INTERIM REPORT OF THE
COMMISSION ON THE

COMMONWEALTH'S PLANNING AND BUDGETING PROCESS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 41

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INTERIM REPORT OF THE COMMISSION ON THE COMMONWEALTH'S PLANNING AND BUDGTING PROCESS

To: The Honorable James S. Gilmore, III, Governor of Virginia,
and
The General Assembly of Virginia

Richmond, Virginia
April 1998

EXECUTIVE SUMMARY

Senate Joint Resolution No. 350, adopted by the 1997 Session of the General Assembly, established the Commission on the Commonwealth's Planning and Budget Process. The commission was charged with examining (i) the feasibility of providing an integrated six-year budget projection for major budget drivers with each biennial budget, (ii) methods for preparing and presenting such a budget projection, and (iii) mechanisms to evaluate the effort of proposed legislation on the budget and the projections.

During its first year the commission addressed five topical themes: the Commonwealth's current planning and budgeting process; performance budgeting; revenue forecasting; long range expenditure forecasting; and legislative impact statements. The complexity of the issues addressed by the commission prevents its work from being adequately addressed in a single year. Accordingly, the commission finds that the study should be continued for a second year.

Recommendation: *The commission's study of the Commonwealth's planning and budgeting process pursuant to Senate Joint Resolution 350 should be continued for a second year.*

Virginia's executive budget process can be traced in large measure to legislation enacted in 1918. The Governor, as chief planning and budget officer, is responsible for submitting a budget, and corresponding budget bill, by December 20 of odd-numbered years. The Governor submits amendments to the budget then in effect by December 20 of even-numbered years. Responsibility for preparing the budget is vested in the Department of Planning and Budget.

The existing statutory requirements relating to the budgeting process are not strictly followed. Since 1993, state agencies have been directed to submit estimates of amounts needed for the four fiscal years following the next biennium with their budget submissions to the Governor. This requirement has been largely overlooked. Moreover, as the Joint Legislative Audit and Review Commission (JLARC) noted in its 1991 report on the executive budget process, since the early 1980s there has been a lack of systematic implementation of statutory requirements that the executive budget include, among other items, an articulation of program goals and objectives, establishment of program priorities, and articulation of program needs.

The commission finds that the Chapter 27 of Title 2.1 of the Code of Virginia, relating to the Planning and Budgeting Process, contains several technical errors that should be corrected.

Recommendation: *Legislation correcting technical errors in statutory provisions relating to the planning and budgeting processes should be introduced.*

Through language in the appropriations act and executive order, over the past five years Virginia has adopted a system of performance budgeting. Performance budgeting focuses on setting goals, designing the strategies needed to meet the goals, and measuring how well they are met. As part of their budget submissions for the 1998-2000 biennium, executive-branch agencies were required to develop six-year strategic plans. Agencies have also been required to develop activity-based budgets and performance measures. The Commonwealth's performance budgeting system has received national recognition for its strategic planning and performance measurement components.

Performance budgeting is being implemented to some extent in nearly every state. The experiences of other states reveal difficulties in integrating performance budgeting into their budgeting processes. While performance budgeting's major benefit is as a management tool that helps agencies use resources more efficiently, it is not yet apparent how it can be used in allocating state resources and related budgetary decisions.

Virginia's six-year revenue forecasting process is sound. Revenue forecasts are required to be prepared for a six-year period. The process is conducted by the Department of Taxation and other state agencies with input from the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates. Its results compare favorably with those of other states, the federal government, and national economic forecasting firms. JLARC has noted that a greater General Assembly role in Virginia's revenue forecasting process would benefit the process. The legislative branch in nearly half of the states prepare revenue forecasts.

The commission finds that the establishment of a legislative revenue forecasting capability is not appropriate at the current time. The executive branch should work to address concerns regarding the timing of its release to the legislature of revised revenue forecasts, primarily in short sessions.

The Commonwealth and most other states do not forecast general fund expenditures beyond the current budget period with the same comprehensiveness that characterizes revenue forecasting. Some long-range expenditure forecasting is underway in nearly all states for specific programs. In Virginia, population or expenditure estimates extending beyond the two-year budgeting cycle are being prepared by the Department of Planning and Budget and other state agencies for several major budget drivers.

In the mid-1970s, the Bendheim Commission produced six-year expenditure forecasts on a statewide basis, and in 1975 the General Assembly enacted a statutory requirement that agencies prepare six-year estimates of anticipated capital outlays and operational expenditures. This mandate was repealed after three years.

The commission finds that the Commonwealth's current long-range expenditure forecasting requirements are inadequate. Expenditure forecasting that looks beyond the two-year budgeting period can be a valuable planning tool. The Department of Planning and Budget should be required to provide the Senate Finance and House Appropriations Committees with (i) the long range agency expenditure estimates required under § 2.1-394 B and (ii) the format to be used by agencies in reporting these estimates.

Recommendation: *The Department of Planning and Budget should be required to provide to the chairmen of the House Appropriations and Senate Finance Committees, within thirty days following receipt, copies of (i) the agency estimates prepared under § 2.1-394 B and (ii) the format prescribed for such reports and any amendments thereto.*

North Carolina's general fund financial model provides an example of a long range expenditure forecasting capability based within the legislative branch. The model provides simulations, not predictions, of state expenditures over a ten-year horizon. Developed by the legislature's Fiscal Research Division and the Barents Group, an affiliate of KPMG Peat Marwick, the model allows the state to assess the impact of changes in underlying economic and other assumptions on the future cost of providing current services. In addition, it serves as a tool for analyzing the fiscal impact of adding or eliminating programs.

The commission believes that the North Carolina General Fund Financial Model deserves further study. As an alternative to relying on the executive branch to provide expenditure forecasts and related information, the commission recommends that further study be given to reviewing the feasibility of developing the capability to conduct long-range expenditure forecasting within the legislative branch. The commission should examine whether an expenditure simulation model would be appropriate for the Virginia General Assembly.

Recommendation: *During its second year, the commission should examine the feasibility of implementing long-range expenditure forecasting within the legislative branch, such as is in place in North Carolina.*

Most legislative impact statements are prepared by the Department of Planning and Budget, the Department of Taxation, or other agencies, pursuant to executive order. The commission conducted a survey of members of the General Assembly to assess satisfaction with the current processes for preparing and distributing legislative impact statements. Survey respondents were fairly evenly split on the issue of whether the current system is working adequately. By a modest margin, most disagreed with the proposition that the impact statement preparation and distribution processes are satisfactory. Areas of the greatest dissatisfaction involved the timeliness and availability of statements. Most of the criticisms noted in respondents' comments focused on timeliness, lack of objectivity, the quality of analysis, and the inaccessibility of statements.

Notwithstanding concerns expressed regarding various aspects of the legislative impact statement process, there is no clear consensus that major revisions to the impact statement process are appropriate. The commission finds that codifying the current legislative impact statement process would provide greater clarity and certainty regarding members' expectations and ensure that the General Assembly is involved in any future revisions in the process.

Recommendation: *The current process of preparing and distributing legislative impact statements should be codified.*

I. INTRODUCTION

The 1997 Session of the General Assembly adopted Senate Joint Resolution 350 (Appendix A), which established a thirteen member commission on the Commonwealth's Planning and Budget Process. The commission was charged with examining (i) the feasibility of providing an integrated six-year budget projection for major budget drivers with each biennial budget, (ii) methods for preparing and presenting such a budget projection, and (iii) mechanisms to evaluate the effort of proposed legislation on the budget and the projections. The commission was directed to submit its findings and recommendations to the 1998 Session of the General Assembly.

Senate Joint Resolution 350 states that an integrated long-range planning and budgeting process is an appropriate vehicle to collect and present to decision-makers the projected long-range costs of major budget drivers, and to prioritize other programs to receive funding in order for state government to operate within projected revenues. Inefficiencies, redundancies, and potential budgetary shortfalls are often indiscernible in the absence of a system which projects beyond the two-year window of the biennial budget. Achieving the next level of excellence in the Commonwealth's financial management will require a mature process for compiling and presenting expenditure projections. The resolution further recites that a six-year forecast of major budget drivers for each functional area of government, when publicly integrated with a current six-year revenue forecast, would give legislators and citizens a tool to better understand the budget implications of legislative actions and to address complicated public issues with a multi-year approach.

The commission was chaired by Senator Joseph V. Gartlan, Jr., Delegate V. Earl Dickinson served as Vice Chairman. The other members of the commission were Senator John H. Chichester, Senator Charles R. Hawkins, Senator Richard J. Holland, Senator Frederick M. Quayle, Senator Stanley C. Walker, Delegate Vincent F. Callahan, Jr., Delegate C. Richard Cranwell, Delegate Alan A. Diamonstein, Delegate Franklin P. Hall, Delegate Thomas M. Jackson, Jr., and Delegate Marian Van Landingham.

The resolution provides that "during the course of its study, the Commission shall seek the perspectives and input of persons with expertise in the relevant fields necessary to assist the study, to include persons in Virginia's business and higher education communities, and may establish advisory committees of such persons to assist the commission in its deliberations." Pursuant to this authorization, the commission appointed a thirteen-member citizens' advisory committee. The members are former State Senator Hunter B. Andrews; H. Hollister Cantus, President of the Ilex Group in Vienna; Collette Capon, Vice President for Management and Budget at the University of Virginia; Stuart W. Connock of the University of Virginia's Office of Governmental and Community Relations;

Professor Stephen S. Fuller of George Mason University; John T. (Til) Hazel, Jr., of Hazel and Thomas, P.C., in Falls Church; Dr. George W. Johnson, President Emeritus of George Mason University; Robert W. Lauterberg, Director of the Department of Planning and Budget; John L. Knapp of the Weldon Cooper Center for Public Service; John Massad, President of JMJ Corp. in Richmond; Malcolm S. Mcdonald, President of Signet Bank in Richmond; Walter Segaloff of Newport News; and Paul W. Timmreck, Vice President for Finance and Administration at Virginia Commonwealth University.

The resolution provides that the Joint Legislative Audit and Review Commission (JLARC), the House Committee on Appropriations and Senate Committee on Finance, and the Division of Legislative Services shall provide staff support for the study.

II. WORK OF THE COMMISSION

A. The Commonwealth's Planning and Budgeting Process

1. Background Information

Budgets are documents that express state government's power to act. They summarize policymakers' evaluations of past programs and public agencies and their forecasts of current and future needs and resources. Budgets set goals, decide among alternative objectives, and create means for controlling and accounting for the expenditure of public money. Because budgets have so many functions, the process of writing one is often conflict-ridden, unsatisfactory to observers and participants, and flawed in its outcomes. These complaints have shown up ever since formal, comprehensive budgeting became a feature of state and local government in the early years of the twentieth century.

The Taft Commission, which examined federal budget processes in 1912, criticized federal budgeting procedures for the same flaws observers note today. Some of the problems—partisanship, indecisiveness, lack of closure—are inherent in the democratic process. Others spring from conflicting expectations of the process. The central function of a budget—the decision of how much to spend for what—will always create disputes, and no budget will ever satisfy everyone (Foundation for State Legislatures and National Conference of State Legislatures, *Fundamentals of Sound State Budgeting Practices* [1995], pages 1-2).

The Commonwealth's 1996-98 budget consisted of $16.8 billion in general fund revenues and $18.5 billion in non-general fund revenues. John M. Bennett, Director of the Senate Finance Committee staff, noted that aid to localities and aid to individuals, primarily Medicaid, comprise about two-thirds of the general fund budget. The state payroll, most of which is in six large institutional systems, consumes another quarter of the general fund budget.

Over the past decade, growth in the state budget has been driven largely by four programs and activities: Medicaid; adult and juvenile corrections; public (k-12) education; and, in the 1990s, debt service. Spending increases required for public education, Medicaid, and corrections are generally regarded as non-discretionary, and multi-year forecasts in these area are either non-existent or have not proven to be accurate. Any effort to look at the Commonwealth's long-range budget prospects will have to focus first on these areas.

a. History of Planning and Budgeting in Virginia

Existing statutory provisions regarding the Commonwealth's planning and budgeting process can be traced to the work of the Commission on Economy and

Efficiency in 1916. The 1918 Session of the General Assembly enacted legislation recommended by the Commission. The budgeting process established by that legislation survives, in many ways, to the present.

The 1918 legislation provided that the Governor shall be the chief planning and budget officer of the Commonwealth. This provision has been carried to the present as § 2.1-387 of the Code of Virginia. Originally, the law provided that the Governor "shall employ competent budget assistants and such special help as he may require to carry out the provisions of this act." In 1975, the Secretary of Administration and Finance was made the deputy budget officer. The Secretary of Finance and Secretary of Administration were made separate offices in 1984.

Though a budget division was established in 1922, it remained small. Prior to 1966, the Commonwealth retained a private firm to help evaluate funding requests and prepare the budget. The office of Director of the Division of Budget was established in 1927. In 1966, the office was restyled the Director of the Budget, under the Commissioner of Administration. The Department of Planning and Budget (DPB) was created in 1976 by merging the Division of Budget and the Division of Planning and Community Affairs. Other developments in the 1970s include the implementation of the secretarial system and the establishment of staffs for the Senate Finance and House Appropriations Committees.

b. The Hopkins Commission and Program Budgeting

The Commission on State Governmental Management, known as the Hopkins Commission, studied the Commonwealth's budgeting system in the mid-1970s and found it wanting. Specifically, the study found that the existing system of incremental budgeting should be replaced with a system of program budgeting (Third Interim Report of the Hopkins Commission, *Recommendations on the State's Budget Process* [Senate Document No. 40], 1975).

The Hopkins Commission noted that 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 Hopkins Commission devoted extensive consideration to the conceptual framework within which the Virginia budget process should function. It concluded that the budget should be formulated, presented to the General Assembly, and appropriated essentially on a programmatic basis. A long term implication of target budgeting "is to force the development of a more extensive planning and issue identification system" (Id., p. 11).

The Hopkins Commission noted the importance of planning in the budgeting process. For the target budget method to be effective, good short- to mid-term planning capability, along with competent program/budget analysis staff, is needed to provide the data necessary for the Governor to establish the budget targets on an informed basis. In addition, the Governor should be provided 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 (Id., p. 10).

Program budgeting on an agency basis was touted as having the advantage of focusing both executive and legislative attention on program goals and objectives instead of input. In addition, it was expected to permit and encourage cross-agency special analyses which would result in more rationalistic resource allocation and better evaluation, and assist in identifying program duplication or overlap which would encourage reorganization of programs or agencies on a more rational basis (Id., pp. 7-10).

The recommendations of the Hopkins Commission were implemented in statute. After several years, however, several of the requirements of program budgeting were found to create unnecessary paperwork and fell into disuse.

c. Development of Statewide Planning Efforts

While Virginia's history of a formal budgeting process is eighty years old, a statutory planning process is comparatively much younger. In 1968, the General Assembly created the Division of Planning and Community Affairs. The duties of the Division included, among other things, coordinating and developing a planning process for the economic, social and physical needs of the Commonwealth and making long- and short-range economic analyses and projections to anticipate future possibilities in developing various areas of the economy. The analyses and projections were to be used to assist in determining future sources of revenue and evaluating the efforts of current and proposed tax policies.

In 1976, the Division of Planning and Community Affairs was merged with the Division of Budget to create the DPB. In the legislation establishing the duties of DPB, the requirement for making long- and short-range economic analyses was deleted. Many of the other planning assistance functions have been shifted to other agencies, including the Virginia Employment Commission and the Department of Housing and Community Development.

d. Commission on Population Growth and Development

In its 1993 interim report, the Commission on Population Growth and Development concluded that it is time to establish a statewide strategic planning process. The Commission endorsed the Virginia Growth Strategies Act, which sought to establish state, regional and local planning processes that promote economic development, protection of important resources, cost effective government, and orderly growth throughout Virginia (House Document 72 [1993], p. 24). Specifically, the Act called for the establishment of a Division of Planning within DPB to implement the Virginia Growth Strategies Plan.

The Virginia Growth Strategies Act was introduced in the 1994 Session by Delegate Tayloe Murphy as House Bill 1068. When in place, the state planning process, budget, and capital improvements program would implement the goals and objectives of the Strategic Plan. The legislation called for the establishment of a citizen/legislative advisory group, the Virginia Strategic Planning Advisory Commission, to work with the Division of Planning, the Governor, and state agencies to create and implement the Strategic Plan. The Growth Strategies Act, which did not pass, would have required that the state budget process and state capital projects implement the state Plan. This would be accomplished by requiring the Governor to disclose how the Virginia Growth Strategies Plan is being implemented in the biennial budget. Each appropriation for a capital project would have to be consistent with and implement, when appropriate, the Virginia Growth Strategies Plan.

The Population Growth and Development Commission found that "[w]e need a process to set both short and long term priorities for how we spend our money." It noted that:

> "[T]he only way we have statewide to set priorities is through the two year budget process. While some individual agencies have strategic plans, they are not tied into a longer term budget process nor are they coordinated with the strategic plans and objectives of other state agencies. There is not a process in place to set across state agencies and secretariat lines broader state goals, benchmarks for achievement of these goals, and a way to have accountability for state agency actions over a longer time period" (House Document 76 [1994], p. 9).

The Commission concluded: "Currently, the state lacks a coherent and coordinated system to guide its investment in infrastructure, institutions and other state facilities and programs. The state also has a fragmented and ad hoc planning effort and a short time horizon for important needs – the two year budget cycle" (Id., p. 10).

e. *JLARC's Study of the Executive Budget Process*

Item 13 of the 1990 appropriations act directed the Joint Legislative Audit and Review Commission to "review the Commonwealth's executive system of financial planning, execution and evaluation." JLARC's review of the executive budget process was completed in November 1991. JLARC found the degree of gubernatorial flexibility in budget implementation to be largely appropriate. However, limits on gubernatorial transfers and withholding authority were found not to be very effective. Central controls were found to be reasonable, and agency financial management practices appeared to be generally sound. The report concluded that the process was basically sound and largely reflects and meets the needs of the Commonwealth's executive and legislative institutions and a citizen legislature. JLARC noted that the program budgeting approach instituted at the recommendation of the Hopkins Commission had evolved by the early 1990s into incremental budgeting (Senate Document 15 [1992]).

When this study was being conducted, the General Assembly had eight and one-half weeks to consider the budget bill. In other states, the average time to consider a budget was sixteen and one-half weeks. JLARC recommended legislation requiring the budget to be submitted to the legislature by December 15. A statutory requirement that the budget be submitted by December 20 was enacted in 1992. Other legislative initiatives, such as requirements to convene regional public hearings on proposed budgets or amendments thereto and to publish budget highlights in regional newspapers, were also implemented in 1992 as the result of the JLARC study.

2. Current Planning and Budgeting Requirements

a. *Constitutional and statutory framework*

Article X, § 7 of the Virginia Constitution requires a biennial budget. Chapter 27 of Title 2.1 of the Code of Virginia prescribes the procedure for the development of the biennial budget.

The executive budget process starts in each odd-numbered year when agencies report to the Governor, through the appropriate secretariat, "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" (Code of Virginia § 2.1-394 A). At the same time, each agency "shall simultaneously submit an estimate of the amount which will be needed for the two succeeding biennial periods beginning July 1 of the third year following the year in which the report is submitted (Code of Virginia § 2.1-394 B). This requirement was added in 1993 by House Bill 2163, patroned by Delegate Clinton Miller.

On or before December 20 of each odd-numbered year, the Governor is required to submit to the General Assembly his budget for the biennium commencing the following July 1. Each budget is required to include:

"1. A statement of historical and projected trends which influence development, natural and human resources, and general economic conditions in the Commonwealth, and projections pertaining to population, transportation, commerce, agriculture, and urbanization. In addition to utilizing such statement in the preparation of his budget, the Governor shall use such statement for the purpose of coordinating programs of planning district commissions, regional development authorities, and local governments with those of state agencies.
2. A statement of the Governor's proposed goals, objectives, and policies in the areas of:
(a) Administration of justice;
(b) Education, including intellectual and cultural development;
(c) Individual and family services;
(d) Resources and economic development, including specific references to economic development and management of natural resources;
(e) Transportation; and
(f) General government, including therein or as separate categories areas of multiple impact, such as telecommunications, energy, and urban development.
3. A statement organized by function, primary agency, and proposed appropriation item which sets forth:
(a) Identification of common programs and services;
(b) Service attainments or lack of attainments and service terminations or reductions for the biennium;
(c) Major goals and objectives for programs;
(d) Program measures to be used in monitoring and evaluating services as specified in the general appropriations act; and
(e) The amount of each primary agency's budget that is direct aid to localities" (Code of Virginia § 2.1-398).

The first iteration of this requirement appeared in 1918, and it has been amended on numerous occasions. In 1975, at the recommendation of the Hopkins Commission, the section was rewritten to incorporate program budgeting by structuring appropriations to incorporate all closely related programs of an agency within a single appropriation. In 1981, the General Assembly eliminated some of the initial program budgeting requirements. In 1992, the General Assembly eliminated requirements for statements of costs to continue present services and costs to provide for changed and new services. This action followed a JLARC recommendation that legislative intent regarding program budgeting could be clarified by deleting "some of the more stringent and unnecessary components" of program budgeting that had not been complied with by the executive branch, generally with the acquiescence of the legislative branch. (Senate Document 15 [1992], pp. ii, 21-22).

At the same time the executive budget is presented, the Governor is required to submit a budget bill for all proposed appropriations of the budget. The budget bill "shall be organized by function, primary agency, and proposed appropriation item and shall include an identification of, and authorization for, common programs and the appropriation of funds according to programs" (Code of Virginia § 2.1-399 A). By December 20 of each even-numbered year, the Governor is required to submit to the General Assembly copies of all proposed gubernatorial amendments proposed to the general appropriation act adopted in the preceding even-numbered year session (Code of Virginia § 2.1-399 B).

In its review of statutes relating to the budgeting process, the commission noted several technical errors. These include:

- Section 2.1-394.1, relating to estimates by non-state agencies of amounts needed, contains a reference to §§ 10.1-812 through 10.1-814. These sections, which dealt with historic landmarks and monuments, were repealed in 1989. The references should be to §§ 10.1-2211 through 10.1-2213.

- In 1992, the General Assembly added § 2.1-399.1, which requires the Governor to submit to the legislature copies of tentative legislation involving proposed capital appropriations for each year of the ensuing biennium. At the same time, provisions were added to this new section requiring the Governor to send a summary of budget highlights to regional newspapers and requiring the House Appropriations and Senate Finance Committees to conduct public hearings on the budget bill. These two requirements were included as subsections C and D of § 2.1-399.1, though they are not limited to capital projects. Consequently, the provisions of subsections C and D should be set forth as a separate Code section.

- Section 2.1-397.1 requires agencies having responsibilities granted under § 10.1-1204 to participate in the budget development process of relevant agencies. Section 10.1-1204 related to the Council on the Environment, which was abolished in 1993. Accordingly, the reference to it in § 2.1-397.1 should be deleted.

b. Implementation of Statutory Requirements

In the course of its work, the commission noted several instances where current practice does not strictly comport with statutory requirements.

Since 1993, § 2.1-394 B has required agencies to submit to DPB, with their biennial budget estimate, an estimate of the amount that will be needed for the two succeeding biennial periods. This provision is still in effect, though copies of the estimates have not been provided to the legislature. Robert Lauterberg, Director of DPB, acknowledged that agencies have had latitude in complying with this requirement, and noted that no requests have been made for the information submitted by agencies. In its 1997 instructions to agencies for developing budget requests, DPB required agencies to complete form BE (Appendix B) to provide information regarding future agency needs. The form instructs agencies to not include any future pay increases or inflation adjustments, and to include funding required for any changes in projected client load only if the agency has an officially approved forecast of client loads for the entire six-year period.

Section 2.1-396 requires the Governor to provide for public hearings on any and all estimates to be included in the budget, to be held prior to the completion of his plan for expenditures for the ensuing biennium. It was noted that this requirement has not been followed for many years, and appears to be an anachronism.

At the commission's first meeting on July 30, 1997, the chairman asked that the executive budget documents submitted during the administrations of Governor Wilder and Governor Allen be examined to determine whether the documents comply with the planning requirements of subdivisions 1 and 2 of § 2.1-398. In response to the chairman's request, Mr. Lauterberg provided the committee with information noting how DPB has complied with the requirements of § 2.1-398 (Appendix C). The materials state that the introduction to the budget document "touches on" the information required regarding historical and projected trends and general economic conditions. The document introduction and secretarial overviews were reported to include the statement of the Governor's proposed goals, objectives, and policies.

JLARC's 1991 report on the executive budget process noted that:

> "Not all the requirements still in the *Code of Virginia* have been used systematically in the budget process since the 1982-84 biennial budget. During this review, little evidence was found of the systematic implementation of the following program budgeting criteria since 1982-84:
>
> - articulation of program goals and objectives;
> - establishment of program priorities;
> - monitoring and evaluating of programs and communication of those activities;
> - use of performance measures; and

- articulation of program needs." (Senate Document 15 [1992], pp. 18-19)

The JLARC report also noted that "a review of budget documents confirms that after the 1982-84 budget document not all *Code of Virginia* requirements were being fulfilled." JLARC added that "program goals and objectives were included in each executive budget document until the 1986-1988 biennium. During the 1986-88 and 1988-90 biennia, broad policy goals were included in the budget tabloid, a separate document. For 1990-92, few goals and objectives were clearly articulated" (Id., p. 19).

A comparison of the executive budget documents submitted between 1991 and 1997 to the 1980 budget document illustrates the drift away from the format prescribed by § 2.1-398. The 1980 executive budget contains separate sections describing (i) the condition of the Commonwealth, (ii) goals, objectives, and policies for the six major functional areas listed in subdivision 2 of § 2.1-398, and (iii) a functional summary for operating expenses in these six areas, with references to the expenditures for each program.

In contrast, the budget documents submitted in the 1990s have tended not to follow the template directed by § 2.1-398. Instead, they have included an introduction with a narrative description of key policies, new initiatives, and the status of the Commonwealth's economy. Information regarding the six functional areas of government listed in § 2.1-398 is incorporated into the operating recommendations for agencies, grouped by secretariat or branch of government.

The discrepancy between practice and statute, first identified by JLARC in 1991, has continued. However, the lack of compliance with budget format prescribed by § 2.1-398 has not been identified as a liability to the budgeting process. The commission did not discuss the desirability of amending § 2.1-398 to conform the statute to current practice.

3. Revenue Stabilization Fund

a. JLARC's Proposal for a Revenue Stabilization Fund

During the period of JLARC's study of the executive budget process, the Commonwealth was faced with unusually large revenue shortfalls. In response, JLARC focused its study of the budget process on revenue forecasting issues. JLARC concluded that, while the revenue forecasts for 1990, 1991, and 1992 were unusually far off, the revenue shortfalls did not appear to be the result of any unsound revenue forecasting process. Forecast error was acknowledged to be a normally occurring part of the forecast process.

The JLARC Subcommittee on the Executive Budget Process issued a proposal for the establishment of a revenue stabilization fund in February 1991. In preparing its recommendation, JLARC examined the "rainy day" funds of 39 states. JLARC's proposal, introduced in the 1991 Session as Senate Joint Resolution 159, designed to skim off above-average revenue growth in prosperous years. The deposits would be available to ease the stress resulting when forecast error results in a revenue shortfall. Requiring deposits to the rainy day fund would also discourage building high revenue growth into the Commonwealth's permanent spending base.

JLARC's recommendation had four major elements. First, the process should be constitutionally-based. Establishing the rainy day fund in the Constitution would prevent its provisions from being overridden by the appropriation act, and would avoid constitutional problems that could confront a statutory fund. Second, the fund should have a maximum allowable size based on a formula that would allow the fund to grow as revenues grow. Third, deposits to the fund would include mandatory and discretionary deposits, with mandatory appropriations consisting of a portion of above-average growth in individual and corporate income and retail sales taxes. Fourth, withdrawals may be made only if a shortfall exceeds two percent of certified tax revenues. No more than one-half of the fund balance may be withdrawn in any year, and a withdrawal cannot exceed one-half of the projected shortfall (Senate Document 24 [1991], pp. 2-12).

b. Constitutional and Statutory Provisions

A constitutional amendment establishing the rainy day fund was ratified by voters at referendum on November 7, 1992, and became effective January 1, 1993. The provision requires the General Assembly to make deposits to the Revenue Stabilization Fund of an amount equal to at least fifty percent of the amount of individual income tax, corporate income tax, and retail sales tax, multiplied by the amount by which the rate of increase in such tax revenue in the most recent fiscal year exceeds the average rate of increase over the preceding six years. The General Assembly may withdraw money from the rainy day fund only to compensate for one-half of a shortfall in revenue forecasts in any year that the projected shortfall exceeds two percent of income and sales tax revenues from the previous fiscal year.

The General Assembly enacted legislation implementing the Constitutional requirement for a revenue stabilization fund as Chapter 316 of the 1992 Acts of Assembly. The law became effective upon the approval of the amendment to Article X, § 8 of the Constitution. The procedure is set forth in Article 2.1 (§ 2.1-191.1 et seq.) of Chapter 14 of Title 2.1.

c. *Maximum Size of Revenue Stabilization Fund*

As of June 30, 1997, the Revenue Stabilization Fund contained $156.6 million. The Fund is expected to contain $338.9 million by July 1999. Neither the Constitution nor the Virginia Code places a dollar cap on the fund's maximum size. Rather, the maximum Fund size is 10 percent of the average corporate and individual income tax and retail sales tax revenues for the previous three years.

In response to concerns about the absence of a dollar limit on the size of the fund, Kirk Jonas of JLARC recounted the factors that led the General Assembly to base the maximum fund size for each upcoming fiscal year on the formula. The formula allows the fund to grow with the State's economy. Tying the maximum fund size to a percentage of income and sales tax revenues intentionally provides an automatic basis for accruing a substantial fund.

B. Performance Budgeting

Recently many states, including Virginia, have taken steps to implement "performance budgeting." Performance budgeting has been touted as a means of reshaping budgeting processes to reward efficient, effective programs and to encourage remodeling programs that cannot meet specific goals. Performance budgeting has developed to address perceived flaws in the incremental budgeting process. Traditionally, state budgets have focused on controlling expenditures. Control is expressed in written budgets through line item allocations of a specified sum for a specific expense. Line-item budgeting tends to be incremental in the sense that previous appropriations are increased or deceased by small increments over time. Under incremental budgeting, agency allocations are determined based on the current appropriation, adjusted by funding for new legislative initiatives, and amended by requests for funds above the current base. This approach may take previous policies and programs for granted and discourage review of priorities, program effectiveness, or service outcomes. Incremental budgeting has been criticized as fostering a business-as-usual approach to government (National Conference of State Legislatures, "Fundamentals of Sound State Budgeting Practices," [1995], p. 4).

These criticisms of traditional line-item budgeting are not new. As previously noted, Virginia's embracing of program budgeting in the1970s was a response to incremental budgeting. Other states, notably Georgia and Texas, experimented with zero-based budgeting in an attempt to halt the incremental growth of budgets.

1. Overview of Performance Budgeting

Performance budgeting attempts to address these deficiencies by linking long range strategic planning, performance measurement, and budget development. Performance budgeting provides a method for setting goals, designing the strategies needed to meet the goals, and measuring how well they are met. Performance-based budgeting's central elements are using strategic planning to set the mission, goals and objectives of programs; measuring programs' outcomes; and setting benchmarks to be met by programs. By shifting attention to results rather than inputs, the implementation of performance budgeting can build stronger ties between planning, budgeting, and evaluation. Performance review thus becomes central to budgeting decisions. The process of developing and reviewing performance measures is designed to provide decision-makers with adequate information to evaluate agency program performance (National Association of State Budget Officers, "Restructuring and Innovations in State Management" [April 1996], p. 40).

The performance budgeting process is intended to hold agencies accountable for performance, provide flexibility in using resources within programs, and encourage management innovation. Under performance budgeting, future funding decisions are based on program effectiveness, not on the preservation of existing programs and levels of spending. This approach requires that budgeting be directed at programs or strategies rather than at specific line items for agencies or departments.

2. JLARC Study of Benchmarking for Future Government Action

House Joint Resolution 107 of the 1994 Session of the General Assembly directed JLARC to study the concept of benchmarking for future government actions. The study was prompted in part by the initiation by several states of large-scale statewide benchmark or performance measure processes.

JLARC distinguished performance measure benchmarking from best practices benchmarking. Performance measure benchmarking involves focusing on the outcomes of programs or processes and linking these results to the budgeting process. Best practice benchmarking, which is used primarily in the private sector, is a process of identifying the best practices of other organizations and establishing targets for an organization to meet or exceed. JLARC concluded that the General Assembly may wish to direct DPB to implement and coordinate best practices benchmarking for state agencies and programs (House Document No. 2 [1996], pp. 54-56).

JLARC's analysis of performance measure benchmarking in Oregon and other states indicated that performance measure processes have been linked to goals and objectives developed through a comprehensive strategic plan. Virginia did not have a strategic planning process in place, and reductions in DPB's budget and staff were seen as affecting the State's future centralized planning capacity (Id., p. ii).

Potential benefits of statewide performance measures include increased citizen awareness, greater agency focus on outcomes, and improved intergovernmental cooperation. However, the fiscal costs of implementing a benchmarking process can be large. A state's ability to achieve a large number of challenging benchmarks can be difficult, and the failure to attain them may diminish the credibility of the process. Moreover, the practical utility of and the extent to which the effort will be sustained are not clear.

Legislative involvement in the process of developing and implementing benchmarks was identified as crucial (Id., p. 32). A statewide strategic planning process in Virginia was identified as a necessary foundation for statewide performance measure benchmarking. However, DPB's performance measure pilot project and its implementation of any agency-wide strategic planning and performance measurement process were acknowledged as providing a framework for benchmarking activity on a smaller, less resource-intensive scale (Id., pp. 60-61).

3. Performance Budgeting in Virginia

a. Development of Performance Budgeting

The 1991 JLARC report on the executive budget process recommended that the DPB proceed with plans to develop performance measures for new programs and to develop performance measures for selected base budget programs on a pilot basis. This recommendation was incorporated in Item 271 of the 1992 Appropriations Act. It required DPB's Director to develop guidelines and processes for performance measurement of new program initiatives funded in this act. The objective of such performance measurement is to assess achievement of intended outcomes of initiatives. Agencies responsible for these initiatives were required to establish performance measures and processes in accordance with these guidelines. In addition, the Governor was directed to require an assessment of program outcomes prior to recommending continued funding for any new program initiative.

The requirement for the development of a performance measurement system for selected new program initiatives and base budget programs on a pilot basis was continued in Item 332 of the 1994 Appropriations Act. The 1994 Appropriations Act also directed DPB to develop, by November 1, 1994, a plan for a strategic planning process for all areas of state government. DPB was to consider the information provided by the Commission on Population Growth and Development in House Document No. 76 (1994) and the Virginia Growth Strategies Act. As part of the plan, DPB was directed to evaluate the feasibility of implementing the process and prepare an estimate of the additional resources required by DPB and all other agencies and institutions of state government to successfully implement such a strategic planning process. DPB issued its proposed plan for statewide strategic planning and performance measurement in December 1994.

By Executive Memorandum 3-95, Governor Allen established an initiative for goal setting and performance budgeting effective June 2, 1995. The memorandum provides guidelines for all agencies except institutions of higher education to undertake an assessment of their activities, examining elements such as the agency's role and purpose, its customer needs, organizational structure, current activities and how they are accomplished, and the critical issues facing the agency. The results of the assessment were to form the basis for developing proposals for the 1996-1998 budget.

b. Implementation of Performance Budgeting

Performance measures for agencies in the executive department were compiled in the Governor's Executive Budget for 1996-98: 1997 Amendments (December 1996). As part of the new performance budgeting process, agencies were directed to conduct a comprehensive issues assessment and to set goals, objectives and strategies. Agencies were also required to develop and submit activity-based budgets, decision packages, and performance measures.

According to DPB Director Robert Lauterberg, Virginia's performance budgeting system provides substantial benefits over the previous method of incremental budgeting. The Commonwealth's performance budgeting system has been recognized as "best in class" for its strategic planning and performance measurement components. Vice President Gore has acknowledged DPB's partnering with the National Performance Review on its Customer-Driven Strategic Planning Federal Benchmarking Consortium Study (Appendix D).

Under the performance budgeting system, executive branch agencies are required to prepare six-year strategic plans as part of their budget submissions for the 1998-2000 biennium. In these plans, agencies are expected to reexamine programs, consider over-arching financial goals, reassess priorities, and base funding on program performance. This approach was contrasted with six-year expenditure projections that merely extrapolate current programs into the future, assume priorities do not change, and disregard program performance. These expenditure estimates were characterized by DPB as an academic exercise that produced highly inaccurate results. An illustration of the six-year forecast error from the 1976 expenditure estimate is attached as Appendix E. The estimates were deemed to be highly inaccurate and not widely used. However, long-term client projections were acknowledged to be useful in identifying budget policy options.

The five-year plans prepared by agencies in 1995 for the 1996-98 budget cycle where submitted as part of the Governor's confidential working papers. In contrast, the agency strategic plans being prepared for the 1998-2000 biennium will be available to the public. Each agency's strategic plan is included as part of its budget submission.

c. *Agency Recommendations*

In testimony before the commission, Mr. Lauterberg offered six recommendations to the commission. The General Assembly should (i) review agency strategic plans as part of programmatic and budget deliberations; (ii) take advantage of the statewide strategic planning process to obtain meaningful analysis of policy options and scenarios; (iii) prescribe additional performance measures and investigate targets and results; (iv) expand cooperation with the executive branch in developing the six-year capital outlay plan; (v) take advantage of existing opportunities to participate in the revenue forecasting process; and (vi) implement an automated activity-based accounting and budgeting system.

The strategic plan submitted by DPB as part of its budget submission for the 1998-2000 biennium includes two provisions that relate directly to the work of the commission. First, under the list of the agency's legislative mandates, DPB has listed the duty, established by § 2.1-394 B, to "provide six-year expenditure estimates." The corresponding comment states:

> "Six-year expenditure estimates are, at best, of limited usefulness. At worst, they are grossly misleading and may lead to detrimental policy choices. Static expenditure estimates are premised on the continuation of all existing programs - without regard to their effectiveness or the changing needs of Virginians. DPB recommends the repeal of this mandate."

Second, DPB's strategic plan lists, as an "external threat," the following:

> "The potential for legislation that requires state government to return to a *status quo* budgeting process (including six-year expenditure forecasting) if the Senate Joint Resolution 350 Commission is provided less than complete information on which to base its recommendations."

4. Performance-based Budgeting in Other States

According to Ronald Snell of the National Conference of State Legislatures(NCSL), performance-based budgeting "is more than a fad." Performance-based budgeting continues to be the most significant trend in state budgeting. Two-thirds of the states have adopted legislation calling for the use of performance-based budgeting. Fourteen other states have performance budgeting initiatives not directed by legislation.

a. Status of Performance Budgeting Implementation

States often proceed incrementally by establishing a strategic plan, assessing goals and objectives for agencies and programs, and developing performance measures. Many states have been working on some type of performance budgeting for several years, recognizing that systemic change requires a multiyear commitment. Examples include:

- Conducting performance budgeting in four pilot departments in California;
- Implementing results-based budgeting as required by statute in Georgia;
- Enacting pilot performance budgets in the next biennium to coincide with strategic plans in Maine;
- Changing the budget structure to better separate previous appropriation level from current service level elements such as inflation, caseload growth, and program phase-ins or phase-outs in Oregon; and
- Implementing the first phase of performance measurement with the development of measures for approximately half of the state's programs in Rhode Island.

The implementation of performance budgeting within the states that claim to be using this technique varies widely. Forty-five states are in some phase of applying performance measures to state agencies and programs (Judy Zelio, "Update on Performance Budgeting," NCSL Legisbrief, Vol. 5, No. 37, October 1997). Thirty-three states include some performance measures in budget documents, though few directly link performance to the budget. Six states intend to use program performance information as the basis for budget decisions; 10 are in an early or pilot phase for using program performance information as the basis for budget decisions; 12 use performance information as a tool to influence policy and budgeting; and 3 may use it as a management tool.

The experiences of these states reveal difficulties in creating meaningful performance measures. In practice, agencies have had problems shifting from measuring activities to measuring performance. Agencies often lack the experience and historical data needed to provide a basis for comparing performance. In addition, the creation of performance measures must involve both the legislative and executive branches.

Performance-based budgeting can be a valuable agency management tool. It provides a mechanism for systematic review of an agency's organization and purpose, helps identify those parts of government that are performing well, and encourages long-term planning. It also gives legislators new, and possibly better, types of information and helps legislators focus on program outcomes.

b. Integrating performance budgeting into the budget-writing process

A major trend in state management practices is the continued emphasis on integrating performance measures into budgeting. Performance budgeting often is being implemented incrementally, so it may be several years before the full impact of this effort is felt within state government (National Governors Association and National Association of State Budget Officers, "The Fiscal Survey of States" [April 1997], pp. 18-19).

Florida, Texas, and North Carolina are leaders in attempting to implement performance-based budgeting. Florida is phasing in performance budgeting over seven years. In Texas, agencies have developed 11,000 performance measures, and "key" outcome measures are printed in the budget bill. North Carolina is in the process of implementing "program/performance budgeting."

Integrating performance-based budgeting into traditional budget processes has not been easy. A transition to this method of budgeting requires a focus on activities and outcomes rather than on line item expenditures. Agency structures may have to change to put responsibility for a given activity in one agency.

North Carolina's experience illustrates some of the difficulties in moving to performance budgeting. In January 1997 the Governor presented the budget in two formats. The first was a traditional line item format, and the second was a program budget. The legislature did not receive the program budget early enough to have it be a significant tool in budget deliberations. While the General Assembly claims to be committed to looking at program/performance budgeting, it is too soon to tell whether it will work. One barrier may be the attitude of legislators, who are familiar with the line item budget. Conversely, they are uncomfortable with a budget that provides a block of money for a program with performance measures and provides agencies with much discretion in the use of the money as long as the measures are met.

The NCSL's Ron Snell cautioned the members of the commission that performance-based budgeting cannot make appropriations decisions. No one has determined how to tie budget allocations to measures and performance.

Moreover, it is not clear whether appropriations to an agency that fails to meet its performance goals should be increased or decreased. The question of what states will do if a program fails to meet its performance goal remains unanswered. The missed goal may be revised, responsibility for the program may be shifted, or additional time to meet the goal may be granted ("The Performance Budget Revisited," NCSL [1994], p. 23). If the goal was missed due to the failure of the legislature to provide adequate resources, it would not be prudent to "punish" the agency by withholding additional appropriations. However, if the failure was due to unsatisfactory management, providing additional resources would not be the optimal solution.

Brian Roherty, until recently the executive director of the National Association of State Budget Officers (NASBO), advised the commission that the concept of performance-based budgeting is often oversold. While 48 states claim to be implementing it in some fashion, its main benefit is helping agencies use their resources more efficiently. Mr. Roherty praised Virginia's efforts to adopt agency-wide performance measures. While improving efficiency is a laudable goal, it is no substitute for making policy decisions. To the extent performance-based budgeting attempts to substitute applying empirical data for exercising policy judgments, he suggested that it could pose a threat to the political system.

Several other reasons have been offered for the difficulties and delays states have faced in implementing performance budgeting. It is difficult to identify and reach agreement on quantifiable goals for most state programs. Because many state programs cross existing agency lines, full implementation of a program-oriented performance budget might require extensive reorganization. Effective program management could require restructuring the division of responsibilities between state and local government (Foundation for State Legislatures and NCSL, "Fundamentals of Sound State Budgeting Practices" [1995], pp. 5-6).

Budget reform tends to produce more interest than activity, it has been suggested, because traditional budgeting meets more expectations about the process better than any proposed reform. Proposals for reform focus on particular unsatisfactory results from the existing process and recommend ways to improve those results, but they may fail to consider how many conflicting expectations the budget process has to meet. Budgeting is supposed to contribute to continuity (for planning), to change (for policy evaluation), to flexibility (for the economy), to rigidity (for limiting spending), and to openness (for accountability). A budget process that is expected to do so many disparate things will work less well as more expectations are loaded onto it. Traditional budgeting builds upon previous agreements and commitments. Planning, evaluating, and accounting are activities that can proceed effectively without being central to the budget (Id., pp. 7-9).

One commentator has cautioned against expecting performance budgeting to cure all budgeting difficulties:

"Many of the values of reforms can be lost by expecting too much from them. They won't ever solve the real problem, which is that we voters want to spend more than we want to pay in taxes, and insist on elected officials who agree with us. We are all in for trouble if state officials do what the Congress has made a practice of doing—substituting a new round of budget reforms for dealing with the budget" (Hal Hovey, "Many Faces of Budget Reform Tempting to Policymakers," The Fiscal Letter, Vol. 15, No.2 [1993]).

C. Revenue Forecasting

Virginia has required six-year revenue forecasting since 1975. In that year, the General Assembly adopted § 2.1-393, which requires the Governor, by December 15 of each year, to "submit to the members of the General Assembly an estimate of anticipated general fund revenue, and estimates of anticipated revenues for each of the major nongeneral funds, for a prospective period of six years."

"The Governor's estimates of anticipated general and nongeneral fund revenues shall be based on the following:

1. Forecasts of economic activity in the Commonwealth.
2. Review by an advisory board of economists with respect to economic assumptions and technical econometric methodology.
3. Review by an advisory council of revenue estimates with respect to economic assumptions and the general economic climate of the Commonwealth. The Advisory Board on Revenue Estimates is continued and shall hereafter be known as the Advisory Council on Revenue Estimates. The Advisory Council shall be comprised of such representatives of the private sector as the Governor may appoint and representation from the General Assembly. The representation of the General Assembly shall include the Speaker and Majority Leader of the House of Delegates, the President pro tempore and Majority Leader of the Senate, and the Chairmen of the House Appropriations, House Finance, and Senate Finance Committees, or their designated representatives.
4. Any such other advisory bodies as the Governor may desire" (Code of Virginia § 2.1-393).

1. Virginia's Six-year Revenue Forecasting Process

The Commonwealth's revenue forecasting process is led by the Department of Taxation. Tax Commissioner Danny M. Payne briefed the members on the state's revenue estimating process. Key elements of the process include the involvement of the Governor's Advisory Board of Economists in recommending economic forecasts, and the Governor's Advisory Council on Revenue Estimates in developing revenue forecasts based on economic scenarios. Other state agencies with revenue-collecting duties, such as the State Corporation Commission and the Department of Motor Vehicles, also participate in the process. An overview of Virginia's economic and revenue estimating process is attached as Appendix F.

The Department of Taxation's success in implementing the revenue forecasting process has been cited in the Commonwealth's consistent ratings as one of the nation's best financially managed states by *Financial World* magazine. Three barriers to the process were noted. Accurate forecasting requires staying on the leading edge in technology and forecasting methodologies. Data provided by the Internal Revenue Service for use in forecasting tax collections is one and one-half years old when received. Finally, the current process focuses on the short term, with long-term forecasts being extrapolated from the short-term outlook and assuming moderate-term growth forecasts.

2. JLARC's Study of the Revenue Forecasting Process

Pursuant to JLARC's 1990-1991 review of the executive system of financial planning, execution, and evaluation, it designated issues related to revenue forecasting for priority review. This directive resulted from the budgetary turmoil associated with the recession of the early 1990s. JLARC's study addressed the soundness of the executive branch revenue forecasting process, the accuracy of executive revenue forecasts, and the technical soundness of forecast models. JLARC concluded that the state's revenue forecasting models appeared to be technically sound and adequately administered. Virginia's revenue forecast accuracy over the preceding 16 years was found to be similar to those of other states, national economic forecasting firms, and the federal government.

The 1990-1992 revenue forecast reductions were not the result of an unsound forecasting process. The process was found to meet the majority of criteria for an optimal forecasting system, and forecast adjustments were not necessitated by problems with the statistical forecasting model. Though a majority of the general fund revenue shortfall was attributable to an economic downturn, JLARC noted that the balance of the shortfall could be due to tax policy changes, judgmental inputs, and normally-occurring forecasting error.

While forecast error is inevitable, increasing the role of the General Assembly in the forecasting process could achieve a more accurate revenue forecast and increased accountability. Relative to other states, Virginia's legislature was found to play a minimal role in the forecasting process (Senate Document 25 [1991], pp. i-iv).

3. Role of Legislative Branch in Revenue Forecasting in Other States

In 23 states (including Virginia) and the District of Columbia, the executive branch produces revenue forecasts, while the legislature is delegated an advisory role. One state (Texas) has an independently elected comptroller's office that forecasts revenues. In the other states, the legislative branch plays a more prominent role in forecasting revenue. However, the legislative branch's responsibilities in developing revenue forecasts varies widely. Eighteen states use a consensus forecasting process that assigns the task of preparing revenue forecasts to a group representing both the executive and legislative branches. Four states use an arbitration method by which the agencies involved prepare independent revenue forecasts. The legislative and executive staffs attempt to reconcile the differences in their forecasts, and differences between the forecasts are resolved by agreement between the branches or by legislative adoption of one of the forecasts or combining parts of each. In other states, legislative agencies prepare an independent forecast that is used in reviewing the executive budget (Federation of Tax Administrators, "Revenue Forecasting and Estimation -- How It's Done, State by State," State Tax Notes [May 3, 1993], pp. 1038-1046).

In October 1997, Ron Snell of the NCSL provided the commission with the results of a survey of state revenue forecasting procedures and staffing requirements in 13 states where the legislative branch has an independent revenue forecasting ability (Appendix G). Eleven of the states preparing a legislative revenue forecast have a legislative forecasting unit, while two states contract with outside groups to prepare the forecast. Most states with a legislative revenue forecasting office have a staff of one to three people.

In response to queries regarding whether Virginia should consider giving legislative staff a role in its revenue forecasting process, Brian Roherty, formerly executive director of NASBO, advised the commission "if it ain't broke, don't fix it." Virginia's revenue forecasting process is as impressive as any in the nation. He advised that the best forecasting systems, regardless of which branch administers them, are ones open to public review, which depoliticizes the numbers. While revenue forecasting is comparatively easy when the economy is growing steadily, it is difficult to predict an economy's turning points.

Several members of the commission questioned whether a legislative revenue forecasting capability would protect the budget-writing process from the whims of the executive branch regarding the timing of the release of revised revenue data and forecasts. To the extent that problems with the General Assembly's reliance on an executive revenue forecast are attributable to the timing of the release of revenue information, cooperation and communication are critical. In the 1997 Session, updated revenue forecasts based on receipts in January were provided to the General Assembly before the end of that month. Problems arising from delayed receipt of revenue data may be more acute in years with a short legislative session. Accordingly, the commission did not recommend the development of a legislative revenue forecasting capability.

D. Long Range Expenditure Forecasting

Senate Joint Resolution 350 states that "a six-year forecast of major budget drivers for each functional area government, when publicly integrated with a current six-year revenue forecast, would give legislators and citizens a tool to better understand the budget implications of legislative actions and to address complicated public issues with a multi-year approach."

1. Previous Expenditure Forecasting Efforts in Virginia

a. The Bendheim Commission

The Commonwealth made two attempts to address the issue of long-range expenditure forecasting in the mid-1970s. The Revenue Resources and Economic Study Commission, chaired by Senator Bendheim, produced six-year state revenue and expenditure projections. In Fiscal Prospects and Alternatives: 1974, staff prepared a forecast of baseline expenditures, which assumed no change in the scope or quality of programs but allowed for growth in population-workloads and for price increases, for the next three biennia in functions of education, health and welfare, administration of justice, resource and economic development, general administration, transportation and unallocated expenses such as employee benefits, state aid to localities, and debt service.

The baseline projections were then reworked to yield projections allowing for increases in maintenance and operation expenditures attributable to new or expanded programs. Projections were also prepared for capital outlay, using baselines figures and adjustments for maintenance and operations. The table attached as Appendix H summarizes the projected revenue-expenditure gaps for the following three biennia.

The Bendheim Commission's 1975 report also projected general fund outlays through the 1980-82 biennium. Using the broadest projection of expenditures (scope and quality increases plus capital outlay), the difference between general fund revenues and outlays was projected to result in a $254.7 million deficit for the 1976-78 biennium, a $231.2 deficit for the 1978-80 biennium, and a $59.3 million deficit for the 1980-82 biennium. A more conservative projection of general fund outlays, not allowing for changes in the scope and quality of expenditure functions, yielded surpluses of $94.1 million, $635.4 million, and $ 1,557.9 million for the following three biennia.

The Bendheim Commission cautioned that short-run forecasts are generally more accurate than long-range projections, and that the methodology for the expenditure projections has an upward bias. It assumes that all current expenditure programs will continue at baseline levels or will be expanded for improvements in scope and quality, with no allowance for new priorities that lower or eliminate expenditures for some programs and not provide for new, lower cost methods of fulfilling program requirements.

b. Six-Year Expenditure Estimates

The second attempt to forecast state expenditures on a long-range basis occurred in 1975 with the enactment of § 2.1-392. This section required all agencies to submit to the Senate Finance and House Appropriations Committees and the Governor "an estimate of anticipated capital outlays and operational expenditures embracing their activities for the prospective period of six years beyond the then current biennium" that are required to (i) continue present levels of activity, (ii) process increases in workload, and (iii) provide for new or changed services.

This legislation was introduced as House Bill 1030 by Delegate Lane as the State Reporting Act of 1974. House Bill 1030 was carried over to the 1975 Session and was substantially rewritten to reduce the detail of data required from agencies. However, this section of the Code was repealed in 1978 by House Bill 1192, which was introduced at the request of the Governor. House Bill 1030 also added § 2.1-393 (requiring six-year revenue forecasts) and § 2.1-404 (requiring agencies to provide information upon request to the Senate Finance and House Appropriations committees), both of which remain in effect.

2. Forecasting of Major Budget Drivers

Expenditure forecasting for specific programs is being performed by DPB on its own or in conjunction with responsible state agencies. John Forbes, manager of DPB's Economic and Regulatory Analysis section, reminded the commission that forecasting is the first step in planning. Mr. Forbes noted that while short-term (biennial) forecasts have been very accurate, long-term forecasts face insurmountable uncertainty. Five-and six-year forecasts for revenues and for Medicaid, education, and prison populations have generally been off by between seven and eight percent. Investing in sound forecasting pays big dividends by improving the efficiency with which scarce resources are allocated.

DPB's forecasting responsibilities include coordinating expenditure forecasting, evaluating agency forecasts, assisting agencies in preparing forecasts, and forecasting budget drivers. Budget items forecast by DPB include Temporary Assistance to Needy Families (TANF) caseloads, Medicaid costs and enrollments, and correctional system populations. The Medicaid forecasting process, which required development of an econometric model, and the public safety forecasting process, which uses a consensus process, were praised by DPB.

a. Medicaid

The Department of Medical Assistance Services (DMAS) prepares six-year Medicaid expenditure forecasts. After projecting baseline expenditures, the fiscal impact of proposed policy changes and new mandates are estimated. DMAS staff bases its primary forecasting process on exponential smoothing, a time series forecasting technique. Current forecasts extend through fiscal year 2010, though the accuracy of time series forecasts decreases as they are extended that far into the future. Alternative forecasts involving regression methods are used for several of the larger Medicaid categories, and the DMAS forecasts are compared with DPB's independent forecasts to arrive at a consensus forecast.

JLARC reviewed the Medicaid forecasting process in 1992 and 1997, and found that the forecasting modeling appears to be sound. JLARC found that Virginia's expenditure estimates do not appear to be less accurate than those of nearby states, states in the South, or across the nation.

Among the lessons relayed to the commission by Alan MacDonald of DMAS were that forecasts require constant maintenance and updating, cannot be produced in isolation from program operations, and benefit from the use of multiple forecasting techniques. The 1997 expenditure forecast was cited as an example that short-term forecasts are more accurate than long-term forecasts. The July 1993 forecast exceeded the actual 1997 sum by 9.24 percent. The variance between the 1994 forecast and the actual number declined to 5.98 percent, and it fell to 1.79 percent for the 1995 forecast and to 0.62 percent for the 1996 forecast. Mr. MacDonald agreed with the observation that no one expects projections made six years in advance to be on target. Nevertheless, long-range forecasting is beneficial by providing a measuring point which can be constantly adjusted based on changing circumstances and additional data. One measure of a long-range forecast's success is its usefulness as a starting point for planning purposes.

b. K-12 Education

K-12 spending is a major driver of increases in the Commonwealth's budget. As the average daily membership is used to distribute the majority of state funds to localities, much effort is invested in predicting this number. Daniel Timberlake of the Department of Education noted that instead of producing one statewide forecast, the Department must prepare separate enrollment forecasts for each of the 137 school divisions in the Commonwealth for each year of the biennium.

Local information in conjunction with the Department's methodology, has produced highly accurate statewide projections in the short term. As with other expenditure-related projections presented to the Commission, the accuracy increases as the forecasting horizon decreases because the later projections incorporate more actual data.

c. *Higher Education*

The State Council on Higher Education for Virginia (SCHEV) is responsible for reviewing and approving all enrollment projections proposed by public colleges and universities. Rather than generating a single statewide estimate, at least three projections are prepared for each institution. Michael Mullen, SCHEV's interim director, observed that while the forecasting methodology has improved over the past two years, the process lacks a policy focus. An example of a policy issue not addressed in the forecasting process is whether enough Virginians are receiving tertiary education. While higher education can be characterized as a retail market driven by choice and demographic factors, high rates of participation are essential to the economic competitiveness of the Commonwealth and the nation.

Mr. Mullen identified serious problems obtaining basic data. Prior to 1995, demographic data was provided by the Weldon Cooper Center at the University of Virginia. Since their contract was terminated in 1995, SCHEV no longer has access to forecasts of the number of high school graduates beyond a three-year period. The importance of accurately forecasting enrollment growth is underscored when an institution's appropriation includes funding for projected changes.

d. *Corrections*

Wendy Naro of the Washington-based National Council on Crime and Delinquency (NCCD) described the consensus process for preparation of the corrections population forecasts. NCCD prepares prison population forecasts under contract with the Department of Corrections. The forecasting process uses a simulation model, rather than a statistical model, to prepare a baseline forecast based on one year of data. Under Virginia's consensus process for projecting inmate populations, the baseline projections undergo scrutiny by a technical review committee and a policy review committee. Using its simulation model software, NCCD can provide monthly forecasts for various categories of offenders.

e. *Transportation*

Highway and other transportation expenditures comprise nearly one-quarter of the Commonwealth's non-general fund operating budget. Pete Kolakowski of the Department of Transportation noted that in addition to preparing annual and biennial budgets and a six-year financial plan, the Department of Transportation integrates agency budget requirements with State and federal legislative processes to provide annual updated financial plans. The 1996-98 biennial budget total allocation is $4.5 billion.

The six-year financial plan is based on the Department of Motor Vehicles' official state revenue estimate for Commonwealth Transportation Funds, and utilizes current federal transportation funding estimates. The six-year financial plan is the basis for figures contained in annual updates to the six-year improvement program. The current forecast for 1997-2003 is $14 billion. Depending on the results of Congressional reauthorization of the Intermodal Surface Transportation Efficiency Act, the Commonwealth could receive between $100 million and $300 million in additional federal funds.

3. Long-range Expenditure Forecasting in Other States

According to NASBO's September 1997 report on Budgeting Processes in the States (Appendix I), 26 states conduct expenditure forecasts that extend beyond the current budget cycle. Of the states identified as preparing multi-year expenditure forecasts, eight prepare forecasts extending four years beyond the current budget cycle; two extending five years beyond the current budget cycle, and one extending eight years beyond the current budget cycle. The report indicates that of the 21 states that prepare expenditure forecasts extending two or more years beyond the current budget cycle, nine both include all programs and are published. In all but twelve of the states preparing expenditure forecasts extending beyond the current budget cycle, the estimates originate with executive branch agencies. (Id.) Virginia is listed as preparing and publishing with its budget an expenditure forecast extending four years beyond the current budget cycle. Though this might be accurate if agencies complied with the directive of § 2.1-394 B, as noted above this is not the case. Moreover, Virginia does not publish its expenditure forecasts in its budget.

The appeal of long-range forecasting is knowing what it will cost to keep doing what a state is currently doing. However, it is not apparent that states know how to do such forecasting very well. While most states perform some form of expenditure forecasting for major budget drivers, they tend to disclose neither how the projections are done nor the results.

Preparing accurate long-range expenditure forecasts requires knowing the future, and modeling these forecasts is difficult. Most expenditure forecasting assumes changes in laws and programs over time. Consequently, the rules reflected in the modeling involve policy decisions. Because a legislature or executive cannot bind future ones, assumptions that extend beyond the current period are often questioned.

Moreover, multi-year expenditure forecasting requires discipline. The federal government's practices of back-loading or ignoring certain program costs in its long-range expenditure forecasts has fostered skepticism in such forecasts. Rather than trying to model every expenditure, it was suggested that states focus on major drivers and publicly disclose the results.

4. North Carolina's General Fund Financial Model

a. Background

At its last meeting of 1997, the commission directed its attention to North Carolina's General Fund Financial Model. This computer model has been developed by the Legislative Services Office's Fiscal Research Division and the Barents Group, an affiliate of KPMG Peat Marwick. Tony Goldman, a senior fiscal analyst with the Division, and the Barents Group's Robert Cline explained how the model developed into a valuable tool in policy decision-making. (Appendix J)

Following the recession of the early 1990s, North Carolina's legislature mandated a general fund forecasting model for revenues and expenditures. The expenditure model has developed incrementally since 1992. The current iteration of the model can be run on a personal computer. It allows users to track the fiscal implications of changes over a ten year horizon using the most current certified budget as the base year.

Section 143-15.1 (b) of the North Carolina Executive Budget Act addresses the use of the model by the General Assembly:

> "(b) The General Assembly shall review the results of the General Fund Financial model, a computer-based financial model used to project long-term expenditure and revenue trends under various simulations, in its budget deliberations. The model shall be maintained and, from time to time, updated by the Fiscal Research Division of the General Assembly."

b. Implementation of the Model

In practice, the expenditure and revenue projections generated by the model are presented to the House and Senate Finance and Appropriations Committees at the beginning of each legislative session. Economists in the Fiscal Research Office can compare the results of the expenditure model to the revenue projections to determine if the budget is in structural balance.

North Carolina's executive branch prepares its own projections for revenues and expenditures. There have been conflicts between the legislative and executive projections. Disagreements have focused on whose model is correct rather than on underlying assumptions and policy issues. Work on the model in the spring of 1996 produced a version to be used by both the executive and legislative branches.

The executive budget presented in January 1998 was expected to include forecasts for the five years following the biennium. The inclusion of the additional five years' expenditure forecasts is not required by statute, but is included by the Governor for debate of the cost of new programs.

c. Conclusions and Lessons

A characteristic of the model is its incorporation of expenditure drivers for major categories. For example, the projections in the human services category incorporates projected changes in unemployment and demographics. The model incorporates, rather than duplicates, expenditure projections developed by executive branch agencies. It provides a systematic, structured method for integrating the best available information on program growth. Much of the data required to be plugged into the model is already produced by state agencies, and the executive budget office works jointly with the legislative fiscal office to develop additional information as needed. Fiscal notes showing the projected cost of legislative changes over a five-year period are now incorporated into the model during the legislative process.

Using stated assumptions about the growth rates in such elements as state population, school attendance, state employee salaries, and health care costs, the model compiles the projected levels of general fund expenditures and revenues in future fiscal years. The model's current services simulation may then be used to illustrate the changes that may result from program and policy changes as well as amendments in the assumed growth rates and other drivers. The model provides both a picture of what can be expected with a continuation budget and a tool for envisioning what a change in a program or a new program might cost or how it might affect the stability of the budget.

Accordingly, the model serves as a simulation tool. The principal benefit of the long-range projections is providing the ability to spot trends. The model is not intended to predict future revenue and expenditures with precision. It is analogous to a performance statement used in private businesses.

A recent example of the model's application can be seen in the results of a proposal to increase teacher pay in North Carolina to the national average. After the model projected the costs of this policy change, a plan was developed to phase in the teacher pay increases over a number of years, coupled with cuts in other programs of $150 million annually.

Development of an expenditure simulation model should combine the efforts of both outside assistance and in-house personnel. Other lessons gained from North Carolina's experience include getting input from subject area specialists, emphasizing trends rather than exact numbers, keeping the presentation of model results simple, reexamining model design annually, and tracking model results. Changes in programs over time have made tracking the accuracy of projections difficult, especially in areas of health care and K-12 education funding. Even in these areas, however, deviations have not been so great as to question the validity of the model. Development of the model over the past six years was estimated to have cost North Carolina between $250,000 and $300,000, plus the in-house costs of operating the model.

E. Legislative Impact Statements

Senate Joint Resolution 350 states that "understanding the full fiscal impact in the outyears of bills with long-range implications will better prepare the Commonwealth to meet the needs of future generations of Virginians." In response to the Commission's charge to examine the mechanisms to evaluate legislation having an effect on the budget and expenditure projections, the legislative impact statement preparation and distribution processes were reviewed.

1. Preparation of Impact Statements

In 1997, legislative impact statements were prepared for 1,144 bills, or 60 percent of the bills introduced. Of the 776 bills for which no impact statement was prepared, 211 were not reviewed. Agencies preparing the greatest number of statements were DPB, the Department of Taxation, and the State Corporation Commission. (Appendix K)

DPB oversees the preparation of most impact statements pursuant to the authorization in Executive Order 39 (1995). There is no statutory requirement regarding their preparation, and the agency has discretion in deciding which bills will have impact statements. Issues such as which bills have statements and turnaround times are determined administratively.

DPB's objective is to prepare statements that are objective, concise, broad in scope, and timely. Agencies attempt to complete statements within three days of receipt if the bill is assigned to a money committee, and within four days if assigned to other committees.

The Department of Taxation prepares fiscal impact statements for bills involving taxes administered by the Department and local taxes. Statements for bills relating to taxes administered by other agencies, including the State Corporation Commission, the Department of Motor Vehicles, and the Alcoholic Beverages Commission, are prepared by those agencies but some are distributed by

Tax Department. The procedure was established pursuant to Executive Order 10 (1978) and agency directive.

Statutory requirements for the preparation of impact statements exist only with respect to three types of legislation: (i) bills involving a local expenditure for programs mandated by the State, (ii) bills with a corrections impact, and (iii) Virginia Retirement System bills.

Local expenditure impact statements are prepared by the Commission on Local Government pursuant to § 30-19.03. They are required for bills requiring a net additional expenditure by any locality. The relevant bills are identified by the Division of Legislative Services and forwarded to the Commission. The Commission then polls several localities for sampling of estimated impact. Copies of the estimate are then sent to the Clerk of the House for transmittal to patron, co-patrons, and chairmen of committees considering the bill.

Corrections impact statements are prepared by DPB, with input from the Department of Corrections, Department of Juvenile Justice, and Virginia Criminal Sentencing Commission, pursuant to §§ 30-19.1:4 and 30-19.1:5. They are required for bills resulting in a net increase in periods of imprisonment in state adult and juvenile correctional facilities. The amount of estimated increase in operating costs for the highest of the next 10 fiscal years is printed on the face of the bill.

The requirement for preparation of impact statements for bills affecting the Virginia Retirement System became effective July 1, 1997. They are prepared by VRS Board of Trustees pursuant to § 30-19.1:7. The requirement applies to bills amending any provision of the state retirement systems, in accordance with the joint procedural resolution establishing the schedule for a session.

2. Distribution of Impact Statements

The preparation of impact statements is of little benefit if the results are not provided to their intended recipients. The current process of distributing impact statements is not uniform. The procedure may vary depending on the agency preparing the statement, the committee to which a bill is referred, and whether the legislation is in the House of Delegates or Senate.

If an impact statement is prepared by or under the oversight of DPB, the bill's patron, Senate Finance Committee, House Appropriations Committee, and Division of Legislative Services receive copies. Copies may be distributed to the House and Senate Clerks' Offices and other persons depending on the practice of the agency preparing the statement. Impact statements are not placed in bill books on the floor of either house.

Impact statements prepared by the Department of Taxation are provided to the patron, chairmen of the Houses and Senate Finance Committees, Senate Finance Committee staff, House Appropriations Committee staff, Division of Legislative Services, and others. Senate Finance Committee staff provide copies to Senate Clerk's Office, which places them in the members' bill books. In the House, the Clerk's Office receives the copies and places them in the House Finance Committee members' bill books.

In the Senate, the Senate Finance Committee staff receive all impact statements. For bills heard by the Senate Finance Committee, the Senate Clerk's Office is provided copies and places them in the members' bill books. For other committees, staff at Division of Legislative Services receive copies and may share them with the committee. There is no standard procedure for committee clerks to place statements in bill books.

The procedure in the House of Delegates is similar. The Department of Taxation delivers impact statements for bills to be heard by the House Finance Committee to the Committee Clerk for placement in bill books. Committee staff at the Division of Legislative Services receive copies from the Tax Department. The House Appropriations Committee staff receive all impact statements, and make them available to members, staff, and committee clerks. In other committees, staff at Division of Legislative Services receive copies and may share them with committee chair. As in the Senate, there is no standard procedure for impact statements to be placed in the bill books of members of committees other than Finance and Appropriations.

House and Senate Clerks, as part of the Chamber Automation Study, are investigating the idea of making impact statements available via computer systems. The process would entail coordinating the flow of information among the various agencies preparing statements.

3. Survey of Legislators and Staff

DPB measures its performance by the number of complaints received. For the past two years, the agency reported that it had not received any complaints. To gauge satisfaction with the impact statement process, the commission authorized staff to survey the members of the General Assembly and legislative staff. The results of the survey are attached as Appendix L.

Approximately one-third of legislators responded to the survey. Overall, more members disagreed (47 percent) than agreed (42 percent) with the proposition that the legislative impact statement preparation and distribution processes are satisfactory. However, the low response rate suggests the use of caution in relying on the survey results. The results indicate that the current process is decidedly better in some areas than others:

- 78 percent of the respondents agreed with the proposition that impact statements provide adequate, useful information regarding bills' fiscal, program, and policy implications.
- 78 percent agreed that estimates of revenue and expenditure impacts are reasonable and useful.
- 76 percent agreed that the current time horizon for impact statements - the current year and the succeeding biennium - is sufficient.
- 62 percent agreed that impact statements are objective.
- 58 percent disagreed with the proposition that a bill's impact statement is always available to members before the bill is brought to a vote.
- 62 percent did not agree that impact statements for all relevant bills are made available to members.
- 47 percent did not believe that impact statements are updated after bills are reprinted with amendments.

Approximately two-thirds of the legislative staff responded to the survey. Though most of the responses echoed those of the General Assembly members, 38 percent either did not know or did not respond when asked if they agreed with the statement that impact statements are made available to members. By a 52 percent to 43 percent margin, staff respondents did not agree that the impact statement preparation and distribution processes were satisfactory.

The comments by members of the General Assembly and staff identified the most frequently cited problem areas with impact statements to be timeliness (12 comments), bias or lack of objectivity (10 comments), and inaccurate or incomplete analysis (5 comments). When asked what changes respondents would make to the impact statement procedures, most comments were directed at improving timeliness (7), accessibility (7), communicating with the bill's patron prior to release of the statement (6), updating statements when bills are revised (5), and improving the analysis of impacts (4). When asked if they had any other comments regarding impact statements, respondents directed their remarks most frequently to areas of quality of analysis (6), bias (5), and timeliness (4).

III. INTERIM FINDINGS AND RECOMMENDATIONS

1. The Commonwealth's current long-range forecasting requirements are inadequate.

Existing long-range expenditure forecasting requirements are inadequate. Expenditure forecasting that looks beyond the two-year budgeting period can be a valuable planning tool. The accuracy of short-term expenditure forecasting of major budget drivers currently conducted by DPB and responsible agencies has been impressive.

Long-range expenditure forecasting that merely extrapolates current expenditure levels into the future can be misleading and inaccurate. However, long-range forecasting of major budget drivers, such as Medicaid, corrections, K-12 education, and higher education can be done in a more sophisticated manner that provides valuable information. Though it may be difficult and require the allocation of additional resources, the Commonwealth would benefit from the development of long range expenditure forecasting as a planning tool.

Section 2.1-394 B requires executive branch agencies to submit estimates of needs for the two biennia following the next biennium. This statutory requirement has largely been honored in the breach. It does not provide a mechanism for the General Assembly to receive copies of the information generated by agencies. Moreover, the General Assembly does not have a role in developing the format for the expenditure estimates. The DPB should be required to provide the money committees with (i) the agency expenditure estimates prepared under § 2.1-394 B and (ii) the format to be used by agencies in reporting these estimates.

Recommendation 1: The Department of Planning and Budget should be required to provide the chairmen of the House Appropriations and Senate Finance Committees, within thirty days following receipt, copies of (i) the agency estimates prepared under § 2.1-394 B and (ii) the format prescribed for such reports and any amendments thereto.

Legislation implementing this recommendation was introduced in the 1998 Session of the General Assembly in Senate Bill 391 (Appendix M).

2. The existing legislative impact statement process should be codified.

The current process for preparing legislative impact statements is conducted by the DPB and other state agencies pursuant to executive order. Except for impact statements for bills imposing a local fiscal impact, relating to the Virginia Retirement System, or requiring incarceration in state correctional facilities, the impact statement process is not governed by statutory law. The commission's survey of members of the General Assembly indicates that more members than not are dissatisfied with the existing processes for preparing and distributing legislative impact statements.

Notwithstanding concerns expressed with, among other issues, the timeliness, availability, and updating of impact statements, there is no clear consensus that major revisions to the impact statement process are appropriate at the current time. However, codifying the current legislative impact statement process would provide greater clarity and certainty regarding members' expectations. Moreover, codifying the process will ensure that the General Assembly is involved in any future revisions in the process.

Recommendation 2: The current process of preparing and distributing legislative impact statements should be codified.

Legislation implementing this recommendation was introduced in the 1998 Session of the General Assembly as Senate Bill 401 (Appendix N). During the 1998 Session, Senate Bill 401 was amended to designate the Division of Legislative Services as the responsible agency in the impact statement process. The bill passed as amended with a delayed effective date of July 1, 1999. During its second year, the commission may continue to study this issue.

3. <u>The existing revenue forecasting process is satisfactory.</u>

The current executive-based revenue forecasting process is working well. At the present time, it is not appropriate to establish a revenue forecasting capability within the legislative branch. The executive branch should work to address concerns regarding the timing of its release to the legislature of revised revenue forecasts, primarily in short sessions.

4. <u>The commission should continue its work for a second year.</u>

The scope of the commission's study, established by Senate Joint Resolution 350, is broad. The commission is directed to examine (i) the feasibility of providing an integrated six-year budget projection for major budget drivers with each biennial budget, (ii) methods for preparing and presenting such a budget projection, and (iii) mechanisms to evaluate the effort of proposed legislation on the budget and the projections. In its first year, the commission held four meetings. Though the commission was able to survey these and related issues relating to the Commonwealth's planning and budgeting processes in 1997, the complexity of these issues has prevented the commission from completing its work. Accordingly, the commission should be continued for another year.

Recommendation 3: The commission's study of the Commonwealth's planning and budgeting process pursuant to Senate Joint Resolution 350 should be continued for a second year.

Legislation implementing this recommendation was introduced in the 1998 Session of the General Assembly in Senate Joint Resolution 94 (Appendix O). The resolution was amended during the Session to expand the commission from 13 to 21 members.

5. <u>During its second year, the commission should explore the feasibility of a expenditure forecasting capability within the legislative branch.</u>

The General Assembly does not have unfettered access to expenditure forecasts and underlying data prepared by executive branch agencies. Section 2.1-404 requires agencies to provide the House Appropriations and Senate Finance Committees and their staffs, upon request, additional information as may be deemed necessary. However, information relating to agency budget requests may be subject to executive privilege or be exempt from disclosure under the Freedom of Information Act's exemption for the Governor's working papers.

As an alternative to relying on the executive branch to provide expenditure forecasts and related information, the commission recommends that further study be given to reviewing the feasibility of developing the capability to conduct long-range expenditure forecasting within the legislative branch. North Carolina's General Fund Financial Model should be studied further to determine if an expenditure simulation model would be appropriate for the Virginia General Assembly.

Recommendation 4: During its second year, the commission should examine the feasibility of implementing long-range expenditure forecasting within the legislative branch.

Legislation implementing this recommendation was introduced in the 1998 Session of the General Assembly in Senate Joint Resolution 94 (Appendix O).

6. <u>Certain technical errors in Chapter 27 of Title 2.1, relating to the planning and budgeting process, should be corrected.</u>

Several technical errors in various sections of the Code of Virginia relating to the planning and budgeting processes were identified by the commission during its study. These errors include (i) correcting Code section references in § 2.1-394.1 relating to estimates by non-state agencies for historic landmarks and monuments; (ii) setting out the provisions of subsections C and D of § 2.1-399.1, which require the publication of summaries of budget highlights and also require the House Appropriations and Senate Finance Committees to conduct public hearings on the budget bill, as a separate section; and (iii) deleting an obsolete reference in § 2.1-397.1 to the Council on the Environment, which was abolished in 1993.

Recommendation 5: Legislation correcting technical errors in statutory provisions relating to the planning and budgeting processes should be introduced.

Legislation implementing this recommendation was introduced in the 1998 Session of the General Assembly in Senate Bill 391 (Appendix M).

The commission extends its gratitude to the members of the Advisory Committee, to our staff and the Division of Legislative Services, and to all other interested persons who contributed to its work.

Respectfully submitted,

Senator Joseph V. Gartlan, Jr., *Chairman*
Delegate V. Earl Dickinson, *Vice Chairman*
Senator John H. Chichester
Senator Charles R. Hawkins
Senator Richard J. Holland
Senator Frederick M. Quayle
Senator Stanley C. Walker
Delegate Vincent F. Callahan, Jr.
Delegate C. Richard Cranwell
Delegate Alan A. Diamonstein
Delegate Franklin P. Hall
Delegate Thomas M. Jackson, Jr.
Delegate Marian Van Landingham

SENATE JOINT RESOLUTION NO. 350

Establishing the Commission on the Commonwealth's Planning and Budgeting Process.

Agreed to by the Senate, February 20, 1997
Agreed to by the House of Delegates, February 20, 1997

WHEREAS, Virginia has been recognized nationally as a leader in sound public financial management, because of its requirement for a balanced budget and its excellent process for projecting revenues under the current revenue structure; and

WHEREAS, pursuant to a recommendation of the Joint Legislative Audit and Review Commission, the Commonwealth has implemented a performance budgeting process, which integrates long-range strategic planning and performance measurement with budget decision-making; and

WHEREAS, an integrated long-range planning and budgeting process is an appropriate vehicle to collect and present to decision-makers the projected long-range costs of major budget drivers, and to prioritize other programs to receive funding in order for state government to operate within projected revenues; and

WHEREAS, inefficiencies, redundancies, and potential budgetary shortfalls are often indiscernible in the absence of a system which projects beyond the two-year window of the biennial budget; and

WHEREAS, understanding the full fiscal impact in the outyears of bills with long-range implications will better prepare the Commonwealth to meet the needs of future generations of Virginians; and

WHEREAS, to achieve the next level of excellence in the Commonwealth's financial management will require a mature process for compiling and presenting expenditure projections; and

WHEREAS, a six-year forecast of major budget drivers for each functional area of government, when publicly integrated with a current six-year revenue forecast, would give legislators and citizens a tool to better understand the budget implications of legislative actions and to address complicated public issues with a multi-year approach; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Commission on the Commonwealth's Planning and Budgeting Process be established. The Commission shall be composed of 13 members as follows: 4 members of the Senate to be appointed by the Senate Committee on Privileges and Elections; 5 members of the House of Delegates to be appointed by the Speaker of the House; the co-chairmen of the Senate Committee on Finance; and the chairmen of the House Committee on Appropriations and the House Committee on Finance. During the course of its study, the Commission shall seek the perspectives and input of persons with expertise in the relevant fields necessary to assist the study, to include persons in Virginia's business and higher education communities, and may establish advisory committees of such persons to assist the Commission in its deliberations. Members of the advisory committees shall serve in a volunteer capacity and shall not be entitled to compensation or reimbursement for their expenses.

In conducting its study, the Commission shall examine, but need not be limited to, the following issues: (i) the feasibility of providing an integrated six-year budget projection for major budget drivers for each functional area of government with each biennial budget; (ii) the models, mechanisms, and venues through which such a budget projection shall be prepared and presented; and (iii) the mechanisms to evaluate the proposed biennial budget and other legislation having an impact on the budget or the projections.

The direct costs of this study shall not exceed $8,100.

The Joint Legislative Audit and Review Commission, the House Committee on Appropriations and the Senate Committee on Finance, and the Division of Legislative Services shall provide staff support for the study. The Secretary of Finance, the Department of Planning and Budget, the Department of Taxation, and all other agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The Commission shall complete its work by December 1, 1997, and submit its findings and recommendations to the Governor and the 1998 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint

Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

DPB Form BE (1997)

Virginia Department of Planning and Budget

ESTIMATES OF BUDGET REQUIREMENTS FOR SUBSEQUENT BIENNIA

INSTRUCTIONS

Section 2.1-394 of the Code of Virginia requires that, biennially in the odd-numbered years, agencies submit estimates of their budget requirements for the four years after the biennial budget request. In calculating these budget estimates for the out years, adhere to the following policies:

- *Figures for FY 1999 and FY 2000 should be the same as those submitted with the agency's 1998-2000 budget request*
- *Do not include any future pay increases or inflation adjustments*
- *Include funding required for any projected client load increases/decreases only if your agency has an officially approved forecast of client loads (e.g., caseloads, enrollments, inmate populations, etc) for the entire six-year period. Important: Attach working papers that quantify and detail the client load increases/decreases for each future year.*
- *Include projected workload increases/decreases only if mandated by federal or state law. Important: Attach working papers that quantify and detail the workload increases/decreases for each future year, and cite respective mandate.*
- *If specific quantification of future expenses is unknown due to incomplete forecast data and/or probable changes in the agency's strategic direction, enter the same appropriation for fiscal years 2001-2004 as was submitted in the agency's budget request for FY 2000.*

Complete this form and return to DPB by November 3, 1997.

ncy name: ______________________ **Agency code:** ________

BUDGET ESTIMATES

	Dollar Amount			FTE Positions
	General fund	Nongeneral funds	All funds	(All funds)
FY 1999				
FY 2000				
FY 2001				
FY 2002				
FY 2003				
FY 2004				

Check the following box if this statement applies to the agency:

☐ The listed budget estimates are not meaningful because future expenditures will depend largely on policy decisions that have yet to be made. The critical issues facing the agency are discussed in its 1998-2004 strategic plan.

SIGNATURE

Pursuant to §2.1-394 of the Code, listed above are the estimated amounts needed for each of the designated fiscal years.

______________________ ____________

Agency head's signature *Date*

DPB-NW1\DATA\USERS\VRM\98BUDGET\INSTRUCT\OTHER-RPT\FORMBE.DOC

Legislative Requirements

Requirement	DPB Provides
• "Budget" to be submitted by Dec. 20 in even-numbered years	• Budget document is produced annually
• Statement of historical and projected trends. . . and general economic conditions	• Introduction to document touches on this information
• Statement of Governor's proposed goals, objec-tives, and policies. . .	• Document introduction and secretarial overviews contain this information

Legislative Requirements

Requirement	DPB Provides
• Statement organized by function, primary agency, and proposed appropriation item. . .	• Document information is organized by secretarial area and primary agency
• Identification of common programs and services	• Agency description summarizes each agency's common services and activities

Legislative Requirements

Requirement	DPB Provides
• Service attainments . . . and service terminations or reductions. . .	• Performance measures section of document shows baseline, target, and performance data for each agency's 3-5 performance measures
• Major goals and objectives for programs	• Strategic plans due to DPB by Oct. 24, containing goals and objectives, will be made public

Legislative Requirements

Requirement	DPB Provides
• Program measures to be used in monitoring and evaluating services	• Performance budgeting process has required agencies to adopt 3 to 5 measures reported on in document. DPB is working with JLARC to develop additional measures for selected agencies. Decision packages will contain other measures.

Legislative Requirements

Requirement

- Amount of agency budget that is direct aid to localities
- Executive salary plan... salary ranges for each of the recommended levels, and the basis for the recommendations...
- Capital appropriations organized by primary agency...

DPB Provides

- Separate budget document section contains this information
- Budget bill displays salaries and ranges
- Separate budget document section contains this information

Legislative Requirements

Requirement

- Six-year expenditure estimates

DPB Provides

- 1993-agencies submit estimates prior to final budget decision making (information did not account for final decisions)
- 1994-Finance Secretary prepares his estimates
- 1995-Budget drives estimates developed for:
  - Corrections
  - Welfare reform
  - Medicaid

THE VICE PRESIDENT
WASHINGTON

April 16, 1997

Mr. Robert W. Lauterberg
Commonwealth of Virginia
Department of Planning and Budget
900 North 9th Street
Richmond, VA 23219

Dear Mr. Lauterberg:

Thank you for partnering with the National Performance Review on our Customer-Driven Strategic Planning Federal Benchmarking Consortium Study. Attached is a copy of the resultant benchmarking report entitled "Serving the American Public: Best Practices in Customer-Driven Strategic Planning." The study's primary objective was to gain an understanding of the concepts, policies, and practices that the best-in-business use to turn complaints into improvements. Thanks to you, and our other partners and participants, we learned a great deal about complaint resolution, required resources, processes that work best, and contributions that customer recovery can make to the bottom line.

The report should be beneficial to both the private and the public sectors. Many federal agencies are already using the study to assist them in developing their own strategic plans.

Thank you again for your assistance in this important endeavor and for helping us make the federal government work better and cost less.

Sincerely,

Al Gore

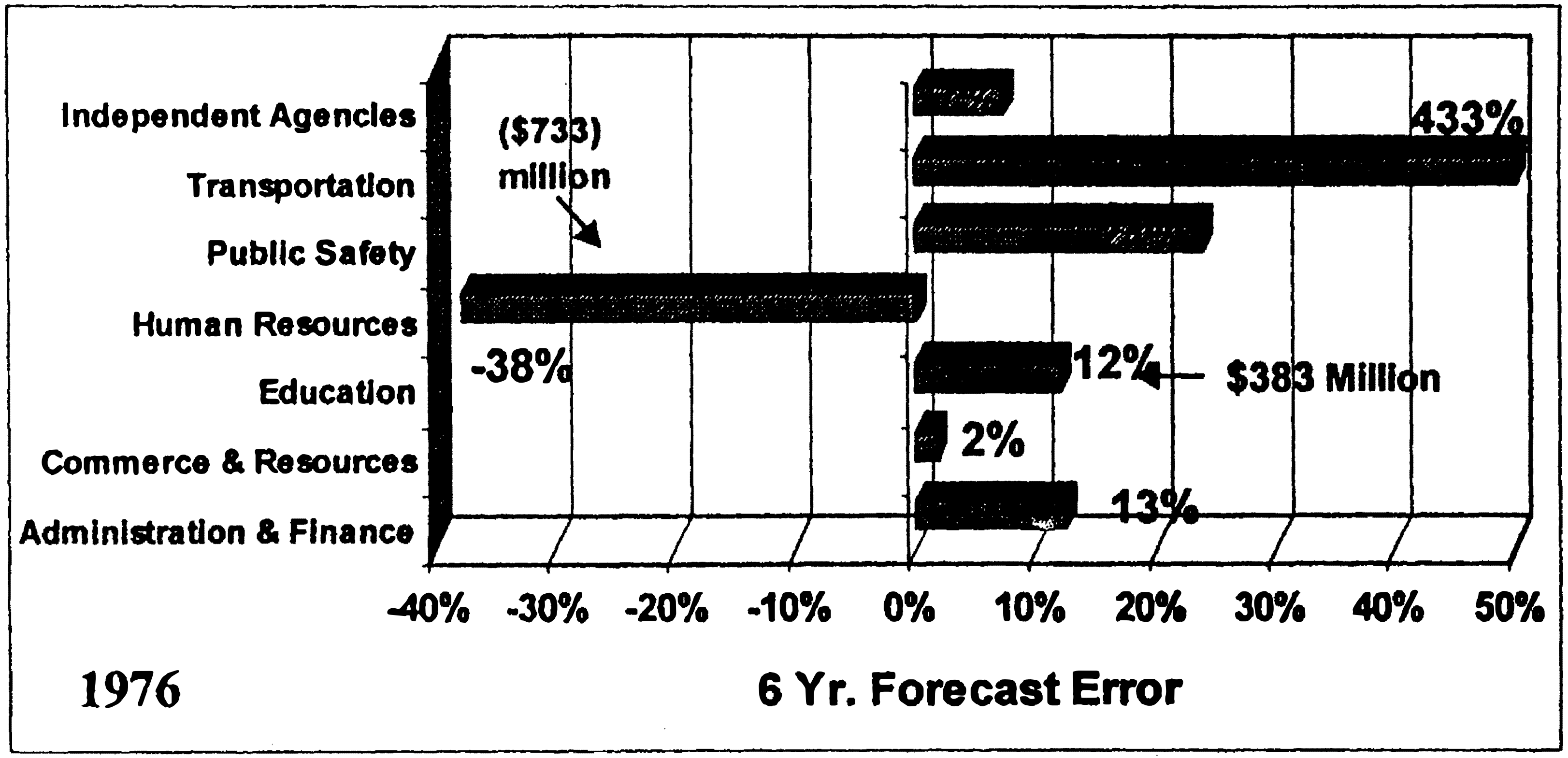
Al Gore

Attachment

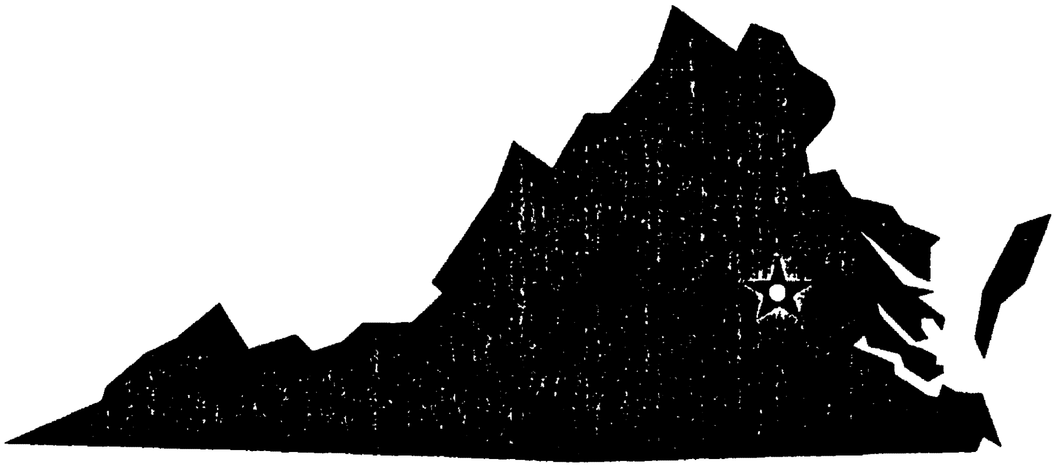
AG/wb

PRINTED ON RECYCLED PAPER

Six-year expenditure forecast was highly inaccurate



Overview of Virginia's Economic and Revenue Estimating Process



Presented to
The Commission on the Commonwealth's Planning and Budgeting Process

Danny M. Payne
Tax Commissioner
July 30, 1997

The Virginia Revenue Estimating Process

In brief, Section 2.1-393 of the Code of Virginia requires:

- The Governor to submit to the General Assembly by December 15 a six-year revenue forecast.

- The revenue forecast shall be based on:

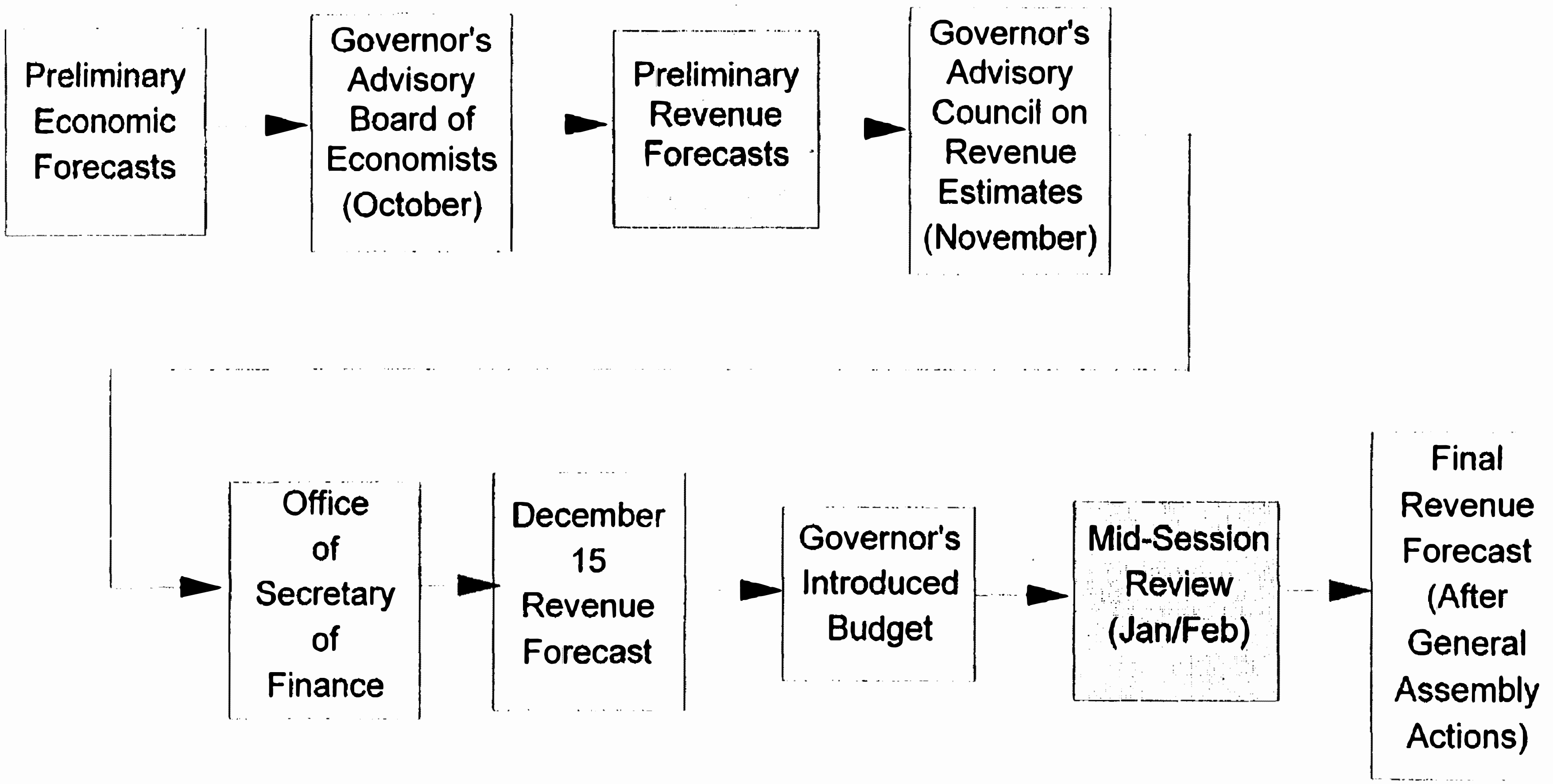
  - Forecasts of economic activity in the Commonwealth;

  - Review by an advisory board of economists with respect to economic assumptions and technical econometric methodology;

  - Review by an advisory council of revenue estimates with respect to economic assumptions and the general economic climate of the Commonwealth;

  - Any such other advisory bodies as the Governor may desire (economic advisory council).

The General Fund Revenue Forecasting Process in Virginia



Department of Taxation Function

TAXATION'S Responsibilities as the Revenue Forecasting Coordination Agency

- Designated by the Secretary of Finance to ensure all requirements of Section 2.1-393 are fulfilled.

- The following agencies participate in the forecasting review process:

  - Department of Alcoholic Beverage Control
  - Department of Lottery
  - Department of Motor Vehicles
  - Department of Planning and Budget
  - Department of Treasury
  - Virginia Employment Commission

- Each agency develops its individual revenue forecast based on the economic scenarios.

Functions of the Advisory Boards in the Revenue Forecasting Process

- TAX develops and presents the Virginia economic outlook to the Governor's Advisory Board of Economists (GABE).
  - 12 member board
  - 6 from private industry -- Virginia Power, Crestar, Signet, Mobil
  - 6 from state universities -- UVA, William & Mary, George Mason, VCU

- Board recommends a standard and alternative economic forecast.

- TAX develops and presents a revenue forecast for each economic scenario to the Governor's Advisory Council on Revenue Estimates (GACRE).
  - Governor, Lieutenant Governor, Attorney General and General Assembly leaders are board members.
  - Approximately 20 private industry board members -- Federal Reserve Bank of Richmond, Wheat First Securities, Leggett Outlet Centers, Virginia Power, Bell Atlantic, Colonial Williamsburg Foundation
  - Members evaluate the validity of the forecasts and discuss their particular businesses and industries.

Effectiveness of the Planning Process

- TAX's experience has been very successful in implementing the forecasting process. A high level of cooperation from all agencies, the private business sector, and the General Assembly is a major contributor to the effectiveness of the forecasting process.

  - Percent Difference Between Actual Collections and the Forecast

FY87	3.7%	FY92	0.8%
FY88	2.3%	FY93	1.9%
FY89	0.5%	FY94	0.4%
FY90	-2.6%	FY95	0.8%
FY91	0.9%	FY96	0.7%
	FY97*	2.7%	

*Preliminary

- Virginia has been consistently rated as one of the nation's best financially managed states by Financial World magazine since the JLARC study in 1991.

  - Economic and revenue forecasting categories cited as two of the top pluses in every ranking.

Effectiveness of the Planning Process
(Continued)

- Virginia's revenue forecasting process includes all recommendations from the Federation of Tax Administrators (FTA) and National Association of State Budget Officers (NASBO) 1989 study entitled "*Good Practices in Revenue Estimating*".
  - Recommendations include:
    - Governor should participate in process
    - Process should include academic and business economists
    - Legislative branch should be included
    - There should be an understanding of the degree of risk in the forecast
    - Require monthly revenue reports and an annual report on the variance

Barriers to the Planning Process

- Staying on the leading edge in technology and forecasting methodologies and other forecasting tools.

- Data quality and availability.

  - Annual economic data revisions can dramatically change recent "history".

  - Most current detailed Internal Revenue Service data is one and a half years old.

- Current process is essentially short term process (2 to 3 years) for budget development, presentation and execution.

  - Long-term forecast is an extrapolation of the short term outlook.

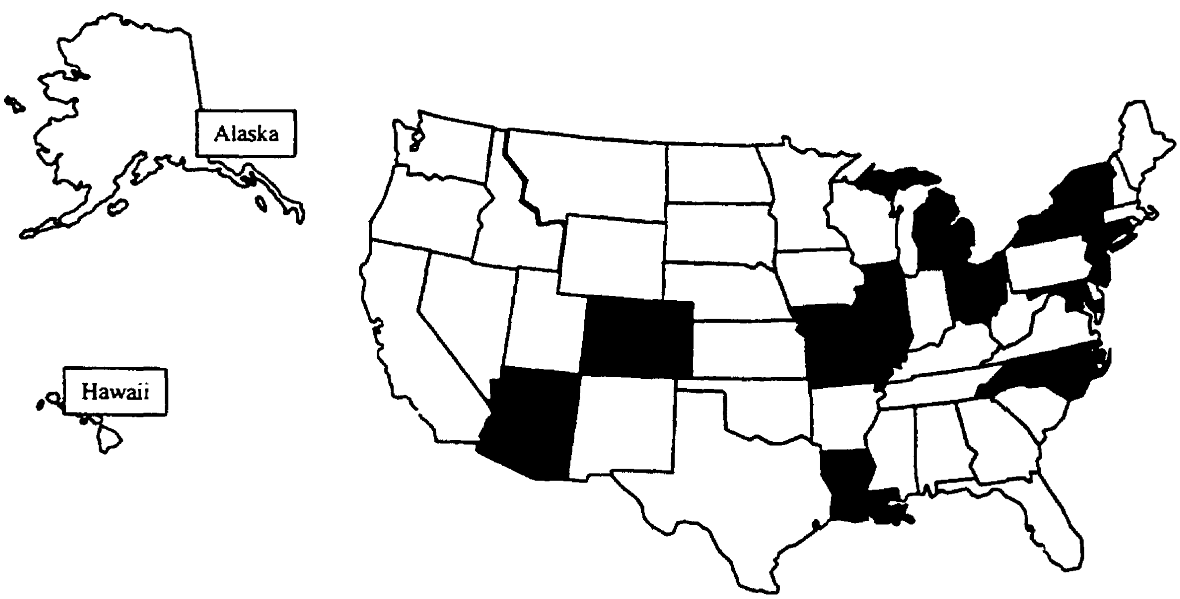
  - Long-term outlooks are moderate "trend" growth forecasts. Economic scenarios that attempt to include business cycles are not utilized.

STATE LEGISLATIVE REVENUE FORECASTING PROCEDURES

Ronald K. Snell
National Conference of State Legislatures

INTRODUCTION

This report summarizes procedures and staffing requirements for independent revenue forecasting processes in 13 state legislatures. The states included are shown on the map below. This is a preliminary report, and not all states have yet been surveyed. It is likely that other state legislatures also have an independent revenue forecasting ability. The criterion for this report is whether legislative staff are required (either statutorily or by legislative leadership directive) to prepare a forecast of at least the state general fund revenues independently from the executive branch forecast. The number of legislatures whose staff forecast revenues by this standard has grown in recent years, apparently in response to the spread of requirements for a state consensus revenue forecast.



States use one of two methods to obtain an independent forecast: maintaining an in-house staff of economists whose chief responsibility is the revenue forecast, and contracting with some source outside state government for a forecast.

Of the 13 legislatures discussed in this report, only Missouri and Vermont contract for a revenue estimate. The Missouri House and Senate Appropriations Committees jointly contract with the University of Missouri at Columbia for a forecast. The Vermont Joint Fiscal Office contracts with a private sector forecaster.

The other 11 legislatures in this survey maintain their own forecasting units. In Illinois, a separate legislative agency, the Illinois Economic and Fiscal Commission, is responsible for revenue forecasting. In the remaining 10 states, forecasting staff are associated with legislative councils or legislative fiscal staff. In Michigan, the House and the Senate prepare independent forecasts. In New York, the majority and minority in each chamber prepare separate forecasts, so that there is a total of four legislative revenue forecasts.

The number of staff economists varies substantially, from one person In Louisiana and some other states to five in Arizona. The Illinois Economic and Fiscal Commission employs nine economists. In each case, staff economists have additional responsibilities, usually including fiscal notes on revenue bills and some other forecasting, principally for state and local property taxes. In Colorado, North Carolina, and Ohio, duties include some expenditure forecasting as a component of general budget planning. Forecasters focus on state general funds, and usually are not responsible for forecasts of non-tax revenues or federal grants or reimbursements.

Although the forecasters in each state prepare an independent forecast, they exchange information and opinions with executive-branch forecasters, and in most instances jointly purchase external sources of information such as the WEFA or the DRI-McGraw Hill national economic forecast. As a rule, the separate groups of forecasters in a state attempt to agree on underlying statistics and the national and state economic forecasts. The general practice (required by law in some states) is for legislative and executive staff to produce a common or consensus forecast.

ARIZONA LEGISLATURE

LEGISLATIVE AGENCY: Joint Legislative Budget Committee.

CONTACT: Hank Reardon, Chief Economist; Richard Stavneak, Staff Director

STATUTORY REQUIREMENTS: Requirement for a revenue forecast is implicit in the legislation authorizing staff support for the Joint Legislative Budget Committee.

PROCESS: The goal of legislative revenue forecasting is to produce an independent revenue forecast for the budget process. Staff make use of the WEFA national econometric model and a state model developed by the University of Arizona, both of which the staff can manipulate. The models are used as sources of information, not as determinants of forecasts. Staff obtain additional input on the state economy from meetings (three or four times a year) with a Finance Advisory Committee, made up of Arizona economists concerned with the state economy.

Even on major revenue sources, modeling of the economy does not provide all answers. The sales tax, for example, requires modeling of components. Staff have developed equations for minor revenue sources.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The executive branch similarly produces an independent revenue forecast. In recent years, legislative leadership and the governor have encouraged staff to produce a consensus or common forecast before the governor submits a budget in January. There is no statutory requirement for a consensus forecast.

STAFFING: A maximum of five economists plus the agency director.

COLORADO GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Legislative Council, a joint, nonpartisan legislative office.

CONTACT: Nancy J. McCallin, Chief Economist

STATUTORY REQUIREMENTS: The Joint Budget Committee is statutorily required to consider a Legislative Council revenue forecast as well as an executive branch forecast, but there is no explicit statutory requirement for a legislative council forecast.

PROCESS: Council staff use econometric modeling to produce quarterly revenue forecasts for the state general fund and a number of additional funds, including reserve funds, transportation funds, higher education funds, unemployment compensation, and others. Quarterly projections are for the current fiscal year and the five following fiscal years.

Council staff make use of national forecasts from DRI and a Colorado model. Sales taxes and personal income taxes are to some extent disaggregated for forecasting purposes since some components are more responsive to the national economy than to the state economy.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: Legislative Council estimates are produced quarterly. The December 20 forecast is submitted to the Joint Budget Committee for its consideration in arriving at a forecast for budgeting purposes, which is required by February 1. The Joint Budget Committee also considers the executive forecast from the Office of State Planning and Budgeting, but through the past 10 years has adopted the Legislative Council forecast. The committee is not required to adopt either forecast and can budget to a different number from either if it chooses.

STAFFING: 3 FTE. Additional responsibilities include a monthly publication, the *Colorado Economic Chronicle*, reporting on the national and state economies, research memos on non-revenue topics, analysis of tax legislation, projections of local property taxes by school district and by county, and projections related to expenditures such as the incarcerated population, Medicaid caseloads, and K-12 and higher education enrollments.

CONNECTICUT GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Office of Fiscal Analysis (OFA), a joint, nonpartisan legislative office.

CONTACT: Dan Schnobrich

STATUTORY REQUIREMENTS: The Finance Committee (a joint committee in Connecticut) is statutorily required to adopt a formal revenue estimate that is appended to the adopted budget. The governor's signature on the budget bill establishes this as the executive branch's formal estimate.

PROCESS: OFA forecasts for the coming biennium begin with the Regional Finance Associates' model, which feeds into a model of the state economy. This is a full-fledged estimate for the coming biennium. This forecast is carried out in December and January before the General Assembly considers the budget.

To assess current revenues, OFA uses data on state revenue collections from state taxes and other own sources from the Department of Revenue Services and the state treasurer, plus data on the flow of federal funds to the state. Reviews of current-year revenues are done three or four times a year.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: OFA analyzes the governor's revenue estimate and proposals for changes in revenues. Any differences in executive and legislative forecasts are resolved by the Finance Committee. The result is appended to the budget.

STAFFING: About 3.5 FTE are required for forecasting. Other responsibilities include fiscal notes related to changes in state taxes, fees, and other state revenues, bonding, and financing capital projects, and local property taxes and fees.

ILLINOIS GENERAL ASSEMBLY

LEGISLATIVE AGENCY: The Illinois Economic and Fiscal Commission, a bipartisan joint legislative commission of six Senators and six Representatives. The Commission has a permanent professional staff.

CONTACT: William G. Hall, Executive Director.

STATUTORY REQUIREMENTS:

PROCESS: The commission uses the Data Resources/McGraw Hill (DRI) model of the U.S. economy as the beginning point for forecasting. It compares DRI forecasts to Wharton (WEFA) forecasts and, together with its insights, formulates a forecast. The results are applied to state general funds sources—the revenues that are the sources of General Assembly appropriations.

The commission also does an analysis of each fund on the basis of historical data, running an internally-developed model on the larger funds. Results are compared to findings from the analysis based on the DRI/WEFA models. Usually the commission prefers the results from its internal models.

Staff discuss their findings in the light of their overall perception of the state economy, which includes such factors as the way Illinois tends to lag national recessions and recoveries, and other considerations including intuitions. Reports are tied to the needs of legislative sessions. Although reports are issued more or less quarterly, legislators may require a fifth report.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: Executive branch forecasters do a similar forecast, somewhat more responsive to a political agenda. Typically the governor's revenue estimate is higher than the commission's estimate. The General Assembly strikes a balance between the forecasts, without a formal process for doing so. Legislation is pending to create a formal consensus process including the governor, the comptroller, the commission and others.

STAFFING: The commission has nine professional staff and six additional staff. Besides the annual revenue forecasts and updates, their responsibilities include analysis of the fiscal impact of revenue bills, fiscal notes on legislation related to bond finance, assessment of capital facility plans, estimates of public pension funding requirements, estimates of the liabilities of the state group health insurance program, and reports on economic trends and issues. The commission also carries out research for legislators on specific issues.

LOUISIANA LEGISLATURE

LEGISLATIVE AGENCY: Legislative Fiscal Office (LFO), a joint, nonpartisan legislative office.

CONTACT: Greg Albrecht, Chief Economist

STATUTORY REQUIREMENTS: Louisiana law has established a consensus revenue forecasting procedure and an Economic Estimating Conference, that meets annually. The legislative forecast allows the legislature to carry out its role in the consensus forecasting process.

PROCESS: The focus of the estimate is state general fund revenue; the consensus process does not include federal funds or fee-driven receipts. LFO and the administration's revenue forecasting office purchase national data and forecasts from WEFA. LFO feeds those data into its models for employment and personal income. LFO uses its own revenue models to prepare estimates of state general fund revenues. Oil and gas, corporate income, and gambling revenues are difficult to project, and forecasting models work less well for them than for sales and personal income taxes, and require judgment and knowledge of unique state economic circumstances.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: LFO shares the WEFA data service with the administration's forecasting agency. Its economist participates in the Economic Estimating Conference, which is statutorily composed of House, Senate, and administration staff and a university economist. This conference produces an agreement on the state economic fundamentals, which, along with WEFA data, are components of forecasting models.

Statutes also require a consensus revenue forecasting process, which produces binding revenue estimates. The revenue conference consists of the Speaker, President of the Senate, a governor's appointee—in practice, the Commissioner of Administration—and an economist from outside government on whom the other three participants agree. It meets in late January to produce a binding revenue estimate for the coming budget and appropriations process. It meets after the budget session to adjust the forecast for legislation actions, and also meets two or three additional times a year to review current-year estimates and the coming year estimate.

STAFFING: One FTE on base-revenue issues. Two FTE's work on fiscal notes on revenue bills as well.

MARYLAND GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Department of Legislative Services

CONTACT: Theresa Tuszynski, Fiscal Analyst

STATUTORY REQUIREMENTS: Maryland's Board of Revenue Estimates annually provides the governor with a state revenue forecast for the current and next fiscal years. The governor customarily uses the board's estimate in preparing a budget, although the governor is not legally required to do so. The board is made up of the comptroller, treasurer, and secretary of the Department of Budget and Management. The General Assembly contributes to the decisions on the board's forecasts in the ways specified below.

PROCESS: Legislative Services staff produce general fund and transportation fund revenue estimates each October or November. They use national forecasting models--DRI and Regional Financial Associates--and models of the Maryland economy from various sources within the state to produce projections of employment and personal income in the state. These in turn are used in models to predict revenues from income, sales, corporate income and some other taxes. Trend analysis and consultation with state agencies are used to project other taxes and revenues.

Legislative Services focuses on current fiscal year and next fiscal year forecasting, and also issues ten-year forecasts as projections from existing trends.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The Legislative Services forecast is presented to Maryland's Spending Affordability Committee, which makes recommendations to the governor on the budget each December. The committee will use the Legislative Services forecast or, if available, the Board of Revenue Estimate's forecast. The latter estimate supersedes the Legislative Services forecast, which is not updated thereafter.

The estimate from the Board of Revenue Estimate is based on a recommendation from the Maryland Revenue Monitoring Group, which consists of staff from state agencies, among them the Department of Legislative Services. The other component agencies are the Department of Budget and Management, the Treasurer's Office, and the Comptroller's Office, which provides the staff for the Bureau of Revenue Estimate.

STAFFING: Three Fiscal Office staff are involved in revenue estimates.

MICHIGAN LEGISLATURE

LEGISLATIVE AGENCIES: House Fiscal Agency and Senate Fiscal Agency

CONTACTS: Mitchell Bean, Senior Economist, House Fiscal Agency, and Jay Wortley, Senior Economist, Senate Fiscal Agency

STATUTORY REQUIREMENTS: Requirement for a consensus forecast. The voting members of the Consensus Conference are the directors of the House and Senate Fiscal Agencies and the State Treasurer.

PROCESS: The two legislative fiscal agencies produce independent state revenue forecasts as elements in the state consensus revenue forecasting process. They share use of the WEFA model of the national economy, data from Blue Chip Economic Forecasts, and the Michigan Quarterly Econometric Model (MQEM) maintained by the Research Seminar in Quantitative Economics (RQSE) at the University of Michigan.

The state portion of the MQEM model produces estimates of major state revenue sources, which legislative forecasters modify as necessary, for example, to take recent economic developments into account. A number of smaller revenue sources are forecast by various state agencies and combined with the adjusted results obtained from the model to arrive at a forecast. Legislative and Department of Treasury staff meet regularly to ensure use of identical base figures, update the model on agreed terms, and discuss relevant issues.

In recent years, Fiscal Agency results have been somewhat. Forecasts are timed for December and May in time for the Consensus Conference in January and the end of May.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The Consensus Conference brings the three legislative and executive forecasts together. If there is time to do so, staff attempt to reach agreement on a proposed consensus to recommend to the conference. Law does not mandate that an agreement be reached, but there has been a consensus in most of the conferences since the process was instituted in 1992.

STAFFING: Senate, 3 FTE; House, 2 FTE.

MISSOURI GENERAL ASSEMBLY

LEGISLATIVE AGENCIES: House and Senate Appropriations Committees.

CONTACT: Tim Dawson, Director of Appropriations Research, Senate Appropriations Committee

STATUTORY REQUIREMENTS: None.

PROCESS: Formerly the two appropriations committees created separate revenue forecasts. The current practice is to contract with faculty at the University of Missouri in Columbia to do an independent forecast. The forecaster negotiates with the governor's revenue estimating staff over the numbers.

Although there is no legal requirement to do so, the legislative and executive branches reach consensus on the revenue outlook, usually in December. The forecast is updated in April.

NEW JERSEY LEGISLATURE

LEGISLATIVE AGENCY: Legislative Budget and Finance Office, Office of Legislative Services (OLS), a joint, nonpartisan legislative staff office.

CONTACT: Alan R. Kooney, Legislative Budget and Finance Officer.

STATUTORY REQUIREMENTS: By law, the executive provides a revenue forecast when the budget is introduced in late January. This forecast may be updated formally or informally later in the budget process. There is no statutory requirement for the legislative forecast, which is requested from OLS as a staff service. A statutory body, the State Revenue Forecasting Advisory Commission, comprising eight business people and economists selected on a bipartisan basis by the governor and the legislature, is supposed to make quarterly revenue forecasts but in practice has been unable to do so.

The governor has the constitutional authority to certify the amount of revenue anticipated to support the budget in the upcoming year, which is done at the time the annual budget bill is enacted.

PROCESS: OLS produces a nonpartisan, independent alternative to executive forecasts. The legislative forecasts are released in March and May and have the advantage of later tax collection data (holiday sales taxes collections and April income tax returns). The forecasts are for the current and the following fiscal years and are done in the context of the budget process. OLS does not do long-range forecasting.

OLS tracks actual revenue collections and other publicly available economic data, such as consensus forecasts, but does not use an econometric model of the state economy. Because of the emphasis on the budget process, OLS pays special attention to such issues as the timing of the effect of new laws and problems in the tax collections process.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The legislative forecast tends to have high credibility because it is nonpartisan and its historical accuracy is fairly good. Because the forecast encompasses only the remainder of the current fiscal year and the next one, differences between the legislative and executive forecasts usually are not large unless a tax law change intervenes. By the end of May, differences tend to be small.

There is no formal requirement of a consensus on the budget projection, but the legislature generally decides on the forecast used in the budget bill after consulting with the administration. As noted above, the governor certifies the revenue forecast in a formal statement in the budget. Her power to do so implies that the legislature's numbers can be changed, but in practice this happens to only a small degree.

STAFFING: Five FTE work on the revenue forecast while it is being done; for the rest of the year they share the general workload of a legislative fiscal office.

NEW YORK LEGISLATURE

LEGISLATIVE AGENCY: Majority and minority legislative staff in each chamber are responsible for providing estimates used in state government's consensus forecasting process.

CONTACT: Qing Xu, Deputy Chief Economist, Economics Group, Ways and Means Committee, State Assembly.

STATUTORY REQUIREMENTS: None.

PROCESS: Forecasting methodology varies among the chambers and caucuses. The Senate majority produces an in-house forecast, and contracts with WEFA on major taxes. It produces an in-house forecast for other taxes. The Senate minority does not now produce a forecast, but is considering contracting out for one, possibly with a university source. The Assembly minority has a forecasting group. The description that follows applies to the Assembly majority.

The Assembly Ways and Means Committee Economics Group contracts with WEFA for national data. It maintains its own models for the U.S. economy, the New York State economy, New York City (because of its weight in the state economy and revenue stream), and individual taxes. It also convenes a Board of Economic Advisors twice annually, made up of private-sector economists. The Board of Economic Advisors critiques projections of the state economy made by the Assembly Economics Group, in October and February. The figures are then made public. The Senate and the administration follow a similar procedure with their independent forecasts.

Each of the five groups—the majority and the minority from each chamber and the administration—then attempt to join in a consensus forecast of the state economy. Each of the five principals invites one or two economic experts to a consensus conference in early March. Although consensus is not always possible, the conference narrows the range of differences among the estimates. Revenue estimates themselves follow, based on the agreed-upon baseline figures for the state economy. House revenue staff assist in the production of the revenue figures.

STAFF REQUIREMENTS:

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Fiscal Research Division, a joint, nonpartisan legislative staff office.

CONTACT: David Crotts, Senior Fiscal Analyst

STATUTORY REQUIREMENTS: There is no statutory requirement for a legislative forecast. There is, however, a statutory requirement of a consensus estimate of the state personal income factor used in the state's spending limitation formula. State personal income is a key ingredient in forecasting many General Fund revenue sources

PROCESS: The Fiscal Research Division produces state economic and fiscal forecasts. The division reviews data from the DRI national model as well as other public national forecasts. make use of other models such as that of Regional Financial Associates, and uses publicly available economic data such as forecasts from the federal Office of Management and Budget and the Congressional Budget Office. The division creates a forecast of state economic variables, which tends to coincide with those produced by the executive budget office. These models and data on past collections are used to forecast tax revenues.

North Carolina has a biennial budget cycle. The first discussions on revenue forecasts occur at the end of even-numbered years, when the governor is beginning to prepare a budget for a new biennium, as in November 1996. The Fiscal Research Division issues a final (though not binding) estimate in early February. Informal updates may follow, with a formal update in May to take April income tax receipts into account. Additional revisions may take place before final budget adoption in July or August. and possibly later.

In the second year of the biennium, the legislature meets in a short session in May and June, for which the first revenue estimate is made in early May.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The Fiscal Research Division forecasters confer frequently with executive-branch forecasters about current year revenue flows, economic outlook, impact of Federal legislation, and other external events, historical relationships between the state and national economies, and technical and timing issues that affect revenue flows. Both offices also confer with bank and university economists from the state.

The General Assembly uses the legislative forecast, historically a lower estimate than the governor's, when there is a difference. But legislative leadership encourages legislative staff to reach agreement with executive forecasters on the General Fund revenue estimate, though not necessarily on details, for the current year and for two years out. Staff also are instructed to reach agreement with executive staff on expenditures in the "Budget Planning Model," a ten-year forecast that includes both revenue and expenditure plans.

STAFFING: One general fund forecaster, one transportation fund forecaster.

OHIO GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Legislative Budget Office (LBO), a joint, nonpartisan legislative staff office.

CONTACT: Fred Church, Senior Economist

STATUTORY REQUIREMENTS: none

PROCESS: Activity centers on the revenue forecasts for the biennial budget. The process begins in the October before the governor submits a biennial budget in the January of odd-numbered years. At that time the Legislative Budget Office reviews its previous biennial-budget forecast in the light of experience and decides whether procedural changes are needed.

LBO (along with the executive Office of Budget and Management) subscribes to the DRI and WEFA national forecasting models as well as a DRI regional service which provides a model of the Ohio economy. LBO is also a participant in meetings of the governor's council of state business economists (including the Cleveland Federal Reserve Bank), which meets twice a year. The council's members submit forecasts before their meetings and compile a consensus forecast on national and state macro-economic conditions. A meeting occurs in the October or November before the governor's budget submission.

The Legislative Budget Office uses the national and state forecasts in its models of major state revenues and human-services program revenues and spending. LBO does time-trend analysis for minor revenue sources. LBO completes a revenue forecast and presents it to the House Finance Committee in February.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The Office of Budget and Management (OBM) completes a revenue forecast before LBO as part of the governor's budget. LBO holds discussions with OBM before OBM's estimate is released, but obtains complete figures and assumptions only after the governor's budget is released. In recent years, the executive forecast has tended to estimate lower revenues with higher estimates of welfare spending than the LBO forecast. The LBO forecast has been closer to the mark in recent years.

Directors and economists from the legislative and executive agencies meet formally to adjust any differences. They review findings in the light of the latest economic reports, and tend to bring forecasts closer together without reaching complete agreement. They are not required to reach consensus. Legislative staff report good cooperation between the two agencies. Legislative committee chairs make the final decisions on revenue estimates on the basis of the executive and legislative forecasts, making their judgment on the basis of the testimony they have received.

STAFFING: Three staff are involved in LBO's revenue estimating process. Their other responsibilities focus on fiscal analysis of legislation, with updates of the forecast being a secondary priority.

VERMONT GENERAL ASSEMBLY

LEGISLATIVE AGENCY: Joint Fiscal Office (a joint, nonpartisan legislative staff office)

CONTACT: Stephen A. Klein, Legislative Fiscal Officer

STATUTORY REQUIREMENTS: Statutes require the joint fiscal office annually to provide estimates of general, transportation, education, and federal funds to the state board that determines the official state revenue estimate. This is to be done each January 15 and June 15, for the current and the succeeding fiscal year. The executive branch is statutorily required to provide its estimates at the same time. The board (known as the emergency board and made up of the governor and the four fiscal chairs from the General Assembly) uses the two estimates to produce the official revenue estimates.

PROCESS: The Legislative Fiscal Office contracts with an economist outside state government for its estimate. The economist and the executive branch consultant forecasters both begin with regional data from the New England Economic Project, and the legislative and executive forecast consultants discuss their baseline estimates before submitting them. Legislative Fiscal Office staff discuss their economist's projections with him and may make adjustments before submitting it to the state emergency board.

RELATIONSHIP TO EXECUTIVE BRANCH FORECASTING: The legislative and executive forecasts tend to be similar. In practice, legislative and executive staff reach consensus on an estimate that they jointly submit to the emergency board as a staff recommendation. The staff consensus is not statutorily required. The emergency board estimate, although designated official, is not legally binding on the General Assembly or the governor, but in practice is used as the budget estimate.

STAFFING: Two fiscal office staff and the contract consultant work on the revenue estimates, and also produce an annual set of monthly revenue targets.

COST OF CONTRACT: The House Fiscal Office spends $20,000 to have an external economist develop a state revenue forecast. That forecast draws upon information developed by another economist under contract to the State Department of Administration. That contract provides for a state economic forecast as well as a revenue forecast, and costs $55,000.

Appendix H

Summary of General Fund Revenues and Expenditures, 1974-76 to 1978-80 biennia (Millions of dollars)

	1974-76	1976-78	1978-80
Baseline revenues	$3,092.9	$3,716.7	$4,580.2
Expenditures			
Baseline	2,660.1	2,988.1	3,354.6
Scope and quality	2,851.6	3,489.6	4,277.3
Baseline plus capital outlay	2,843.6	3,194.3	3,586.1
Scope and quality plus capital outlay	3,048.4	3,730.4	4,572.4
Gap			
Baseline	+ 438.8	+ 728.6	+1,225.6
Scope and quality	+ 241.3	+ 227.1	+ 302.9
Baseline plus capital outlay	+ 249.3	+ 522.4	+ 994.1
Scope and quality plus capital outlay	+ 44.5	- 13.7	+ 7.8

Source: Fiscal Prospects and Alternatives: 1974, Senate Document 15A (June 1973)

Table Z

Operating Expenditure Forecast

State	*Multi-Year Expenditure Forecast*	*Years Beyond Current Budget Cycle**	*Estimates Originated in Agencies*	*Estimates Include All Programs*	*Are Projected Operating Expenses Published*
Alabama	X	1	X	X	B
Alaska	-	-	-	-	NP
Arizona	-	-	-	--	-
Arkansas	-	-	-	-	-
California	-	-	X	X	B
Colorado	-	-	-	-	B
Connecticut	X	3	X	X	PS
Delaware	X	5	-	X	NP
Florida	-	-	-	-	B*
Georgia	-	-	X	-	NP
Hawaii	X	4	X	X	B
Idaho	-	-	-	-	-
Illinois	X	1	-	X	NP
Indiana	-	-	-	-	NP
Iowa	X	4	X	X	B
Kansas	X	3	X	-	B
Kentucky	-	-	-	-	-
Louisiana	X	3	X	X	PS
Maine	X	2	X	X	PS
Maryland	X	3	*	**	B
Massachusetts	X	1	X	X	B
Michigan	X	1	X	X	B
Minnesota	X	4	X	X	PS
Mississippi	-	-	X	X	B
Missouri	X	4	-	X	B
Montana	-	-	-	-	-
Nebraska	X	2	-	X	PS
Nevada	-	-	-	-	NP
New Hampshire	-	-	X	X	B
New Jersey	X	2	X	X	NP
New Mexico	-	-	X	-	NP
New York	X	2	*	X	NP
North Carolina	X	4	-	X	NP
North Dakota	-	-	X	X	B
Ohio	-	-	X	-	NP
Oklahoma	X	2	-	X	NP
Oregon	X	2	-	-	PS
Pennsylvania	X	4	X	X	X
Rhode Island	X	4	-	X	B
South Carolina	-	-	-	X	B
South Dakota	X	3	-	-	NP
Tennessee	-	-	X	X	B
Texas	-	-	X	X	B
Utah	X	5	-	-	NP
Vermont	-	-	-	-	-
Virginia	X	4	X	X	B
Washington	X	8	-	-	NP
West Virginia	-	-	-	-	-
Wisconsin	-	-	-	-	-
Wyoming	-	-	-	-	NP
Puerto Rico	-	-	-	-	NP
TOTAL	26		24	28	

Codes: B....Published in the Budget NP....Not Published
PS....Published Separately

* Refers to the number of years beyond the current budget year or biennium for which estimates are made.

Notes to Table Z

Florida: Current year estimated expenditures are published in the budget.

Maryland: 1) The General Fund expenditure forecast is prepared by the Department of Budget and Management. The Transportation Trust Fund and Higher Education Fund forecasts are prepared, respectively, by the Department of Transportation and the higher education governing boards and coordinated by the Department of Budget and Management. 2) The forecast includes expenditures for General Funds, Transportation Trust Funds, and Higher Education Funds. These three expenditures comprise 71% of the total budget.

New York: Estimates originate in the Division of Budget, with the cooperation of the agencies.

STATE OF NORTH CAROLINA

GENERAL FUND FINANCIAL MODEL

Fiscal Research Division

NORTH CAROLINA GENERAL ASSEMBLY

GENERAL FUND FINANCIAL MODEL

WHERE IS THE FINANCIAL MODEL USED:

* LEGISLATIVE BUDGET REVIEW PROCESS

  - GENERAL FUND FINANCIAL MODEL

) GIVEN CERTAIN ASSUMPTIONS, MODEL PROJECTS IMPACT ON GEN'L FUND EXPENDITURES & REVENUE.

) GEN'L FUND IS 90% OF TOTAL STATE BUDGET.

) MODEL HELPS ESTABLISH A FRAME OF REFERENCE.

) MODEL PROVIDES A VIEW OF ALTERNATIVE BUDGET PROPOSALS.

NORTH CAROLINA GENERAL ASSEMBLY

GENERAL FUND FINANCIAL MODEL

MODEL CHARACTERISTICS:

* DEVELOPED IN 1992 FOR N.C. BY KPMG PEAT MARWICK

* LOTUS 1 2 3 SPREADSHEET APPLICATION

* RUNS ON PERSONAL COMPUTER USING WINDOWS

* 10 YEAR LOOK AT EXPENDITURES & REVENUE
  - BASE YEAR (CURRENT BUDGET YEAR) PLUS NINE YEAR PROJECTION
  - BASE YEAR IS UPDATED ANNUALLY

* CURRENT SERVICES
  - THE MODEL IS BASED ON THE CONCEPT THAT "CURRENT SERVICES" WILL CONTINUE AT THE LEVEL PROVIDED IN THE BASE YEAR, AND THAT EXPENDITURES ASSOCIATED WITH THOSE SERVICE LEVELS WILL BE ADJUSTED BY INFLATION.

* MODEL IS A SIMULATOR NOT A PREDICTOR
  - GIVEN THE FUTURE ECONOMIC AND DEMOGRAPHIC OUTLOOK, THE MODEL PROVIDES AN EFFECTIVE WAY TO "SIMULATE" REVENUE AND EXPENDITURE CHANGES IF THE BUDGET IS ALLOWED TO GROW IN THE FUTURE AS IT HAS IN THE PAST.

NORTH CAROLINA GENERAL ASSEMBLY

GENERAL FUND FINANCIAL MODEL

MODEL CHARACTERISTICS CON'T:

* EXPENDITURE DRIVERS FOR MAJOR CATEGORIES:

* EDUCATION:

- PUBLIC EDUCATION (K-12)
- UNIVERSITY OF NORTH CAROLINA SYSTEM
- COMMUNITY COLLEGES

  PROJECTED GROWTH IN STUDENT ENROLLMENT

* HUMAN SERVICES:

- AFDC - - - PROJECTED GROWTH IN UNEMPLOYMENT
- AID FOR ELDERLY - - - PROJECTED GROWTH IN POPULATION 65 & OLDER
- MENTAL HEALTH - - - PROJECTED GROWTH IN POPULATION
- MEDICAID - - - HISTORICAL GROWTH RATES

* CORRECTION:

- INMATES, PROBATIONERS, AND PAROLEES

  PROJECTED GROWTH FROM STRUCTURED SENTENCING COMPUTER MODEL

* WAGE INCREASES:

ALLOWED TO GROW AT RATE OF AVG. HOURLY MFG. EMPLOYEES IN N.C.

* EMPLOYEE HEALTH CARE COST:

ACTUARIAL GROWTH ESTIMATES

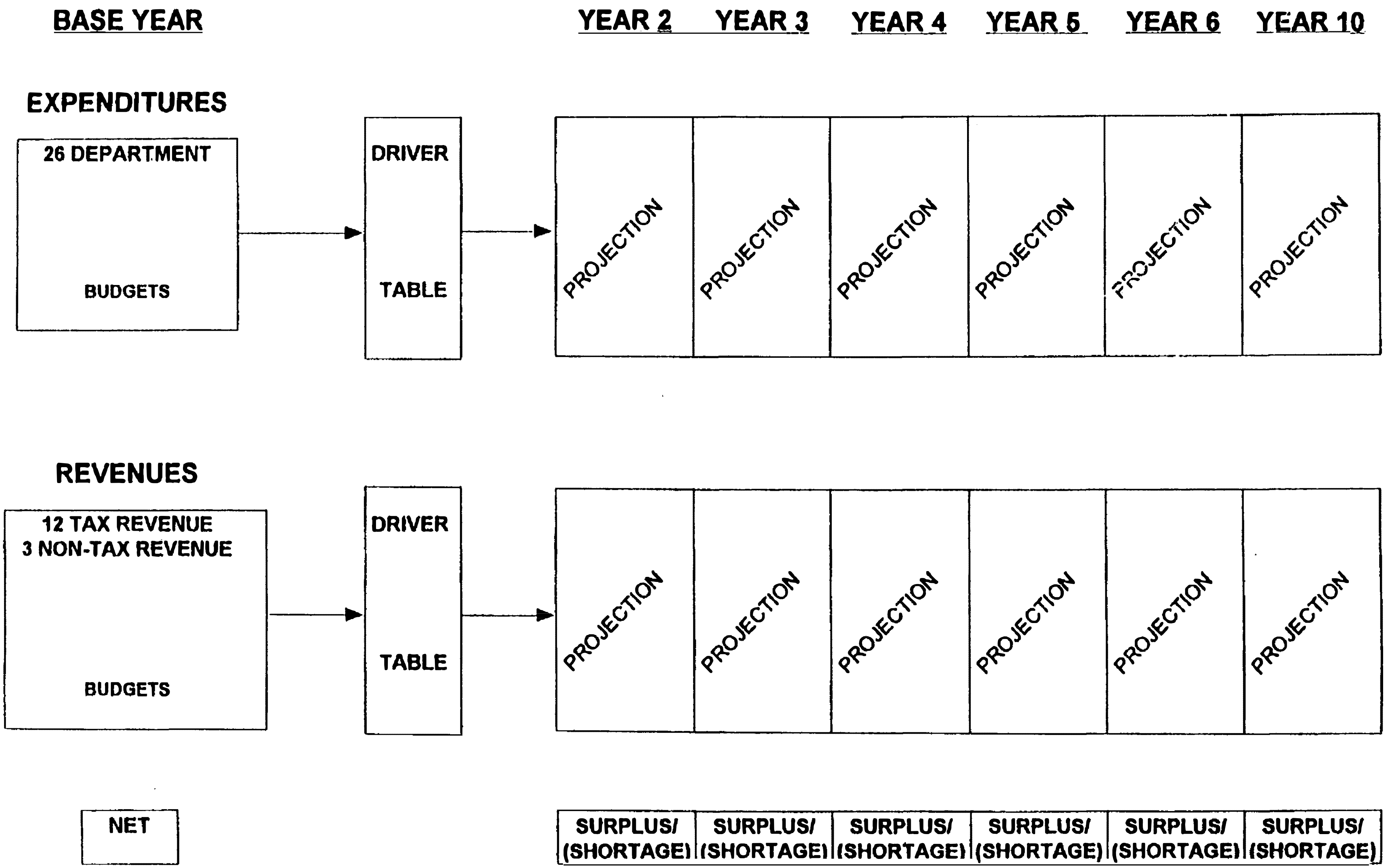
* REVENUE DRIVERS:

* GENERAL FUND TAXES:

ELASTICITY TO PERSONAL INCOM[illegible] [illegible]ROWTH

GENERAL FUND FIN[illegible]IAL MODEL

MODEL DESIGN



SAMPLE

GENERAL FUND FINANCIAL MODEL
FY 1996/1997 BASE YEAR

CURRENT SERVICES SIMULATION

($=Million)

Feb. 18, 1997

GENERAL FUND EXPENDITURES AND REVENUE

	1997/98	1998/99	1999/00	2000/01	2001/02
Expenditures	11,129.1	11,787.4	12,435.6	13,167.3	13,892.6
Revenues	11,059.7	11,716.9	12,451.1	13,250.7	14,108.9
Surplus/(Shortage)	(69.4)	(70.5)	15.5	83.4	216.3
Growth Rates: Expenditures	7.0%	5.9%	5.5%	5.9%	5.5%
Revenue	5.1%	5.9%	6.3%	6.4%	6.5%

Note: If surplus is applied to recurring programs, expenditures for the following years are increased by that amount.

GROWTH ASSUMPTIONS

Avg. Annual Growth Assumptions

	1996-2002
1. N.C. Population	1.3%
2. Total Personal Income	6.2%
3. CPI	3.0%
4. Avg. Daily Mem.	1.5%
5. Employment	1.6%
6. UNC FTE	1.5%
7. Comm Col FTE	1.8%
8. Inmates	-1.0%
9. Probationers	-0.2%

Annual Growth Assumptions

10. Medicaid	96/97-01/02 = 10%
11. State Emp Health Care	96/97-98/99 = 0 % 99/00-01/02 = 9%
12. Wage Increase (teachers & state employees)	Comparable to Hourly Manufacturing (approx 3.4%-3.9%)

NOTES:

1. Gen'l Fund surplus/(shortage) does not consider prior reserves.
2. Capital improvements and other nonrecurring expenditures are not included in annual expenditures.
3. Medicaid disproportionate share non-tax revenue is not included in annual revenues.

NORTH CAROLINA GENERAL ASSEMBLY

GENERAL FUND FINANCIAL MODEL

LESSONS LEARNED IN MODELING:

1. DEVELOPMENT OF MODEL SHOULD BE A COMBINATION OF OUTSIDE ASSISTANCE AND IN-HOUSE PERSONNEL.

2. RESPONSIBILITY FOR MAINTAINING MODEL SHOULD BE ASSIGNED TO ONE OR TWO KEY EMPLOYEES.

   * DESIGN CORRECTIONS
   * BASE YEAR UPDATES
   * POLICY CHANGES

3. GET INPUT FROM SUBJECT AREA SPECIALIST.

4. EMPHASIZE TRENDS RATHER THAN EXACT NUMBERS.

5. KEEP PRESENTATION OF MODEL RESULTS SIMPLE.

6. REEXAMINE MODEL DESIGN ANNUALLY.

7. TRACK MODEL RESULTS.

8. ESTABLISH AN ACCESS POLICY.

Review of Introduced Legislation in the 1997 Session and Criteria for Review

Prepare FISs		
DPB	594	30.9%
SCC	99	5.2%
Tax	230	12.0%
Other Agencies	221	11.5%
	1144	59.6%
No FIS		
DPB	497	25.9%
No Review	211	11.0%
Tax	68	3.5%
	776	40.4%
Total	1920	100.0%

Criteria for Review

• DPB	Assigned to money committees Has a fiscal impact Controversial or complex Topic impacts several agencies (e.g., Administrative Process Act)
• SCC	Specific code cites
• Taxation	Specific code cites
• Other state agencies	Need some description of the bill Minor impact on one agency Agency comments are valid

Criteria for No Review

• DPB	Housekeeping or technical changes Specific code cites
• Tax	Housekeeping or technical changes

Survey Responses -- Members of the General Assembly
(45 responses of 138 mailed)

1. A bill's impact statement is always available to members before the bill is brought to a vote in committee.

Strongly agree:	3
Generally agree:	15
Strongly disagree:	8
Generally disagree:	18
Don't know/ not applicable/ no response:	1

2. Impact statements provide adequate, useful information regarding a bill's fiscal, program and policy implications.

Strongly agree:	4
Generally agree:	31
Strongly disagree:	3
Generally disagree:	4
Don't know/ not applicable/ no response:	3

3. Estimates of revenue and expenditure impacts are reasonable and useful.

Strongly agree:	5
Generally agree:	30
Strongly disagree:	0
Generally disagree:	8
Don't know/ not applicable/ no response:	2

4. Estimating a bill's revenue and expenditure impacts for the current fiscal year and the succeeding biennium is a sufficient time frame.

Strongly agree:	4
Generally agree:	30
Strongly disagree:	1
Generally disagree:	7
Don't know/ not applicable/ no response:	3

5. Impact statements are objective.

Strongly agree:	3
Generally agree:	25
Strongly disagree:	6
Generally disagree:	8
Don't know/ not applicable/ no response:	3

6. Impact statements for all relevant bills are made available to members.

Strongly agree:	2
Generally agree:	10
Strongly disagree:	8
Generally disagree:	20
Don't know/ not applicable/ no response:	5

7. Impact statements are updated after bills are reprinted with amendments.

Strongly agree:	1
Generally agree:	17
Strongly disagree:	3
Generally disagree:	18
Don't know/ not applicable/ no response:	6

8. Overall, the impact statement preparation and distribution processes are satisfactory.

Strongly agree:	1
Generally agree:	18
Strongly disagree:	3
Generally disagree:	18
Don't know/ not applicable/ no response:	5

Survey Responses -- Staff
(21 responses of 37 delivered)

1. A bill's impact statement is always completed and delivered to staff prior to the time scheduled for committee action on the bill.

Strongly agree:	1
Generally agree:	7
Strongly disagree:	8
Generally disagree:	5
Don't know/ not applicable/ no response:	0

2. Impact statements provide adequate, useful information regarding a bill's fiscal, program and policy implications.

Strongly agree:	0
Generally agree:	11
Strongly disagree:	2
Generally disagree:	5
Don't know/ not applicable/ no response:	3

3. Estimates of revenue and expenditure impacts are reasonable and useful.

Strongly agree:	0
Generally agree:	12
Strongly disagree:	2
Generally disagree:	3
Don't know/ not applicable/ no response:	4

4. Estimating a bill's revenue and expenditure impacts for the current fiscal year and the succeeding biennium is a sufficient time frame.

Strongly agree:	2
Generally agree:	12
Strongly disagree:	1
Generally disagree:	2
Don't know/ not applicable/ no response:	4

5. Impact statements are objective.

Strongly agree:	0
Generally agree:	11
Strongly disagree:	3
Generally disagree:	2
Don't know/ not applicable/ no response:	5

6. Impact statements for all relevant bills are made available to members.

Strongly agree:	1
Generally agree:	5
Strongly disagree:	5
Generally disagree:	2
Don't know/ not applicable/ no response:	8

7. Impact statements are updated after bills are reprinted with amendments.

Strongly agree:	0
Generally agree:	10
Strongly disagree:	3
Generally disagree:	4
Don't know/ not applicable/ no response:	3

8. Overall, the impact statement preparation and distribution processes are satisfactory.

Strongly agree:	0
Generally agree:	9
Strongly disagree:	4
Generally disagree:	7
Don't know/ not applicable/ no response:	1

Comments by Members of the General Assembly and Staff, by Topic

B. If you have experienced any problems involving impact statements, please state your complaint(s) and identify the bill number and committee to which the legislation was assigned.

1. Timeliness (12 comments)

Comments by Members (7)

Do not receive them before committee meeting.
Not timely
Distributed untimely (i.e., right before committee)
Impact statements for legislation assigned to the Finance Committee should be more timely . . .
I have experienced getting fiscal impact statements after they have been heard by a committee . . .
Without being specific, on many occasions the impact statement is published after the bill has been considered by the committee—sometimes by the entire body . . .
Hard to get timely (due to deadlines).

Comments by Staff (5)

Timeliness [is] not good.
In the vast majority of statements they are very helpful, however, because they are approved at numerous levels up to the secretary level they are frequently delayed.
Courts bills with corrections impact: DPB is extremely slow prior to Session in returning the impact statement which curtails the pre-filing of their legislation.
Timeliness - many impact statements arrive after committee action.
Problem is [staff is] not getting FIS in time for subcommittee action, not main committee action.

2. Lack of objectivity (10 comments)

Comments by Members (7)

Biased towards Administration position on bill.
Have had false impact statements prepared by hostile agency bureaucrats.
I can't remember the bill or anything but 6 to 10 years ago the tax department made an outrageous politically motivated cost estimate. I have resented this ever since.
If the agency affected opposes the bill, there is a tendency to indicate the highest negative impact that can be "justified" for instance: 1997 SB 781 - VRS produced an impact of in excess of $17 million; no explanation. This figure is the approximate annual impact if the measure would have been in effect forever! (1) The provisions of the bill as written were not retroactive. (2) Based on information in the VRS annual statement, the impact for the first year would be less than $600,000.
Sometimes impact statements reflect the administrations point of view rather than make an unbiased analysis.
Impact statements seem to be used in a non-uniform way. They often do not appear to be objective at all!
[O]bjectivity of figures has seemed to decline last few years.

Comments by Staff (3)

Lack of objectivity, particularly if the bill is supported by or opposed by the then current administration.
Rarely do we use them; they are never mentioned in committee. The only time I even pay attention to them is when the costs are obviously overstated because it's something the administration opposes.
Not always objective, two examples -- (1) welfare reform - HBs 2574 and 2001 were costed using different assumptions, so that HB 2001 would appear to save less money. I asked DPB to redo the FIS using the same assumptions and HB 2001 actually saved more money. The problem was that later the original FIS were used against the incumbents in their races, saying supporters of HB 2001 voted for a more expensive welfare reform bill. (2) HB 1068 - DPB FIS assumed strategic planning in DPB could not be done without the equivalent of a new unit, with associated costs. In this case, I did an alternative FIS saying bill would not require additional staff. Administration was opposing HB 1068.

3. <u>Inaccurate or incomplete analysis (5 comments)</u>

Comments by Members (4)

Not accurate

Sometimes lack of understanding of bill causes gross exaggerate of impact.

Impact statements for legislation assigned to the Finance Committee should be more . . . factual and accurate; we have had too many off-the-cuff responses previously. Presently, too many impact statements figures are questioned.

Statements have been prepared with inadequate information and have been inaccurate as a result, e.g., HB 1582 (House Finance) there have been others, e.g. Pharmacy Freedom of Choice, 1995 (?) when DPT "estimated" erroneous costs which have not been borne out.

Comments by Staff (1)

System doesn't allow enough lead time to prepare a particularly in depth analysis.

4. <u>Lack of adequate access (3 comments)</u>

Comments by Members (3)

No special bill or committee, but impact statements not readily available unless you are on committee looking at bill.

In many committees the impact statements are not generally available.

[M]embers other than the chief patron and the Committee Chairman are not given a copy.

5. <u>Inconsistency (3 comments)</u>

Comments by Members (2)

I have seen the same bill introduced by three members and all had different $ costs projected. (This is rare).

Sometimes I get them and sometimes I don't.

Comments by Staff (1)

Campaign finance bills have elicited contradictory Legislative Impact Statements. [HB 422 (1994), HB 406 (1995), SB 388 (1996)].

6. <u>Not revised after bill is amended (3 comments)</u>

Comments by Members (1)

[W]hen significant changes are made through amendments, I don't recall getting revised statements.

Comments by Staff (2)

[U]pdating [is] not good.

Also, "amended" bills tend to be later than original bills. That may be because DPB staff do not pull amendments off system, but wait for printed copy.

7. <u>Other (4 comments)</u>

Comments by Members (2)

Impact statements are a useful tool for killing or passing legislation. I was able to get one changed merely by complaining loudly.

Numerous bills.

Comments by Staff (2)

Persons assigning bills to Committee do not have the benefit of an impact statement, so they often cannot identify something that has a cost and should be sent to House Appropriations Committee.

Most problems seem "mechanical" - copy only one side, etc.

C. Please describe the changes, if any, you would recommend be made to the impact statement procedures.

1. <u>Improve timeliness (7 comments)</u>

Comments by Members (4)

Make impact statements more timely . . .

Impact statements should be distributed to respective committee members at least 24 hours in advance of the Committee meeting. If the cost of providing a complete copy of impact statement is prohibited, then at least a list of bills having impact statements should be provided to all committee members.

That sufficient attention be given to their early preparation in order that they be in the hands of the legislators in a timely fashion.

Issued in time for Subcommittee meeting.

Comments by Staff (3)

Require that bills be prefiled by a week before Session starts and have impact statements prepared and scanned into computer by time Session begins. If this is not feasible, then there needs to be a code requirement that impact statements be available within 3 days of when a bill is introduced. Agencies & DPB need to be forced to make this a priority during the General Assembly Session and devote whatever manpower is required, day or night, to meet the requirement.

Timeliness of most statements should be improved.

We need more information, faster. If a budget amendment is needed, it should be flagged.

2. <u>Improve accessibility of statements (7 comments)</u>

Comments by Members (5)

Place on LIS [Legislative Information System computer network].

Every member should know how they can easily obtain the impact statement during a committee meeting. The patron has one.

Should be posted with Bill Book in Committee.

Copies of the statements be at the committee meetings for the members' benefit.

Need to get them on all bills [with] fiscal impact.

Comments by Staff (2)

Would clerks be able to put statements in committee bill books? Do they do so for any committees now?

Put them "on line," making them available through the LIS system.

3. <u>Communicate with patron before statement is released (6 comments)</u>

Comments by Members (6)

Maybe a face to face with the individual preparing it, so it won't be so skewed.

Call sponsor of bill and talk about what the bill is to do before embarking on formulating impact.

For the patron, how they arrive at their figures.

When perceived to be a hindrance to the bill's passage, patron should be notified and advised prior to release.

More explanation to bill's sponsor of rationale for educated guess on fiscal impact over period of years.

I would like to be able to talk with the person who makes the estimates for my bills before the bills go the committee.

4. <u>Revise statements when bills are amended (5 comments)</u>

Comments by Members (4)

Just to obtain them in a more timely fashion, especially when amendments are made.

Impact statements should be updated after bills are reprinted with amendments.

I. S. should be specific to dated bill so bill changes are easily matched with I.S.

Revised to fit revisions in bills.

Comments by Staff (1)

Necessary updates should be provided for each iteration of a bill.

5. <u>Improve analysis of impact (4 comments)</u>

Comments by Members (2)

Make impact statements more . . . accurate.

Impact should be factually based when possible. Subjective speculation can be grossly unfair and results in inappropriate rejection during compressed sessions. .

Comments by Staff (2)

They should be prepared by knowledgeable staff who are experienced with the area they're analyzing. For example, a number - cruncher at DPB can crunch numbers but probably isn't qualified to discuss or analyze programmatic impacts of a bill.

Staff who know the programs should discuss the implications of the bill, not simply re-state or plagiarize Legislative Services summaries.

6. <u>Independent body should prepare statements (2 comments)</u>

Comments by Members (2)

Some "independent" body should prepare impact statements.

It would be great if Legislative Services had the resources to verify impact statements received from agencies.

7. <u>Other (9 comments)</u>

Comments by Members (6)

Overall, good job!

Do better or do away with system entirely.

System is working well.

It would also be helpful if bills having a fiscal impact could be starred (*) on the Calendar.

At the very least, agencies should be required to explain in some detail the methodology and assumptions used in arriving at figures presented.

Projected savings should be broken down by cost center and assumption. I.S. should indicate central/regional/local staffing and costs required.

Comments by Staff (3)

Do not think the local government statements are useful - could be eliminated.

Objectivity - that is almost an insurmountable problem.

Prohibit cabinet secretary review.

Should be a six-year time frame.

D. Additional comments regarding impact statements:

1. <u>Quality of analysis (6 comments)</u>

Comments by Members (5)

More study is needed for the true impact that a particular piece of legislation may have; the impact statement should be prepared by one knowledgeable in the field which the statement addresses so that the figures presented may be relied upon more so than has been the case in the past.

There should be some . . . statement as to the accuracy. I have been told that sometimes they just don't know and have to put down their best guess. I understand this, because at times you can't really know, but I would like to know which are guesses and which are reasonably accurate.

Fiscal impact statements are sometimes of little or no value in that one would question their accuracy. It would be helpful if they could be consistently more reliable . . ..

Often inflated

Numbers are essential! When an impact says revenue impact is "uncertain" or "unknown," it is basically useless. Some estimate is better than nothing.

Comments by Staff (1)

Overall helpful, but in area of sales tax exemptions, hard to really make analysis.

2. <u>Bias (5 comments)</u>

Comments by Members (2)

There should be some mechanism to insure that politics plays no part.

Too often the impact statement have political or self-serving outcomes and are discounted by the patron or the members. Consequently, the best they provide in too many cases is simply a point of departure for discussion and that's not all bad.

Comments by Staff(3)

I believe in the case of administration bills, or major bills of the other party, they are not unbiased and are in fact obviously biased.

Impact analysis is generally performed by affected agency. Perhaps consideration should be given to having an impartial agency conduct the analysis; although I'm not sure such an analysis could be completed in a timely fashion.

I do not know how you could address the issue of DPB's playing political games with the impact statement. Leg. Staff have the option of doing their own, and that is an adequate safeguard, even if it pits the two branches against each other.

3. <u>Timeliness (4 comments)</u>

Comments by Members (2)

Part of the problem is my fellow members lack of pre-filing legislation to give staff time to get this done in a timely manner.

It would be helpful if they could be consistently more . . . timely received.

Comments by Staff (2)

Imperative that impact statement be received by and reviewed by standing committee prior to action on measure! Currently statement does not get to committee until it's too late.

Delivery goal of 24 hours in advance of committee meeting to committee staff.

4. <u>Access and availability of statements (2 comments)</u>

Comments by Members (1)

Impact Statements should be in committee notebooks (all members) & should be available on-line.

Comments by Staff (1)

Impact statements should be routinely provided to <u>all</u> members of the committee.

5. <u>Access to the preparer of the statement (2 comments)</u>

Comments by Members (1)

It should be standard practice for agency heads of representatives to appear before committee or subcommittee meetings to explain impact figures and respond to questions.

Comments by Staff (1)

Impact statements should not contain rhetoric and editorialization. Someone should be present (i.e., the main drafter of the statement or supervisor) to answer questions of the committee. The methodology of how the bottom line was reached should be explained.

6. <u>Other (6 comments)</u>

Comments by Members (3)

The concept is good and helpful. There will be times when the patron will withdraw the bill if cost is unreasonable. Likewise, patron should have the opportunity to question the person making the evaluation to ascertain that both parties are considering the same facts and circumstances before statement is printed and distributed.

I have not seen many, so I don't know much about this.

Very helpful in <u>killing</u> bad bills; Hard to overcome impact on marginal bills.

Comments by Staff (3)

My perspective is pretty narrow. Election laws and State Board of Elections LISs.

We use the impact statements, when available, both in full committee and subcommittee.

Impact statements are used in my committees ONLY as a tactic to delay consideration of bills. They serve no other purpose, in my experience.

1998 SESSION

985329661

SENATE BILL NO. 391

Offered January 23, 1998

A BILL to amend and reenact §§ 2.1-394, 2.1-394.1, 2.1-397.1, and 2.1-399.1 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 2.1-399.2, relating to the planning and budgeting process.

Patrons—Gartlan, Chichester, Hawkins, Holland, Quayle and Walker; Delegates: Callahan, Cranwell, Diamonstein, Dickinson, Hall, Jackson and Van Landingham

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Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:

1. That §§ 2.1-394, 2.1-394.1, 2.1-397.1, and 2.1-399.1 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding a section numbered 2.1-399.2 as follows:

§ 2.1-394. Estimates by state agencies of amounts needed.

A. Biennially in the odd-numbered years, on a date established by the Governor, each of the several state agencies and other agencies and undertakings receiving or asking financial aid from the Commonwealth shall report to the Governor, through the responsible secretary designated by statute or executive order, in a format prescribed 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 Governor may prescribe targets which shall not be exceeded in the official estimate of each agency; however, an agency may submit to the Governor a request for an amount exceeding the target as an addendum to its official budget estimate.

B. Each agency or undertaking required to submit a biennial estimate pursuant to subsection A of this section shall simultaneously submit an estimate of the amount which will be needed for the two succeeding biennial periods beginning July 1 of the third year following the year in which the report is submitted. *The Department of Planning and Budget shall provide, within thirty days following receipt, copies of all agency estimates provided under this subsection to the chairmen of the House Committee on Appropriations and the Senate Committee on Finance.*

C. The format which must be used in making these reports shall be prescribed by the Governor, shall be uniform for all agencies and shall clearly designate the kind of information to be given thereon. The Governor may prescribe a different format for reports from institutions of higher education, which format shall be uniform for all such institutions and shall clearly designate the kind of information to be provided thereon.

§ 2.1-394.1. Estimates by nonstate agencies of amounts needed.

A. Except as provided in §§ ~~10.1-812 through 10.1-814~~ *10.1-2211, 10.1-2212 and 10.1-2213*, no state funds shall be appropriated or expended for, or to, nonstate agencies unless:

1. A request for state aid is filed by the organization with the Department of Planning and Budget, as required by § 2.1-394.

2. Such nonstate agency shall certify to the satisfaction of the Department that matching funds are available in cash from local or private sources in an amount at least equal to the amount of the request. These matching funds must be concurrent with the purpose for which state funds are requested. Contributions received and spent prior to the state grant shall not be considered in satisfying the requirements of this subdivision.

3. Such nonstate agency shall provide documentation of its tax exempt status under applicable provisions of the United States Internal Revenue Code.

B. Except as provided in §§ 23-38.11 through 23-38.18, no state funds shall be appropriated to, or expended for, a private institution of higher education or religious organization.

C. Requests for the appropriation of funds for nonstate agencies shall be considered by the Governor and the General Assembly only in even-numbered years.

D. For the purposes of this section, a "nonstate agency" shall mean any public or private foundation, authority, institute, museum, corporation or similar organization which is not a unit of state government or a political subdivision of the Commonwealth as established by general law or

985329661 SB391 5/26/98 10:44

special act. It shall not mean any such entity which receives state funds as a subgrantee of a state agency or through a state grant-in-aid program authorized by law.

§ 2.1-397.1. Participation of certain agencies in budget development process of other agencies.

Agencies having responsibilities granted under §§ 2.1-373, 2.1-563.17, 2.1-563.18, ~~10.1-1204,~~ and 37.1-207 shall participate in the budget development process of relevant agencies and receive from these agencies, prior to submission to the Department of Planning and Budget, their proposed programs and budgets. Recommendations to the appropriate agencies and the secretaries of the Governor on related matters shall be made prior to budget submissions.

§ 2.1-399.1. Capital projects.

A. On or before December 20 of the year immediately prior to 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 of the General Assembly copies of any tentative bill or bills involving proposed capital appropriations for each year in the ensuing biennial appropriation period. Such bill or bills shall include each capital project to be financed through revenue bonds or other debt issuance, the amount of each such project, and ~~identify~~ *the identity of* the entity which will issue such debt. Notwithstanding any other provision of law, the Governor may recommend, and the General Assembly may make, an appropriation of special fund revenues derived from the operations of the medical centers of Virginia Commonwealth University and the University of Virginia that may be used, as directed by such universities, in connection with the ownership and operation of their medical centers and related health care and educational activities, including operating expenses and debt service.

B. On or before December 20 of the year immediately prior to the beginning of each regular session held in an odd-numbered year of the General Assembly, the Governor shall submit to the presiding officer of each house printed copies of all gubernatorial amendments proposed to capital appropriations acts adopted in the immediately preceding even-numbered year session.

~~C. The Governor shall ensure that a summary of budget highlights be sent to a newspaper of general circulation in the following geographical areas of the Commonwealth: Northern Virginia, Hampton Roads, Richmond/Petersburg, Central Virginia, Shenandoah Valley, Roanoke Valley, Southside, and Southwest Virginia prior to the convening of such session of the General Assembly.~~

~~D. The standing committees of the House of Delegates and of the Senate in charge of appropriation measures shall hold four regional public hearings on the budget bill submitted by the Governor. The four public hearings shall be held prior to the convening of such session of the General Assembly, at hearing sites and times as selected by the chairmen of the two committees.~~

§ 2.1-399.2. Publication of budget highlights; public hearings.

A. The Governor shall ensure that a summary of the highlights of each budget submitted pursuant to § 2.1-398 and set of amendments submitted pursuant to subsection B of § 2.1-399 be sent to a newspaper of general circulation in the following geographical areas of the Commonwealth: Northern Virginia, Hampton Roads, Richmond/Petersburg, Central Virginia, Shenandoah Valley, Roanoke Valley, Southside, and Southwest Virginia prior to the convening of each session of the General Assembly.

B. The House Committee on Appropriations and the Senate Committee on Finance shall hold four regional public hearings on the budget bill submitted by the Governor. The four public hearings shall be held prior to the convening of such session of the General Assembly, at hearing sites and times as selected by the chairmen of the two committees.

2. That the Department of Planning and Budget, by December 1, 1998, shall provide to the chairmen of the House Committee on Appropriations and the Senate Committee on Finance copies of the format prescribed for use by state agencies in making reports pursuant to § 2.1-394 of the Code of Virginia. Within thirty days following amendment to the format for such reports, copies of the amended format shall be provided to such chairmen.

#

1998 SESSION

985322661

SENATE BILL NO. 401

Offered January 23, 1998

A BILL to amend the Code of Virginia by adding a section numbered 30-19.1:8, relating to impact statements.

Patrons—Gartlan, Chichester, Hawkins, Holland, Quayle and Walker; Delegates: Callahan, Cranwell, Diamonstein, Dickinson, Hall, Jackson and Van Landingham

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Referred to the Committee on Rules

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 30-19.1:8 as follows:

§ 30-19.1:8. Impact statements.

A. As used in this section:

"Impact statement" means a statement of the estimated general and special fund revenue and expenditure effect of proposed legislation through the end of the third fiscal year following the effective date of the proposed legislation. An impact statement shall also (i) state the number of state employee positions affected, (ii) include a summary or statement of the purpose of the proposed legislation, (iii) state whether a budget amendment is necessary, (iv) describe its fiscal implications, (v) list all state agencies or political subdivisions affected, and (vi) identify necessary technical amendments. An impact statement shall, where appropriate, include other comments, including but not limited to (i) a statement of the proposed legislation's policy implications, (ii) the fiscal impact of the proposed legislation in periods beyond the end of the third fiscal year following the effective date of the proposed legislation, and (iii) a summary of the factors used in preparing the proposed legislation's fiscal impact.

"Proposed legislation" means any bill introduced for consideration in a regular or special session of the General Assembly, including any printed amendment thereto, but excluding any general appropriations act.

"Responsible agency" means (i) the Department of Taxation if the proposed legislation pertains to any chapter of Title 58.1 except Chapters 25 (§ 58.1-2500 et seq.) or 26 (§ 58.1-2600 et seq.); (ii) the State Corporation Commission if the proposed legislation pertains to Titles 6.1, 8.9, 12.1, 13.1, 38.2, 50, or 56, or Chapters 25 (§ 58.1-2500 et seq.) or 26 (§ 58.1-2600 et seq.) of Title 58.1; (iii) the Commission on Local Government if the proposed legislation requires a net additional expenditure by any county, city or town as defined by § 30-19.03:1; or (iv) the Department of Planning and Budget if the proposed legislation pertains to any other title of the Code of Virginia or an uncodified act.

B. Except as provided in subsections E and F, the responsible agency shall prepare, or supervise the preparation by another agency of, an impact statement for proposed legislation. When appropriate, other affected agencies shall assist the responsible agency in the preparation of an impact statement.

C. Copies of impact statements shall be distributed by the responsible agency to the patron of the proposed legislation, the Governor, the Lieutenant Governor, the Speaker of the House, the President Pro Tem of the Senate, the Clerk of the House of Delegates, the Clerk of the Senate, the chairman of the House Committee on Appropriations, the chairmen of the Senate Committee on Finance, the director of the Division of Legislative Services, and such other agencies, persons, or entities as the responsible agency deems appropriate.

D. The responsible agency shall use reasonable efforts to prepare and distribute each impact statement (i) within three days following the filing of the proposed legislation if it is referred to the House Committee on Appropriations or the Senate Committee on Finance or (ii) within four days following the filing of the proposed legislation if it is referred to another committee of the General Assembly; however, in any event the responsible agency shall endeavor to prepare and distribute the impact statement prior to the date the proposed legislation is scheduled for committee consideration. The Clerk of the House of Delegates and Clerk of the Senate shall make copies of legislation available to the Department of Planning and Budgeting immediately upon its filing, and if the Department is not the responsible agency for the proposed legislation, upon receipt the Department

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shall forward the copy to the responsible agency.

E. The responsible agency may, but shall not be required to, prepare and distribute an impact statement for proposed legislation which pertains to Titles 1, 7.1, 8.01, 8.1 through 8.8, 8.10, 8.11, 20, 26, 43, 49, or 64.1 of the Code of Virginia or which the responsible agency determines (i) makes only technical amendments to existing law or (ii) has no or a negligible fiscal impact. Any proposed legislation for which an impact statement is not prepared and distributed may be presumed to have no fiscal impact.

F. This section shall not apply with respect to proposed legislation for which estimates or statements are required to be prepared pursuant to § 30-19.03, § 30-19.1:4, § 30-19.1:5 or § 30-19.1:7.

Official Use By Clerks

Passed By The Senate		**Passed By The House of Delegates**	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐

Date: ____________________ Date: ____________________

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Clerk of the Senate Clerk of the House of Delegates

1998 SESSION

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SENATE JOINT RESOLUTION NO. 94

Offered January 23, 1998

Continuing the Commission on the Commonwealth's Planning and Budgeting Process.

Patrons—Gartlan, Chichester, Hawkins, Holland, Quayle and Walker; Delegates: Callahan, Cranwell, Diamonstein, Dickinson, Hall, Jackson and Van Landingham

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Referred to the Committee on Rules

WHEREAS, Senate Joint Resolution 350 (1997) established a commission to study the Commonwealth's planning and budgeting process; and

WHEREAS, the commission was directed to examine, among other things, (i) the feasibility of providing an integrated six-year budget projection for major budget drivers for each functional area of government with each biennial budget and (ii) the models, mechanisms, and venues through which such a budget projection shall be prepared and presented; and

WHEREAS, the commission, with the assistance of a thirteen-member advisory committee, has in its first year examined information on a wide variety of topics including: (i) current planning and budgeting procedures; (ii) the Commonwealth's implementation of performance budgeting, featuring six-year strategic planning by state agencies; (iii) Virginia's six-year revenue forecasting process; (iv) long-range expenditure forecasting of major budget drivers by state agencies; and (v) the processes for preparation and distribution of legislative impact statements; and

WHEREAS, the commission has begun examination of North Carolina's legislative general fund financial model, which provides computer simulations of revenue and expenditure changes over a 10-year period; and

WHEREAS, due to the complexity of the issues and time constraints, the commission has not been able to complete its examination of the planning and budgeting process; and

WHEREAS, the members agree that the commission should be continued for a second year; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Commission on the Commonwealth's Planning and Budgeting Process be continued to enable the commission to complete its study of the Commonwealth's planning and budgeting process, and specifically to examine the feasibility of developing, within the legislative branch, a long range expenditure forecasting model.

The members duly appointed pursuant to Senate Joint Resolution 350 (1997) shall continue to serve; however, any vacancies shall be filled as provided in the enabling resolution.

The Joint Legislative Audit and Review Commission, the House Committee on Appropriations and the Senate Committee on Finance, and the Division of Legislative Services shall continue to provide staff support for the study. The Secretary of Finance, the Department of Planning and Budget, the Department of Taxation, and all other agencies of the Commonwealth shall provide assistance to the commission, upon request.

The commission shall complete its work in time to submit its findings and recommendations to the Governor and the 1999 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The direct costs of this study shall not exceed $7,800.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

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