THIRD INTERIM REPORT:

COMMISSION ON STATE GOVERNMENTAL MANAGEMENT

RECOMMENDATIONS ON THE STATE'S BUDGET PROCESS

REPORTED TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY

OF VIRGINIA

SENATE DOCUMENT NO. 40

COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1975

COMMONWEALTH OF VIRGINIA
COMMISSION ON STATE GOVERNMENTAL MANAGEMENT
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December 6, 1974

The Honorable Mills E. Godwin, Jr.
Governor of Virginia
Members of the Virginia
General Assembly

Dear Governor Godwin and Members of the General Assembly:

It is my privilege to submit to you the third interim report of the Commission on State Governmental Management.

Each member of the Commission has recognized since the outset of our work that the budget process is central to management of state government and the focal point for planning, decision-making and evaluation. For that reason it was not happenstance that led the Commission to consider this issue early in its deliberations.

Virginia has been a leader in budget reform, having adopted an executive budget system by legislation in 1918. During the intervening years, there have been administrative changes in the budget system and improvements in the appropriations process.

The existing budget process served the Commonwealth well during a period when government was small and programs were simple; however, the growth in the size of Virginia government and the scope of its programs requires that the budget process evolve in a manner which will insure the continuation of responsive and efficient services to the citizens of Virginia. The recommendations contained in the accompanying report will significantly improve the budget process.

Sincerely,

William B. Hopkins
Chairman

WBH/spn

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TABLE OF CONTENTS

COMMISSION ON STATE GOVERNMENTAL MANAGEMENT

Senator William B. Hopkins, Chairman
Roanoke, Virginia

Senate Appointees

Adelard L. Brault
Fairfax, Virginia

Elmon T. Gray
Waverly, Virginia

Edward E. Willey
Richmond, Virginia

House of Delegates Appointees

Carl E. Bain
Richmond, Virginia

Joseph A. Leafe
Norfolk, Virginia

Willard L. Lemmon
Marion, Virginia

Clinton Miller
Woodstock, Virginia

Owen B. Pickett
Virginia Beach, Virginia

Robert E. Quinn
Hampton, Virginia

Carrington Williams
Fairfax, Virginia

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INTRODUCTION

The Commission, early in its deliberations, recognized that one of the most vital areas of concern in its work and in the efficient and effective operation of the Commonwealth's government is the budget process.

Since April the Commission, through its Subcommittee on Budget and Management Systems and its staff, has devoted extensive effort to the study of the Commonwealth's current budget process as well as those in other states. In pursuing these efforts, great care has been taken to involve other interested parties including the Secretary of Administration (functioning as the Governor's representative), the Director, Deputy Director, and staff of the Division of the Budget, the staff of the Joint Legislative Audit and Review Commission, and the staff of the House Appropriations Committee. The Commission recognizes that many parties have a valid and legitimate interest in the budget process and that the active and positive participation of all is necessary to make any system work to its full potential.

The Commission devoted its entire session on September 6 and 7 to a consideration of the budget process. At that time, a panel of state officials including Maurice B. Rowe, John R. McCutcheon, Edwin J. Crockin, H. Douglas Hamner, Marvin M. Sutherland, and William B. Rowland discussed the current budgetary process and efforts underway within the executive branch to improve the process. In addition, a panel of participants from outside the state government, including Dr. Frederick C. Mosher of the University of Virginia, S. Kenneth Howard (State Budget Officer of North Carolina), Wayne F. McGown (Deputy Secretary of Administration of Wisconsin), Glen E. Pommerening (Assistant Attorney General for Administration of the U.S. Department of Justice), and James D. Burris (retired federal and State of Idaho budget official) discussed the development of the budget process in other states.

SUMMARY

Again on November 15, the Commission devoted its entire program to a consideration of the report of its Budget and Management Systems Subcommittee concerning the budget process. The Commission at that meeting adopted the following report which it recommends to the General Assembly, to the Governor, and to the people of Virginia. The report is summarized as follows:

1. The concept of the strong executive budget is reaffirmed.
2. The recently developed capacity of the General Assembly for independent budgetary review and legislative oversight should be maintained and strengthened.
3. The relationship between the legislative and executive branches should be more precisely understood.
4. The management relationships between the Secretary of Administration, the other Secretaries, and agency heads should be more precisely defined.
5. There should be greater participation by the Secretaries and agency heads in the executive budget formulation and presentation process.
6. The budget should be formulated, presented, and appropriated on a programmatic basis.
7. Targets should be established early in the budget formulation process that are realistic in terms of projected fund availabilities.
8. The budget calendar should be revised both as it relates to the executive budget process and the legislative appropriation process.

9. The operation of the Governor's Budget Advisory Board should be redirected to focus its attention on major program considerations.

10. The system of financial and management control should be modernized to develop policies and methodologies which will permit delegation of substantial authorities to agency managers while maintaining essential controls at the central management level.

11. A means needs to be devised to more effectively involve the Governor-elect in the budget formulation process following his election but prior to his entrance into office.

12. The biennial budget should be continued.

13. Additional staff should be provided to strengthen the state's management capacity.

INDIVIDUAL RECOMMENDATIONS

The Concept of the Executive Budget Is Reaffirmed.

The executive budget is of fairly recent historical origin being largely a product of the twentieth century. During the nineteenth century and early into the twentieth century the federal government as well as state governments relied on legislative budgeting. The executive budget was instituted because of the failure of legislative budgeting.

The noted author and scholar in the field of public administration, Leonard D. White, described the situation in the several states before the introduction of executive budgeting as follows:

> . . .a typical state agency or institution prepared its own estimates, submitted them directly to the appropriations committee, ultimately received an independent appropriation, and spent its funds, without supervision other than that provided by the auditor.

The establishment of the executive budget in Virginia was an outgrowth of the work of the Commission on Economy and Efficiency from 1916 to 1918. The General Assembly approved the Executive Budget Act of 1918 which made the Governor the chief budget officer of the state. While the Governor was to be assisted by a budget director, the Governor was to be ultimately responsible for the budget.

The Governor should be expected to plan, direct, and control the activities of a state government within the policy confines established by the General Assembly. The executive budget is the focal point for the Governor in carrying out his responsibilities and his capacity to govern should not be weakened by encroachment on the executive budget process.

To insure accountability to the people, responsibility for budget formulation and execution should reside in one individual--the Governor. No individual can pretend to represent the entire legislature. It is a collective body ideally suited to consider and approve broad policy, but completely unsuited to effectively coordinate the formulation or execution of a budget.

Support of the concept of a strong executive budget does not imply that the General Assembly should abdicate its responsibility as the ultimate policy determining body of the Commonwealth. What is implied is the principle that the General Assembly should not interfere with the Governor in his formulation of a budget proposal to be considered by the General Assembly, and that following enactment of the state's budget, the legislature should not involve itself in budget execution except to conduct post audits of policy implementation and periodic review of executive program and financial performance relative to approved appropriations and allotments and the review of major reprogramming of funds.

The Recently Developed Capacity of the General Assembly for Independent Budgetary Review and Legislative Oversight Should Be Maintained and Strengthened.

The General Assembly has recently expanded its capacity to review the Governor's budget proposals and to evaluate the efficiency and effectiveness of governmental programs. The Committee on Appropriations of the House of Delegates has employed a small professional staff which is now conducting independent budgetary analysis, and the Joint Legislative Audit and Review Commission, through its professional staff, is conducting a program of legislative oversight through program and performance audits. Both of these efforts are to be commended.

The Commission has noted a possible overlap in jurisdiction between the House Appropriations and Senate Finance Committees on one hand and the Joint Legislative Audit and Review Commission on the other. The legislation creating the Joint Legislative Audit Review Commission directs that the Commission provide a staff which, among other things, conducts budgetary analyses. The Commission recommends that the statute be amended to provide that the Audit and Review staff conduct analyses of proposed budgets only at the request of either the House Appropriations or Senate Finance Committees so that there will be no misunderstanding that those Committees are the General Assembly's focal point for budgetary review. Draft legislation to accomplish this purpose and to correct other deficiencies in the existing statute is included in Exhibit 1 of the Appendix.

The Relationship Between the Legislative and Executive Branches Should Be More Precisely Understood.

While the relationships of the branches of government are never static but are always in the process of change, it is very desirable to define the relationships as clearly as possible as they relate to the management processes.

As previously stated, the Commission strongly supports the concepts of a strong executive budget and of a legislative capacity for budget review and program oversight.

The Governor advocates policy, the General Assembly establishes policy through law, the Governor executes the policy decisions of the General Assembly, and the General Assembly monitors execution to assure that it conforms with established policy. The critical element in all of these steps is the availability and flow of information.

It should be understood that in the final analysis the General Assembly has the right to require information from state agencies including the testimony of officers and employees of the Commonwealth. However, the mechanisms for the control of the flow of needed information has significant impact on the capacity of the Governor to manage the executive branch. Therefore, the mechanisms should function in a manner which provide the General Assembly the information it desires while not undermining the Governor.

The Governor, as the Budget Officer of the Commonwealth, directs the formulation of the executive budget. That fact is clearly understood. Yet, the Governor does not direct the formulation of legislative proposals within the executive branch even though most legislation impacts directly on the budget. Since virtually all legislation impacts in one way or another on the budget, the Governor cannot effectively administer his budget responsibility without the capacity to influence legislation being prepared by the executive agencies. This is a defect in management which should be remedied by creating a coordination and clearance process within the Office of the Governor for legislation proposed by executive agencies. A proposed Executive Order to establish a clearance process is included as Exhibit 2 in the Appendix.

There are several legitimate reasons why the Governor may disapprove or modify legislation prepared for submission to the General Assembly by agencies. For instance:

1. A bill may propose creation of a program which the state is unable to financially support at the time.

2. The Governor may disagree with the policy intent of a bill.

3. The Governor may feel that the sponsoring agency should not be involved in the policy area with which a bill is concerned. This is especially true if the jurisdiction affects another agency.

4. A bill may not have been properly coordinated with all interested parties during drafting.

5. A bill may conflict with other statutes that are not being revised by the bill.

6. The Governor may have doubts about the legaility of a bill.

7. A bill may be so controversial as to threaten disruption of harmonious executive-legislative relations to the detriment of other higher priority legislative proposals.

The clearance mechanism should operate essentially as follows:

1. All agencies should submit proposed legislation to the responsible Secretary. The Secretary would review proposals and forward them to the Office of the Governor with recommendations that they be approved, modified, or rejected.

2. A staff office of the Governor would be responsible for central clearance; however, the final decision on whether a bill is approved for submission to the General Assembly should be made by the Governor.

3. If a bill is given approval, it would subsequently be forwarded to the General Assembly by the Office of the Governor. These bills should be designated as executive bills on the front cover of the bill in order to clearly indicate to the Legislature that they have the approval of the Governor.

4. Responsibility for justifying the bills should reside with the appropriate Secretaries and agency heads.

No part of the above proposal is designed to infringe in any manner on the General Assembly's legislative prerogatives, but simply to insure that legislative proposals originating within the executive branch are fully coordinated.

Just as the inability of the Governor to effectively coordinate the development of legislative proposals within the executive branch inhibits his ability as the state's Budget Officer, the lack of budget data inhibits the General Assembly in its review capacity. That portion of the problem dealing with data deficiencies is addressed subsequently in this report; however, the problem is not simply one of identification of the data required. Also of importance is the availability of data within a time period in which it is useful to the General Assembly.

The relatively short sessions of the Virginia General Assembly are such as to make it practically impossible for it to accomplish a thorough review exclusively during the time it is in session. Therefore, it is important that the staffs of the House Appropriations and Senate Finance Committees have access to the data considered in the executive budget formulation process. This is especially true since the General Assembly uses the budget process as its primary policy review, coordination, and determination process.

The Commission endorses the principle that legislative staffs should have access to the executive budget formulation process under very precisely defined guidelines. The guidelines should include:

1. Policy issue papers developed at the Governor's direction should be submitted to the General Assembly through the Governor.

2. Copies of the complete budget estimates of agencies should be provided to the Committee staffs for information purposes.

3. Committee staffs should be included in internal budget hearings conducted by both the Governor's Budget Advisory Board and the Division of the Budget for purposes of information only. They should not participate directly in questioning at this point of the process and should voice no opinions or recommendations at the hearings.

4. Whenever possible, legislative staffs should work through the Division of the Budget in requesting budget data from within the executive branch.

Another area where there needs to be a definition of relationships between the executive and legislative branches is in testimony of officers and employees of the executive branch before committees of the General Assembly. As stated earlier, the General Assembly has the right to require the testimony of officers and employees of the Commonwealth.

To continue and strengthen the heritage of an open government in Virginia, officers and employees of the executive branch should be permitted to initiate contacts with the legislative branch provided there is prior clearance with the Governor's Office and there is a clear understanding that the Governor will have an opportunity to review any proposal and state his position thereon. To insure that the General Assembly is provided with information in a broader context than the narrow agency view, the Governor should be afforded the opportunity to comment on agency positions. As a matter of policy, the Commission does not encourage independent lobbying by agency heads.

The Relationship Between the Secretary of Administration, Other Secretaries, and Agency Heads Should Be More Precisely Defined.

The Commission's second interim report, issued in June of this year, dealt with recommendations on the roles of the Secretaries.

That report very clearly specified recommendations designed to strengthen the role of the Secretary of Administration in the area of direction and control of central staff activities, and of the other Secretaries in management of their program areas. Specific authorities were recommended with respect to budget, management, policy, and coordination.

The report also addressed itself to the question of collective versus individual leadership and responsibility stating:

> In far to many instances, the Secretaries have viewed themselves as a committee having collective responsibility. These officials should consider themselves a top management team, but not a committee or a cabinet. More attention should be devoted by each Secretary to his own area of responsibility--resolving disputes, coordinating planning and operations, evaluating program performance, setting goals and policies, reviewing budgets, and identifying duplication and ineffectiveness with respect to the agencies assigned to him. Adequate communication among the Secretaries is possible without frequent meetings; moreover, many of the issues on the agenda of the meetings over the past two years were not of sufficient moment for such treatment or should have been the responsibility of an individual Secretary and not all of them as a collective body.

The Commission feels it worthwhile to repeat the concluding section of the second interim report in its entirety to emphasize its view of the roles of the Secretaries. It reads as follows:

> The Commission emphasizes that the delegation of additional authority to the Secretaries so that they might become truly responsible for their respective major purpose areas is in no way intended to frustrate or limit the ability of any Governor to go directly to a specific problem and deal with the state official most immediately involved. That is the Chief Executive's prerogative no matter how well integrated the agencies or what the formal structure of the executive branch might be. What is intended by the powers and duties recommended by the Commission is that a capable Secretary have sufficient authority to prevent problems from reaching the Governor in the first instance. The Secretary should concentrate on his area, as the Governor cannot, so that he can anticipate such problems in the hope of obviating them.
>
> The issuance of these suggested executive orders will accomplish nothing unless they are accompanied by vigorous leadership on the part of the Secretaries themselves. The imposing responsibilities given them by these orders require that they be decisive. Their very considerable authority should be used, but used judiciously, particularly by means of broad policy directives and the evaluation of the overall performance of the agencies assigned to them.
>
> If the Secretaries are to be effective, they must manage by exception. They should deal only with the exceptional matters or they will become mired in detail and lose their effectiveness.

It is necessary to further clarify the roles of the various participants in the state management process in order that clear lines of authority and responsibility are recognized.

The Commission firmly believes that responsibility for coordinating and directing the state's policy and program analysis effort should be placed with a staff office of the Secretary of Administration with the other Secretaries having primary responsibility for analysis within their areas. The Secretary of Administration should be empowered to recommend to the Governor program issues to be studied, review the resultant analyses, recommend alternatives to the Governor, and modify issue papers to incorporate gubernatorial decisions. In addition, the Secretary of Administration through the central staff should be responsible for coordinating or conducting, as circumstances warrant, program analyses which cross Secretarial lines, and indeed, should be empowered to conduct independent analysis within any Secretarial area when requested by the Governor.

While supporting the need for placing responsibility for policy and program analysis, accompanied by necessary staff resources, with the Secretaries, the Commission does not believe the Secretaries should exercise the same responsibilities with regard to management analysis since placing this kind of responsibility with the Secretaries would tend to shift their attention away from policy and program matters to operational matters which are more properly the province of agency managers.

Responsibility for coordinating and directing the state's management analysis program should be placed with a staff organization responsible to the Secretary of Administration. Management analysis capacity should also be lodged with other central staff and service organizations (e.g., Department of Accounts for financial management, and the Department of Purchases and Supply for procurement management). In addition, the larger agencies should have a management analysis capability devoted to their own particular needs.

The Secretary of Administration is the chief staff assistant to the Governor in the areas of management, and policy and program coordination. He is responsible for bringing together the state's managerial resources in a coordinated manner designed to assist the Governor in discharging his responsibilities as the Chief Executive Officer of the Commonwealth. The Secretary of Administration is not the Deputy Governor nor is he the state's general manager.

The other Secretaries are extensions of the Governor in the program or functional areas to which they are assigned. They are to individually direct policy development and coordination, exercise budget authority within their assigned areas (subject to the policy direction of the Governor), and provide general management direction to subordinate agencies. They are not expected to function as a collective body.

Agency heads are the operating line managers. They are expected to carry out their operations in conformance with law and executive policy under the general management direction of the responsible Secretary.

The executive orders issued by the Governor on May 22, 1974, provided the individual Secretaries with the authorities required for them to begin to exercise a firm managerial direction over their program areas, and their performance in meeting their assigned responsibilities should be evaluated on an individual as opposed to a collective basis.

There Should Be Greater Participation by Secretaries and Agency Heads in the Executive Budget Formulation Process.

The budget process is not simply a mathematical exercise. It is the process whereby the state enunciates its basic policies and determines the priorities being assigned to the competing programs. This being the case, it is important that the decision-making process bearing on the budget be one that involves policy officials such as the Secretaries, agency heads, and the Governor's staff officers. The process must be operated to assure that the Governor is not encouraged to render his decisions on the basis of ex parte presentations from his staff offices.

The legitimate interests of Secretaries and agency heads in the budget process does not end when the budget estimates are submitted to the Division of the Budget. There must be a continual flow of information between the Governor, the Secretary of Administration, the Division of the Budget, the other Secretaries, and agency heads during the entire period of budget formulation. It is during this period that conflicts must be identified, addressed, and resolved.

The Commission, in other sections of this report, suggests several changes in the budget process which will have the effect of increasing the participation of the Secretaries in the budget process. These changes include placing with the Secretaries a capacity for program analysis, initiating a system of policy issue papers designed to develop alternative approaches to existing and proposed state programs and development or budget targets for each Secretariel area at the beginning of the budget cycle.

The Budget Should Be Formulated, Presented, and Appropriated on a Programmatic Basis.

The budget of Virginia has traditionally emphasized input factors (what is to be bought) rather than output (what services are to be produced) or program goals and objectives. This emphasis has obscured from the General Assembly and the citizens of Virginia the critical questions that should be considered in the budget process.

The Commission in its deliberations devoted extensive consideration to the conceptual framework within which the Virginia budget process should function and has concluded that the budget should be formulated, presented to the General Assembly, and appropriated essentially on a programmatic basis with the single caveat that for both presentation and appropriation purposes, the program structure should be subordinated to the agency structure. The Commission discarded the concept of budgeting and appropriating on a pure program category basis which crosses agency lines because such a structure would result in an excessive shift of power from the General Assembly to the executive branch, it would confuse accountability within the executive branch, and it would create undue complexities throughout the process. Furthermore, experience to date has not indicated success at either the federal or state level where pure program budgeting has been attempted.

Program budgeting on an agency basis has the following advantages:

1. It focuses both executive and legislative attention on program goals and objectives instead of input.

2. If the structure is carefully devised, it will permit and encourage cross-agency special analyses which will result in more rationalistic resource allocation, better evaluation, and in identifying program duplication or overlap will encourage reorganization of programs or agencies on a more rational basis.

3. The General Assembly retains a greater role in fund distribution at the agency level than in cross-agency program budgeting.

4. Since budgeting is still tied to agencies, control is easier and accountability is clearer.

5. Compared to cross-agency program budgeting it is easily understood.

The Commission recognizes that the transition to program budgeting involves such substantial changes in the state's budgeting process that it cannot be accomplished in a single biennium; however, the transition should begin in the next biennium.

The following principles and standards should be used in developing the format for the Governor's budget. Draft legislation incorporating many of these principles and standards is included as Exhibit 3 of the Appendix.

1. It should be essentially organized along the functional lines of the Secretaries.

2. It should include summary tabulations of revenues and expenses at the total level, the functional level, the agency level, and the program level.

3. Historical trend data for a ten-year period, if available, should be shown at the total, functional, and agency levels.

4. The basic units of presentation should be at the agency program or sub-program level, depending on the definition of program that is developed.

5. The major purposes of each program should be succinctly stated.

6. Expenditures, distributed by type of fund, should be shown at the program or sub-program levels, as appropriate, for:
   a. the last actual year
   b. the current year
   c. the agency request for each of the next two years
   d. the Governor's recommendation for each of the next two years

7. In addition to expenditure levels, positions authorized and funded should be shown at the program or sub-program levels, as appropriate, and be distributed as follows:]
   a. general fund
   b. special funds
      1. federal
      2. other
      3. mixed

8. The total increase recommended for the biennium should be distributed at the program or sub-program level, as appropriate, as follows:
   a. cost to continue present program
   b. workload increases
   c. new or changed services

9. A detailed narrative justification should be included at the program or sub-program level, as appropriate, organized by the segments included under item 8 above, and should include workload indices, and other criteria to be used in both budget evaluation and post audit evaluation.

10. Data should be included by major objects or classes of expenditure at the appropriation level.

11. For each program or sub-program level, as appropriate, there should be a distribution of the total budget requested as follows:
    a. mandated by the federal government
        1. non-discretionary
        2. discretionary (those where the state is not legally required to participate but where there is a fund loss if there is no participation)
    b. mandated by Virginia statute
    c. discretionary

12. Policy issue papers should be required either in the body of the narrative justification or as separately submitted documents for each program when there is new or changed services.

A major change in the budget process which will make it more effective is the initiation of a system or policy issue papers.

The policy issue paper concept is a very flexible one that is susceptible to use throughout government. They can be initiated at all levels of management from the Governor on down to the agencies. While they generally should be formally initiated at a time specified in the budget cycle, they could also be initiated at any time when a need is perceived.

It should become understood that initiation of new programs or expansion of existing programs generally will not be included in the Executive Budget until an acceptable policy issue paper has been developed.

The policy issue papers should be structured along these lines:

1. statement of purpose of program or sub-program being studied
2. statement of issue
3. problem definition
4. statement of alternatives
5. recommendation
6. statement of financial impact of recommendation
7. statement of legislation required to implement recommendation
8. implementation plan assuming approval of recommendation
9. method of evaluation to be used following implementation

The Commission recommends the use of policy issue papers in the executive branch in the following manner:

1. The Secretary of Administration in conjunction with the other Secretaries and agency heads should develop for presentation to the Governor in January of each year a listing of policy issues which should be addressed. This listing should be modified to incorporate other issues the Governor wishes addressed and eliminate any he does not want pursued.

2. The Secretaries should be formally advised as to the policy issues the Governor wishes addressed and should be assigned firm target dates for completion.

3. While the Secretaries would be required to develop policy papers on the issues selected by the Governor, they would not be precluded from having additional issues addressed as they feel appropriate.

4; The completed policy issue papers should be transmitted to the Governor through the Secretary of Administration who would insure proper independent analysis and comment by the central staff.

5. On the basis of gubernatorial decisions, the Secretary of Administration in conjunction with the other appropriate Secretaries would revise the policy issue papers to reflect the Governor's decisions, and would incorporate those decisions in the budget being formulated.

6. The policy issue papers would be an integral part of the Governor's budget presentation to the General Assembly.

A proposed implementing directive prescribing a system of policy issue papers is included as Exhibit 4 of the Appendix.

It is reasonable to expect that the General Assembly will also identify issues it wishes addressed. When issues are so identified, the General Assembly by resolution of either House may either establish its own Committee to develop issue papers or request the Governor to initiate the development of the specific issue paper for submission to the next session of the General Assembly.

Targets Should Be Established Early in the Budget Formulation Process That Are Realistic in Terms of Projected Fund Availabilities.

Traditionally, the Virginia budget has been formulated within the executive branch on a requirements basis, i.e. agencies have received no budget targets upon which to plan their budgets and have been permitted to request of the Governor any amount they wished. For example, when the 1974-76 budget was being formulated, the total general fund request of agencies exceeded projected revenue by approximately $900 million dollars. Use of budget targets reduces the budget review process to a more manageable scale and concentrates the budget review process on those areas where the chief executive in fact has a useful and appropriate resource allocation role.

For the target budget method to be most effective there should be available to the Governor a good short to mid-term planning capability along with competent program/budget analysis staff so that there will be available to the data necessary for the Governor to establish the budget targets on an informed basis. Staffing requirements are addressed in a subsequent section of this report.. The Governor's staff should provide him with approximate estimates of costs to continue present programs and identification of potential savings that may be derived from program elimination or curtailment, or from management improvements. Additionally, there should be approximate costing of major program initiatives or expansions which the Governor wishes to consider. The sum of all this data should be related to projected revenues to determine budget targets for the particular Secretarial areas. The total target should be established in an amount designed to insure that the Governor has available to him a range of alternatives to consider in his final allocation decisions, and to permit intelligent last minute allocations if the initial revenue projections were low. The targets for individual agencies would vary depending on the Governor's appraisal of program priorities. To insure that attention is devoted to existing programs as well as proposed ones, it would be desirable to require each agency to identify how it would achieve a 5 percent reduction in existing funding levels.

While the general policy would be to assign the target levels to individual Secretaries for their distribution within their areas of responsibility, there will no doubt be instances where the Governor will want to specify limitations on the Secretarial distribution (e.g. there must be included funds to establish additional state parks or conversely no funds could be included for park expansion). Such policy direction and fund limitations should be included in the memorandum to the concerned Secretary establishing his budget target.

By targeting the budget, Secretaries and agency heads are encouraged to focus on hard resource allocation problems. When permitted a requirements budget, the temptation is for the supervisor to include his subordinate's requests virtually untouched and let someone else eliminate requested increases.

While the target method encourages the chief executive to make major policy decisions, it permits subordinate officials to make many of the decisions that either the Governor or his staff would make in a requirements budget system.

A long term implication of target budgeting is to force the development of a more extensive planning and issue identification system.

The Budget Calendar Should Be Revised Both as It Relates to the Executive Budget Process and the Legislative Appropriation Process.

The budget formulation process has been compacted into too short a time period in the past resulting in an inability of executive branch management to undertake the in-depth analysis necessary to focus on alternative solutions to the problems facing the state.

The situation has been further acerbated by the inadequacy of a planning process upon which the budget process can rely for guidance. The Commission will develop specific recommendations relative to the planning process including its integration with the budget process in a future report. In the interim, the Commission recommends to the Governor an executive budget calendar essentially as follows:

January 1	Written declaration to Secretaries and agency heads of state objectives and budgetary policies issued by the Governor including a request for preliminary budget estimates.
January 1-10	Development of recommendations to the Governor for program issues to be addressed. The recommendation would be developed by the Secretary of Administration with input from the Division of the Budget, the Division of State Planning and Community Affairs, and the other Secretaries.
January 15	Written issuance by the Governor to the individual Secretaries specifying policy issue papers to be developed.
February 15-28	Review by the Governor of revenue projections for the coming biennium.
March 1	Submission of preliminary summary budget estimates due from the individual Secretaries specifying generally estimates of cost to: (1) continue current programs, (2) provide for workload increases, and (3) fund anticipated program expansion or creation; and specifying potential areas of program reduction or curtailment.
March 1-20	Development by Secretary of Administration of budget targets.
March 21-31	Review by the Governor of draft budget targets.
April 8	Assignment of Governor's budget targets to individual Secretaries.
April 9-30	Targeting of agency budgets by individual Secretaries within policy guidelines of the Governor.
May 1 - July 21	Preparation of agency budgets under policy direction of Secretaries, within gubernatorial guidelines, and in accordance with Division of the Budget procedures.
July 1	Agencies submit final actual personnel data for budget formulation purposes.
July 21	Full budget submission, including policy issue papers, from Secretaries.

July 21 - September 19	Analysis of budgets by the Division of the Budget and other staff officers as appropriate.
September 2-19	Detailed agency budget review hearings conducted by the Division of the Budget.
September 19 - October 3	Development of recommendations by the Division of the Budget.
October 6-10	Discussions between Secretary of Administration and the other Secretaries individually concerning budget recommendations. The Commission emphasizes that it opposes any attempt to have a "cabinet" review or approval of the budget.
October 13	Submission of the Secretary of Administration's budget recommendations to the Governor including a reevaluation of revenue projections.
October 24	Tentative budget decisions by the Governor.
November 2	Secretaries receive Governor's budget decisions through the Secretary of Administration.
November 15	Last date for Secretarial appeals.
November 17-22	Staff analysis by the Division of the Budget of Secretarial appeals on budget levels, and final evaluation of projected revenues.
November 24	Fully staffed appeal material submitted to the Governor by the Secretary of Administration.
November 28	Final program budget decisions by the Governor.
December 1-31	Final preparation of Governor's budget. Agencies and the Division of the Budget would be authorized to effect minor reallocations of funds as long as total funding was not increased and no program changes were made.
January	Governor's budget transmitted to the General Assembly during the even year sessions.

While the changes in the executive budget calendar recommended above should do much to improve budgeting in the state, they need to be accompanied by substantial changes in the timing and methods of budget review by the General Assembly. The Commission, therefore, recommends to the General Assembly that it initiate the following changes in procedure during the even year sessions to permit a more orderly and thorough review of the executive budget.

1. Require that all bills, except emergency measures designated by either the House Rules Committee, the Senate Rules Committee, or the Governor, be introduced during the first three weeks of the session.

2. Permit standing committees to review the policy implications of the budget as related to their areas of jurisdiction and present to the House Appropriations and Senate Finance Committees any comments they feel appropriate. Nothing in this recommendation should be interpreted as advocating a diminution in the jurisdiction of the House Appropriations and Senate Finance Committees in their budget responsibilities.

3. During the initial three weeks of the session, the House Appropriations and Senate Finance Committees should hear the overview presentation of the Governor's budget, and the committee staffs should prepare for the detailed hearings to follow.

4. Recess the General Assembly at the end of the third week of the session for approximately three weeks. During that period the House Appropriations Committee and the Senate Finance Committee would be required to stay in session to hear Secretaries, agencies, standing committees and the public.

5. At the end of the three week recess, the full General Assembly would return and continue its work in the normal manner.

A draft of a Constitutional amendment necessary to enable the General Assembly to initiate some of the above recommended changes is included as Exhibit 5 in the Appendix.

While not directly related to the legislative budget calendar, the Commission has identified as a major deficiency of the appropriation process the lack of a formal mechanism of specifying legislative intent beyond what is specifically included in the Appropriations Act. To remedy this deficiency it is recommended that:

1. The Appropriations and Finance Committees file written reports accompanying the Appropriations Bill summarizing action on the bill including areas of substantial difference from the Governor's budget and specifying legislative intent where necessary.

2. Verbatim transcripts be published on floor discussions of the Budget Bill by the House and Senate to further establish legislative intent.

Draft legislation to accomplish the above recommendations is included in Exhibit 3 of the Appendix.

The Operation of the Governor's Advisory Board Should Be Redirected to Focus Its Attention on Major Program Considerations.

The Budget Advisory Board serves as a source of independent advice to the Governor from outside the bureaucracy. This is a very desirable service to the citizens of Virginia which should be continued. Furthermore, the Board can be the forum for public discussion of major program initiatives while the Governor is in the early stages of budget formulation.

However, the Budget Advisory Board does not appear to be functioning in a manner which provides optimum service to the Governor. It appears to focus more on capital budget requirements than on the state's program needs. The cost of the tour of college facilities outweighs any benefits derived, both in terms of out-of-pocket expense and of the waste of valuable time of Board members, central staff, and institutional management.

The Board's method of operation should be revised to focus its attention on major program considerations and to eliminate the tour of college facilities. As an alternative to the tour, agencies and institutions could be required to make presentations on major programs or issues to be the Board in Richmond using graphic displays or other modern briefing techniques.

The System of Financial and Management Control Should Be Modernized to Develop Policies and Methodologies Which Will Permit Delegation of Substantial Authorities to Agency Managers While Maintaining Essential Controls at the Central Management Level.

Reasonable controls must be maintained to minimize illegal and improper use of funds, and to insure in the aggregate that expenditures do not exceed available funds. Beyond this point, administrative controls through staff functions such as procurement and personnel can insure adherence to policies; however, such controls should be administered only on a critical matters and on an exception basis where possible. To the maximum degree feasible, agency managers should then be empowered to operate their programs adjusting financial plans and commitments as necessary within total availability and policy confines. The accounting system should function in a way to identify expenditures by program areas and classes of expenditures compared to approved financial plans, and permit variance analysis by agency management, the Secretaries, the Governor's central staff offices, and Members and staff of the General Assembly. Operating managers must be permitted the opportunity to make mistakes and then must be held accountable for them. This philosophy of control implies the existence of well defined management policies, systems and procedures, and strong budget analysis and audit capability.

To implement this philosophy of control, the following steps need to take place:

1. The Comptroller needs to modernize the system of central accounting and insure that agencies have acceptable systems of accounting.

2. The budget and appropriations structure needs to be revised to emphasize agency programs as opposed to classes of expenditures.

3. The allotment procedures of the Division of the Budget should be revised to require the development by agencies of detailed financial operating plans following appropriation enactment which, after appropriate approvals, the Comptroller can use as a basis for developing comparative financial reports on budget execution and which the Division of the Budget and Auditor can use for variance analysis. While estimates should be prepared in program detail, legal control should be maintained at the appropriation level. The initial financial plans and allotments should encompass the entire fiscal year, and should be revised only when necessary.

4. Central staff offices should prepare and publish policies on a wide range of administrative matters such as travel and procurement, and agency management should be allowed to proceed within them without further clearance.

5. A system of financial reporting should be developed that will advise the various levels of management, central staff, and the General Assembly as to the status of budget execution. Such reports should whenever possible to accompanied by reports relating program performance to that anticipated when the budget was approved.

The focal point for financial control should be the Comptroller based on financial plans developed by agencies and approved by the responsible Secretary and the Secretary of Administration. The focus of the Division of the Budget should be on plan review and approval and not on individual execution decisions.

More attention needs to be devoted to the development of accounting systems within the state government since accounting data is a necessary ingredient of budget formulation and execution, audit and evaluation, and finally good management. Systems should be developed which emphasize managerial accounting similar to that used in private enterprise as well as the traditional governmental appropriation accounting.

The Commission recommends that authority and responsibility for accounting systems development within the executive branch be vested with the Department of Accounts (the Comptroller) subject to approval by the Auditor of Public Accounts of systems of accounting in terms of audit adequacy. Draft legislation to accomplish this recommendation is included as Exhibit 6 of the Appendix.

Placing the total responsibility for direction of accounting systems development with the Comptroller, subject to systems approval by the Auditor in terms of adequacy for auditing, has several advantages including:

1. Responsibility is clearly fixed within the executive branch while the General Assembly, through the Auditor, maintains control over the adequacy of accounting systems for audit purposes.

2. Responsibility is fixed in an organization that is clearly accounting oriented and where it will receive attention from competent professional accountants.

3. Since the Comptroller has central accounting responsibility, he is in the best position to insure design of agency accounting systems which are integrated into a total system, and by virtue of organizational placement, the Comptroller is uniquely able to encourage transference of proven accounting techniques among agencies.

The Commission wishes to emphasize that it is not advocating centralizing all accounting personnel in the state but rather recommends that the Comptroller be directed to assume a leadership role in the area of accounting.

The creation of an accounting systems capacity in the Department of Accounts will not eliminate the need for accounting systems staff in major agencies. Rather, it will provide stronger impetus and greater technical assistance to agencies than at present, and will assist in the development of more integrated financial management systems.

A Means Needs to Be Devised to More Effectively Involve the Governor-Elect in the Budget Formulation Process Following His Election but But Prior to His Entrance into Office.

After each gubernatorial election, the new Governor is faced, upon assuming office, with the necessity of reacting almost immediately to a budget submitted to the General Assembly by his predecessor. This situation has little to commena it.

The newly elected Governor assumedly comes to office with a mandate from the voters which he should be able to incorporate in the budget proposal in a thoughtful and orderly manner. Further, since he will be charged with responsibility for executing the budget following the appropriation by the General Assembly, he has a very legitimate interest in its content.

The Commission has to this point in time been unable to devise an acceptable mechanism for involving the Governor-elect in the budget formulation process; however, the problem is still under consideration, and a recommendation will be included in a future report.

The Biennial Budget Should Be Continued.

The Commission considered the question of whether the budget cycle should be changed from a biennial to an annual basis, and concluded that the biennial budget cycle should continue.

Continuation of the biennial budget is recommended because:

1. Biennial budgets force longer range planning than annual budgets simply because appropriations must be made for a longer span.

2. They provide more time for long range planning.

3. They save the time of agencies, the Governor, the budget staff, the members of the legislature and the legislative staff in compiling, presenting, explaining and defending the myriad details that go into the making of a budget. Thus, more time is available for program review and evaluation.

The primary advantages of annual budgets can be achieved in a biennial budget system since the legislature may pass additional appropriations or rescind existing appropriations during the second year session of the biennium, and an acceptable level of legislative oversight is attainable during a biennial cycle through the periodic meetings of the House Appropriations Committee and the Senate Finance Committee while the General Assembly is not in session, through reports developed by committee staffs, and through the work of the Joint Legislative Audit and Review Commission.

Additional Staff Should Be Provided to Strengthen the State's Management Capacity.

Additional staff resources are required for the Division of the Budget, the Department of Accounts, the Secretary of Administration, and the other Secretaries if the financial and program management processes of the Commonwealth are to be substantially improved.

The Division of the Budget presently has an authorized personnel complement of 29, of which 16 are professionals. Of the professionals, only 8 are performing duties which are primarily of a program budget-analysis nature. The remaining positions are devoted to budget execution and control, and the management analysis functions. While there may be an opportunity for some long term savings in personnel in the area of budget execution and control through decentralization of authorities, and in budget formulation through automation of some portions of the process, these savings cannot materialize in the short run. Thus, additional program analysis capacity will be achieved only by providing additional resources.

There is no precise method of determining exactly what program analysis staff the Division of the Budget requires. The answer to the question is largely judgmental. The Commission's own staff estimates that a staff of about 20 professional program budget examiners would be required. Wisconsin, a state of comparable size in terms of population, area, and budget and which has a national reputation as a fiscally well managed state, has a professional program budget staff of 26. The Division of the Budget informally estimates a need of 23 professionals for a program budget staff compared to the 8 now available, or a net increase of 15.

The Division of the Budget also projects an additional need for 13 other professional positions and 8 clerical support positions to implement the budget system proposed by the Commission. The additional professional positions would be 6 management analysts (to provide a total of 10 compared with the current authorization of 4), 2 administrative assistants for the Director and Deputy Director, and 1 for each of the following purposes: recruitment and training; ADP services coordination; federal program coordination; revenue estimating and budget ceilings; and publications and information.

The Commission recommends that the following additional staff be provided to the Division of the Budget:

Professional Program Budget Staff	15
Professional Administrative Assistants to the Director and Deputy Director	2
Recruitment and Training	1
Clerical Support	6
TOTAL	24

The Commission does not recommend at this time the other positions identified as needed by the Division of the Budget. The Division has not effectively implemented the management analysis function although, the General Assembly has provided funds therefore during the past two years. Until the currently authorized program has been implemented and until the question of organizational placement of the management analysis function is addressed further, no additional resources are recommended. The other functions such as federal program coordination, revenue estimating, and ADP service coordination are being performed now, and the staffing to accomplish them should be derived from existing staff from within the Administration and Finance area.

The Department of Accounts presently has no staff devoted exclusively to accounting systems design and modernization. The present Comptroller is attempting to accomplish modernization by reallocating from within the present organization whatever resources he can. While such an effort is commendable, it will not produce improvements as quickly as they are needed.

To enable the Comptroller to move decisively in this area, an accounting systems unit with a minimum staff of four to six professional accountants and supporting clerical personnel should be provided. Whether a staff of that size will be adequate is not known, but it represents a consensus of both the Commission's own professional staff and the Comptroller as to what resources may be efficiently ingested within the next two years.

The Commission in its deliberations on the question of the staff support of the Secretaries other than the Secretary of Administration has reached a policy determination that each Secretary should be provided with a staff sufficient to assist him in program planning, analysis, evaluation, and direction, but small enough to inhibit continued involvement in operational matters of agencies. The permanent professional staff assistance to each Secretary initially should not exceed approximately two to three "generalists" supported by occasional short-term details from subordinate agencies to assist on specified projects. The functions of these generalists should be (1) to direct the establishment and operation of the planning functions of the Secretarial areas, (2) to insure that policy and program alternatives are developed for Secretarial consideration, (3) to insure that proposals are properly coordinated and staffed before submission to the Secretaries, (4) to provide staff assistance on projects that cross Secretarial lines, (5) to monitor the implementation of Secretarial decisions, and (6) to insure that information flows to the Secretary to enable him to evaluate the program and administrative management of his subordinate agencies.

After a period of experience, the Secretaries may argue for expanded staff resources. Should that situation arise, the potential benefits to be derived from additional staff should be carefully weighed in relationship to possible dangers to the basic philosophical view that Secretaries are not operating agency heads, but are to direct and coordinate major purpose areas.

In its second interim report, the Commission concluded that the functions of the Secretary of Administration and the Secretary of Finance should be merged. In reaching that conclusion, however, the Commission recognized the "need for an individual within the Office of Administration who has experience in finance to lend perspective to capital outlay planning, to assist in revenue forecasting and to advise other agencies on alternative funding approaches and other financial matters." The Commission is, therefore, recommending that a staff position of Fiscal Assistant Secretary be created subordinate to the Secretary of Administration. The Fiscal Assistant Secretary will provide assistance to the Secretary in the area of financial management.

In summary, the Commission recommends that additional staff be provided as follows:

Agency	Professional	Clerical	Total
Division of the Budget	18	6	24
Department of Accounts	6	2	8
Secretary of Administration	1	--	1
Other Secretaries (4)	12	4	16
TOTAL	37	12	49

To initiate the changes in management processes recommended by the Commission, the additional staffing proposed should be provided by the General Assembly in its session beginning in January. The current serious financial situation facing the state should not deter the approval of these resources. Their cost is minimal in relation to the total cost of state government and to the potential for future savings through abolition of ineffective programs, better integration of existing programs, and improved management practices.

Employment by Virginia state government increased from 48,058 in 1966 to 77,781 in 1974, or an increase of 62 percent. Continuation of this trend would result in the addition of 36,000 employees to the state's payroll by 1980. The Commission is of the opinion that the initiation of the budget and management systems recommended in this report, supported by the staff resources recommended, will greatly reduce this trend and bring the expansion of programs and personnel under effective control to the benefit of the taxpayers of Virginia.

SEPARATE STATEMENT OF DELEGATE OWEN B. PICKETT

The Subcommittee on Budget and Management Systems and the Commission staff, together with the other members of the Commission, are to be highly commended for the fine work which they have done in preparing the Third Interim Report of the Commission on State Governmental Management pertaining to Recommendations on the State's Budget Process. While I concur with most of the recommendations in the report, it is with a great deal of reluctance that I set forth my views on the following matters, which are contrary to the recommendations set forth in the report:

1. The proposal to require that all bills, except emergency measures, be introduced during the first three weeks of the session, after which period the General Assembly would stand in recess for three weeks, does not appear to me to be practical and workable. While I do not have an alternative to offer on the timing of hearings by the House and Senate committees considering the budget bill, it would appear that a good deal of this work could be done during the time that the executive budget is being formulated since these committees meet on a regular basis throughout the year.

2. While I realize that because of staff limitations and established custom no early change can be made from the practice of using a biennial budget cycle, it is my view that the State should start planning now to change to an annual budget cycle. Substantial benefits should arise from the reduced period over which revenues and expenditures must be estimated and will allow for more flexibility in the functioning of State government without depriving the legislature of its traditional prerogative in directing the expenditure of State funds.

3. The finding of the Commission that there is a need for an experienced financial officer at the secretary level is clearly warranted by existing circumstances. It is my view that this position should be filled by the appointment of a Secretary of Finance in conformity with existing law as provided by Chapter 5.1, Governor's Secretaries, Sections 2.1-51.7 through 2.1-51.12.

With the foregoing modifications, I approve the third interim report of the Commission on State Governmental Management.

Owen B. Pickett

EXHIBIT

Exhibit 1

An Act to amend and reenact Section 30-58 of Chapter 7 of Title 30 of the Code of Virginia, approved March 20, 1973 relating to powers and duties of the Joint Legislative Audit and Review Commission.

Be it enacted by the General Assembly of Virginia:

That Section 30-58 of Chapter 7 of Title 30 of the Code of Virginia be amended and reenacted as follows:

Section 30-58. Powers and duties of Commission.--The Commission shall have the following powers and duties:

1. Make performance reviews of operations of State agencies to ascertain that sums appropriated have been, or are being expended for the purposes for which such appropriations were made and to evaluate the effectiveness of programs in accomplishing legislative intent;

2. Study on a continuing basis the operations, practices and duties of State agencies, as they relate to efficiency in the utilization of space, personnel, equipment and facilities;

3. Make such special studies and reports of the operations and functions of State agencies as it deems appropriate and as may be requested by the General Assembly or any member thereof;

4. Make such reports on its findings and recommendations at such time and in such manner as the Commission deems proper submitting same to the agencies concerned, to the Governor and to the General Assembly. Such reports as are submitted shall relate to the following matters:

   a. Ways in which the agencies may operate more economically and efficiently;

   b. Ways in which agencies can provide better services to the State and to the people; and

   c. Areas in which functions of State agencies are duplicative, overlapping, or failing to accomplish legislative objectives or for any other reason would be redefined or redistributed.

5. Provide assistance through its professional staff to the House Appropriations Committee and the Senate Finance Committee, at the specific request of either Committee, with respect to fiscal and budgetary matters including:

   a. The conduct of objective analyses of the executive budget to assist in determining changes to be made in the budget relating to those essential services which must be provided and the projected or increased revenues necessary to finance the required appropriations;

   b. The preparation of analytical reports relating to the developments in State revenues and expenditures; and

   c. The performance of feasibility studies relating to additional programs or facilities to ascertain their need and the initial and continuing financial requirements.

PROPOSED EXECUTIVE ORDER PRESCRIBING A POLICY ON LEGISLATIVE COORDINATION AND CLEARANCE WITHIN THE EXECUTIVE BRANCH

1. **Purpose:** This executive order prescribes a policy for the coordination and clearance by the Office of the Governor of agency recommendations and proposed, pending, and enrolled legislation and authorizes and directs the Secretary of Administration to issue detailed implementing procedures.

2. **Background:** The legislative coordination and clearance process is designed to ((a) enable the Governor to more effectively discharge his responsibility as the Budget Officer of the Commonwealth, (b) assist the Governor in developing his position on legislation, (c) make known the executive's position on particular legislation for the guidance of the agencies and information of the General Assembly, (d) assure appropriate consideration of the views of all affected agencies, and (e) assist the Governor with respect to his action on enrolled bills.

3. **Coverage:** All executive branch agencies are subject to the provisions of this order. For purposes of this order, an agency is any unit of government which is not a part of the legislative or judicial branches.

4. **Policy:** Agencies shall submit to the Office of the Governor for clearance proposed legislation or reports before they are transmitted outside the executive branch. For purposes of this order proposed legislation is defined as a draft bill with supporting documents which an agency wishes to present to the General Assembly for its consideration. Also included is any proposal for, or endorsement of, legislation incorporated in an agency's annual or special report or in other written form which an agency proposed to transmit to the General Assembly or to any member or committee, or to make available to any study group, commission, or the public.

   For purpose of this order, a report is defined as any written expression of official views prepared by an agency or pending bills for (1) transmittal to any committee, member, officer, or employee of the General Assembly, or (2) presentation as testimony before a committee of the General Assembly.

5. **Role of the Secretaries:** Agencies shall forward proposed legislation and reports to the Office of the Governor through the responsible Secretary who shall incorporate a recommendation thereon.

6. **Implementing Procedures:** The Secretary of Administration is authorized and directed to issue detailed procedures implementing the provisions of this order.

An Act to amend and reeact Sections 2.1-54, 2,1-60, and 2.1-61, of Chapter 6 of Title 2 of the Code of Virginia, relating to the budget system, and to provide for phased implementation of changes in the budget system.

Be it enacted by the General Assembly of Virginia:

1. That Section 2.1-54 of Chapter 6 of Title 2 of the Code of Virginia be amended and reeacted as follows:

Section 2.1-54. Estimates by State agencies of amounts needed--At a time established by the Governor not later than the first day of August biennially in the odd-numbered years, each of the several State agencies and other agencies and undertakings receiving or asking financial aid from the State shall report to the Governor, through the responsible Secretary designated by statute or executive order, on official estimate blanks furnished for such purpose, an estimate in itemized form showing the amount needed for each year of the ensuing biennial period beginning with the first day of July thereafter. The official estimate blanks which must be used in making these reports shall be furnished by the Governor, shall be uniform and shall clearly designate the kind of information to be given thereon.

2. That Section 2.1-60 of Chapter 6 of Title 2 of the Code of Virginia be amended and reenacted as follows:

Section 2.1-60. Submission of budget to General Assembly.--Within five days after the beginning of each regular session held in an even-numbered year of the General Assembly, the Governor shall submit to the presiding officer of each house printed copies of a budget, based on his own conclusions and judgment, containing a complete and itemized plan of all proposed expenditures for the State and of estimated revenues and borrowings, for each year in the ensuing biennial period beginning with the first day of July thereafter. The budget document shall be organized by function, primary agency, and proposed appropriation item. Proposed appropriations shall be structured to incorporate all closely related programs of an agency within a single appropriation; however, the identity of major programs and related costs shall be retained as discrete parts of each appropriation item for information purposes. Opposite each appropriation item and major program the budget shall show in separate parallel columns the amount appropriated for the last preceding appropriation year, the amount expended in the last preceding appropriation year, the amount appropriated for the current appropriation year, and the agency's request and the Governor's recommendation for each year of the ensuing biennial period. Data shall be included by major objects or classes of expenditure at the appropriation level using the same columnar headings as specified in the previous sentence. Summary data of positions authorized and funded or proposed for authorization and funding by the General Assembly shall be shown at the appropriation and program levels, distributed as between General Fund and Special Fund (federal, other, and mixed), using the same columnar headings as for expenditure data. Any increase in expenditures recommended in the biennium shall be distributed at the program level by (a) cost to continue the present level of activities, (b) costs to process increases in workload, and (c) costs related to new or changed services. A detailed narrative justification shall be included at the program level organized by the segments (a), (b), and (c) above, and shall include where practicable workload indices and other criteria to be used in both budget evaluation and post audit evaluation. For each program there should be included a distribution of the total budget requested as to the portions that are (a) mandated by the federal government, (b) necessary to avoid losses in federal revenues, (c) mandated by Virginia statute, and (d) discretionary. The Governor shall accompany the budget with: (1) A statement of the revenues and expenditures for each of the two appropriation years next preceding, classified and itemized in accordance with the official budget classifications adopted by the Governor. (2) A statement of the current assets, liabilities, reserves and surplus or deficit of the State. (3) A statement of the debts and funds of the State. (4) A statement showing the Governor's itemized estimates of the condition of the State treasury as of the beginning and end of each of the next two appropriation years. (5) An itemized and complete financial balance sheet for the State at the close of the last preceding fiscal year ending June thirtieth. (6) A general survey of the State's financial and natural resources, with a review of the general economic, industrial and commercial condition of the Commonwealth.

3. That Section 2.1-61 of Chapter 6 of Title 2 of the Code of Virginia be amended and reenacted as follows:

Section 2.1-61. Budget bill.--The Governor also shall submit to the presiding officer of each house of the General Assembly, at the same time he submits his budget, copies of a tentative bill for all proposed appropriations of the budget, clearly itemized in conformity with the appropriation structure specified in Section 2.1-60 of this Chapter, for each year of the ensuing biennial appropriation period, which shall be known as "The Budget Bill." Except as expressly provided in an appropriation act, whenever the amounts in a schedule for a single appropriation item are shown in two or more lines the portions of the total amount shown on separate lines are for information purposes only and are not limiting. No such budget bill shall contain any appropriation the expenditure of which is contingent upon the receipt of revenues in excess of funds unconditionally appropriated. The budget bill when reported by the House Appropriations Committee and the Senate Finance Committee to their respective bodies shall be accompanied by a report which shall summarize committee action on the bill including specification of areas of substantial difference from the Governor's proposed bill. Discussion of the budget bill by the House of Delegates or the Senate shall be recorded and a verbatim transcript of the discussion shall be published.

4. That notwithstanding the provisions of Section 2 of this Act, the Governor may elect to delay inclusion of all or part of the data required therein which is in addition to that included in the 1974-1976 biennial budget until the Governor submits the budget for the biennial period beginning July 1, 1978.

ADMINISTRATIVE DIRECTIVE TO THE SECRETARIES AND AGENCY HEADS PRESCRIBING A SYSTEM FOR DEVELOPMENT OF POLICY ISSUE PAPERS

A. Introduction:

There has been a general dissatisfaction with the state's capacity to systematically address major issues of policy as a part of the budget process. Delay in considering alternative policies and programs until the submission of the budget estimates in the late summer has resulted in an inability of policy officials and staff advisors to the Governor to devote the thoughtful attention to proposals that is warranted. Furthermore, the manner in which data has been presented in the budget estimates has tended to obscure, rather than focus attention on, policy questions and alternative solutions.

The Governor has directed the initiation of a system of policy issue papers in the executive branch to assist him in devising policies and programs to better respond to the needs of the citizens of Virginia, to aid in the allocation of the resources through the budget process, and to promote the effective and efficient operation of the state's government.

B. Responsibility:

The Secretary of Administration has been directed to assume a central leadership role in developing the system of policy issue papers within the executive branch.

The Secretary of Administration, after appropriate consultation with the other Secretaries and agency heads, shall recommend to the Governor policy issues to be addressed and shall, in accordance with the Governor's decisions, coordinate the development of policy issue papers.

The other Secretaries are generally responsible for the development of policy issue papers on matters falling exclusively within the purview of their assigned agencies; however, the Secretary of Administration may at the direction of the Governor assume responsibility for analysis of a specific issue within any Secretarial area, and is responsible for coordinating analysis of those issues which involve more than a single Secretary.

C. Identification of Policy Issues:

Since the beginning of the budget formulation process for the 1976-78 biennium is close at hand, it will not be feasible to utilize the policy issue concept in the coming budget to the degree desirable; however, the Governor anticipates that a substantial and productive effort will be conducted in each Secretarial area. The emphasis will be on the development of a limited number of policy papers which thoroughly address significant issues rather than on development of a large number of papers which address interesting, though less significant, issues.

Each Secretary is to consult with the agencies for which he is responsible to identify significant issues which should be studied, and to provide to the Secretary of Administration by December 31 a listing of issues which are recommended for study. For each issue so specified, there should be a brief statement which identifies the agencies and programs involved, describes the issues, and defines generally the problems involved.

The Secretary of Administration is to provide to the Governor by January 15 a consolidated listing of issues proposed for consideration accompanied by a recommendation as to which issues should be selected and the assignment of specific responsibility for each issue.

D. Format for Policy Issue Papers:

The policy issue papers will be submitted in the following format:

Secretariat Area(s)

Agency(ies)

Program Area:

I. **Purpose of Program:** A brief statement of the purpose of the program being studied.

II. **Issue:** A brief statement of the issue.

III. **Problem Definition:** Include in the definition the following items of information wher applicable:

1. A definition of the problem and possible causes.
2. A review of existing state policy (specify statute or executive declaration) in terms of targe groups, service levels and administrative approaches utilized.
3. Future anticipated developments affecting the future direction of related program including population, economic, social and similar changes.
4. The social impact on groups affected by the issue.
5. The fiscal impact of the issue, both existing and potential.
6. The roles of agencies, public and private, in relation to the issue or problem.

IV. **Analysis of Alternatives:** Evaluate the alternative actions which the state might take responding to the problem. Alternatives might be formulated based on one or several of th following approaches.

1. Alternative objectives-different effects to be achieved by government expenditure.
2. Alternative ways to achieve objectives-different outputs of government programs to achie the same effects.
3. Alternative ways to carry out a program-different means of producing the same output.
4. Alternatives over time-different time spans for achieving objectives.

5. Alternatives among programs-alternatives or trade-offs among programs which have similar objectives.

6. Alternative methods of financing.

V. **Recommendation:** Include in this section the rationale for selecting a particular alternative including a summary of the primary factors supporting the decision.

VI. **Statement of Financial Impact of Recommendation:** Include in this section, as appropriate:

1. A statement of the budgetary costs both in terms of capital outlay and operating expenses for the next biennium and for each of the succeeding two biennia.

2. A statement of the proposed source of funding--whether from the General Fund or a Special fund, and if from a Special Fund whether the funding is anticipated from state or federal revenues.

3. A statement of any tax or fee revisions necessary to fund the recommendation.

4. A statement of the impact on the state's economy or a locality's economy.

VII. **Statement of Legislation:** If the recommended alternative requires legislation for implementation, a draft of the legislation is to be included in this section.

VIII. **Implementation Plan:** Include in this section a proposed plan to implement the recommendation assuming plan approval by the General Assembly. State explicit objectives to be accomplished by specific dates.

IX. **Evaluation:** State the methods of evaluation of results of the program services including the information necessary for evaluation purposes.

E. Completion of Policy Issue Papers:

Policy papers addressing issues selected for analysis by the Governor are to be submitted by the responsible Secretaries to the Secretary of Administration by no later than July 21. Earlier completion and submission is preferred and would facilitate consideration by the Governor. Each issue paper should be submitted as completed instead of attempting to submit all as a package.

F. Consideration by the Governor:

It is the responsibility of the Secretary of Administration to insure that proper independent analyses of policy issue papers are made by his central staffs before they are transmitted to the Governor.

On the basis of gubernatorial decisions, the Secretary of Administration in conjunction with the other Secretaries, as appropriate, will revise the policy issue papers to reflect the Governor's decisions, and will incorporate those decisions in the budget being formulated.

A Joint Resolution to amend and reenact Section 6 of Article IV of the Constitution of Virginia, relating to Legislative Sessions.

Be it resolved by the General Assembly of Virginia:

That Section 6 of Article IV of the Constitution of Virginia be amended and reenacted as follows:

Legislative sessions.--The General Assembly shall meet once each year on the second Wednesday in January. No regular session of the General Assembly convened in an even-numbered year shall continue longer than sixty days excluding a continuous recess of not to exceed twenty-one days; no regular session of the General Assembly convened in an odd-numbered year shall continue longer than thirty days; but with the concurrence of two-thirds of the members elected to each house, any regular session may be extended for a period not exceeding thirty days. Neither house shall, without the consent of the other, adjourn to another place, nor for more than three days.

The Governor may convene a special session of the General Assembly when, in his opinion, the interest of the Commonwealth may require and shall convene a special session upon the application of two-thirds of the members elected to each house.

A bill to amend and reenact Section 2.1-156, and to repeal Sections 2.1-157, 2.1-158, and 2.1-159 of Chapter 13 of the Code of Virginia, relating to the devising of systems of bookkeeping and accounting for State and local offices by the Auditor of Public Accounts, and to amend and reenact Section 2.1-196 of Chapter 14 of the Code of Virginia, relating to unified financial accounting and control in State agencies and departments.

Be it enacted by the General Assembly of Virginia:

1. That Section 2.1-156 of the Code of Virginia is amended and reenacted as follows:

   Section 2.1-156. Devising system of bookkeeping and accounting for State and local offices.--The Auditor of Public Accounts, under the direction of the Joint Legislative Audit and Review Commission shall devise a modern, effective and uniform system of bookkeeping and accounting for the use of all county, city and town officials and agencies handling the revenues of the State or of any political subdivision thereof; provided, that the Auditor of Public Accounts and the Governor may approve any existing system.

2. That Sections 2.1-157, 2.1-158, and 2.1-159 of the Code of Virginia are repealed.

3. That Section 2.1-196 of the Code of Virginia is amended and reenacted as follows:

   Section 2.1-196. Financial accounting and control.

   a. Unified system in State agencies and departments.--Unified financial accounting and control shall be established through the departments and agencies of the State, in the manner prescribed in this chapter.

      The Comptroller shall prescribe what accounts shall be kept by each State agency in addition to the system of general accounting maintained in the Comptroller's office, and in prescribing what accounts shall be kept by each State agency, the Comptroller shall take care that there shall be no unnecessary duplication.

   b. Development of accounting and bookkeeping systems.
      The Comptroller shall direct the development of a modern, effective and uniform system of bookkeeping and accounting, comprehending: (1) an efficient system of checks and balances between the officers at the seat of government entrusted with the collection and receipt, custody and disbursement of the revenues of the State; (2) a systems of accounting, applicable to all State officers, departments, boards, commissions, agencies, and penal, educational and eleemosynary institutions maintained in whole or in part by the State, which shall be suitable to their respective needs, considering their relation to each other and their relation to subordinate officers and officials. All systems so developed shall require the approval and certification of the Auditor of Public Accounts that they are adequate for purposes of audit and financial control.

      As to the operation of farms, laundries, merchandising activities, dining halls and cafeterias for which charges are made, and any other type of activity which, if conducted privately, would be operated for profit, the system of accounting therefore shall be designed to reflect all charges properly allocable thereto to the end that the net profit or loss therefrom shall be reflected; provided that in the furtherance of this objective the Joint Legislative Audit and Review Commission on the recommendations of the Auditor of Public Accounts, may authorize the Director of the Department of Accounts to establish working capital fund accounts on his books and record therein the receipts and expenditures of these several functions; and provided further that the said Director shall provide the agencies responsible for the operations of these functions with revolving funds with which to finance the operations.

Unit prices of foodstuff, or other commodities, produced on farms shall be fixed on a semiannual basis by the Director of the Department of Purchases and Supply and these unit prices so fixed shall be the basis for charging the value of foods produced by the farms and consumed by the operating agencies or sold to other agencies of the Commonwealth.

c. Statement and explanation of accounting systems to be filed with Secretary of the Commonwealth; copyright; communication systems to officials affected; instruction of officials. The Comptroller shall file with the Secretary of the Commonwealth a statement and full explanation of all systems of accounting devised and adopted in furtherance of this section, but no copyright system shall be adopted which shall entail additional cost upon the State by reason of such copyright. Such systems of accounting shall be communicated by the Comptroller to the officials affected thereby, and he shall as soon as possible instruct the officials as to such systems of accounting.

d. Mandamus to compel adoption of systems.
Should any of the state offices, departments, boards, commissions, agencies, or institutions refuse or neglect to adopt such systems of accounting as the Comptroller may devise, adopt, and promulgate, then suit of the Attorney General a writ of mandamus will lie to the Supreme Court of Appeals to compel such adoption, and it shall be the duty of the Attorney General to forthwith institute such suit in any such case.