Budgeting for Results Commission

Friday, June 28, 2013
10:00am – 11:30am

James R. Thompson Center, 100 W. Randolph, Suite 15-200, Lt. Governor's Video Conference Room
Stratton, S. Spring, Room 414, Lt. Governor's Video Conference Room

Dial-in 888-494-4032 Access Code 6371670294#

Agenda

I. **Welcome and Introductions – Sen. Kotowski (5 mins)**
   a. **Announcement of Co-chair**

II. **Review and Approval of Minutes from April 2013 – Sen. Kotowski (5 mins)**

III. **Overview of BFR Legislation – Kristen Clark, Governor's Office (15 mins)**

IV. **Overview of Budget –Ben Winick, Office of Management and Budget (10 mins)**

V. **Feedback on Integrating BFR into Budgeting Process– 25 mins**
   a. **Legislative Appropriations Process - Sen. Kotowski**
   b. **Executive Budget Process - Greg Wass, Office of Management and Budget**

VI. **Update on Pilot – Greg Wass – Office of Management and Budget (15 mins)**
   a. **Update on Discussion of Advisory Committee**

VII. **Public Hearings – Tasha Green Cruzat, Office of Management and Budget (10 mins)**

   a. **Public Hearing (16th floor, Room 16-503 JRTC) –** Friday, June 28, 1:00pm
   b. **Availability of Commissioners for Additional Dates**

VIII. **Other Business – 5 mins**

IX. **Adjourn**

Next Meeting: Friday, August 30, 2013, 10am

Budgeting for Results Commission Meeting

Friday, April 26, 2013

10:00am – 12:00pm

Chicago – James R. Thompson Center, 100 W. Randolph, 2nd floor, Room 2-025

Springfield – Stratton Building, Lt. Governor's Video Conference Room 414

Dial in: 888-494-4032 Access code: 6371670294#

Chicago: Carole Brown, Representative Will Davis, John Kamis, Senator Dan Kotowski, Jim Lewis, Roger Myerson, Maria de Jesus Prado, Jason Saul, Senator Heather Steans, Cristal Thomas, Donna Sims Wilson

Springfield: Steve Schnorf

Phone: Sen. Pamela Althoff, Kent Gaffney, Lt. Governor Sheila Simon

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Minutes

I. 10:00am Welcome and Introductions (5 mins)

Chair welcomed Commissioners and guests in both locations. Chair called for introductions in Chicago, Springfield, and on the phone. Chair thanked Chief Results Officers (CROs) from state agencies for joining as well.

II. 10:05am Review and Approval of Minutes (5 mins)

Chair asked for edits to the minutes. Hearing none, minutes were approved as presented.

III. 10:10am Performance Reporting System Update – Greg Wass, Office of Management and Budget (15mins)

Greg noted that the presentation was available online through the BFR website, www.budget.illinois.gov. He presented an overview of the data system which is being developed to house information that is being collected through agencies for BFR. The data to be included will be performance specific data at both the program and outcome indicator level. He noted that while a number of data collection systems are currently in place many are program or agency specific and they are often times not outcomes oriented.

Greg noted that CROs are leading teams at their agencies to assemble this data and enter it into the IL Performance Reporting System (IPRS). He recalled that the State has now designated CROs at each state agency and that the CROs are meeting in Outcome Teams by Result Area. CROs are typically high ranking officers within in their agencies who are familiar with agency operations, department budgets, and program goals. These individuals play a critical role in managing change as we continue to move forward with the implementation of BFR.

Starting July 2013, the start of FY14, state agencies will begin entering data that will serve as baseline data. He also reviewed the indicator hierarchy which consists of Program Indicators at the micro level, Outcome indicators at the intermediate level, and Impact indicators at the macro level.

Greg noted that the Office of Management and budget (OMB) has worked with agencies to train staff on IPRS and facilitate the transition to the system. This training has included webinars for CROs and other agency staff as well as in person meetings with CROs as a larger group and Outcome Team specific meetings.

Program descriptions and program indicators are to be entered by July 1. The next phase following data collection will be data analysis. He noted the importance of transparency in this process and provided an example of a group which has begun to tap into the performance data being made available publicly online. Lastly, he noted that ultimately the goal is to develop a dashboard of performance metrics to enable taxpayers to better understand how general funds are used to support state services.

Greg accepted questions from the Commission. Sen. Kotowski inquired about the status of the data collection process. Greg noted that the process is coming along more quickly for programs which are already data rich or accustom to reporting performance data but that OMB and the BFR team are working to support and guide those that are not as familiar with this approach in an effort to meet the July deadline. Sen. Kotowski noted the challenge some agencies face in having the capacity to undertake the level of data collection required by BFR.

Donna Sims Wilson asked if there is a minimum standard for data collection are in place. Greg responded that OMB and the BFR team will be requiring a minimum of one outcome indicator for each program to be entered into IPRS by July 1. He also noted that this is a trial run and that the team intends to continue to work with agencies to refine metrics and enhance the data collection process.

Sen. Kotowski and Sen. Steans thanked OMB and the BFR team for their work to move the initiative forward and continuing to keep the Commission engaged.

IV. 10:25am Legislative Update (20 mins)

a. Senate Appropriations Outcomes Form - Senator Dan Kotowski

Senator Kotowski introduced the BFR Appropriation forms which were sent to state agencies and requested to be completed in advance of their appropriations hearings. The form is

intended to serve as a template to help guide agencies testimony by providing a framework for compiling and sharing outcomes focused data.

A copy of the form was distributed. Sen. Kotowski noted that the form provides another opportunity to engage state agencies in an evidence based discussion around the budget. He also noted that he expects that this tool will help move the conversation forward.

b. BFR Outreach to Legislators - Greg Wass & Tasha Cruzat Green, Office of Management and Budget

Greg and Tasha recapped their visits with legislators in their district offices. Visits have afforded one-on-one opportunities for engaging legislators on the topic of BFR and helping them to better understand accomplishments to date as well as the timeline for implementation. Greg and Tasha have also been able to provide clarity around questions legislators have had regarding the BFR process. The meetings have been well-received.

One of the most common questions which has been asked by legislators is when data can be expected to be made available and when will BFR be fully implemented. Greg and Tasha noted that they provided legislators with the implementation timeline which outlines the different phases of the project and establishes Q1 of FY14 as the first quarter of baseline data. Legislators have also inquired about whether or not fund transfers will be examined.

Greg noted that legislators regardless of affiliation have been generally positive in their response to the concept of BFR. In total, they had met with just under a dozen legislators at the time of the meeting and hope to continue to hold individual meetings. He also noted that change takes time but that meetings such as these have been very helpful in providing clarity around the timeline and expectations for BFR. Lastly, Tasha and Greg have provided the BFR website, www.budget.illinois.gov, to legislators as a resource where updates and key information can be accessed and shared.

Sen. Kotowski inquired about public hearings as another means to engage conversation around BFR across the state. Tasha explained that in accordance with the Commission's recommendation, the goal is to hold six public hearings in regions across the state over the course of the summer. Sen. Kotowski thanked Tasha and Greg for their update.

V. 10:45am Fast Track Update – Greg Wass, Office of Management and Budget; Alice Gallen & Jason Saul, Mission Measurement (30 mins)

Greg provided an overview of the plans for the Fast Track Pilot. An Advisory Committee of the Commission has been formed to engage a sub-set of Commissioners as well as external stakeholders in a more focused discussion on the Fast Track Pilot. He noted that the group is working with Alice Gallen and Jason Saul of Mission Measurement to think through what a preview of what can be expected from BFR might look like.

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Jason noted the challenge of using insufficient data that is currently available to help inform decisions. He discussed using literature base available to help understand the likelihood of programs being able to produce a desired outcome as the State work towards collecting higher quality, outcome oriented data. The goal of the pilot is to provide tools to make evidence based decisions around program management and resource allocation. He mentioned efficiency and cost per outcome as data points on which the pilot hopes to provide information.

The Advisory Committee convened for the first time just prior to the Commission meeting. The Committee provided valuable feedback around trying to understand cases in which there could be interaction between programs that might result in synergies or a multiplier effect or cases in which a single program might produce multiple effects. For example, child care as a job support as well as an early learning program. Greg noted that OMB hopes to explore and model these scenarios.

John Kamis commended OMB and the Governor's Office for their work to move BFR forward and Mission Measurement's contribution to ensure a robust product. He noted that Steve Schnorf, Jim Lewis, John Bouman, Kent Gaffney, Greg, and Jason have been a part of the Advisory Committee. Lastly, he mentioned hopes to obtain funding to support the Pilot Project.

VI. 11:15am Social Impact Bonds Presentation – Brandon Bodor & Cristal Thomas, Office of the Governor (30 mins)

Deputy Governor Cristal Thomas opened the presentation on Social Impact Bonds (SIB) by providing background on the topic. She noted that the Task Force for Social Innovation, Entrepreneurship, and Enterprise had explored the topics and made recommendations to the Governor around the issue. She also mentioned that Illinois has secured funding from the Dunham Fund to help move a SIB forward, making Illinois only the 3rd state to launch a SIB. She noted that this presentation is especially relevant to the Commission because it is aligns closely to the principles of BFR and that SIBs are essentially performance based contracting with an innovative finance structure which enables the State to leverage public private partnerships. She then turned the presentation over to Brandon Bodor.

Brendan began by noting that he would be working for a one page document which had been provided in hard copy in the room but that the full presentation was distributed via email and will be made available online at www.budget.illinois.gov. Brendan echoed Cristal's comments that social impact bond is a bit of a misnomer but that social impact financing might be a more accurate terminology. He noted that Jeff Liebman, professor at Harvard Kennedy School, worked with the Task Force to form recommendations to the Governor.

He noted that this is a fairly new concept and that different entities have taken different approaches. He then described a few examples of financing models which have been used to date. He noted that the terms that of each contract vary. The initial investment is made by an upfront investor. A third party intermediary typically manages the contracts with providers and oversees the administration and

reporting associated with the grant. The government only pays a return if key objectives outlined in the contract are achieved.

Jason Saul asked if the government sets aside funds to repay the principal and the performance incentive. Brandon noted that the structure varies by contract. Jim Lewis added that the principal. Steve Schnorf asked about the typical premium or return on investment. Jim noted that in the case of Goldman Sachs required a small interest rate as well as a securitized initial investment which moderated the risk for investors. Cristal noted that a request for information (RFI) will likely be released to better understand some of these questions and assess interest in the state. Brandon mentioned that because SIBs are new, many of the contracts have not yet concluded so not all contract terms have been released publicly. Contracts are in process in the UK, New York, and Massachusetts.

Brandon emphasized this unique opportunity to pilot innovative approaches to addressing critical social dilemmas that the State may not be able to fund otherwise. He provided examples of reducing recidivism, reducing homelessness, or increasing graduation rates as possible challenges to be addressed by a SIB. Five to six years is the typical length of a bond to date given that these issues often require a minimum amount of longitudinal data to understand whether or not the desired result was achieved.

Roger Myerson inquired about the incentive for investors to provide funding outside of contributing to a social good. Jim Lewis noted that foundations have typically been involved to secure the investment. Carole Brown added that investments are structured to provide some level of return in addition to the principal but not necessarily for high yield returns because the project often aligns with philanthropic priorities of an organization. Additionally, the investment can be leveraged by making investments across several organizations in a given areas as opposed to just one. Cristal noted that the benefit for the State is that target areas are those that are high need priorities so the benefit is twofold, both the social impact but also the monetary savings. Jason concurred that SIBs reinforce principles of BFR and he suggested that the objective of the SIB that the State moves forward with might align with a BFR outcome area to avoid creating a parallel set of metrics and data.

Rep. Davis expressed concern about language in the presentation which indicated that preference for contractors would be based on proven effectiveness which may unintentionally weed out smaller community based organizations who are working with very challenging populations or do not have the capacity to do the data collection and reporting required for this type of opportunity. Brandon indicated that this is something the administration recognizes and will take under advisement.

Jim added that social services work sufficiently well that the program saves more money than it costs in the long term but there is some risk because of exogenous factors that affect the outcome. Roger cautioned around the risk of the State ultimately accruing more debt inadvertently.

Brandon noted that state agencies are excited about the opportunity to generate additional resources to support high priority, high need areas. He closed by thanking the Commission for their thoughtful

comments and questions. Cristal added that the State looks forward to exploring the possibilities. Sen. Kotowski added that this opportunity is compelling because it generates revenue without requiring the raising of fees and theoretically saves the State money in the long run based on reducing. He thanked Cristal and Brandon for the presentation.

VII. 11:45am Public Hearings – Tasha Cruzat Green, Office of Management and Budget & Amber Kirchhoff, Office of the Governor (5 mins)

Tasha and Amber are working together to identify dates when Commissioners are available to accept testimony from stakeholders. Amber noted that the goal is to engage a broader cross section of stakeholders and will be working with CROs to ensure diverse representation across sectors. The goal is to hold 2 each month over the course of the summer. Amber encouraged Commissioners to submit topics on which they would like stakeholders to focus their comments so that they could be provided to stakeholders during the preparation of their remarks.

She closed by announcing the first public hearing would be held in Chicago on June 28th from 1-4pm following the next Commission meeting at 10am.

VIII. 12:00pm Adjourn

Chair thanked the staff and participants and adjourned the meeting.

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HB 2 (Illinois Single Audit Commission):

Sponsors: Rep. Patricia R. Bellock and Sen. Pamela J. Althoff

House Bill 2 creates the Illinois Single Audit Commission to make recommendations regarding the adoption of uniform standards for the administration of grants. Recommendations must be filed in the form of a report to the General Assembly by January 1, 2014. The Commission's report must make recommendations on the life-cycle of a grant, including the pre-award, award, and post-award. Recommendations in the report must focus primarily on developing a coordinated, non-redundant process for the provision of effective and efficient oversight of the selection and monitoring of grant recipients, ensuring quality programs, and limiting fraud, waste, and abuse. To the extent feasible, the Commission's report must include necessary statutory and rule changes required to implement any proposed actions. The Commission is repealed on April 1, 2014.

HB 1682 (Posting of Bills Held at Agencies):

Sponsors: Rep. Dwight Kay and Sen. Kyle McCarter

House Bill 1682 requires each state agency under the Executive Branch to report the aggregate dollar amount of bills held at the agency on the previous June 30 to the Comptroller on October 1, 2013 and by October 1 of each fiscal year thereafter. The Comptroller must post the aggregate dollar amount of bills reported by the state agency on his or her publicly-facing website as soon as possible after receiving a report from the state agency. The legislation exempts agencies under the authority of the Legislative and Judicial Branches of government from these requirements.

HB 2947 (Governor's Budget Data):

Sponsors: Rep. Scott Drury and Sen. Julie A. Morrison

House Bill 2947 adds to the contents of the Governor's introduced budget. It requires the budget to contain a section indicating whether there is a projected budget surplus or deficit for general funds in the current fiscal year, or whether the current fiscal year's general funds project is projected to be balanced. The section must present this information in a numerical table format and by way of a narrative description and must include information for the proposed upcoming fiscal year, the current fiscal year, and 2 years prior to the current fiscal year. Additionally, these estimates must specifically and separately identify any non-recurring revenues. None of these specifically and separately identified non-recurring revenues can include any revenue that cannot be realized without a change to law. The table must show accounts payable at the end of each fiscal year in a manner that specifically and separately

identifies any general funds liabilities accrued during the current and prior years that can be paid from future fiscal years' appropriations, including, but not limited to, costs that may be paid beyond the end of the lapse period as set forth in Section 25 of the State Finance Act and costs incurred by the Department on Aging. Lastly, the section must also include an estimate of individual and corporate income tax overpayments that will not be refunded before the close of the fiscal year.

HB 2955 (Online Budget Publication):

Sponsors: Rep. Scott Drury and Sen. Julie A. Morrison

House Bill 2955 requires the Governor's Office of Management and Budget (GOMB) to publish the State budget for the coming fiscal year, in its entirety, to its website within 60 days of its enactment into law. The State budget must be published in comma-separated value format (.csv), Xtree for Windows Script format (.xcl), or another comparable format.

SB 1621 (Budgeting for Results Mandates):

Sponsors: Sen. Dan Kotowski and Rep. Barbara Flynn Currie

Senate Bill 1621 repeals or makes permissive several unfunded or unduly burdensome mandates for the Department of Central Management Services, Department of Commerce and Economic Opportunity, Department of Financial and Professional Regulation, Department of Transportation, Emergency Management Agency, and Governor's Office of Management and Budget. This legislation was result of the Budgeting for Results Commission's recommendations concerning the proposed elimination of mandated spending in its November 2012 report.

SB 2106 (Budgeting for Results Transparency Working Group):

Sponsors: Sen. Pamela J. Althoff and Rep. Ron Sandack

Senate Bill 2106 requires the Budgeting for Results Commission to create a budget transparency working group on July 1, 2013, or as soon thereafter as possible. Members of the working group consist of members of the Commission. The working group must exist for the purpose of developing a plan to make the State budgeting process the most transparent, publicly-accessible budgeting process in the nation. As part of this mandate, the working group must study proposals related to transparency and accessibility in the budgeting process and report its findings to the Governor, General Assembly, and Commission no later than January 1, 2015. The working group may consult with the Director of the Department of Revenue, Comptroller, and Treasurer, who must cooperate with the working group. The working group is repealed on January 1, 2016.