

Joint Legislative Audit and Review Commission



# The Potential for Improving Budget Review in Virginia

Commission Briefing

December 8, 2008



## Study Mandate: *Code of Virginia §30-58.4*

- Assess budget oversight by other states' legislatures
- Review budget analysis methods and procedures
- Analyze, on pilot basis, one agency's budget submission
  - Department of Corrections was selected as pilot agency

# In This Presentation

- State Budget Process
- How State Legislatures Manage Oversight of the Budget Process
- Budget Documentation and Transparency
- Pilot Review: The Department of Corrections' Budget Growth
- Pilot Review: Analysis of the Department of Corrections' Budget Submission

# Virginia's Budget Process

Phase	Product
Preparation - <b>Agency Request</b> - Governor's Recommendation	Agency Budget Submission Executive Budget & Budget Bill
<b>Legislative Review &amp; Approval</b>	Joint Conference Committee Report
Governor's Review, Final Legislative Action	Appropriation Act
Executive Implementation	Disbursement of Funds
Accounting and Reporting	Comprehensive Annual Financial Report (CAFR)

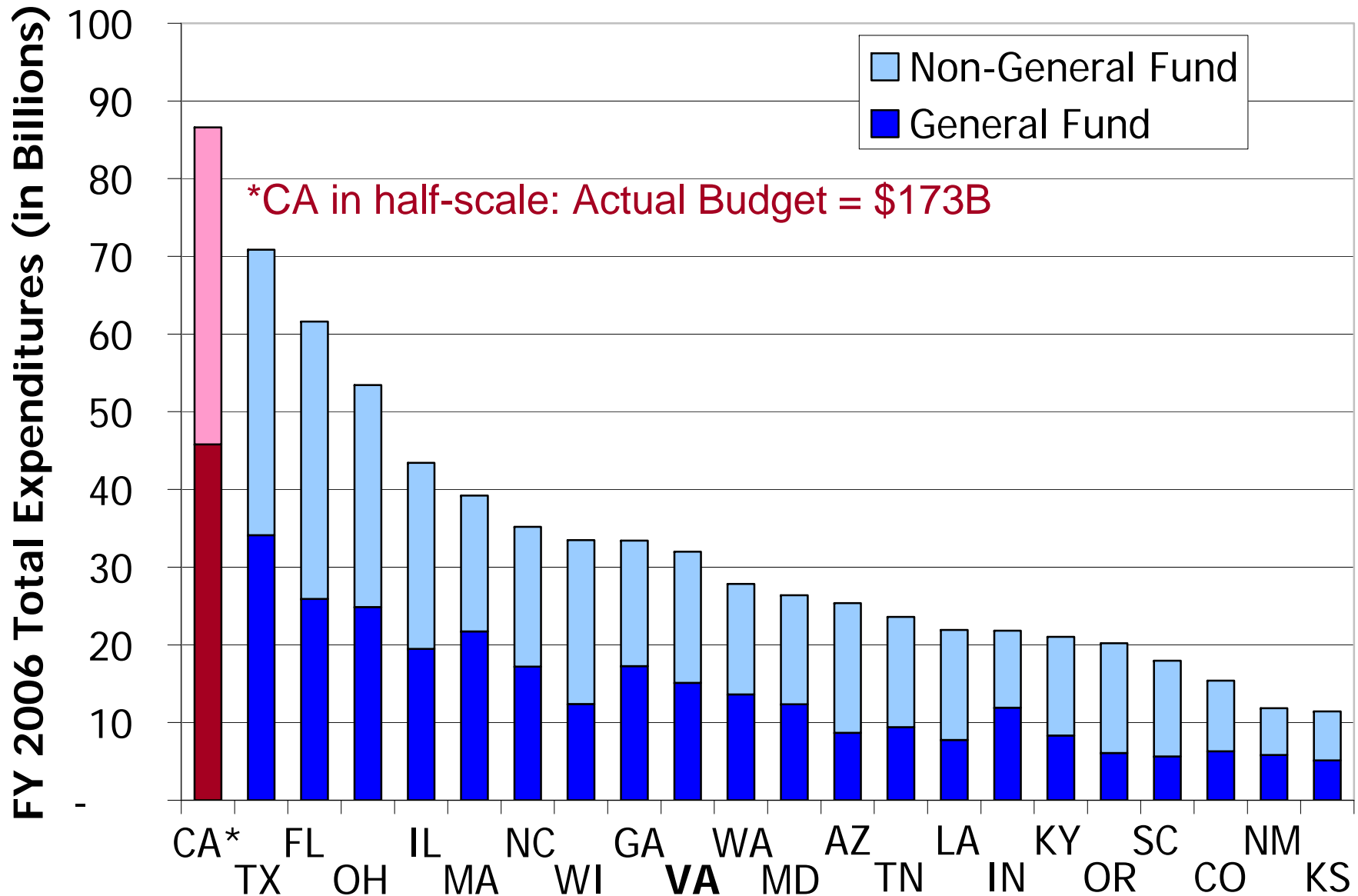
# Legislative Role Has Evolved Over Past 30 Years

- House Appropriations, Senate Finance first employed professional staff (mid-1970s)
- Budget submission date moved to Dec. 20 of odd-numbered year (1993)
- Budget hearings held around State prior to Session (1993)
- Strategic plans, performance results required (2003)

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# JLARC Surveyed 21 States' Budget Policies



# Governor Introduces Budget in VA and 16 of 21 Comparator States

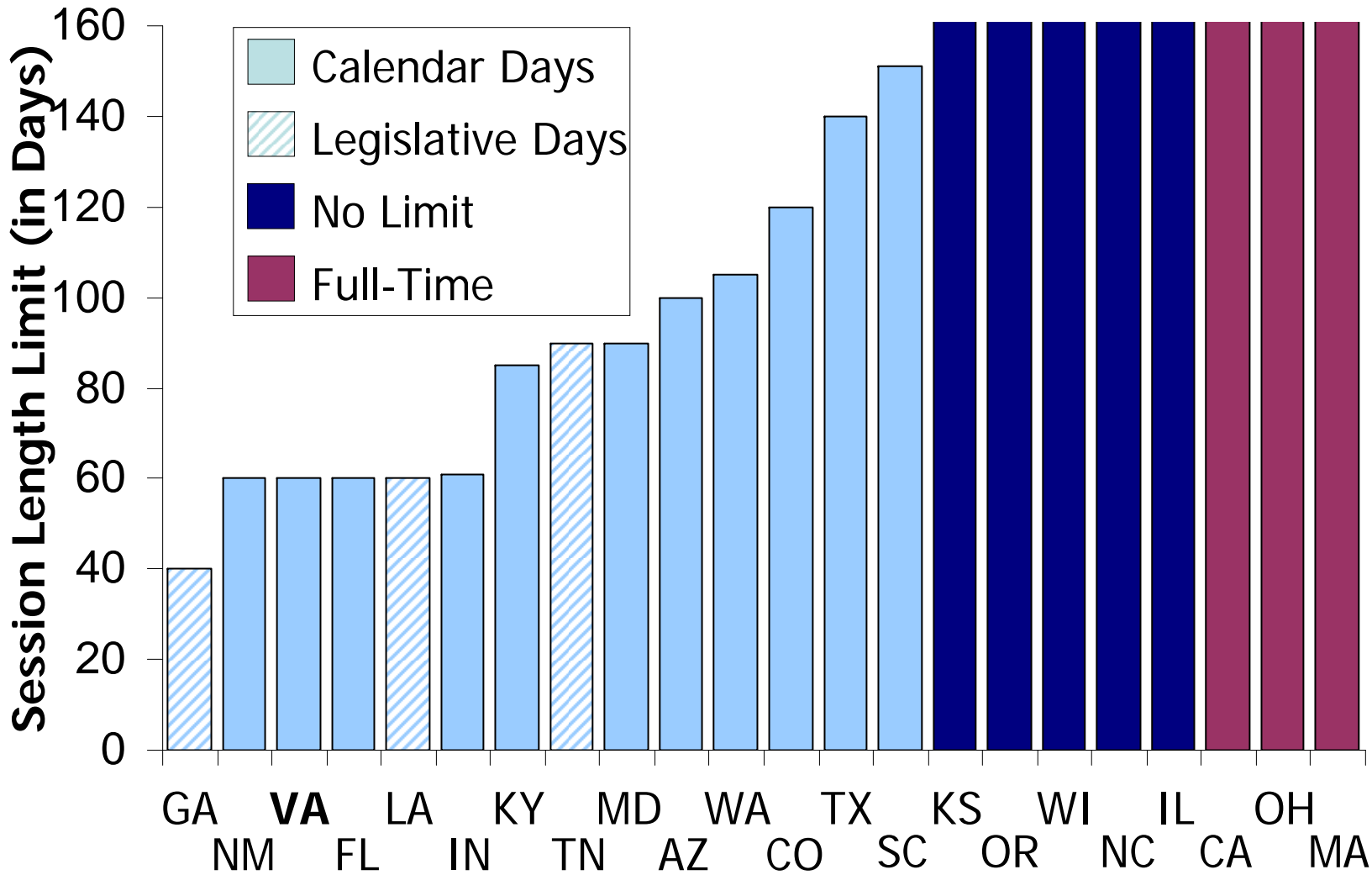
- Four states use professional, nonpartisan legislative staff
  - AZ staff - Prepare legislative budget document, which legislators compare to governor's proposal
  - NM staff - Produce two documents, one discusses budget policy issues, other analyzes base budget with line-item recommendations
  - SC staff - Also serve governor, help develop budget bill
  
- IN – Governor's staff works with legislature through joint legislative/executive committee to develop budget

# States Use Annual and Biennial Budget Processes

Budget Type	# of States	States
Amended Biennial	6	AZ, KY, NC, OH, <b><u>VA</u></b> , WI
True Biennial*	4	IN, OR, TX, WA
Annual	12	CA, CO, FL, GA, IL, KS, LA, MD, MA, NM, SC, TN

\* Not significantly amended in the second year

# Virginia Has a Short Session Length Compared to Other States



## Some States Have Multiple Appropriations Bills

# of Bills	# of States	States
Single	12	CA, CO, FL, GA, IN, KS, MA, SC, TN, TX, <u>VA</u> , WI
Multiple	10	AZ, IL, KY, LA, MD, NM, NC, OH, OR, WA

## Legislative Chambers May Review the Budget Jointly, Sequentially, or Simultaneously

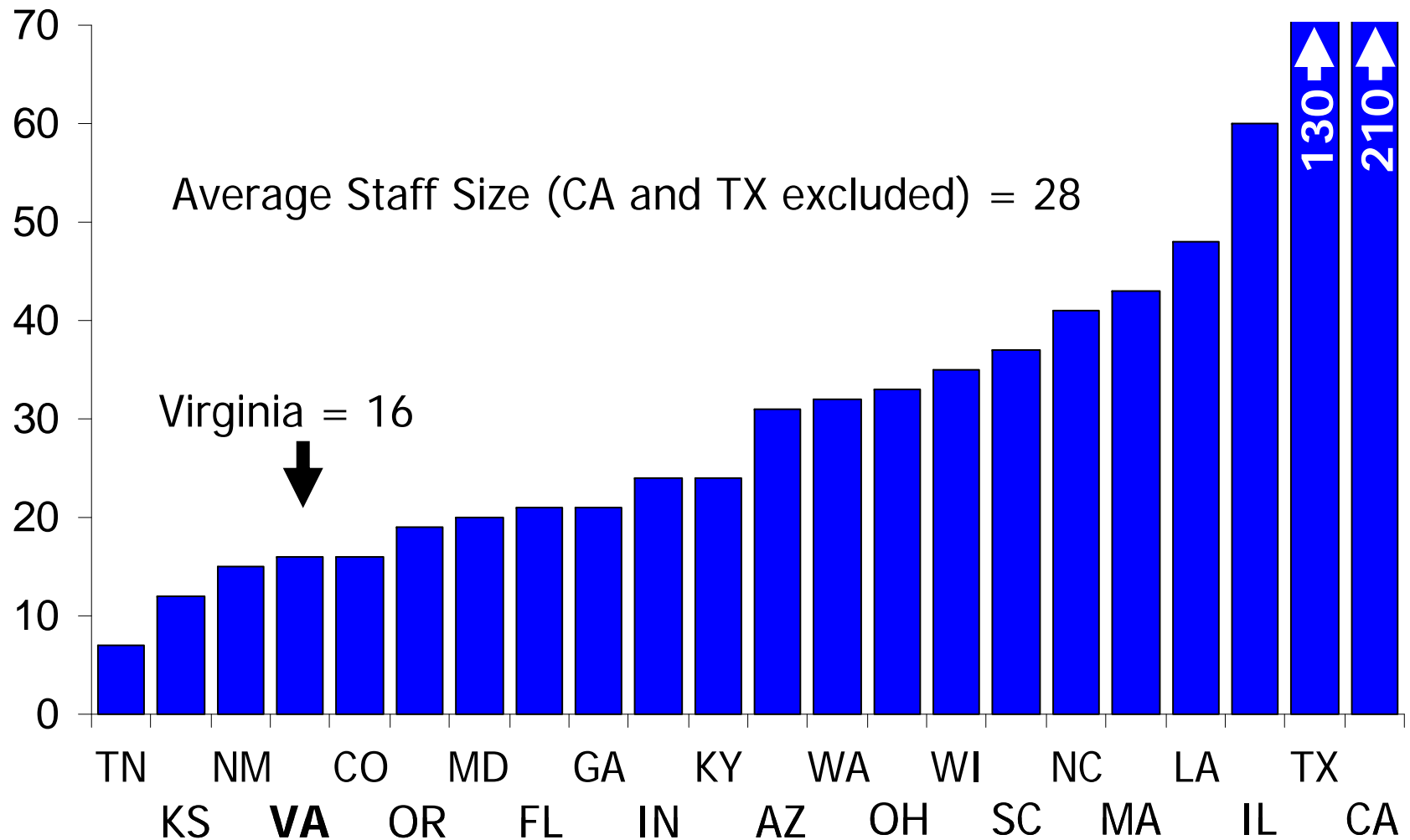
House and Senate	# of States	States
Simultaneously	14	AZ, CA, FL, KS, MA, IL, MD, NM, OH, SC, TN, TX, <u>VA</u> , WA
Sequentially	5	GA, IN, KY, LA, NC
Jointly*	3	CO, OR, WI

\* Review generally starts in joint House and Senate fiscal committee, then referred to chambers as a whole or to fiscal committees

## Legislative Fiscal Offices in Comparator States

Type of Budget Office	# of States	States
Fiscal Committee Staff Only	5	FL, GA, MA, <u>VA</u> , WA
Joint Legislative Budget Office Only	9	CO, KS, KY, MD, NM, NC, OR, TN, TX
Fiscal Committee Staff and Joint Legislative Budget Office	3	AZ, SC, WI
Joint Legislative Budget Office and Caucus Fiscal Staff	4	CA, IN, LA, OH
Caucus Fiscal Staff Only	1	IL

# Virginia Ranks Low in Number of Legislative Fiscal Staff



## 11 of 21 State Legislatures Create Their Own Forecasts of Base Budget Growth

- AZ – Legislative staff create “baseline note” that projects individual agency and program budget needs based on continuation of current policies
- WA – Independent agency (Legislative Evaluation and Accountability Program or LEAP) provides legislature with data for analysis and budget monitoring. Statutes require all parties to use this common data set

# Several States Make Extensive Use of Budget Hearings

- Legislators hear from the public, agency personnel
- More focused budget hearings in some states
  - WI – Statewide agency informational and public hearings
  - OH – Fiscal committee hearings 3 days/week for several weeks, 1-6 agencies appear each day
  - CO – Joint Budget Committee meets nearly full-time for 3-4 weeks before session. Members first briefed by staff, agencies appear several days later

# Many States Broadcast Fiscal Hearings

Fiscal Committee Broadcast Via Internet or TV	# of States	States
Yes	15	AZ, CA, CO, FL, GA, IN, KS, KY, NC, LA, MD, OR, TN, TX, WA, WI
No	7	IL, MA, NM, OH, SC, <u>VA</u>

## Base Budget Growth Difficult to Scrutinize

- New funded programs generally become part of next year's "base" budget and receive less scrutiny
- Legislators in comparator states often say they do not understand what's in base budget
- FL sunset reviews – Agencies reviewed on pre-set cycle
  - Review may not coincide with legislative or public interest in making changes
  - **VA** could review new programs for 1-2 biennia to allow for their evaluation before they become part of base budget

# Performance Evaluation Combined With Budget Analysis Enhances Legislative Decision Making

- NM fiscal analysts – Team with performance analysts to study particular agencies
- SC fiscal analysts – Focus on areas with an ongoing performance evaluation
- **VA** budget analysis could more consistently incorporate performance evaluations
  - JLARC State agency reviews could include history of appropriations, employment levels, fund sources, and major budget drivers

## Legislative Fiscal Staff Provide Analysis Through Many Different Products

- TX – “Budget 101,” 65-pg budget process overview
- MD – Budget orientation handbooks for new members
- NM – “Finance Facts,” 2-pg descriptions of budget issues
- AZ – “Program Summaries” for selected agencies
- SC – Plain-language description of any major policy changes included in budget
- Several states – Document funding levels at each stage of legislative process

# All 21 Comparator States' Agencies Have Performance Measures

- Legislators or staff in 8 of 21 states utilize performance measures for budgeting purposes
  - Most have some form of legislative evaluation
- In states with no legislative oversight of performance measures, metrics seen as internal executive management tools and not utilized in legislative decision-making
- **VA** performance management system
  - Limited legislative oversight through Council on Virginia's Future. Legislators do not set value or appropriateness of measures

# Findings

- Virginia has a relatively short legislative session
- Some other states hold more hearings focused on agency budgets
- Virginia has relatively small number of legislative fiscal staff compared to other states
- A trend in other states is toward broadcasting budget hearings via television or internet
- Some states have proposed a waiting period of several days at a point in the budget process that allows all legislative members an opportunity to review budget changes

# Potential Improvements

- Hold additional hearings on agency budgets. Make wider use of televised meetings and hearings
- Limit committee assignments for members of appropriating committees
- Evaluate new initiatives each year for at least two biennial budgets
- Call a brief recess following adoption of each chamber's budget, to provide members more time to review changes made by each chamber
- Describe more fully each agency's funding and operations in a single document and/or website, including indicators of performance and comparisons with peer agencies in other states
- Include a history of appropriations for the agency in JLARC reviews of State agencies, and identify employment levels, fund sources, and major budget drivers

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# VA Budget Process Produces 9 Major Documents

Document	Timing
Budget Instructions	Summer/Fall
Agency Strategic Plans	Fall
Agency Budget Submissions	Fall
Governor's Budget Request & <b>Executive Budget Document</b>	Prior to Dec.20
Money Committee Staff Summary of Governor's Introduced Budget	Prior to the Session
Subcommittee Reports	Mid-Session
Joint Conference Committee Reports	Before end of Session
<b>Appropriation Act</b>	When Governor signs enrolled Budget Bill
<b>Summary of Budget Actions</b> by Joint Money Committee Staff	After Appropriation Act

Key documents in bold



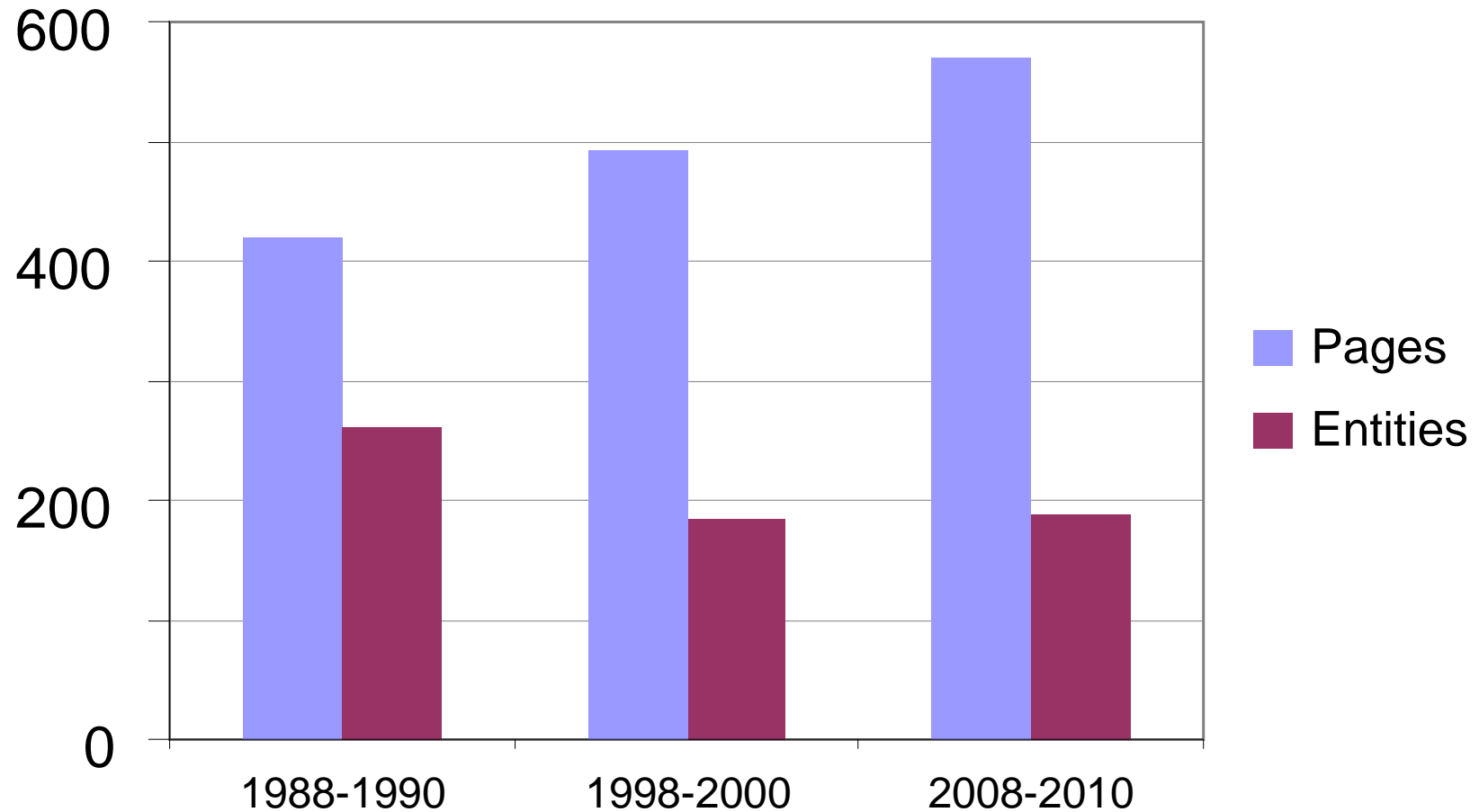
## Agency Strategic Plans Useful But May Omit Policy Decisions

- Provide most current, complete, and detailed discussion of each agency's budget and activities
- Key budget policies and assumptions may be buried
- Important budget policy details may be omitted
  - Department of State Police plan indicated positions would be held vacant to accommodate rising cost of gasoline, but did not tell assumed price or number of positions held open

# Virginia's Executive Budget Document Quickly Outdated

- Outdated when money committees change many provisions of budget bill, usually by mid-February
- Summarizes broad fiscal and policy goals of the Commonwealth
- Lists key agency performance measures, but includes no outcome data or performance standards
- Specific policies and assumptions not always mentioned in any documentation

# Appropriations Acts Longer, Display Fewer Funded Entities



## Levels of Detail Displayed in 2008-2010 Appropriation Act

	Appropriation	# of Facilities		# of Pgs
		Operated	Displayed	
DMHMRSAS	\$963 m	15	15	19
DOC	\$1,097 m	43	None	9

# Budget Transparency Becoming Important Governmental Objective

- APA – Transparent budget process should allow citizens ease “in understanding and following the budget process without any special training...a process which is clear, visible, and understandable”

# Obstacles to Transparency in Virginia

- All spending authorized by language in Appropriation Act, but not always shown in totals
  - Year-end FY 2007 spending was \$2.6 billion (7.2%) higher than totals listed in Act
  - General/Non-General fund split changed from 48% GF in adopted budget to 38% GF year-end
- Changes result mainly from transfers and sum sufficient appropriations
- Budget policies not fully discussed in budget documentation
  - State budget incorporates numerous policies and assumptions, but often not discussed in budget documentation

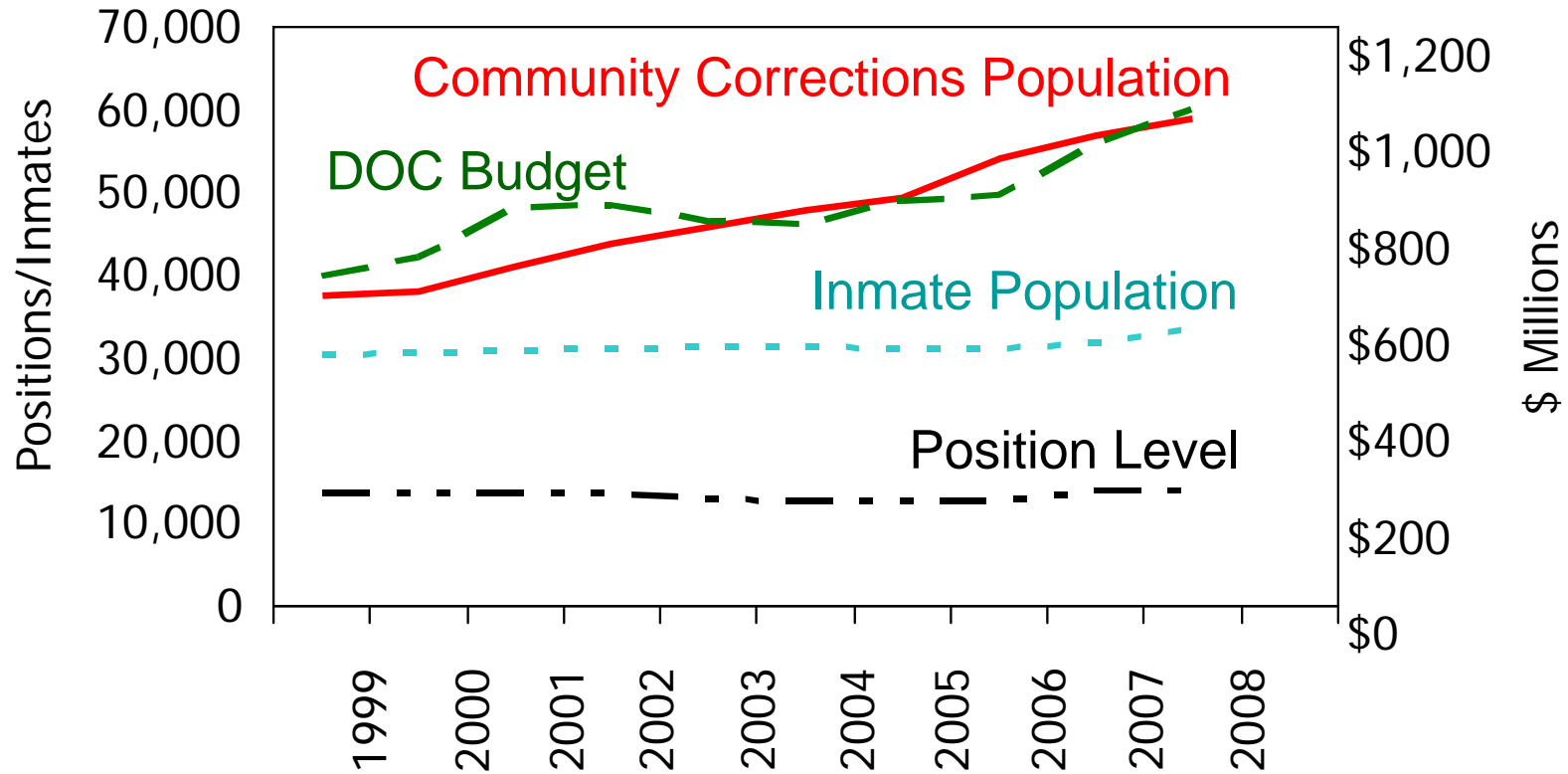
# Enhancing Legislative Budget Oversight

- Budget documentation should describe key policies, plans, and goals
- Legislative staff need full access to executive budget data and systems
- Performance measures should be aligned with Appropriation Act
- Capital budget process for major information technology projects should be considered

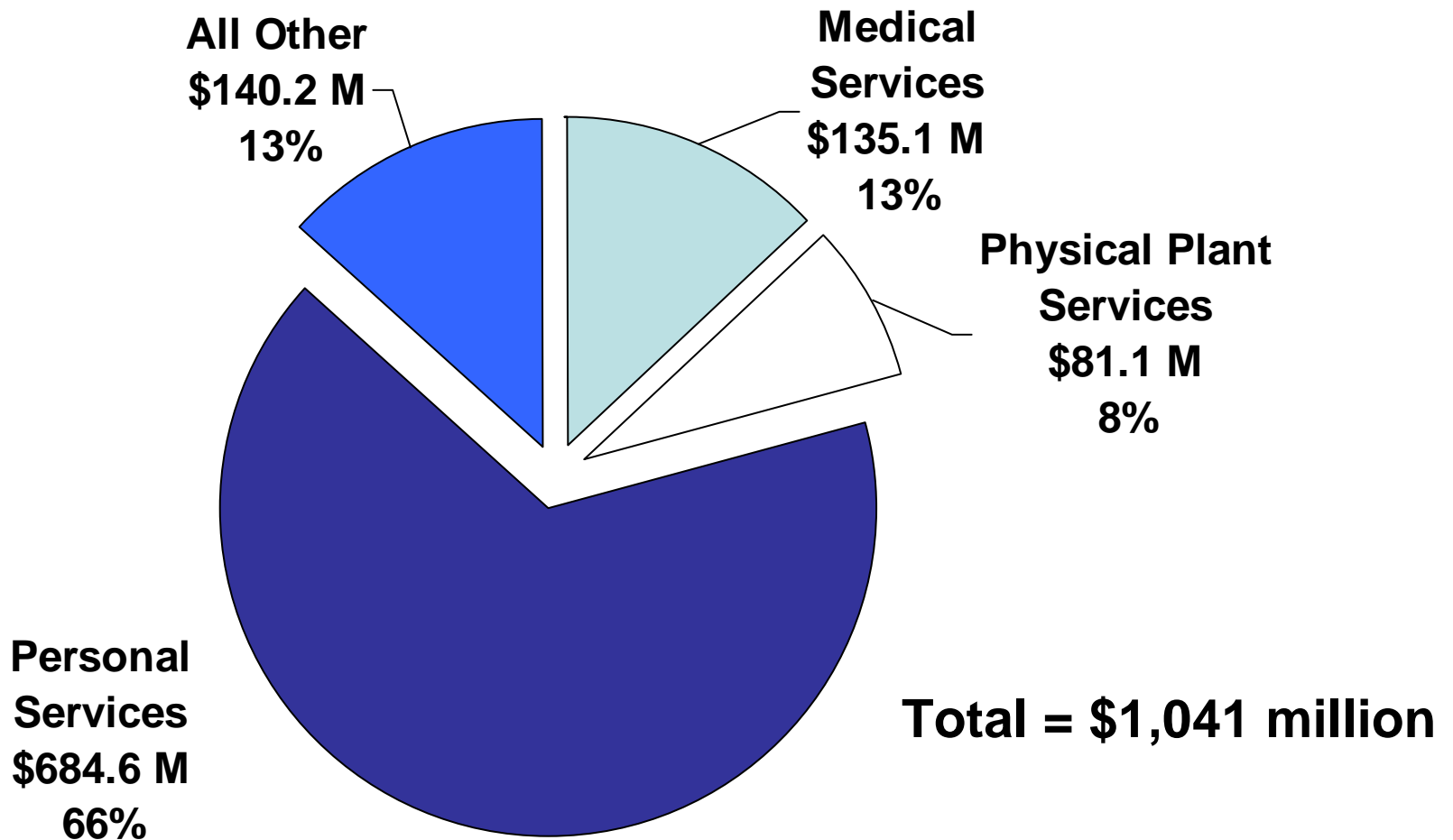
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# DOC Growth Since FY 1999



# 87% of Total DOC GF Expenditures Occurred in Three Operational Areas (FY 2008)



## Jail Backlog Can Mean Savings for DOC and Costs for the Compensation Board

- Compensation Board pays local jails \$8 /day to house State-responsible inmates, plus \$6 /day when out-of-compliance (90 days or more in jail)
- State spent \$17 million through Comp Board to house out-of-compliance inmates in jails (FY 2007)
- State would have spent extra \$77 million through DOC to house all out-of-compliance inmates, plus the cost of constructing bedspace (FY 2007)\*

\* JLARC staff estimate



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## Downturns Compel More Thorough Base Budget Examination

- Budget cuts made during revenue downturns tend to become permanent, as in FYs 2002-03
  - DOC's budget permanently reduced by \$46 million and 450+ staff positions in FYs 2002-03
  - Now spend less than \$2 /inmate /day for meals (including labor costs)

# DOC's FY 2009 Budget Reduction Plan

(\$GF Millions)

<b>Savings Type</b>	<b>Net GF Savings</b>	<b>Positions Eliminated</b>	<b>Estimated Layoffs</b>
Close 6 Facilities	\$5.6	524	253
Increase Turnover and Vacancy Savings	2.2	-	-
Close Day Reporting, Therapeutic Transition Communities	1.5	53	27
Realign Administrative Functions	1.6	76	30
Defer Equipment Purchases	3.6	-	-
Reduce Funding for Direct Services	1.2	45	20
Issue Bonds for Charlotte County Facility Planning	7.0	-	-
<b>Total</b>	<b>\$22.7</b>	<b>698</b>	<b>330</b>

## Some Cuts May Increase Costs

- Closing State facilities will lead to an increase in the jail backlog and Compensation Board spending on jail per diems
- JLARC staff estimates that Compensation Board spending may increase by \$4.3 million in FY 2009 and \$6.6 million in FY 2010
- Efforts to avoid facility personnel layoffs may reduce FY 2009 and FY 2010 savings

## Some Cuts May Lead to Additional Savings in FY 2010\* (\$GF Millions)

	FY 2009	FY 2010 (JLARC staff estimate)
Community Corrections	(\$2.5)	(\$4.9)
Facilities	(10.0)	(16.8)
Central Office	(0.7)	(1.3)
General	(2.6)	(5.8)
<b>Total for DOC</b>	<b>(\$15.7)</b>	<b>(\$28.8)</b>

\*Operating funds only



## FY 2009 Reductions Proposed But Not Accepted (\$GF Millions)

Proposed Reduction	Net GF Savings	Positions Eliminated	Estimated Layoffs
5% Turnover & Vacancy	\$5.8	-	-
10% Turnover & Vacancy	20.9	-	-
15% Turnover & Vacancy	37.0	-	-
Two Facility Closures	2.9	234	117
Community Corrections	0.9	-	-
Sale of Haymarket Field Unit Property (Prince Wm.)	3.7	-	-

# Key Findings

- DOC has 3rd largest budget (\$1 billion) and largest number of authorized staff positions
  - Personnel = 2/3 of budget
  - Inmate medical costs = 13%
  - Inmate population forecasted to increase about 1,000 per year for next 6 years
- DOC's budget reduction plan is unlikely to generate the full FY 2009 \$22.7 million GF savings to the State due to offsetting Compensation Board costs and efforts to retain trained staff
- Carried into FY 2010, these reductions could save DOC up to \$28.8 million GF

# Key Findings

- VA has constraints that may limit budget legislative oversight
  - Short legislative Session
  - Limited agency budget hearings
  - Proliferating yet incomplete budget documentation
  - Relatively low number of legislative fiscal staff

# Key Findings

- Several ways to improve budget oversight
  - Evaluate new initiatives each year for at least four biennial budgets
  - Hold more agency-focused budget hearings
  - Set earlier deadlines for filing budget amendments
  - Consider limiting the number of budget amendments
  - Ensure legislative access to new budget systems
  - Improve budget documentation
  - Make wider use of Internet video for hearings and meetings

## **JLARC Staff for This Report**

Glen S. Tittermary, Deputy Director

Walt Smiley, Project Leader

Brad Marsh, Senior Associate Legislative Analyst

David Reynolds, Assistant Legislative Analyst

## **For More Information**

<http://jlarc.virginia.gov>      (804) 786-1258

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and on the table by the door

