



## Demanding Performance: Part II

### *Outcome and Efficiency Measures*

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As implied by the fact that Texas state agencies are required to have mission statements, they are supposed to accomplish something—preferably something that could not be accomplished absent their existence and something consistent with the mission of state government. Under a performance-based budgeting system like Texas has, agency accomplishments—i.e. their performance—are supposed to be measured and monitored over time.

Agencies and programs must be held to fact-based, rather than values-based standards. The gesture of devoting substantial amounts of taxpayer funds to a particular purpose may satisfy the values of many, but this does not allow policymakers to understand which means best accomplish given ends. Such understanding requires reliable and meaningful performance and financial information.<sup>1</sup>

The General Appropriations Act is full of various performance measures split into four general categories: outcome, output, efficiency, and explanatory measures. From a true performance perspective, only two of these measures really matter: the outcome and efficiency measures. These are the only two measures that determine if taxpayers are gaining value from agency activity. Outcome measures should indicate benefits while efficiency measures should indicate benefits compared to costs.

### Findings

- 1) Of the four types of performance measures in the General Appropriations Act, only outcome and efficiency measures gauge real taxpayer value.
- 2) Agency outcome measures should be:
  - material and real
  - measurable
  - under an agency's control
  - few in number
  - tracked over time
  - include short-term and long-term measures
- 3) Agency efficiency measures should be:
  - material and real
  - measurable
  - under an agency's control
  - few in number
  - tracked over time
  - reliable and honest
  - cost-based
- 4) Of the six agencies evaluated, the TEA, TDCJ, TABC, THC, and ORCA, only the TDCJ had outcome measures that gave some indication of taxpayer value. Cost-based efficiency measures are few or non-existent.

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### Findings continued

- 5) Most performance measures are “output” measures that give little indication of taxpayer value.
- 6) It must be concluded that performance measures in the General Appropriations Act do not serve to help policymakers determine funding priorities or true agency effectiveness in maximizing taxpayer value.

Intuitively, an outcome measure should be a gauge of how taxpayers are actually impacted by a government program or agency. It should be some kind of indicator of the benefits that accrue to taxpayers as a result of an agency’s activities. Outcome measure is defined in two ways in the instructions to agencies for their strategic plans: 1) “Quantifiable result measuring how the public benefits by the agency meeting the objective” and 2) “Indicators of the actual impact or effect on a stated condition or problem.”<sup>2</sup> Of the two definitions, the first is most consistent with what an outcome measure should be since it stresses the benefits for taxpayers.

An output measure is just a quantity or volume measure. In the context of performance budgeting, it is supposed to be a measure of agency activity. In and of itself it tells the policymaker little except how heavily an agency or program is patronized. This yields little information for taxpayer value purposes.

An efficiency measure should indicate cost effectiveness and preferably be an indicator of the costs of the outcomes an agency or program is producing. Properly constructed efficiency measures are better measures of taxpayer value than any of the other performance measures that appear in the General Appropriations Act. In fact, from a performance perspective, it is arguable that efficiency measures are all that matter. Properly constructed, they indicate the benefit per unit cost of government activity.

Efficiency measure is also defined in two ways in strategic planning instructions to agencies: 1) “Agency workload unit costs or time for completion” and 2) “Indicators that quantify an agency’s cost, unit cost, or productivity associated with a given outcome or output.”<sup>3</sup> Neither of these definitions precisely comport with the ideal of what an efficiency measure should be, although the second one comes closest.

An explanatory measure is defined as “Quantitative indicators that provide additional information that contributes to the understanding of an agency’s operating environment.”<sup>4</sup> These are measures of external factors that affect agency operations. These are irrelevant to determining taxpayer value.

### Ideal Characteristics of Outcome Measures<sup>†</sup>

Outcome measures must be **material and real**. That is, the focus must be on what really matters; they should be relevant to an agency’s mission. For management purposes, agencies might want to have internal outcome measures focused more on their processes but for policy purposes, the outcome measures that matter should not be process oriented. On the other hand, policy outcome measures and internal agency process measures should complement each other. The outcomes measured must truly be indicative of whether the agency’s—and ultimately the state’s—mission is being satisfied.

The only way to make certain the state’s mission is being satisfied is with sound analysis. This implies the only outcomes that truly matter are **measurable**. If the mission of an agency is to promote social or economic “well-being” then whether or not the agency is successful is impossible to gauge because there is no way to measure well-being. Economic growth can be measured. So can per-capita income. Unemployment and poverty rates are somewhat measurable as well. Well-being is not, and while there might be measurable proxies for economic well-being, “social well-being” sounds high-minded but is a largely meaningless concept that few are likely to agree on how to define, much less measure. There might also be a perfectly reasonable outcome,

<sup>†</sup>For an alternative list of performance measure characteristics, see John Keel, John O’Brien, and Mike Morrissey, *Guide to Performance Measure Management, 2006 Edition*, Report No. 06-329, Texas State Auditor’s Office, State of Texas: Austin, TX (August 2006) 12.

conceptually, that is nonetheless impossible or logistically too problematic to measure. For example, it would be good to know how many Texans are able to enjoy artistic production made possible by grants from the Texas Commission on the Arts. However, this could only be determined with extensive follow-up that is impractical and there would be a tendency for grant recipients to inflate the numbers anyway. But if what needs to be known to determine whether a net benefit results from government activity cannot be known, the government activity very likely should not occur.

On the other hand, an agency should not be evaluated on an outcome just because it is associated with a readily available statistic. An agency should be evaluated according to outcomes it can affect. In other words, an agency should be able to exercise some degree of **control** over the outcomes on which they are evaluated. For example, while it is helpful to know the number of applications made for grants passed out by an agency, this should never be an outcome measure on which the agency is evaluated. It has no control over the number of applications. What it does control is how quickly and efficiently those applications are processed—though this is process-oriented and not itself a good outcome measure.

Outcome measures should be **few** in number. This allows for focus by policymakers, agency administrators, and others charged with oversight. Large numbers of outcome measures tend to obfuscate the important measures. The highest priorities of an agency can become mired in meaningless activity. Exercising discipline in determining the number of measures helps lead to greater focus.

True outcomes tend to be few anyway. In the book, *Animals in Translation*, the author describes her system of ten measures to evaluate animal care in slaughter houses and makes a persuasive case that it is superior to other audit systems with 100 measures. The systems with many measures often focused on process instead of outcome and caused auditors to focus on less important measures.<sup>5</sup>

Obviously, there is a balance. A single outcome measure for an agency is, in most cases, unlikely to be enough. The key is to measure what matters and what is to be accomplished as part of a “bottom line” toward the agency’s mission—no more and no less.

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To this end, there need to be both **short-term** and **long-term** outcome measures. Short-term outcome measures are especially important for new agencies or for agencies attempting to establish sound outcome measures where none have existed before. For example, a road agency might want to monitor and report pavement conditions as one among several ways to show progress toward the long-term goals and measures of reducing traffic congestion.

Very often, outcomes that matter can only be monitored and measured over the long term. For example, an education agency might very well set as one of its outcomes the percentage of 20-year-olds in the state who are considered functionally literate. Activities that take place today only affect this measure many years later. On the other hand, it is a true outcome, one that does more to determine whether or not an agency and the state are on the right track educationally than a measure like the percentage of current students who pass a standardized exam, which is a short-term measure that fails to take account of drop-outs’ ability to read.

Whether outcome measures are short-term or long-term, they matter little if they are not consistently **tracked** over time. There is no way to check for improvement without tracking. This means once sound outcome measures are determined, they should not constantly change. Outcome measures must be carefully considered, determined, and then tracked and continuously analyzed.

Tracking is a weakness in the current appropriations system for two reasons. First, for those outside of agencies, actual historical results are not readily available except by request. One publication by the Legislative Budget Board does attempt to compare outcome projections and actual historical results, but

only a subset of measures are considered and explanations for differences between actual performance and performance targets are often cryptic and uninformative.<sup>6</sup> Given that many performance measures are of limited value, any summary document is also going to be of limited value.

Second, tracking is also a weakness in that the desire to maintain a history of a measure might be used to preserve the measure even when it has little validity, possibly preventing the development of better ones. There appears to be a good deal of inflexibility regarding the development of sound performance measures in Texas' budget process simply for the sake of tracking. Maurice McTigue, former Member of the New Zealand Parliament and now a budget expert with the Mercatus Center, has said that the development of sound performance measures takes four years of trial and error. This winnowing process appears not to have occurred in Texas except on an ad hoc basis.<sup>7</sup>

## Review of Outcome Measures

It is not possible to do an exhaustive review of all agency outcome measures listed in the General Appropriations Act. The list of measures would be even larger if it was pulled from agency strategic plans. Except for the Texas Education Agency, each of the agencies below is currently under sunset review.

### Texas Education Agency (TEA)

In the latest General Appropriations Act, there were 54 outcome measures listed for the TEA.<sup>8</sup> The agency, like most, keeps up with even more performance measures than are listed in the General Appropriations Act. In its latest strategic plan, the TEA lists 102 outcome measures. Of these, 21 are listed as new.<sup>9</sup>

Almost none of the TEA's outcome measures have anything to do with the *agency's* mission. The bulk of the measures are not even within the TEA's direct control. In fact, they do not appear to even be within the TEA's *indirect* control. These include statistics such as grade retention rates, TAKS passage rates, the percentage of students completing high school and the percentage of eligible districts receiving instructional facilities allotment funds.

These outcomes might be relevant for measuring the performance of the public school system as a whole or even the Legislature's performance in providing for schools. They might be relevant for measuring the performance of individual school districts. They might even be relevant for measuring the performance of students and their families. Many are very good statistics that should be tracked for the purpose of monitoring the education system as a whole, and the TEA's performance in that monitoring function should be evaluated, but they are useless for measuring the performance of the TEA itself. In fact, if they were used to measure TEA performance, the TEA is in the perfect position to respond to the perverse incentive of making it appear that students know more than they do by developing easy tests and deceptive measures so as to boost its own ratings.

Only five of the 102 outcome measures appear aimed at actually measuring the TEA's performance in aiding or policing school districts in their quest to educate students. These include two measures of how quickly grants are processed, one on how quickly textbook orders are processed, and two related to educator preparation. These last two are only tangentially related to services for school districts.

It appears that virtually any sort of student or school performance statistic the TEA has had inquiries for has been thrown into its outcome measure basket. Apparently, if a legislator gets curious as to the number of kitchen sinks in school districts, this will become outcome measure number 103.

Perhaps a case could be made for the TEA's current performance measures if schools' performance indicated how well, or poorly, the TEA does its job. Then, looking at school performance is equivalent to looking at TEA performance. But if this is the case, the TEA is planning to do a rotten job. Its projections for many key student and school performance measures show anticipated decreased performance in the future.

The TEA has too many outcome measures that are either unfocused or irrelevant for the agency. There are no long-term measures that matter and only a few short-term measures that matter very little. Most of the measures can be tracked and the agency undoubtedly does so. However, if a summary document of

actual historical outcome data exists, it is not readily available. The measurability of the outcome measures appears to be well established. The data are useful, but again, not useful for evaluating the TEA.

What might be useful for evaluating the TEA? It should first be kept in mind that the TEA is a support agency. It should be evaluated on the basis of how well it carries out its support role. Its two major roles are to flow funds and other resources such as textbooks to school districts and to administer a school district accountability system. It is also supposed to make information such as changes in law readily available to school districts and it is responsible for settling disputes within school districts—mainly employment disputes.

The TEA will therefore have more outcome measures than many agencies due to its many functions. One relevant outcome measure would be to measure the accuracy of funding payments made at the beginning of the school year as compared to the amount of funding school districts actually receive at the end of the school year after the settle-up process. This could be done with a standard deviation calculation with the goal being to minimize that deviation. The timeliness of filling textbook orders is a good measure the agency already maintains. An outcome of the accountability system would be a measure of the efficiency of the school system as a whole, such as an all-inclusive cost per high school graduate (including the cost of educating the dropouts along the way) and the average cost of educating a Texas student per year as compared to other states or nations. As for the TEA's performance in administering the accountability system, timeliness of grading and an outside expert evaluation of test relevance and accuracy of grading would serve to establish good outcome measures.

In short, the TEA's leadership, the Legislative Budget Board, and budget writers need to focus the TEA's outcome measures on what the agency can accomplish rather than on what schools are supposed to accomplish. The number of outcome measures should be reduced to a manageable number and the pretense that the agency can manage the individual educations of millions of students all at once eliminated by ending the assignment of district performance measures to the TEA. Unfortunately, the outcome measures adopted for the TEA better match its

mission statement from a dozen years ago than its current mission statement. Agency employees could be excused for confusion as they struggle to gain some understanding of where they fit in a very blurry big picture of the state education system.

The difficulty arises in the General Appropriations Act of having an agency to which funds are appropriated that is only passing the funds on to school districts. The Legislature should consider reconfiguring the appropriations bill so that the pass-through funds are set aside similarly to how "trusted" programs are placed under the Governor, the General Land Office, and the Comptroller. Then, instead of school performance measures being reflected on the TEA, they can reflect on the schools, where the reflection belongs. Then, better measures could be developed for the TEA itself.

### Texas Department of Criminal Justice (TDCJ)

With respect to the General Appropriations Act, the TDCJ and those who oversee it are to be commended for its low number of outcome measures at only five.<sup>10</sup> Except for the turnover rate of corrections officers, each is relevant to the agency's mission. There are 19 total outcome measures in the agency's strategic plan, however, which is suggestive that the agency might not be as focused as it should be.<sup>11</sup>

Since the top priority of the TDCJ is to keep those sentenced to prison incarcerated, it is very logical that one outcome measure would be the number of escapes, with the intent of minimizing the number of escapes over time. Although the TDCJ does have an outcome measure for the absolute number of escapes in its strategic plan, the outcome measure in the General Appropriations Act is "Escaped Offenders as Percentage of Number of Offenders Incarcerated." The performance target is zero percent.

The escape statistics the Legislature *should* be monitoring are the absolute number of escape incidents and the absolute number of escapees. The percentage is meaningless. It is probably rare that the number of escapees in a year reaches double digits. With 140,000 incarcerated offenders, it would take over 700 escapes for rounding to cause the statistic to register at 1 percent. In other words, the percentage number as a performance measure is useless. It will always be essentially zero in historical analyses.

To be sure, outcome measures are determined in a political environment. It would be difficult for legislators to vote for a bill that seemingly allowed for, say, one half-dozen escapes and four escape incidents per year (although both targets should be zero anyway). However, acknowledging the decision-making environment makes this TDCJ performance measure no more useful.

An outcome measure that is particularly well thought out is the percentage of released felons who recidivate within three years. This is a good long-term measure for determining whether the prison experience has done anything to prevent former prisoners from continuing in criminal activity. An additional outcome measure that might be useful—certainly more useful than the turnover rate of prison guards—is the percentage of recidivists who committed more serious crimes than those for which they previously served time.

### Texas Alcoholic Beverage Commission (TABC)

The TABC has three key outcome measures in the General Appropriations Act. While two of these outcome measures appear to be reasonable given the TABC's mission, one issue is worth a closer look. The third key outcome measure of the TABC is "Percent of Inspections, Analyses, and Compliance Activities Resulting in Administrative or Compliance Actions." To put it another way, this is the proportion of investigations that results in some sort of law enforcement sanction, which might or might not be serious.<sup>12</sup>

This performance measure is probably more suitable as an activity measure. Technically, this is a measure that is not controllable by the agency. Any given inspection might or might not involve an infraction. This is under the control of the business being inspected, not under the control of the agency or its representatives.

This measure carries with it a perverse incentive. It encourages agents of the TABC to find infractions at least 32 percent of the time—32 percent being the outcome target. What this might encourage is the discovery of very minor infractions, or even the invention of some. There is no separate measure for major infractions. While this incentive might not play a big role in the agency, there is the potential that it could.

The TABC seeks to increase the percentage of inspections that result in enforcement actions. A better outcome would be if the agency made regulatory information so readily available and punishment of violations so swift and sure that violations were *more rare*. This outcome measure contemplates that violations will become *more common*.

The TABC's mission seems to be the reduction of public intoxication and the enforcement of the law regarding underage drinking. Presumably the outcome desired is to have no underage drinkers and no public intoxication, at least none that results in any harm to anyone. However, the TABC is far from the only law enforcement agency seeking these outcomes. In addition, it is not at all clear how these outcomes should or could be measured. Perhaps the focus should be on license revocations for businesses that sell to underage and inebriated drinkers. Then, at least, a meaningful outcome measure could be the speed with which such revocations are conducted.

### Texas Commission on the Arts (TCA)

The TCA has three key outcome measures in the General Appropriations Act. These are:

- Percentage of Assistance Dollars Provided to Applications from Minority Organizations;
- Percentage of Assistance Dollars Provided to Applications from Rural and Geographically Isolated Communities; and
- Percentage of Grants Funded That Are for Arts Education Programs.<sup>13</sup>

These outcome measures only serve to reinforce what has already been said regarding the TCA's mission in a previous paper—that it is an agency whose purpose is to benefit only a narrow few—those in the non-profit arts industry.<sup>14</sup> These outcome measures are purely aimed at making sure the money the TCA grants is spread throughout the state according to arbitrary criteria with a design toward gaining the greatest possible favor among elected policymakers. The first two in particular are for this purpose. Put another way, the TCA's outcome measures clearly show that its job is to dispense funds across the state for the sake of only a small, narrow community of people with common interests. The reasoning appears to be to justify the activity by at least spreading the money around according to various criteria.

The last outcome measure listed for the TCA appears to be an attempt to give some greater legitimacy to this agency by having it fund educational activities. Looking at the TCA's strategic plan, it is clear that much of the funding of arts education programs is for programs unaffiliated with the public schools. However, someone could easily get the impression that the TCA's function is to keep arts education in the schools even though the public schools have plenty of arts programs. The University Interscholastic League even sponsors arts-related competitions such as one-act-play, picture memory, and storytelling.

However, given the TCA's true mission, its outcome measures make sense. The outcomes just do not measure anything of true general benefit to taxpayers.<sup>15</sup>

### Texas Historical Commission (THC)

There is only one outcome measure for the THC listed in the General Appropriations Act. It is "Number of Properties Protected Through Designations Annually."<sup>16</sup>

This appears to be a place holder because the system generally requires there be at least one outcome measure. This, unfortunately, is not a meaningful outcome measure. The department's mission is to *protect and preserve the state's historic and prehistoric resources for the use, education, economic benefit, and enjoyment of present and future generations.*<sup>17</sup> The number of properties protected gives no clue as to whether this mission is being fulfilled.

There needs to be a measure showing how many Texans benefit from the department's activities. The measure should not include downtown restorations under the Texas Main Street program. That program needs an entirely different outcome measure of its own. Neither should it incorporate outcomes from activities related to rehabilitated courthouses. Both of these programs bear little relationship to the mission of the agency except that old courthouses are nice to look at as people pass through town.

The performance of the THC ultimately must be measured according to Texans' ability to view arti-

facts the agency has helped to uncover. Outcome measures are difficult to construct and measure for this agency. It is arguable its mission is better served through universities. Perhaps one meaningful outcome measure for THC would involve measuring the number of artifacts from protected sites that are put on display in museums.

If the THC is in charge of a property, people should be able to visit it and the number of people who do so should be counted. Otherwise, the THC is an agency that only subsidizes rural downtowns, rural courthouse restorations, and that funds the activities of history buffs and professionals. These activities do not fit into the mission of the agency nor do they fit into the mission of the state.

### Office of Rural Community Affairs (ORCA)

There are two outcome measures in the General Appropriations Act for ORCA. They are "Percent of the Small Communities' Population Benefitting (sic) from Public Facility, Economic Development, Housing Assistance and Planning Projects" and "Ratio of Rural County Population to Number of Health Care Professionals in Rural Counties."<sup>18</sup> Both of these measures are at least measurable. The ORCA has some control over the first one, but the second is determined by many things, most of which are entirely outside ORCA's control. There is little focus in these measures.

Too many programs are rolled into a single measure. It might be that the economic development projects in which ORCA is involved only impact a small number of people while the housing projects impact the bulk of the people reported impacted. Also, virtually all of these types of projects are funded jointly with other programs such as private foundations, local tax funds, and grants from other government entities. It might be that ORCA is taking credit for impacts in which it shares little responsibility.

### Agency Efficiency Measures

Agency efficiency measures are meant to determine whether value is truly being generated for taxpayers. That is, considering the cost of a government program, what are the benefits? Efficiency is always

going to be measured not just in terms of how much is being produced by an agency, but how much it costs to produce it. Efficiency measures are about helping policymakers determine if a given program or agency is producing a net benefit for taxpayers.

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Efficiency measures cannot automatically determine whether more value is coming from a dollar spent in Agency A versus Agencies B, C, or D. They can, however, provide a historical perspective regarding the performance of an agency. It is up to the judgment of policymakers to determine if the benefits of a government activity outweigh the costs. The goal, however, is to maximize that difference—the net benefits. Whether the net benefits of a program are small or large, by keeping costs low, the net can be made as large as possible and that is what taxpayers deserve.

Large and prominent benefits from government action, perceived or real, represent an opportunity for agencies more interested in empire building than in producing value for taxpayers. In times of war, for example, military defense provides a large benefit. President Eisenhower warned of the development of a military/industrial complex. He was warning against the empire building that was occurring in the Department of Defense amid the opportunity the Cold War presented for that activity.

There is a tendency to view transportation, education, and health care spending uncritically. The benefits from these areas are considered so great that despite the number of dollars already being spent, many view another dollar spent in these areas as always well spent. It is in just these circumstances that the greatest care must be exercised for the sake of taxpayers. Efficiency measures are critical to this purpose.

## Ideal Characteristics of Efficiency Measures

The ideal characteristics of efficiency measures are largely the same as the ideal characteristics of outcome measures. One reason for this is that efficiency measures should be closely tied to outcomes. So, like outcome measures, efficiency measures should be **material and real, measurable, under an agency's control** (especially costs), and **tracked over time**.

In addition, like outcome measures, there should be **few** efficiency measures. Too many measures is indicative of too little focus. However, there probably should be more efficiency measures than outcome measures. Multiple programs within an agency can be focused on the same broad outcome, but efficiency will generally have to be measured and gauged for each individual program. If an agency's programs lend themselves to one overall efficiency measure, this would probably be of help to appropriators, but the individual efficiency measures should be readily available.

Efficiency measures must also **measure cost**. Efficiency is all about minimizing cost in relation to outcome. Thus, an efficiency measure should gauge the cost of achieving the outcome the agency or program is seeking to achieve. This is what allows policymakers to make sound judgments about the relative worth of placing a taxpayer dollar at the disposal of the various programs and agencies. It allows for better priority setting for the sake of taxpayer value.

Repeatedly throughout the General Appropriations Act, efficiency measures have to do with the amount of time it takes to complete certain tasks. This is consistent with the definition given in the instructions to agencies for their strategic plans. It says that an efficiency measure is “generally expressed in unit costs, units of time, or other ratio-based units.”<sup>19</sup> What this does is allow agencies to submit efficiency measure that have nothing to do with costs. Perhaps non-cost-based efficiency measures are useful; for example, if the Legislature wants ‘grant application processing time’ as low as possible, it is proper for it to set a target. However, the Legislature should always monitor cost-based efficiency measures. It would seem worthwhile for agencies to have to seg-

regate between cost-based and other efficiency measures with a requirement that some efficiency measures be cost-based.

One excellent example of the sort of cost-based measurement that should be used is contained in a 2003 report from the Comptroller's office, *Unit Costs and the "Price" of Government*. This report constructs a series of cost indices for various programs as well as for each article in the state's budget. One of the technical problems involved in such an exercise is tracking individual programmatic spending and budgeting due to the format of the General Appropriations Act.<sup>20</sup>

The dearth of cost-based measures is illustrated by the Texas Department of Transportation's listing of performance measures in the General Appropriations Act. It contains four efficiency measures, all associated with funding for its ancillary purposes such as auto registration, mass transit, and theft prevention. No efficiency measures are listed for maintenance, construction, or planning. Where there are outcome measures intended to gauge congestion in the state, there is no efficiency measure attempting to gauge the cost of reducing congestion. Appropriators whose task it is to oversee performance of state government are making decisions in a vacuum with respect to transportation.<sup>21</sup> This is too often the rule rather than the exception for other agencies.

Efficiency measures have to be **reliable and honest**. Once a well-constructed and reliably measured efficiency gauge is identified, its integrity must be constantly tested. Its history must be reviewed. If constant tweaks are made, its history becomes meaningless. Unless it is truly important to do so, temptations to change an efficiency measure should be resisted. Of course, if an efficiency measure is irrelevant, inapplicable, or otherwise inappropriate, that constitutes a good reason to change it. Irrelevance is worse than having a short historical record for any performance measure.

### Texas Education Agency (TEA)

The TEA is to be commended in that its efficiency measures, for the most part, are actually efficiency measures. Of the eight TEA efficiency measures in the General Appropriations Act, five measure the

average cost of something such as the average cost per textbook, the average state cost per participant in one program, and an average cost in the prison school system. These also measure efficiencies that the TEA can control to some extent, although the prison school system is not under its direct control.<sup>22</sup>

These efficiency measures bear little relation to the TEA's mostly inappropriate outcome measures criticized above. On the other hand, the cost-related efficiency measures are at least relevant to functions the TEA actually performs. Nevertheless, there are measures listed as efficiency measures that are not. For example, under its teacher certification function, there is a so-called efficiency measure "Average Days for Credential Issuance." This is an interesting informational measure and one that managers should certainly monitor, but it is not a cost-based efficiency measure. There should be a measure having something to do with the cost of issuing credentials.

Less closely related to the TEA's actual activities, but very much related to the outcomes listed for it in the General Appropriations Act, are two efficiency measures in its strategic plan that do not appear in the appropriations act. These include "Average Instructional Expenditure Per Student in Average Daily Attendance" and "Percent of Operating Funds Spent on Instruction."<sup>23</sup> It is telling that, given the outcome measures the Legislature chose to list in the appropriations act for the TEA, these available efficiency measures were not deemed important enough to include in the appropriations act.

Here again, the Legislature badly needs to delineate the responsibilities of the TEA and those of local school districts that make up the bulk of the public education system in Texas. The TEA should be evaluated on the basis of how much it costs to provide support services for local districts. For example, administrative cost per dollar distributed to school districts would be a real and relevant efficiency measure as would the cost per teacher contract termination appeal hearing. Perhaps when the education commissioner makes rules governing school district practice, there should be a measure of costs imposed on school districts. It should be delineated whether a rule change is made due to legislative action or due to commissioner discretion; then there would be a

measure evaluating legislative action in the appropriations act and the Legislature would show how serious it is about performance.

### Texas Department of Criminal Justice (TDCJ)

Of the three efficiency measures for TDCJ in the General Appropriations Act, only one has anything to do with cost, “Medical Care Cost Per Inmate Day.” This is not a bad efficiency measure, but it should be supplemented. For example, the average cost per inmate medical treatment would be relevant. The current efficiency measure can be biased downward with increased incarcerations.<sup>24</sup>

The other two so-called efficiency measures are “Average Monthly Caseload” under Prison Divisions and another measure with exactly the same title under Parole Supervision. These are activity or output measures, not efficiency measures. Now, if an average cost calculation were performed and reported for each of these measures they could easily be converted to efficiencies, but as they are these measures are practically useless. It is not even clear, with a simple reading of the appropriations act whether it would be preferred if these numbers were higher or lower than the target statistic reported in the bill.

As for the TDCJ’s principle mission of incarcerating felons, there is not a single efficiency measure except for the cost of health care. It is not that difficult for someone to do a calculation dividing the expected number of inmates into the budgeted amount for the incarceration goal, but this is broken down into many strategies and it is questionable if all of them should be included in such a calculation and, if not, which should be excluded. It is the Legislature’s responsibility to determine a responsible efficiency measure valuable enough to have it appear in the General Appropriations Act.<sup>25</sup>

### Texas Alcoholic Beverage Commission (TABC)

The TABC is to be commended on its efficiency measures. Regardless of how much one might quibble with the TABC’s mission or even its outcome measures, the efficiency measures are consistent with its outcome measures and they do relate to the cost of those outcomes.

There are only three efficiency measures for the TABC in the General Appropriations Act. These include “Average Cost Per Inspection,” “Average Cost Per License/Permit Processed,” and “Average Cost Per Inspection, Analysis, and Compliance Activity.”<sup>26</sup>

If the ultimate outcome aimed for through the existence of the TABC is to save lives by preventing alcohol abuse or by preventing abusers from harming others, then it would be ideal if the average cost per life saved could be calculated. This is, however, impossible, bringing into question whether or not we can ever really know how worthwhile the TABC’s activities are.

### Texas Commission on the Arts (TCA)

The TCA has two so-called efficiency measures in the General Appropriations Act—“Average Grant Amount Awarded to Arts and Cultural Organizations” and “Average Grant Amount Awarded for Arts Education Programs.”<sup>27</sup> These might be good activity measures, but even though they are dollar-based measures, they are definitely not efficiency measures.

In speculating on what a good efficiency measure for the TCA would look like if its mission were to truly provide value for taxpayers, what matters the most is the cost per Texan able to enjoy the art made possible by the TCA. This is extremely difficult if not impossible to measure, however. If TCA educational programs are spurring artistic output there is no way to determine how many Texans enjoy all such art. One organization that has received TCA grants in Austin changes a window display with different types of art regularly. There is no way to gauge how many people have observed it or whether any of them valued it, or for that matter, how many might have paid to avoid having to see it!

It is impossible to determine benefits for people from intangibles like art when it is offered for free or at a heavily subsidized price. The only way to determine if people value something is through revealed preference as a result of purchases. Government activity must always be sparingly employed for this reason. National defense does not lend itself to market-like revelations of preference though national defense is almost universally acknowledged to provide value.

Considering the TCA’s actual mission and desired outcome, discussed above, an honest efficiency measure would be “Average Support Cost Per Artist Whose Art No One is Willing To Buy.” There is just no real justification for the existence of this agency except to pull down federal dollars. For taxpayers who pay for both the state and federal governments, this is no reason at all.

### Texas Historical Commission (THC)

There are no efficiency measures listed in the General Appropriations Act for the THC. This fact begs the question: how valuable does the Legislature really consider this agency to be? If the THC is considered to produce so little value that the Legislature is unwilling to consider the cost of desirable outcomes from its existence, it seems clear that its real purpose is largesse.

Reality is not so simple. The THC does produce some value, though it is probably not enough to justify its existence. A good efficiency measure for the THC would be similar to the one proposed for the TCA—the cost per Texan able to enjoy artifacts preserved as a result of THC efforts. What is different about the THC is that this is a measure that *can* actually be measured.

Perhaps the Legislature should seek, to the greatest extent possible, to reduce duplication of THC efforts to preserve historical artifacts by turning more state historical assets over to THC care. For example, Parks and Wildlife controls state assets in Goliad and at San Jacinto. These are historical assets. While there is a park at Goliad, there is not one at San Jacinto. If these and other historical assets were turned over to the THC, this agency might see a greater value in promoting these assets and do a better job of attracting Texans to see them, often with symbiotic benefits to the state’s parks system.

### Office of Rural Community Affairs (ORCA)

The lack of any efficiency measures for the ORCA in the General Appropriations Act speaks to a lack of attention and care by the Legislature regarding this department. If a department’s cost-effectiveness cannot be measured or if so little attention is paid to the functions of the department that efficiency measures are not worth mention in the General Appropriations Act, then the department should be abolished and its

critical functions absorbed into some other agency. As it happens, in its strategic plan, the ORCA does have four efficiency measures. They do relate to cost, so they are at least legitimate dollar-based measures. However, they measure costs to administer grants without measuring the effectiveness of how grant monies are used and the costs to recruit health professionals to rural areas.<sup>28</sup> Measures need to be devised for determining the effectiveness of how grant dollars are spent and whether rural health is being enhanced at what cost.

Grant money is often spent on various projects that can be considered economic development. Model-based prognostications of the benefits from economic consultants should not be accepted as accurate measures of the economic benefits from these grants. Instead, actual economic effects should be measured as accurately as possible. This is very difficult to do and this is one reason government should not be involved in economic development efforts. The costs and benefits of such activities are too hard to measure and it is too easy for these efforts to be hijacked for the benefit of a privileged few.

The ORCA is to be commended for including some historical data in its strategic plan for its performance measures. This is in stark contrast to other agencies reviewed herein.

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**The most prominent of the performance measures in the General Appropriations Act are output measures.**

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### A Word on Output Measures

The most prominent of the performance measures in the General Appropriations Act are output measures. These are pure activity and volume measures such as numbers of applications processed, the number of individuals served by a program, complaint volume, and so on. These are not performance measures in and of themselves. They serve to obfuscate the real issues involved in determining taxpayer value—cost effectiveness and how critical the government output

is. Only outcome measures and efficiency measures consistent with the central mission of an agency fulfill the definition of a true performance measure.

Output measures should certainly be maintained. They are useful for determining proper budgeting once priorities have been determined using true performance measures. To some degree, they do show value for taxpayers, too. Obviously, if a service is heavily patronized when taxpayers have a choice, there is some indication that the service is highly valued. However, most government services are patronized with no taxpayer choice in the matter (vehicle registration) or those who patronize the service are essentially paid to do so (Medicaid and school lunches). Thus, it seems that with the apparent emphasis placed on output measures, excessive attention is given to whether an agency is heavily patronized, which is not a truly good indicator of whether it actually accomplishes anything of real value.

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**The prevalence of output measures in the general appropriations act appears to reflect a greater concern for government activity than government performance and for government employment than for taxpayer value.**

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The prevalence of output measures in the General Appropriations Act appears to reflect a greater concern for government activity than government performance and for government employment than for taxpayer value. Output measures are largely outside the control of agencies since they are measures of how many people or organizations patronize the agency. Output measures often carry with them perverse incentives. Law enforcement agencies, for example, might be excessively strict in enforcement of the law in order to increase their output. The Legislature should minimize output measures in the General Appropriations Act. They are really only useful

from an historical perspective and it makes little sense for output targets to be established and have agencies strive toward them.

## General Critique of Texas' Performance-Based Budgeting

What has been presented in this paper is a methodology for evaluating how Texas' performance budgeting system is working, not only for individual agencies but for the state as a whole. Unfortunately, it appears that while the *form* of performance-based budgeting is being followed, Texas' budgeting system is largely performance-based *in name only*.

Failure to measure performance in a meaningful way just means success or failure cannot be identified, bringing into question whether an agency even matters. If it is impossible to measure performance of an agency, taxpayers would likely be better off if the agency did not exist.

Many performance measures make little sense. Often they do not align well with an agency's mission which might or might not align well with the state's mission, which itself is not defined in law but in documents whose staying power is determined by the duration of a governor's term in office.

The bill pattern, or format, of the General Appropriations Act is difficult to follow. Budgeting should be done on a program-by-program basis. Instead, so-called budget strategies might encompass many programs, or parts of programs, or even a mixture of whole programs and parts of programs. Each program should be evaluated on its own performance, independent of other programs. The current bill pattern serves more to obfuscate than to illuminate, to confuse rather than clarify.

For performance-based budgeting to work, there must be a willingness to allow for refinement in the system. Unfortunately, there appears to be an excessively high value placed on stability of performance measures. That is, it seems much more important to have a long historical record for performance measures than to have performance measures that actually mean anything. It is frustrating not to have a long historical record for an obscure measure that someone occasionally

asks about, but if the measure yields little performance information, others that do yield useful information should be developed. By allowing this type of change to occur, meaningful data that might otherwise never be gathered might be gathered in an effort to accommodate meaningful measurement criteria.

The emphasis on long history of measures would be somewhat understandable if performance measure histories were easily accessible, but they are not. No doubt, agencies will provide them at an individual's request, but performance histories should be easily available on the web through the Legislative Budget Board (LBB) or at least with an index of links available on the LBB website.

While it is tempting to entirely fault the Legislature for the state of appropriations practices, this would not present a full picture. Agencies are partly to blame. They are given initial responsibility for developing their missions and performance measures. More legislative input is needed in determining agency missions but a part-time Legislature cannot be expected to fully oversee even a handful of agencies, much less more than one-hundred (one more argument for limited and small government).

The LBB, too, with its resources, including a full-time staff, should be more willing to review its own practices. While there is every reason to believe LBB staff is conscientious and hard-working, the General Appropriations Act is evidence that the LBB needs to re-think its methodologies. Performance measures need to be radically re-worked. Many agencies are more than willing to tackle this task but a common complaint is the unwillingness of LBB staff to make changes.

LBB staffers are generally well-educated, but few of them are economists. Business degrees and/or business experience is uncommon. LBB leadership should consider making some fairly radical personnel changes to infuse the staff with perspectives less dominated by one particular public policy school. One big step toward accomplishing this goal would have a permanent LBB director appointed with the power to make some fundamental decisions.

## Conclusion

This is only the beginning of what promises to be an ongoing evaluation of Texas' state budgeting practices. In the future, the Texas Public Policy Foundation's Center for Fiscal Policy Studies will refine its own practices, expanding the scope of its analyses to other agencies, and improving its presentation format to be user friendly and easily referenced.

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**Government should provide a return on the dollar it spends, not just in government jobs or for direct recipients of funds, but for everyone in general.**

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Whether one is philosophically predisposed to be for limited government or an all-encompassing government, surely all can agree that taxpayers deserve value from government in exchange for the taxes they pay. Surely all can agree that performance budgeting should be more than a slogan or a format. It should be real. Government should provide a return on the dollars it spends, not just in government jobs or for direct recipients of funds, but for everyone in general.

The reason for measuring and monitoring what an agency is supposed to accomplish is to see if the agency is able to succeed in its mission. If an agency's success cannot be checked by measuring outcomes for which it is responsible or if experience has shown that important outcomes central to the agency's mission are unachievable, the agency should be terminated. Failure should *never* be a sole reason for giving an agency more funding. It is only a reason for: 1) canceling an agency or 2) restructuring and redefining an agency. ★

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## Endnotes

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- <sup>11</sup>Texas Department of Criminal Justice, *Agency Strategic Plan, 2007-2011*, State of Texas: Austin (2005) C-1, [http://www.tdcj.state.tx.us/publications/finance/TDCJ\\_Strategic\\_Plan\\_2005-09.pdf](http://www.tdcj.state.tx.us/publications/finance/TDCJ_Strategic_Plan_2005-09.pdf).
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- <sup>22</sup>Ibid, III-3 – III-6.
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