office which Nissen heads was created in February, 1999. Nissen worked with the governor in order to create this position. Therefore, Nissen said at his first strategic planning meeting in May, 1999, that his idea was to go in with a very open mind and listen to what needs to be done.

Ms. Gill stated that this quarterly meeting of state strategic planners was very interesting because the people in attendance put Nissen on the spot by asking him what he was going to do. He commented that while he had no concrete strategies developed yet, he was there to listen to people who had "risk-taking" ideas. This input in turn, could be brought to the governor's office.

One idea that was proposed at this meeting was to create "quick-fix groups" which can identify quick changes that can be made to the way services are delivered. Nissan was very open to ideas on how to operate the state in a more efficient manner. Ms. Gill added that at this point in time,

the state's government is going through the process of re-engineering to improve the delivery of services.

She also went on to observe that it was very interesting to note the dynamics of the people who attended the planning meeting. While there was one group who had the usual wait-and-see attitude so prevalent in government, there was another contingent in attendance that was very much interested in adopting new ways of conducting the business of government.

After interviewing Terry Gill about this key strategic planners meeting, her input on strategic planning in her specific department was requested. Gill stated that as a department, they go through an official strategic planning process on an annual basis.

There is a planned cycle that the Department of Motor Vehicles (DMV) goes through, during which strategic goals of the department's internal and external resources are established. These goals in turn are used to plan the department's workload for the coming year. Every time a new program is developed, according to Gill, it must be tied into the existing goals and have a performance measurement component established.

Even for Gill, who has been with state government for some time, the process of enacting performance measurements and strategic planning is a new one - one that only has been around for the last six years.

Gill went on to say that the majority of folks in state government are being challenged by being told to do more with less resources. While at the same time, state agencies are being challenged to provide more services with less funding.³⁰ Governor Davis recently stated some of his goals regarding government efficiency in a document that Gill referred to as the "Magnificent Seven." A search of the State of California website, and an email inquiry to the webmaster for this site, unfortunately did not produce this information.

An interview with Steve Nissen was sought in order to enrich this section on strategic planning. While his assistant was kind enough to fax this writer a copy of some information off a website, four attempts to conduct a telephone interview with Nissen resulted in failure.

Another example of strategic planning evolution within California government was found when examining information gathered from the Department of Water Resources. A review of their Strategic Business Plan, issued in September, 1997, reveals that this update was prepared according to the guidelines established by the Department of Finance issued in September, 1996.

³⁰ Telephone interview with Terry Gill, associate governmental program analyst for the California Department of Motor Vehicles, conducted on May 26, 1999.

The plan focuses on activities that will be undertaken beginning in 1997. In the introductory statements, the plan is described as a road map that will assist the department to reach its long-term goals. These goals were established in order for the department to fulfill its stated mission.

The strategic business plan declares that it begins with a vision of how the Department will contribute to the positive development of California society. This department vision is described as "A Department of Water Resources respected for its competence, dedicated to its mission, and composed of expert, well-trained, loyal employees."³¹ Following the department's vision statement is the mission statement, which in turn is linked to its policy direction and legal responsibilities.

At this juncture, the mission statement is: "To manage the water resources of California in cooperation with other agencies, to benefit the state's people, and to protect, restore, and enhance the natural and human environments."³²

Following the format described by the Department of Finance, the report lists agency principles identified by the department in order to operate it in an effective and

³¹ California State Department of Water Resources Strategic Business Plan, September, 1997. page 3.

³² California State Department of Water Resources, page 5.

efficient manner. These principals, which include service, water management, quality and teamwork, are listed in very general terms without much detail attached.

Of main interest are the performance measurements identified by the Department of Water Resources. Based on strategic planning guidelines issued by the Department of Finance, however, these measurements are based on collected data so, results for this category are reported in quantified numbers rather than outcomes.

These instructions are in stark contrast to the information and direction given by the Department of Finance to the four departments selected to test performance-based budgeting.

For example, under goal number five, which deals with educating the public on the importance of hazards and the proper use of water, one objective is to inform the public about the department and its programs. One performance measurement cited to assess this goal is the number of people using the visitor centers. Based on a copy of the strategic plan given to this researcher, no tangible evidence of linking this information back to the budget was found.

Chapter VI

THE PLURALISTIC NATURE OF THE DEPARTMENT OF FINANCE

As California attempts to achieve a higher level of government efficiency and responsiveness to its citizens, the Department of Finance has been empowered to generate and oversee changes that affect the way departments operate. In order to attain a better understanding of performance-based budgeting and strategic planning, background information on the Department of Finance and how it works must be imparted.

The Department of Finance, unlike most other departments within the California State executive branch, is considered as one of seven control agencies under the governor's direction. Richard Krolak, who wrote California's Budget Dance, describes the Department of Finance as "being the most powerful department in state service,"³³ and there is much evidence to support this observation.

The Director of Finance is appointed by the governor (subject to senate approval) as the governor's chief financial advisor. That person serves on the governor's cabinet, and is considered a member of the senior staff.

³³ Krolak, Richard California's Budget Dance (Sacramento: California Journal Press, 1994), p. 49.

Within the powers granted the director, this person (or a designee), sits on numerous boards and commissions that directly impact many state activities.

A few of these boards include: 1) the State Allocation Board, which disburses funds for school construction; 2) the State Teachers Retirement System, which is responsible for investing teachers' retirement funds; and 3) the Pooled Money Investment Board, which is responsible for investing state funds.

According to information found at the Department of Finance website, its role in state government includes the following key functions:

- Prepare, enact and administer the State Annual Financial Plan;
- Analyze legislation which has a fiscal impact;
- Develop and maintain the California State Accounting and Reporting System (CALSTARS);
- Monitor/audit expenditures by state departments to ensure compliance with approved standards and policies;
- Develop economic forecasts and revenue estimates;
- Develop population and enrollment estimates and projections; and
- Review expenditures on data processing activities of departments.³⁴

³⁴ California State Department of Finance "The Role of the Department of Finance." Available (Online) at www.dof.ca.gov/html/admin/role.pdf

The Department of Finance also has the authority, based on Governmental Code Section 13322, to impact the fiscal activities of other state departments. This section permits the DOF to revise, amend or alter any fiscal year budget before it is enacted.

The DOF is a comparatively small department. In the 1993-94 fiscal year, for example, it only had 350 employees. As a direct result, there are numerous occasions when high ranking department heads from other agencies must deal with mid-level DOF analysts. According to author Richard Krolak, these DOF program managers often adopt an attitude of, "Finance may not always win, but they never lose."³⁵

DOF staff are broken up into units that have the responsibility for the preparation and administration of the budget. These units are concerned with the day-to-day aspects of the budget. They deal with education, health and welfare, corrections, judicial, general government and consumer affairs, financial, economic, and demographic research and a budget operations support unit writes the budget prior to enactment.

The units are each headed by a Program Budget Manager (PBM's), each of whom has attained civil service status as a result of an executive appointment. Individuals may serve at the pleasure of the current administration, but for the most

³⁵ Krolak, p. 52

part, remain in their positions even if there is a change in the administration.

One of the main responsibilities of the DOF is determining the content of the state budget. The State of California introduced CALSTAR (California State Accounting and Reporting System) which is used by 150 agencies and institutions to provide data on performance, revenue and program costs. This line-item expenditure method of budgeting allows major decision-making to stay within the jurisdiction of the Department of Finance; completely contrary to the idea of performance-based budgeting project introduced in 1993.

Therein lies a major reason for digression at this point. It appears to this writer that while the performance-based budgeting pilot project has been welcomed and embraced by the departments selected to participate, the Department of Finance, even six years after the introduction of the program, still has not endorsed this method of budgeting.

Based on the research and the limited interviews conducted by this writer, the only logical conclusion that can be drawn is that performance-based budgeting is an issue of control and power. As it stands to date, the Department of Finance still has the final say in how the state's monetary resources are distributed. In contrary comparison, under the performance-based budgeting pilot project, the departments

are empowered to make many of the major decisions which directly impact and justify how their funds are spent. Further, if those decisions are wise, the revenues saved can be redistributed into other department programs.

Next, testimony received in the 1996 Little Hoover Commission report indicates that the departments selected to participate in this pilot program were, and still are, enthusiastic and optimistic that this method of budgeting generates positive results. In direct contrast, the Department of Finance in 1996, and even to date, through the few interviews granted to this writer, still thinks that it is still too early to determine whether or not this program is working. Setting aside the stereotypes regarding the slowness of government bureaucracy, one has a difficult time believing that even six years after a program has been introduced, that its still too soon to tell whether this method of budgeting is working.

In addition, it is very interesting to note the large amount of assistance given to departments implementing strategic plans. That 1994 legislation resulted in numerous budget letters and strategic planning guides issued by the Department of Finance. The DOF guidance for developing a strategic plan, quarterly planning meetings, and even a list of consultants is made available to state agencies.

In comparison, the four departments selected by the DOF to undertake performance-based budgeting were given little or

no guidance on how to go about initially implementing the pilot project, either then or now. Again and again in reports issued by the Legislative Analyst's Office, by the Little Hoover Commission, and by the departments themselves, the requests for concrete guidelines have mostly gone unheeded.

The response from the Department of Finance has been that it is the responsibility of each pilot department to arrive at its own plan. It could be possibly construed that the Department of Finance wants this project to fail. If that were to occur, the power of allocating budget funds, and determining the outcomes of how the money is spent, would remain solidly with the DOF rather than ceding the decision-making process to other state departments.

As an outsider, this writer may never receive definite responses and answers to the statements and questions posed above. The layers of decision-making are often difficult to peel back in order to reveal some semblance of truth. Often times research gleaned from the Internet's State of California homepage seems to present only the information deemed "appropriate" for public knowledge.

For example, when this writer attempted to find out more information regarding the Department of Consumer Affairs experience with performance-based budgeting, the answer I received was insightful to say the least. The spokesperson for their education division said that they do not post

internal documents on their site because most people would not understand them.

This individual then went on to say that given the recent change in administration, any comment regarding performance-based budgeting would have to come from the director of the department. Not 30 minutes later, a call was received from another individual in the same department who left a message with the name and phone number of an individual who was a lead in implementing performance-based budgeting for the California State Department of Consumer Affairs.

While it may be premature to arrive at these conclusions, further findings support this opinion. For instance, the Department of Finance established its first strategic plan for the 1997-98 fiscal year, and contained in it is yet another insight. In 1996 the DOF surveyed departmental budget officers using a 19-page questionnaire. The intent behind the survey, which was part of an on-going evaluation of the department, was to improve the effectiveness and efficiency of the administration and development of the budget.

Three years later, the results of the survey are still being assessed! Whatever happened to Managing for Results and improving the efficiency of government? It appears that when the Department of Finance is empowered by the legislature to enact innovative measures, this is undertaken to some degree.

Yet when the department must make an internal assessment of its own effectiveness, it's another story.

What the whole story is, regarding the Department of Finance viewpoint on performance-based budgeting, should be the subject of another paper. However, it is sufficient at this point to summarize by observing that the enthusiasm for this "new" method of accounting is not shared by everyone in California government.

Given the recent change in administration, and the appointments that result with a new governor at the helm, it is uncertain whether this pilot project will even continue. The summer of 1999 could bring with it still more decisions and changes that would have long lasting impact.

Shortly after this writer noted the previous observations concerning the California State Department of Finance, an opportunity arose to speak with a former high-ranking DOF administrator, Steve A. Olsen. He was the deputy director for the Department of Finance in the early 1990's. During his four-year tenure there, and later as deputy director for the Department of General Services, he had the opportunity to be in on the introduction of performance-based budgeting. His comments provide much insight on one of the subjects under discussion in this paper.

Olsen was involved with the legislation that enacted SB 500, which introduced the performance-based pilot project.

His impression at that time was that the project is one which did not require a legislative effort in order to enact. Rather, this pilot project is one that could have been implemented by the executive branch. He added that the way the law is written, there was never an intent to implement performance-based budgeting throughout all state agencies, but rather only with the four pilot departments.

His overall impression then was that it was much harder to do than anyone ever imagined. Implementing performance-based budgeting requires the development of internal buy-in of the departments in question, and a capability to generate data which no agency had at that time.

A major challenge that he faced as deputy director, was to gain understanding and support from both houses of the legislature. With the enactment of term limits, Olsen annually found himself repeatedly addressing the subject for recently elected legislators who did not have a complete understanding of the project. He therefore feels that while there is some continued support within the legislature for the project, it is not unanimous due to no continuity of representation. The interest was there, but continued sponsorship from an established power base is another matter.

Speaking specifically about the Department of Finance and its views about this process, Olsen has much insight. His opinion is that there was institutional skepticism on the part of DOF internal personnel regarding control of budget

inputs and resources. He went on to add that the overall focus of performance-based budgeting is to change the method of reporting from inputs to outputs and to outcomes. Because it isn't possible to get sponsorship for this program, he expressed the opinion that this method of budgeting first needs to be developed into a management tool.

Olsen went on to add that when he was in Finance there was a debate going on regarding whether the department was going to be prescriptive or not. That if you compare this effort to the federal level, they use a top-down model of management style.

The federal Office of Management and Budget uses performance-based budgeting as an operational tool, and he expressed the opinion that this whole project was an opportunity lost when it came to what the DOF had learned and whether anything could be applied to other departments.

Olsen has since learned that the DOF is currently working on an evaluation of this project, and what will be concluded is that performance-based budgeting has fallen short of its expectations. He went on to state regarding this project that... "it's going to be buried."

When asked whether this program did have some success stories, he told this writer that when it came to the Department of General Services, performance-based budgeting totally changed the department. It was a positive success

story. He qualified that by adding that with General Services, it was very easy to measure improvements made. For example, it's simple to track the cost to deliver a product, and the time it takes to deliver it, along with specific customer needs.

As an individual who was exposed to performance-based budgeting wearing different hats, he stated that this approach is going to have various levels of success depending on the type of service and the how the department is organized.³⁶

Olsen's candor and commitment to speak is very much appreciated. Interviewing someone who is no longer actively associated with state government—he is now a vice-chancellor at UCLA—permits more freedom of expression. His comments provided much insight, and to some degree reaffirmed the conclusions stated earlier in this paper.

³⁶ Telephone interview with Steve A. Olsen, former deputy director for the Department of Finance, conducted on June 7, 1999.

Chapter VII

CALIFORNIA SLAPPED WITH A POOR GRADE

Throughout this document, numerous opinions and reports from a variety of sources have been presented. This information has been cited in order to provide the reader not only with a depth of knowledge, but also with the hope that other independent conclusions can be drawn regarding performance-based budgeting and strategic planning in California. It would be remiss, however, not to discuss one of the most comprehensive reports on government that has been recently published.

The Maxwell School of Citizenship and Public Affairs at Syracuse University, New York, and Governing magazine, the self-described publication of America states and localities, received a grant from the Pew Charitable Trusts, to evaluate all 50 states. This project, which began in 1997, and resulted in the release of "The Government Performance Project" in February, 1999, grades the states in five areas of management. In addition, fifteen federal agencies were also examined.

According to Patricia Ingraham, director for the Government Performance Project, this effort is important because it is the most comprehensive survey of government that has ever been completed. The report focuses on five

management areas: 1) financial management; 2) human resource management; 3) information technology; 4) capital management; and 5) procedures for Managing for Results. Leadership skills and any positive efforts to implement change were also reviewed. A government agency that wishes to learn from another agency to gain a better understanding of how their management systems operate can benefit from reviewing this report.

An examination of California and how it rated within the context of this report is helpful as it provides yet another opportunity for self-examination in light of the information already discussed. Before turning the focus specifically back on California, a few more background facts and the methodology employed to conduct this study are essential to know.

The method used by the team of researchers, reporters and writers entailed conducting over 1,000 interviews to provide a snapshot of how government operates. A trial survey was tested initially on four states (Ohio, Kansas, Oregon, and Florida) before the revised document was finalized. These test states were confronted by a pilot survey that was described by Governing magazine as "...the size of a phone book."³⁷

³⁷ Barrett, Katherine, and Richard Greene, "A Management Report Card." Available online at the Governing home page. www.governing.com

The academic talents of the Maxwell School of Citizenship and Public Affairs, worked in conjunction with the journalistic skills residing with the staff at Governing magazine. Numerous meetings were held in order to establish the criteria that were ultimately used in each category. In the end, each category was comprised of 35 criteria.

Once the surveys were fined-tuned, the lengthy documents were sent of all 50 states. The responses required ranged from single word answers to detailed explanations that required supporting documentation. Once the states mailed back their responses, graduate students and faculty members at Maxwell School analyzed the information and arrived at preliminary conclusions.

In addition, many interviews were conducted by the Governing magazine staff and included discussions not only with government personnel, but also with citizens groups, auditors, and with representatives from the National Conference of State Legislatures and the Government Finance Officers Association. To better see the overall picture, this approach permitted facts and tentative survey conclusions to be constantly updated. The methodology employed also tried to weight the survey responses by taking into consideration the progress a state makes within a specific category.

The performance project makes a full disclosure of all the evaluation criteria. However, given the nature of this discussion as it relates to California, a brief overview of some of that criteria as used to evaluate state financial management capabilities and Managing for Results is helpful.

A sampling of questions asked in the financial management category include: 1) Does the state adopt its budget on time? 2) Have the state's forecasts of revenue and expenditures been accurate?; and 3) Does the state prudently manage its long-term debt?.

A few questions posed in the Managing for Results portion of the survey were: 1) Does the state have a strategic plan? Do its agencies have strategic plans? If so, are they effectively used?; 2) To what extent has the state developed and used performance indicators and evaluative data by which progress towards results can be measured?; and 3) Are the performance results communicated to citizens, elected officials and any other stakeholders? If so, how often?³⁸

The national average state grade for all five management areas was a B- based on the information gathered in the Government Performance Project. Given the data released by the Maxwell School of Citizenship and Public Affairs, grades in the A and B range outweighed grades of C and D, and F.

³⁸ "How the Grading Was Done." Available (Online) at the Governing home page. www.governing.com

The states of Virginia, Utah, Washington and Missouri each were awarded the highest cumulative grade of A-.

Turning the spotlight on California, the state received an overall average of a C-. In the categories which specifically apply to the topics covered in this thesis, financial management and Managing for Results, California received a grade of C- for its efforts in each of these management practices.

In all fairness to the data compiled regarding California, the accuracy of the information should certainly be questioned. California was the only state which did not fill out and mail back the survey. (Only one state agency within California complied.) Any conclusion gathered was done so through interviews and other sources, which were not indicated in the information imparted by Governing magazine.

Given these statements, does the Government Performance Project make an accurate assessment of the state of California government? When comparing the findings of this project, with the conclusions drawn in this thesis, this writer would say that overall the grading in the two categories are realistic assessments.

Before elaborating on this statement it must be noted that two high ranking government officials and one policy analyst were questioned about their reaction to the Government Performance Project. All three individuals were

not aware of this project and didn't seem to be interested in learning more about it. The significance of this project appears to be widely held in academic circles, rather than in government.

This writer also found that interviewing an individual who is currently involved in a state administration that is undergoing change, produces different results compared to speaking with someone who is no longer actively involved in government. (A former official has more latitude in expressing opinions than a bureaucrat within the current state administration.)

Given this information, let's take a closer look at financial management of the state in light of the C- grading of its only responding agency, and the information imparted in this thesis. The project cites that the economy is strong again, the state's bond rating has improved, and that the budget is running a surplus. It also points out that once again the passage of the budget has been delayed, that California is under funding pensions, and that the state has limited reserves.

In this instance, the focus on performance-based budgeting and strategic planning is more in alignment with the Managing for Results category of the Government Performance Project. While the concerns expressed by the project are valid, the research cited in this thesis cannot sufficiently support or dismiss the conclusions drawn in this

category. It is unrealistic to compare oranges to apples, based on the focus of this paper. Therefore, in all fairness a response regarding how California was graded regarding financial management should be the focus of another lengthy discussion.

However, regarding the grading of California on Managing for Results, much can be said. The state received an overall ranking of C- in this category. The Government Performance Project cites in its comments that the state still doesn't have a strategic plan; that for several years, agencies have each been asked to submit their own; and, although this has only been required by the governor's office as of last year, many of the strategic plans are meaningless.

On the plus side, the project does mention that beginning next fiscal year, any agency that wishes to add money to its budget must tie that additional spending into the goals and objectives stated in their strategic plan. In addition, it also goes on to mention performance-based budgeting, and notes that the pilot project has really never gone anywhere. They do mention the Departments of Consumer Affairs and Parks and Recreation—both pilot departments—as having established excellent measurements. Last, in the Managing for Results category, the excellent work of the legislative auditor's office is noted regarding its performance audits of state agencies.

The Government Performance Project has focused on some of the weakness displayed by the state in the implementing Managing for Results. Based on the research cited in this thesis, this writer would award the state with a slightly higher grade of a B-. Why? Because the formative steps have been taken by the State of California in its attempt to embrace Managing for Results.

One can note the positive steps the state has taken to become more efficient in its delivery of services. Whether it's through performance-based budgeting or implementing strategic planning, some concrete measures have been enacted. The departments involved in the pilot projects have seen improvements that positively effect their operations. A true sense of empowerment can be noted in statements cited within the Little Hoover Commission's report.

Implementing a strategic plan, including the development of a vision and a mission statement, is an arduous process. Many hours are expended in crafting the items comprised in a strategic plan. However, once all this is established, then performance measurements, outcomes and an overall department or agency plan can be continually linked back to the strategic plan is possible.

The Government Performance Project does point to weaknesses in California's attempt to implement Managing for Results. But based on the information in the project report, these findings do not coincide with the conclusions drawn by

this researcher. The major weaknesses this writer finds can be linked back to a real lack of support and guidance from the Department of Finance for the performance-based budgeting project. The DOF provided the four pilot departments with very little information about how to implement this process. In addition, due to constant change of legislatures through term limits, the ability to build a power base for support of this pilot project is very difficult to do.

Strategic planning on the other hand, received much more support from the Department of Finance in way of manuals, procedures, consultants and quarterly planning meetings. However, all this support is meaningless if the strategic plans developed are not acted upon and only serve to function as a show piece within a department's annual report or as a posting on a website. Unless performance measurements are tied back into the strategic plan, and linked with budgeting decisions, then a working document has not been developed.

Chapter VIII

CONCLUSION: A FEW FINAL THOUGHTS

This paper has provided the reader with a comprehensive overview of California and its efforts to reinvent itself using performance-based budgeting and strategic planning. As illustrated throughout this document, California's efforts can be described as that of a child still testing the waters. While with some efforts the state has embraced with full force and supported the legislation to enact a new management tool, in other instances the task of implementing change has been arduous at best.

Most of the major stakeholders in these efforts have embraced these changes. This is to be expected under most circumstances given the interest of the agency or department that is asked to design and implement the changes. What is unusual is that the key oversight agency, based on the research collected, truly doesn't appear to be interested in assisting the pilot departments.

Since the State of California is under new leadership for the first time in eight years, the changes made by the new executive office will make a marked difference in the direction the state heads. Governor Davis appears to embrace the reinventing government movement through the establishment of the Office of Innovation in Government.

The true test, however, will be in the upcoming months with actual introduced legislation and whether or not it receives support. Without the backing of the legislature and the agencies asked to implement this, it's all empty rhetoric that provides interesting and speculative reading.'

In addition, the change at the top provides an opportunity to reexamine policies previously introduced by past administrations. Without a doubt, many pilot projects, including performance-based budgeting, will be under review.

For the sake of California's future, one hopes that the leadership taking the state into the next millennium actually cares about its citizens. The effort to reinvent California state government through the use of Managing for Results is commendable. The true test, however, of the use of these management tools is the measure of support yet to be received from the legislature for their earlier enactment, and the outcomes achieved as a result.

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