

MEMORANDUM

To: Chief of Staff, Office of the Governor of Guam
From: Anthony J. Weilbacher
Re: Performance Based Budgeting (PBB) Reform
Date: May 4th, 2015

RECOMMENDATION. I recommend the following reforms to the Bureau of Budget Management and Research's (BBMR's) current budgeting process to be congruent with PBB practices: (1) institute island- and agency-level strategic forum meetings, (2) implement the balanced scorecard tool, and (3) implement agency performance review meetings. PBB is premised on establishing and informing decisions on inputs (budget) as well as outputs (performance outcomes) and has already shown to incentivize the improvement of service quality and the controlling of costs across several states in the past 10 years¹.

The PBB approach to budgeting will improve upon Governor Calvo's "Fiscal Stabilization Plan," one that calls for spending controls, improved revenue estimation/collection, and bond issuances that have recently resulted in an improved Fitch Rating of "A-" in January of this year. I'll explain each of these reform recommendations in detail in the following paragraphs, deriving them from an established model that received one of the highest grades in the nation according to a survey by the Pew Center on the States (2008)² – Utah's "Performance Elevated" initiatives³.

Situation/Scope. The BBMR currently utilizes a four-phase budget process: formulation, adoption, execution, and audit⁴. With the exception of the Legislature-driven adoption phase,

¹ Qi, Y & Mensah, Y (2012). *An Empirical Analysis of the Effect of Performance-Based Budgeting* (p 20).

² Ibid, p 34.

³ <http://performance.utah.gov/overview.shtml>

⁴ http://bbmr.guam.gov/index.php?option=com_content&view=article&id=19&Itemid=39

PBB has efficacy in the other three phases which the agencies directly influence. The BBMR also publishes circulars to the agencies for the execution of the current year's budget and the planning of next year's. However, the only two applicable circulars published for the current year are the *FY XX Budget Allotment Process* at the beginning of the year (whereby the agencies prepare their allotments of the recently-approved budget) and the *FY XX Year-End Closing* published at the end⁵. This creates a void in monitoring performance and connecting budget dollars to their outcomes throughout the execution year, on which PBB premises itself.

Although it's important to note that the BBMR began examining the use of PBB in 2008⁶, there have not been PBB policies enacted since. Thus, the goal of this memorandum is to re-energize this movement and provide specific examples from a time-proven model for the BBMR's implementation.

Island- and agency-level strategic forum meetings. Strategy forms the basis for performance metrics and should ideally reflect the needs and interests of the island's citizens. Because PBB connects budget inputs to performance outputs, we must first begin by establishing and communicating a strategy. An island-level strategic plan provides an overarching agenda to which agencies can align their strategies. In turn, agencies develop their strategic plans that are appropriate for their mission and scope but ultimately nest within the island strategic plan, creating a unity of effort.

These strategic forum meetings should occur quarterly with the aim of updating strategies within and across administrations. Because the Governor and agency directors define performance metrics in a quantitative and qualitative sense, it is necessary to consistently update

⁵ http://bbmr.guam.gov/index.php?option=com_content&view=article&id=7&Itemid=27

⁶ http://bbmr.guam.gov/index.php?option=com_content&view=article&id=15&Itemid=32

and agree on these definitions. This is important, because the strategies will eventually determine funding priorities for the next 18 months to 5 years. I've included a sample of Utah's agency planning framework in Enclosure A.

Balanced scorecard (BSC) tool. If strategy forms the basis for performance metrics, the balanced scorecard is the tool that measures both performance and cost using established metrics. Thus, it links cost data to related performance outcomes effectively bridging the gap between strategy and implementation. In this sense, it is both a measurement *and* planning system. Since it requires agency heads to submit reports on a routine basis, it enhances both internal and external agency communication and helps the agency to clarify their vision and strategy. It also facilitates the view of an agency's performance over time through the routine and deliberate tracking and evaluation of metrics. I've included a sample BSC cross-walk in Enclosure B, using the Guam Department of Public Health and Social Services' Bureau of Nutrition Services' as an example.

Agency analysts should submit the balance scorecard to the BBMR's budget analysts on a monthly basis. Budget analysts should then consolidate, review, and report them to the Governor's Senior Staff. The analysts serve as the primary feedback and communication mechanism, but the agency directors should brief the Governor using the scorecard as a basis during agency performance review meetings.

Agency performance review meetings. With agency strategies nested within the island strategy, and the balanced scorecard methodology documenting cost and performance data every month, the agency performance review meeting serves as the conduit to utilize and update these tools. Since the balanced scorecard is routinely managed by analysts, this meeting provides an

opportunity for the agency directors to interface with the Governor's Senior Staff and even the Governor.

These meetings should be held at least quarterly. They should be quantitatively driven by the scorecard but highly interactive in a way that fosters learning and growth through open communication. The cooperative arrangement between the Governor's Office and the agency director encourages fact-based, strategy-driven decisions that are informed by costs and performance. Before the meeting, BBMR analysts should compile the briefing materials, coordinate with the agency analysts for scorecard data, and maintain format consistency to facilitate efficient use of time. I've included a sample agenda in Enclosure C.

In conclusion, PBB has shown to improve service quality and reduce the costs of providing public services over time. It's an improvement to Governor's Calvo's already remarkable efforts at raising our island's credit rating. In the end, these three particular reform recommendations are part of a collaborative, analytical process that will provide value to our island's citizens through productive efficiency, paving the way for improvements in the Governor's top three priorities: public education, public health, and public safety.

Enclosure A – Utah’s Agency Strategic Planning Framework

<http://performance.utah.gov/agency-strategic.shtml>

1. Agency Strategic Overview / Executive Summary
 - *Summary of key elements of plan and resulting directions.*
2. Director's Letter
 - *Statement by agency leadership regarding the importance of the agency mission and team members.*
3. Scope Statement
 - *Brief explanation on the role of this document (what it is, what it isn't).*
4. Stakeholders
 - *Who are the other stakeholders related directly to the agency's mission?*
 - *What is their role?*
5. Current Environment
 - *How do the core activities of the agency affect the market / environment?*
 - *What are the strengths / weaknesses of the agency? What opportunities / threats does the agency face?*
 - *What issues are most critical today (18months)? What issues are on the horizon (5years, 20years)?*
6. Strategic Focus
 - *What are the key department objectives?*
 - *How do the agency's objectives relate to the Governor's?*
7. Implementation
 - *Steps, roles, and responsibilities for execution.*
 - *Description of how the strategy is reflected in the scorecard metrics.*

Enclosure B – Sample BSC Crosswalk (Bureau of Nutrition Services, Department of Public Health and Social Services)

The following paragraphs serve as an example for developing information that would be placed onto a BSC. It begins with the Governor’s priorities (which are issued during the island-level agency forum meeting) and ends with agency performance metrics/outcomes and agency justifications (which are discussed during the quarterly Agency Performance Review Meetings).

Governor’s prioritization: In his Budget Request letter to the Legislature, Governor Calvo said, “As part of my strategic goal, Public Health has also been a challenge these past two years, and I expect such challenges to continue in FY 2014⁷” (this is an undoubtedly one of his priorities, and any spending that support this would be optimal use of funding).

Department of Public Health and Social Services Mission⁸: “The departments and agencies under this cabinet department serve to develop, monitor, and improve the general health, welfare and well-being of the people of Guam and provide assistance to all residents of Guam who are referred off-island for medical treatment.”

Bureau of Nutrition Services Mission⁹: “The Bureau of Nutrition Services strives to improve health and well-being through nutrition education, promotion of physical activity, and engaging with partners to develop policies and environmental changes which reduce hunger, increase breastfeeding, and decrease obesity and its associated chronic diseases throughout Guam” (the Bureau’s mission statement is well-nested with the Department’s).

Bureau of Nutrition Services Goal*: Decrease obesity in school-aged children ages 8-12 by 10% every year through implementation of nutrition education and physical health programs (requires coordination with the Department of Education).

Performance metric*: Weight and/or body fat measurements of school-aged children.

Measurement plan*: Gather the weight and/or body fat measurements of school-aged children every quarter as part of an established health program.

Last quarter’s funding (input)*: \$50,000 for employee expenses, \$5,000 for educational material.

Last quarter’s statistics (outcome)*: 3,465 children classified as obese (no change from last quarter).

Justification/Request for Additional Funding (if applicable)*: The Bureau requests additional funding in the amount of \$20,000 to hire additional personnel. Lack of personnel was the number one reason for program stagnancy according to school health professionals.

*Sample

⁷ FY 2014 Government of Guam Executive Budget (Jan 31, 2013), pg. 7.

⁸ Ibid, pg. 53.

⁹ <http://dphss.guam.gov/content/division-public-health>

Enclosure C – Utah’s Agency Performance Elevated Meetings

<http://performance.utah.gov/agency-performance-meetings.shtml>

1. Welcome (5min)
 - *Governor’s Senior Staff welcomes participants.*
2. Agency Overview (10-15min)
 - *The Department presents its mission and articulates its strategy to accomplish it. They identify the desired outcome, and also might explain their role and relationship with other stakeholders.*
3. Agency Performance (15min):
 - *The Department then presents analytical measures that illustrate the state's impact on the desired outcome. (BBMR staff works with the agency to develop this information prior to the meeting).*
4. Discussion (10-15min)
 - *Everyone at the table then has an opportunity to discuss ways to realign strategy, solve problems, etc. BBMR Staff records the decisions made.*