FINAL REPORT OF THE
COMMISSION ON THE

COMMONWEALTH'S PLANNING AND BUDGETING PROCESS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 28

COMMONWEALTH OF VIRGINIA
RICHMOND
1999

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FINAL REPORT OF THE COMMISSION ON THE COMMONWEALTH'S PLANNING AND BUDGETING PROCESS

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

Richmond, Virginia
February 1999

EXECUTIVE SUMMARY

Senate Joint Resolution No. 94, adopted by the 1998 Session of the General Assembly, continued the Commission on the Commonwealth's Planning and Budgeting Process. The commission was established by the 1997 Session of the General Assembly pursuant to Senate Joint Resolution No. 350. 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 specifically directed by SJR 94 to examine, during its second year, the feasibility of developing a long-range expenditure forecasting model within the legislative branch.

During its second year the commission efforts focused on two issues: preparation of legislative impact statements and the development of a legislative capacity to conduct long-range expenditure forecasting.

With respect to the preparation of fiscal impact statements, the commission recommended that Senate Bill 401, enacted as Chapter 765 of the 1998 Acts of Assembly, be repealed. As originally introduced, Senate Bill 401 would have merely codified the existing practice regarding the preparation of impact statements by the Department of Planning and Budget and other responsible agencies. However, the bill was amended to shift the duty of preparing such statements to the Division of Legislative Services. The bill was enacted by the 1998 Session with a delayed effective date of July 1, 1999, with the understanding that the issue would be examined by the commission in the interim.

The commission concluded that creating a fiscal impact statement preparation office in the Division of Legislative Services would not solve the problem of being forced to rely on impact statements prepared by executive branch agencies. Developing an office in the legislative branch to do this work would be expensive. Moreover, the legislature's office would rely on, and in some instances duplicate the work of, executive branch agencies.

Recommendation: *Chapter 765 of the 1998 Acts of Assembly, which requires the Division of Legislative Services to prepare fiscal impact statements on legislation, should be repealed.*

While repealing Chapter 765 of the 1998 Acts of Assembly would avoid the potential adverse consequences identified by the commission, it would not address the underlying fact that both branches of the General Assembly often are forced to rely on impact statements prepared by executive branch agencies, even when members have serious doubts regarding their accuracy. As noted in the commission's 1998 interim report, many members have expressed concerns with biases and errors reflected in impact statements. As an alternative to developing an office to prepare its own statements, it was suggested to the commission that the General Assembly would be better served by the capability to critique questionable impact statements. The Joint Legislative Audit and Review Commission (JLARC) would be the most appropriate site of a capacity to analyze selected impact statements.

Recommendation: *The Joint Legislative Audit and Review Commission should be given the resources to conduct analyses, upon request of members of the General Assembly, of specific legislative impact statements.*

The preparation of long-range expenditure forecasting is extremely difficult. Regardless of the statistical techniques employed, all multi-year forecasts involve extrapolating historical data into future years. As a starting point, it would be preferable to focus on projected expenditure trends in the budget drivers that account for the bulk of the growth in the general fund budget: Medicaid, adult and juvenile corrections, public education, and higher education. Forecasts in each of these areas are prepared by executive branch agencies, but with limited legislative participation.

The commission endorsed a proposal that would expand JLARC's technical capacity to oversee the expenditure forecasts conducted by executive branch agencies.

Recommendation: *The Joint Legislative Audit and Review Commission should be given the resources to conduct oversight of expenditure forecasting processes conducted for programs that are drivers of growth in the state budget.*

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I. INTRODUCTION

The 1998 Session of the General Assembly adopted Senate Joint Resolution 94 (Appendix A), which continued the commission on the Commonwealth's Planning and Budgeting Process for a second year. The 1998 resolution specifically directed the commission to examine the feasibility of developing, within the legislative branch, a long-range expenditure forecasting model.

In addition to extending the term of the commission for another year, SJR 94 increased the number of members from thirteen to twenty-one. The commission was chaired by Senator Joseph V. Gartlan, Jr., Delegate V. Earl Dickinson served as Vice Chairman. The other original 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 members joining the commission for its second year were Senator Charles J. Colgan, Senator Benjamin J. Lambert, III, Senator Edward L. Schrock, Senator Malfourd W. Trumbo, Delegate Riley E. Ingram, Delegate Roger J. McClure, Delegate Harry J. Parrish, and Delegate Frank M. Ruff.

The commission was created in 1997 pursuant to Senate Joint Resolution No. 350. The commission was initially 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.

Senate Joint Resolution 350 also provided 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, in 1997 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; 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; Scott D. Pattison, Director of the Department of Planning and Budget; Walter Segaloff of

Newport News; and Paul W. Timmreck, Vice President for Finance and Administration at Virginia Commonwealth University. Mr. Pattison replaced Robert Lauterburg as a member of the advisory committee.

The work of the commission's first year is described in its interim report, published as Senate Document 41 (1998). In its first year the commission reviewed the development and implementation of the Commonwealth's current planning and budgeting processes. Specific attention was given to previous JLARC studies of the executive budget process, the development of a revenue stabilization fund, revenue forecasting, and benchmarking for future government action. Members also studied the steps being taken to integrate performance-based budgeting concepts into Virginia's budgeting process.

Much of the work of the commission's first year was premised on the recitation in SJR 350 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." While Virginia has a respected revenue forecasting process with a six-year horizon, there is no statewide process for estimating the Commonwealth's expenditure needs beyond the term of the biennial budget. Expenditure forecasts can be wildly inaccurate, as evidenced by the State spending projections prepared in the mid 1970s by the Bendheim Commission.

The commission, in its first year, looked at modeling techniques that hold the potential for ascertaining the cost of providing state services in future biennia with greater accuracy than can be provided by straight-line extrapolations of recent spending trends into future years. North Carolina's general fund financial model was examined as an example of a legislative-based expenditure modeling tool.

Senate Joint Resolution 350 recited 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 in the commission's first year. As a result of this study, the commission recommended that the existing fiscal impact statement presentation process be codified.

Other recommendations from the commission's first year include the following:

• The Department of Planning and Budget should be required to provide the chairmen of the House Appropriations and Senate Finance Committees, within 30 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. Senate Bill 391, which implemented this recommendation, was enacted by the 1998 Session of the General Assembly as Chapter 467 of the 1998 Acts of Assembly.

- It is not appropriate to establish a revenue forecasting capability within the legislative branch at the present time. The existing executive-based revenue forecasting process is working well. 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 commission should explore the feasibility of implementing a long-range expenditure forecasting capability within the legislative branch. The General Assembly does not have unfettered access to expenditure forecasts and underlying data prepared by executive branch agencies. As an alternative to relying on the executive branch to provide expenditure forecasts and related information, the commission recommended that further study be given to reviewing the feasibility of developing the capability to conduct long-range expenditure forecasting within the legislative branch. It was recommended that North Carolina's General Fund Financial Model should be studied further in the commission's second year.

II. WORK OF THE COMMISSION

As mentioned previously, the Commission on the Commonwealth's Planning and Budgeting Process was established in 1997 to examine the feasibility of providing an integrated six-year budget projection for major budget drivers with each biennial budget. Senate Joint Resolution 94, which continued the study for a second year, directed the commission specifically to examine the feasibility of developing, within the legislative branch, a long-range expenditure forecasting model. The commission held its first meeting on October 12, 1998, and its second meeting on January 13, 1999.

A. Implementation of Fiscal Impact Statement Legislation

Fiscal impact statements, which provide members during legislative sessions with estimates of the revenue and expenditure impacts of pieces of legislation, are prepared by executive branch agencies. Most statements are prepared by or under the supervision of the Department of Planning and Budget, though many statements are also prepared by the Department of Taxation, the State Corporation Commission, the Commission on Local Government, and other agencies. Most statements are prepared pursuant to the Governor's executive order, and with several specific exceptions the process is not codified.

Pursuant to its duty to examine mechanisms to evaluate the effect of proposed legislation on the budget, in 1997 the commission reviewed the processes for preparing and distributing fiscal impact statements. The commission found that while there was dissatisfaction with some aspects of the impact statement process, there was no consensus for major changes in the current process. In order to provide greater clarity and certainty, and to provide a basis for members' expectations and ensure the continuation of the current process, the commission recommended that the current process, which for most types of statements has been implemented by executive order, be codified. Codifying the process was intended to provide an avenue for amending the process in the future should amendment be found to be necessary. A bill codifying the process was introduced in the 1998 Session as SB 401.

Senate Bill 401 passed the Senate intact, but was rewritten in the House of Delegates to transfer the task of preparing impact statements from the Department of Planning and Budget, the Department of Taxation, the State Corporation Commission, and other agencies to the Division of Legislative Services. Senate Bill 401 as amended was enacted into law with an enactment clause that postponed its effective date until July 1, 1999. The additional year preceding implementation of the bill gave the commission the opportunity to ascertain the impact of the revised bill on the planning and budgeting process.

At its October 12, 1998, meeting the commission received presentations regarding the implementation of SB 401 from (i) Becky Covey, of the House Appropriations Committee staff, and John Bennett, of the Senate Finance Committee staff (Appendix B); (iii) Scott Pattison, Director of the Department of Planning and Budget ("DPB") (Appendix C); and (iv) E. M. Miller and Jack Austin, from the Division of Legislative Services ("DLS")(Appendix D).

The Division of Legislative Services reported that in 22 states both executive and legislative agencies prepare impact statements, and in 14 states impact statements are prepared only by legislative agencies. It was suggested that whether or not the duty of preparing impact statements is moved to DLS, putting the statements on the Internet would improve the statements' accessibility. While DLS took no position for or against implementation of SB 401, it was suggested that a pilot project be conducted prior to any shift of the process to the division.

The speakers made the following additional points:

- Accurate impact statements cannot be prepared in a vacuum, but require substantial input from executive agency personnel. Under the system in place now, DPB analysts get the data they need to prepare impact statements from the executive agency personnel who run the affected program. Moving the process from DPB to DLS will not eliminate reliance on agency personnel for the underlying numbers.

- DLS is not likely to get the information needed to prepare impact statements from executive branch agencies more quickly, or as quickly, as DPB. DLS does not have any leverage over executive branch agencies. Delays in getting information from agencies will make it unlikely that moving the process to DLS will resolve concerns with the length of time it takes to produce fiscal impact statements.

- Senate Bill 401 transfers responsibility for fiscal impact statements from the Department of Taxation to DLS. However, much tax return information is confidential by statute and cannot be shared with DLS or other agencies. Thus, DLS will not be able to prepare fiscal impact statements for many revenue bills.

- An effective system will require a sufficient capacity of staff with (i) detailed knowledge of both the budget and the broad range of state programs, (ii) good quantitative and budget skills, and (iii) immediate and ready access to data on clients, costs, and trends. Most importantly, the people preparing the impact statements need to know enough about the programs to be able to ask the right questions and know when the data provided by agencies needs closer scrutiny. Such capacity does not now currently reside in DLS, and obtaining such a staff quickly may be difficult.

- DPB reported that all of its forty analysts work on impact statements about 90 percent of their time during legislative sessions. During the rest of the year, they work on preparing the budget and monitoring its execution. Consequently, these people could not simply be shifted from DPB to DLS. The question has been raised regarding what the fiscal impact statement staff at DLS would do during the time the General Assembly is not in session.

- The implementation of SB 401 is not expected to reduce DPB's workload. The agency is likely to continue preparing impact statements for the Governor's Office. The result would be either a duplication of effort or competing statements.

- Based on an assumption that a staff of ten professionals and two staff persons would be adequate, DLS estimated that the annual personnel costs of doing impact statements would be between $530,000 and $655,000, depending on whether the staff is hired at the bottom or mid-level of the pay scale. In the first year, an additional $169,600 would be needed for space and equipment. In subsequent years, space and equipment costs were estimated at $60,600.

- It has been suggested that DLS could use contract employees instead of hiring full-time people to prepare impact statements. However, the commission does not known if enough people with the necessary skills would be willing to do this work on a part-time basis.

The commission recognized that these issues raised considerable doubts about the merits of allowing SB 401 taking effect. The development of a legislative budget office may be an idea worthy of discussion at some point in the future. However, moving the task of preparing impact statements to the Division of Legislative Services, which is currently responsible for drafting legislation, staffing committees, and conducting research, was not viewed as an appropriate step.

While the legislative branch may need some independent ability to determine the implications of pending legislation, it was agreed that shifting the impact statement process to DLS is not a satisfactory solution. These issues prompted the commission to ask JLARC, the House Appropriations Committee staff, and the Senate Finance Committee staff to identify the legislature's needs with respect to the impact statement process, to identify steps that can be taken to address them, and to examine some alternatives to moving the job of preparing impact statements to DLS. The members agreed that rather than establishing an office within DLS and trying to produce impact statements from scratch, the General Assembly might be better served by some sort of legislative capability to critique impact statements that are questionable or controversial.

B. Long-Range Expenditure Modeling

In its first year the commission heard presentations from several agencies responsible for some of the major programs driving growth in expenditures by the Commonwealth, including Medicaid, K-12 public education, higher education, and corrections. Some expenditure forecasting is being done -- in some instances quite accurately -- by specific agencies. However, the forecasts prepared for discrete programs are not being synthesized into an overall forecast of the expenditures tied to the preparation of the Commonwealth's biennial budget.

The existing forecasting of service populations and costs may be able to serve as a starting point for a comprehensive state expenditure simulation model. However, an expenditure simulation model may not be useful if the legislature has difficulty getting information from executive branch agencies, or does not feel that the data provided by agencies is reliable.

Barriers to implementing long-range expenditure forecasting have been identified. A major potential barrier to expenditure forecasting by the legislative branch is the limited accessibility of data generated by executive branch agencies. Executive branch hostility may be another. In the course of the Commission's work in 1997, the former Director of the Department of Planning and Budget criticized the commission's efforts to develop expenditure forecasts. DPB's strategic plan states that "[s]ix-year expenditure estimates are, at best, of limited usefulness. At worst, they are grossly misleading and may lead to detrimental policy choices."

In the face of these barriers, the commission has explored the feasibility of developing an expenditure forecasting capability within the legislative branch. It has specifically looked at developing the legislative capacity to prepare six-year expenditure forecasts, similar to elements of the North Carolina budget planning model.

North Carolina's legislative fiscal research division and the Barents Group have developed a long-range budget simulation model. During the commission's last meeting of its first year, representatives from North Carolina and the Barents Group presented an overview of the model to the Commission. The presentation sparked sufficient interest by the members to invite spokesmen from Barents to appear at the October 12, 1998, meeting of the commission to elaborate upon the budget simulation model.

Representatives from the Barents Group conducted a demonstration of the model for the Commission. (Appendix E) The North Carolina budget planning model is developed by importing the certified budget at the object code level. User-controlled drivers link positions, revenues and outlays to economic and demographic factors, including population, income, inflation, employment, and school attendance. Detailed economic and demographic drivers are used to forecast revenues, expenditures and budget balances in order to simulate the budget impacts of changes in service levels, input costs, tax bases and rates, and economic and demographic factors.

The results include ten-year budget forecasts and simulation horizons for the general fund and highway funds, encompassing both current services and continuation budgets. The model is updated during the year to reflect economic or legislative forecast changes. The model can also be used to provide policy simulation examples. For example, runs can be provided showing the budgeting implications of alternative growth rates for specific expenditure items, such as teacher salaries or employee health insurance, or revenue items, such as the sales tax base.

Many members expressed an interest in the model that the Barents Group has developed with the Fiscal Research Division in North Carolina. The long-range expenditure simulation model may be a valuable tool in Virginia's budgeting process. However, development of such a model would require a high level of cooperation and the free exchange of information between executive branch agencies and the legislature. Much of the success of North Carolina's model was attributed to the fact that the administration is willing to provide the necessary underlying data to the people in the legislative branch who run the model.

At its October 12 meeting, the commission asked the Senate Finance Committee staff, the House Appropriations Committee staff, and JLARC staff to consider how a long-range expenditure simulation model would benefit the budgeting process in Virginia. They were asked to present options for consideration by the commission. Recognizing that the issue of fiscal impact statements may tie in to the long-range planning issue, the staffs were also asked to determine if there is a way to address both of these issues simultaneously.

C. Presentation of Options

As requested by the commission at its October meeting, the directors of the Senate Finance and House Appropriations committees' staffs presented options to the commission at its second meeting on January 13, 1999.

With regard to the preparation of legislative impact statements, it was noted that between 60 and 70 percent of the 2,149 bills introduced in the 1998 Session required a fiscal impact statement. The range of programs and issues involved in proposed legislation makes it highly unlikely that the General Assembly could create the capacity to prepare fiscal impact statements for these bills without both adding a significant number of permanent staff for what would be a seasonal activity, and duplicating what will continue to be done by the executive branch.

Meaningful expenditure forecasting is extremely difficult. Regardless of the statistical techniques employed, all multi-year forecasts involve extrapolating historical data into future years. Any feasible attempt to project long-term expenditures will require accurate projections of program costs and client groups in Medicaid, adult and juvenile corrections, and public school enrollment. Over the past decade, these areas have accounted for nearly three-fourths of the state's budget growth. Forecasts in each of these three areas and in higher education enrollment are prepared by executive branch agencies, often with limited legislative participation.

In developing options, the staff directors were guided by four objectives. For fiscal impact statements, the legislature should be provided with a capacity to analyze statements without duplicating the executive processes. For expenditure forecasting, the legislature should be provided with the capacity to test the usefulness of forecasts, and should be able to expand the capacity over time if the General Assembly desired. For both issues, the number of new staff added to legislative agencies should be kept to a minimum. Finally, proposals should strengthen existing analytical capacity where it currently exists, rather than adding entirely new functions to agencies.

Option I presented to the commission called for an expansion of JLARC's technical capacity to conduct fiscal analyses and oversee expenditure forecasts. Implementation of this option would require three legislative statistical analysts. They would be charged with overseeing executive forecasts for expenditures for Medicaid, adult and juvenile corrections, and public school enrollment, and possibly higher education. The unit would also be charged with analyzing fiscal impact statements during legislative sessions, when statements are referred to them. Referrals of impact statements could be made by a letter to the JLARC Director from the chair of a standing committee. The estimated cost of such a unit, in its first year, was estimated at $216,670. (Appendix F)

The second option presented to the commission would provide JLARC with a more expansive role in expenditure forecasting. Rather than overseeing executive branch forecasts, the JLARC unit would be charged with undertaking independent forecasts particularly in the areas of Medicaid, adult and juvenile corrections, and public school enrollment. In addition, the analysts could be involved in reviewing additional fiscal impact statements.

The commission was cautioned that there will be a fairly steep learning curve for new staff, and that producing expenditure forecasts would require direct access to agency data on programs, clients, and costs. Option II called for a total of six new analysts at JLARC, at a cost of double that of the first option. Moreover, a staff of six may require administrative support and supervision, and a chief analyst may need to be added.

III. RECOMMENDATIONS

The commission adopted the following recommendations:

1. The legislation requiring the Division of Legislative Services to prepare legislative impact statements should be repealed during the 1999 Session.

At its meeting on January 13, 1999, the commission affirmed its decision from its October meeting that SB 401, which would shift the task of preparing legislative impact statements to the Division of Legislative Services, should be repealed. Legislation implementing this recommendation was introduced in the 1999 Session as Senate Bill 911 (Appendix G). Senate Bill 911 passed the General Assembly and was signed in to law as Chapter 572 of the 1999 Acts of Assembly.

2. The technical support staff of the Joint Legislative Audit and Review Commission should be expanded to assist with legislative impact statement analysis when an impact statement is referred from the chairman of a standing committee of the General Assembly.

The commission, on the motion of Delegate Callahan, unanimously endorsed Option I as presented by the directors of the House Appropriations Committee staff and the Senate Finance Committee staff (See Appendix F). Under this option, three positions would be added to the JLARC staff in the second year of the 1998-2000 biennium to analyze selected impact statements.

Implementation of this recommendation would not require statutory changes. Instead, it was suggested that an amendment to the budget be prepared to provide for the additional resources the JLARC would need to implement this option and to specify the purpose for which the positions were being created. Duplicate budget amendments implementing this recommendation were introduced in the 1999 Session (See Appendix H). This amendment to the 1998-2000 biennial budget was enacted by the General Assembly and approved by the Governor.

3. The technical support staff of the Joint Legislative Audit and Review Commission should be expanded to conduct oversight of the expenditure forecasting process.

The other purpose of Option I was the development of the capability to conduct oversight of the expenditure forecasting that is currently being conducted by executive branch agencies, specifically in the areas of Medicaid, adult and juvenile corrections, public school enrollment, and possibly higher education enrollment. (Appendix H) After some discussion it was acknowledged that

JLARC's role would be limited to analyzing the expenditure forecasts, and would not entail involvement in revenue forecasting.

The members of the commission acknowledged that Option I may be viewed as an initial step, and that if future developments justify or necessitate greater involvement by the General Assembly in expenditure forecasting, the process could be expanded as needed. The commission also noted that while JLARC is granted broad authority to obtain information from State agencies and their staff and employees under § 30-59 of the Code of Virginia, additional authorization for access to data may be appropriate. For that reason, the budget amendment implementing recommendations 2 and 3 specifies that, pursuant to existing statutory authority, all agencies of the Commonwealth shall provide access to information necessary to accomplish these duties. As noted above, this budget amendment was approved by the 1999 Session of the General Assembly.

The commission extends its gratitude to the members of the advisory committee, 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 J. Colgan
Senator Charles R. Hawkins
Senator Richard J. Holland
Senator Benjamin J. Lambert, III
Senator Frederick M. Quayle
Senator Edward L. Schrock
Senator Malfourd W. Trumbo
Senator Stanley C. Walker
Delegate Vincent F. Callahan, Jr.
Delegate C. Richard Cranwell
Delegate Alan A. Diamonstein
Delegate Franklin P. Hall
Delegate Riley E. Ingram
Delegate Thomas M. Jackson, Jr.
Delegate Roger J. McClure
Delegate Harry J. Parrish
Delegate Frank M. Ruff
Delegate Marian Van Landingham

SENATE JOINT RESOLUTION NO. 94

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

Agreed to by the Senate, March 13, 1998
Agreed to by the House of Delegates, March 12, 1998

WHEREAS, Senate Joint Resolution No. 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 13-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 ten-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 total membership of the Commission shall be twenty-one (21) members and shall include eight (8) new members as provided for in this resolution. The members duly appointed pursuant to SJR No. 350 (1997) shall continue to serve. Any vacancies shall be filled as provided in the enabling resolution, except that appointments of the members of the House of Delegates to fill vacancies shall also be in accordance with the principles of Rule 16 of the House Rules. The eight (8) additional members of the Commission shall be appointed as follows: four (4) members of the House of Delegates, including the co-chairs of the Committee on Appropriations and the House Committee on Finance and two (2) members of the House of Delegates appointed by the Speaker of the House in accordance with the principles of Rule 16 of the House Rules; and four (4) members of the Senate to be appointed by the Senate Committee on Privileges and Elections.

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.

An Assesment of Fiscal Impact Statements

October 12, 1998

Senate Finance Committee Staff
House Appropriations Committee Staff

Fiscal Impact Statements

- Good fiscal impact statements are essential to the money committees
  - HAC/SFC are responsible for sending a balanced budget to the floor.
  - Fiscal impact statements help make that possible.
- At the same time that the budget bill is being analyzed by HAC/SFC, other bills are being considered that can change the bottom line.
- Most of these initially go to various policy committees. Examples:

Medicaid & welfare bills	House HWI/Senate Rehab & SS
Standards of Quality bills	House & Senate Education
Scholarship programs	House & Senate Education
Criminal penalty bills	House & Senate Courts of Justice
Tax bills (House)	House Finance

- If the initial policy committee decides to act on the bill, it generally goes to HAC/SFC for a fiscal review.
- Of the 2,149 bills introduced last session, roughly 60 to 70 percent required a fiscal impact statement, prepared by :

  1) Department of Planning and Budget;
  2) Department of Taxation;
  3) State Corporation Commission
  4) Virginia Retirement System;
  5) Department of Motor Vehicles;
  6) Department of Treasury; or
  7) Other Agencies.

- Fiscal impact statement process is decentralized because of:
  - The volume of bills and time constraints;
  - Breadth of subject matter covered by bills; and
  - Specialized knowledge required to prepare impact statements.

General Process Followed by HAC/SFC

Bills Referred to HAC/SFC

- Money committee staffs review fiscal impact statements that are prepared by agencies and DPB.
    - Use them if they provide a reasonable estimate.
    - Revise them if they appear to be inaccurate or incomplete.
- Bills are not acted upon until an impact statement is available.

Bills Initially Referred to Another Committee

- Money committee staffs use the fiscal impact statements to identify bills that need to be tracked.
    - scan the daily calendar for first sign of bills with possible fiscal impact;
    - check fiscal impact statements to see which of these bills do have an impact; and
    - provide notice to chairmen of bills with substantial fiscal impact that need to be referred to HAC/SFC.

Key Points

- Money committee staff are heavily involved with review and analysis of the budget bill during the time that other bills are being introduced and have to rely on others for the initial assessment of fiscal impacts.
- Accurate and timely fiscal impact statements are essential to the ability to send a balanced budget to the floor.
- Accurate fiscal impact statements cannot be prepared in a vacuum, but require substantial input from Executive agency personnel.

- Of the 2,149 bills, 384 were referred or re-referred to the Senate Finance Committee. That makes the Finance Committee one of the principal, but by no means the only, consumer of fiscal impact statements.

  - The Senate Finance Committee has had a long-standing policy of not considering bills until fiscal impact statements are in hand.

  - Impact statements are also used to monitor the work of other committees.

  - Therefore, accurate and reliable fiscal impact statements are crucial to completing the Committee's work.

- Good fiscal impact statements:

  1) Provide a clear explanation of what the bills does, and what programs and agencies it affects;

  2) Provide an accurate and objective estimate of cost, based on the best data available. Costs are estimated not just for the current year but also into the intermediate future;

  3) Describe some of the policy issues that may be involved;

  4) Identify identical or similar bills on the same topic or issue; and

  5) Are revised promptly whenever amendments are adopted which change the bill's provisions.

- Four elements are key to preparing a good fiscal impact statement:

  1) Detailed knowledge of the affected programs or funding streams;

  2) Thorough understanding of the state's budget;

  3) Immediate and ready access to up-to-date information on program activity, clients, costs, and trends;

- Except for basic information, all data reside with the executive agencies actually administering the programs.

- In some cases, getting data requires special computer runs, specialized expertise (e.g., actuarial help), or computer modeling (e.g., corrections bills)

4) Review by an experienced analyst who has broader knowledge and perspective, and who scrutinizes the estimates for flaws in methods, data, or assumptions.

    - Some bills that seem to have a limited application have ripple effects on other agencies.

A Straightforward Bill and Impact Statement
Senate Bill 637

Allows localities with less than 5,000 population and 1,000 in ADM to use 5,000 for population and 1,000 for ADM in computing their composite index. (SB 637)

Affects: Only the Department of Education and the few localities that might qualify to have their composite index revised.

	Task	Data/Calculations Required
1.	Determine affected localities	Population and ADM for each locality for each year of the biennium
2.	Calculate revised composite indexes for affected localities	True Value of real property, sales tax, adjusted gross income, population, and ADM for affected localities
3.	Calculate projected funding for each locality using the revised composite indexes and compare it to funding under the existing index. The difference is the fiscal impact.	Use revised composite indexes to re-run distribution for the **33 programs distributed using the composite index** -- Basic Aid, Voc Ed (SOQ), Special Ed (SOQ), Remedial, Gifted, SOL Teaching Materials, Maintenance Supplement, K-3, At-Risk, At Risk 4's, Homebound, Regional Tuition, Inservice, Regular and Special Ed Foster Care, School Community Health Centers, English as a Second Language, Fringe Benefits, Textbooks, Salary Incentive Payment, New Teachers, Enrollment Loss, Remedial Summer School, Composite Index Transition, Alternative Education, Reading Recovery, Truancy/Safe Schools, Early Intervention, SOL Remediation, School Health Initiative, Governor's Schools, Foreign Language Academies, and Electronic Classroom
	DPB Original Fiscal Impact	**$1.78 mil. GF in FY 99;** **$1.81 mil. GF in FY 00**

In the House, the bill was amended to provide that these localities could use the average Composite Index for localities contiguous to them.

DPB Revised Fiscal Impact — **$2.25 mil. GF in FY 99**
$2.16 mil. GF in FY 00

Department of Planning and Budget
1998 Fiscal Impact Statement

1. Patron Hanger

2. Bill Number SB 637

House of Origin:
X **Introduced**
___ **Substitute**
___ **Engrossed**

3. Committee Education and Health

4. Title Adjusting the Composite Index of Local Ability to Pay

Second House:
___ **In Committee**
___ **Substitute**
___ **Enrolled**

5. **Summary/Purpose:** This bill allows the local school board of any division that has a population of less than 5,000 and less than 1,000 students in average daily membership to elect to use a population of 5,000 and an average daily membership of 1,000 for purposes of computing the composite index of local ability to pay. Each school board electing this option must notify the Department of Education of its intention on or before January 1 of each year. The Department would compute the composite index for these school divisions by using the alternative data, but shall not adjust the composite index of any other school divisions.

6. **Fiscal Impact Estimates are:** Preliminary

6a. **Expenditure Impact:**

Fiscal Year	*Dollars*	*Positions*	*Fund*
1997-98			
1998-99	$1,787,677	0	General Fund
1999-00	$1,811,169	0	General Fund

7. **Budget amendment necessary:** Yes. Items 136, 137, 138 and 141

8. **Fiscal implications:** The Department of Education estimates that this bill would affect seven school divisions by decreasing their calculated composite index. This ultimately reduces the local share and increases the state share of SOQ costs.

9. **Specific agency or political subdivisions affected:**

The Department of Education- Direct Aid to Public Education
Local school divisions: Bath County, Craig County, Highland County, Clifton Forge, Norton, Colonial Beach and West Point

10. **Technical amendment necessary:** No

11. **Other comments:** None

Date: 2/3/98/ kmr
Document: sb637.DOC
cc: Secretary of Education

A More Complicated Example
House Bill 226

Eliminates the distinction in Comprehensive Services Act placements between mandated and non-mandated children. Requires services to be provided to all children with "acute or severe risks," as determined by a uniform assessment instrument.

Affects: State Departments of Education, Social Services, Juvenile Justice, MHMRSAS, Health, J&DR Courts, and all counties and cities.

	Task	Data/Calculations Required/Problems
1.	Determine how many additional children would be served	The bill does not define "acute or severe risks"
		No data exists at state level on who these kids are – they are not being served now, except in a few localities
	- Contact large localities to find out how many kids are being turned away	- Some localities only accept applications from mandated kids. Only calls to localities serving non-mandated kids would be productive.
	- Contact agencies who serve non-mandated kids (Juv. Just., DMHMRSAS)	- JLARC study estimated 217 kids through Juv. Just., DMHMRSAS data. How many others are there? How quickly would they be identified and served?
		- Ultimately, assumptions would be required to estimate the number of additional children who would be served.
2.	What would the average cost be of serving kids with define "acute or severe risks"?	JLARC study analysis estimated $35,253 per child. CSA staff, using their cost data on existing cases, estimated $44,307 per child.
3.	How many of the additional kids would be eligible for Medicaid?	Medicaid-eligible kids would be funded 48.55% state and 51.45% federal. Non-Medicaid eligible kids would be funded 63% state and 37% local.

4.	How would kids and costs grow from year to year?	CSA trend data on eligible kids and cost of residential services.
	DPB Original Fiscal Impact	**$14.5 mil. GF in FY 99; $8.5 mil. NGF** **$15.5 mil. GF in FY 00; $9.1 mil. NGF**

A substitute was adopted in the House, which made the local mandate contingent upon state funding being appropriated. Impact statement was revised to reflect estimates of Medicaid-eligible kids.

DPB Revised Fiscal Impact	**$7.1 mil. GF in FY 99; $11.9 mil. NGF** **$7.5 mil. GF in FY 00; $12.6 mil. NGF**

- Preparing the impact statement for this bill would have required:

  1) Detailed knowledge of the Comprehensive Services Act – a complex program involving multiple state agencies and all cities and counties;

  2) in-depth familiarity with the JLARC study;

  3) Contacts with local CSA management teams, and state agencies serving non-mandated kids;

  4) Familiarity with Medicaid eligibility requirements, and how Medicaid is funded ;

  5) Access to the CSA data base on the number of kids served and the costs of residential and other services; and

  6) A basis for making educated estimates about the number of additional kids who would be served, the number who would be eligible for Medicaid, what services they would receive, what the cost of those services would be,.

- Because of the unknowns and despite the JLARC study, the fiscal impacts were listed as tentative.

- Although this example is more complicated, it is not the most complicated fiscal impact statement we saw last session.

Department of Planning and Budget
1998 Fiscal Impact Statement

1. Patron Croshaw, G

2. Bill Number HB 226

House of Origin:
___ Introduced
X Substitute
___ Engrossed

3. Committee Senate Finance

4. Title Mandating Services for Children Served by Comprehensive Services Act

Second House:
X In Committee
___ Substitute
___ Enrolled

5. Summary/Purpose: This bill implements a recommendation of the Joint Legislative and Audit Review Commission (JLARC) in a 1997 report on the Comprehensive Services Act (CSA), by amending section 2.1-757 of the *Code*. It eliminates the current distinction in CSA placements between "mandated" children (foster care, children at-risk of foster care placement, and students eligible for special education private tuition) and "non-mandated" children, who generally enter CSA through the Departments of Juvenile Justice (DJJ) and Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS). Treatment services would be provided to all children with "acute or severe risks" as determined by a uniform assessment instrument and procedures specified by the CSA state executive council. In addition, implementation of this legislation is contingent on the payment for such services from the Medicaid program for Medicaid-eligible youth.

6. Fiscal Impact Estimates are: Tentative

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
1997-98	0	0	
1998-99	$7,050,092	0	GF
	$11,859063	0	NGF
1999-00	$7,514,615	0	GF
	$12,640,444	0	NGF

7. Budget amendment necessary: Yes (item 151)

8. Fiscal implications: The fiscal implications of this bill are tentative for two reasons. First, it provides no operational definition of "acute or severe risks," the basis on which children would be eligible for services. Second, there are no reliable data regarding the number of currently "non-mandated" children who would meet an "acute or severe risk" definition. A 1997 JLARC report on the use of Medicaid as an alternative funding source for the CSA program and administrative costs, estimated the number of additional children meeting this criteria at 217 and the additional costs at $7,650,000.

However, CSA staff analysis shows that JLARC only estimated the number of children that would come into CSA through DJJ and DMHMRSAS. It did not estimate the number of additional children that may enter the CSA system through other sources. Also, the JLARC report estimated the additional cost of residential services at $35,253 per child, while CSA staff place the current figure at $44,307 per child.

In order to develop a tentative estimate of the cost of the additional eligibles, it was assumed that the current 25 percent share of mandated children who receive residential services would also hold true for the currently non-mandated group. On this basis, CSA staff estimate an additional 509 children could become eligible for residential treatment services and that the cost increase would be over $23 million in 1999 and $24.5 million in 2000. This does not include the cost of services for additional youth entering the CSA system as a result of the availability of residential services.

The general fund cost of this legislation is calculated on the assumption the Commonwealth's share of total cost would be 48.55 percent and the federal Medicaid share 51.45 percent. The resulting amount for the Commonwealth is then apportioned at the current CSA statewide rate of 63 percent state and 37 percent local.

CSA communications with local officials indicate they generally agree that the additional services provided under this bill are needed. However, they are concerned about the additional costs they would be required to pay and the precedent for localities to provide matching funds for Medicaid.

9. Specific agency or political subdivisions affected:

Virginia localities that provide CSA and related services
Local Juvenile and Domestic Relations Courts
Department of Education
Department of Social Services
Department of Juvenile Justice
Department of Mental Health, Mental Retardation, and Substance Abuse
Department of Health

10. Technical amendment necessary: No

11. Other comments: None

Date: 2/20/98
Document: rlc \\DPB-NW1\DATA\USERS\RLC\AACSA\FI898\H226a.DOC

cc: Secretary of Health and Human Resources

- The range of programs and issues on which fiscal impact statements are required each session is substantial – as broad as the range of bills introduced.

  - Listed on the next few pages is an excerpt of about 40 bills from those considered last session by the Senate Finance Committee.

  - The bills affect every functional area of state government, all cities and counties, and potential costs in the hundreds of millions.

  - Retirement bills, corrections bills, and tax bills are excluded from this sample. (<u>Note</u>: SB 401 does not exclude tax bills from those to be prepared by Legislative Services.)

<u>Administration</u>

Increases the minimum number of deputies funded by the compensation board from one per 2,000 persons to one per 1,500 persons. (HB 808)

Allows clerks and the locality they serve to enter into an agreement whereby the localities would take over responsibility for all costs of the office and all clerk's fees would go to the locality. (SB 279)

Requires the Commonwealth to pay a portion of the salaries of courtroom security officers required to be hired by a circuit court judge, above the number of courtroom security officers fixed by the Compensation Board. (SB 405)

Permits part-time state employees to purchase health insurance coverage through a health insurance plan authorized by the Department of Personnel and Training. (HB 1233)

<u>Finance</u>

Reclassifies negotiable certificates of deposit and negotiable bank deposit notes from deposits to investments, permitting public funds to be invested in these instruments if the instruments have certain ratings by recognized rating agencies. (SB 261)

Requires the final installment of federal retiree settlement payments to be made on March 31, 1998. (SB 4)

Public Education

Authorizes localities to use a portion of their school's health insurance premium fund to compensate retired school employees. Currently, the money in this fund may be used only to offset health insurance premium expenses incurred by or on behalf of present and future school employees. (HB 607)

Establishes the School Nurse Incentive Grants Program and Fund to disburse matching grants to school boards to employ or contract to achieve the ratio of at least one nurse per 750 students in the relevant school division, calculated on the basis of the composite index of local ability to pay. (HB 1060)

Establishes the Virginia Educational Excellence Incentive Reward Program to award incentive grants to schools meeting performance criteria established by the Board and to support non-monetary awards recognizing exemplary performance by teachers administrators, and students at the regional and state levels. Grants are calculated on a per teacher basis and may be used for salary bonuses, professional development, school improvement funds, or other educational initiatives or expenses approved by the Board. (HB 653)

Funds the Public School Construction Grants Program with lottery revenues and uncollected lottery proceeds. The share of lottery revenues deposited in the Grants Fund starts at up to 15 percent in FY 1999 and 2000, increases to up to 25 percent in fiscal year 2001, up to 50 percent in fiscal year 2002, up to 75 percent in fiscal year 2003, and up to 100 percent thereafter, to be allocated for matching grants based on criteria weighted to provide funding for school divisions with the greatest educational need and fiscal stress. (HB 1130)

Allows localities with less than 5,000 population and 1,000 in ADM to use 5,000 for population and 1,000 for ADM in computing their composite index. (SB 637)

Allows school divisions with existing at-risk four-year-olds programs to apply for state funds to support half-day programs that include both at-risk four-year-olds and five-year-olds who are not eligible to attend kindergarten. The bill also adjusts the prohibition on supplanting any funds currently provided for preschool programs. (SB 399)

Expands four-year-old at-risk preschool programs to cover all eligible students in all schools and revises the K-3 program to bring schools with at least 50 percent free lunch participation from 18:1 to 15:1. (SB 167)

Higher Education

Reapportions the pari-mutuel pools by adding percentage payments to the Va-Md Regional College of Veterinary Medicine, the Virginia Equine Center Foundation, and the Virginia Horse Industry Board. The Commonwealth's portion has been reduced by one-quarter percent. (HB 590)

Establishes the Va. Undergraduate and Voc. Incentive Scholarship Program, to be administered by the State Council of Higher Education. Scholarships are available to eligible full-time students attending certain four-year Virginia colleges. Students must have completed at least one year of study, have a B average or better, and be enrolled in designated programs that address Virginia's workforce training needs. (HB 917)

Permits in-state graduate students and their dependents who attend Virginia public colleges and are receiving a stipend to purchase health insurance coverage under the state employee health insurance plan. (HB 741)

Health and Human Resources

Child Health Bill. Expands Medicaid to provide coverage of children up to the age of 19 who have family incomes at or below 200 percent of the federal poverty guidelines and are otherwise eligible for this program, with Medicaid waivers sought to charge premiums and co-payments on a sliding fee scale for children having families with incomes above 150 percent of the federal poverty guidelines. (SB 433)/HB 1074)

Eliminates the distinction between mandated and non-mandated children under the Comprehensive Services Act. (HB 226)

Establishes the Office of Comprehensive Services for At-Risk Youth and Families. Provides that all children seeking treatment shall be assessed by a family assessment and planning team in order to be eligible for state pool funds. Denials of funding may be appealed. Development and implementation of a mandatory uniform assessment instrument is required. (HB 667)

Authorizes DMV to collect an additional fee of $30 for operator's license reinstatements for persons whose licenses were suspended by conviction of specified dangerous driving offenses. Of the additional money, $25 will fund the Commonwealth Neurotrauma Initiative Fund. (SB 484)

Establishes the statewide fraud control program, to be funded by general funds appropriated for this activity, (ii) any federal funds available for this purpose, and (iii) balances in the Fraud Recovery Fund. (SB 192)

Judicial

Authorizes the establishment of a public defender office for the City of Charlottesville and the County of Albemarle. (HB 742)

Requires each general district court to create a small claims division by January 1, 1999. (HB 1254)

Specifies fee increases fees for court-appointed professionals who participate in adult involuntary commitment proceedings. (HB 596)

Specifies fee increases paid to court-appointed counsel in circuit court cases involving felonies. (HB 948)

Requires assessment of a $25 fee for withdrawal of a DNA blood sample to be taxed as costs of the criminal case. (SB 353)

Natural Resources

Dedicates, the two percent state sales and use tax on hunting, fishing and wildlife-watching equipment to Game and Inland Fisheries, based on the most recent equipment sales figures reported in the "National Survey of Fishing, Hunting, and Wildlife-Associated Recreation" for Virginia. (HB 38)

Transportation

Increases the Commonwealth Mass Transit Fund's share of the Transportation Trust Fund from 8.4 percent to 14.5 percent in FY 1998-1999 and 14.7 percent thereafter. (HB 958)

Allows an exemption from the motor vehicle sales and use tax for leased veivlesd purchased by the lessee, when the tax was paid with the original lease. (SB 489)

Commerce and Trade

Provides that employees of the Va. Econ. Dev. Partnership may participate in all health and related insurance benefits as well as other benefits, including premium conversion and flexible benefits, available to state employees by law. (SB 607)

Creates a grant program within the Department of Minority Business Enterprise to promote the long-term viability of new and existing businesses owned and operated by economically disadvantaged individuals. (SB 701)

Health Insurance or Employee Benefits

Allows retiring state employees to have the amount of their accrued annual leave, sick leave, and "lag pay" that would otherwise be paid to them in a lump sum to be credited to a supplemental health insurance credit account. (SB 304)

Allows retiring state employees to use accrued sick leave and annual leave balances to cover one-half of the cost of the retiree's premium under the state health insurance program. (SB 303)

Provides that the spouse and any dependents of a deceased local public safety employee who purchased health insurance coverage shall pay the same portion of the applicable premium as active employees pay for the same coverage. (SB 173)

A variety of bills requires Medicaid and the state health insurance (and in some cases private providers and HMOs program) to cover:

- Low-dose screening mammograms (HB 1202)
- PSA testing (HB 915)
- Insulin-dependent diabetes (HB 1399)
- Annual pap smears (HB 610)
- Infant hearing screenings and follow-up diagnostic audiological examinations (SB 584)
- Reconstructive breast surgery (SB 679)

Summary

- Good fiscal impact statements are crucial to what we do. For us, good fiscal impact statements are often the difference between informed consideration of a bill and conjecture about what impact a bill might have.

- As you examine the process of fiscal impact statements, 6 questions need to be answered. Will a change in process still ensure that the General Assembly will have:

  1) Staff available to prepare the statements who have detailed knowledge of programs across the range of state government?

  2) Immediate and ready access to data on clients, costs, and trends?

  3) Staff preparing the statements who are thoroughly experienced with the state budget?

  4) Reviewers who are themselves experienced analysts and who have both broad knowledge of state government, and good quantitative and budget skills?

  5) Sufficient staff capacity to meet the preparation deadlines required during the legislative session – both for initial preparation and for revisions, as bills are changed?

  6) What would the cost be of such capacity?

Presentation to the Commission on the Commonwealth's Planning and Budgeting Process

The Fiscal Impact Statement

Department of Planning and Budget

October 12, 1998

Overview

- History of the Fiscal Impact Statement Process
- How DPB Currently Processes FISs
- Comments on the Implementation of the Bill

Legislative History of Fiscal Impact Statement

- 1954 - 1984 Bills affecting capital outlay or new service
- 1974 - 1984 Bills with Education impacts
- 1979 - present
  Bills with local impacts
- 1993 - present
  Bills with impacts on prison population

Executive History of Fiscal Impact Statement

- January 1977 - Administration and Finance agency heads prepare FISs
- July 1977 - DPB director agreed to pilot FISs for bills with major impacts
- Executive Order 10 (78) <u>Legislative Coordination</u>
- Continue through EO 28 (98) <u>Executive Branch Legislative Coordination</u>

How DPB Currently Processes FISs

- Sorts bills into four categories:
  - Review by DPB
  - Review by Tax or the SCC
  - Review by other agencies
  - Not Reviewed

- DPB Strongest Emphasis:
  - Bills assigned to HAC and SFC
  - Complex or controversial
  - Large fiscal impacts

How DPB Currently Processes FISs (cont'd.)

- Tax and SCC focus
  - Bills affecting their sections of Code
- Other agencies prepare FIS if:
  - Requested by DPB
  - Only affects that agency
  - Not complex or controversial

How DPB Currently Processes FISs (cont'd.)

- Not Reviewed
  - Technical adjustment with no impact
  - Does not affect state government activities
- Delivery Requirements
  - Three days from receipt if HAC, HFC, or SFC
  - Four days for other committees
  - Delivery date altered by known meeting requirements

How DPB Currently Processes FISs (cont'd.)

- All assigned agencies deliver FISs to same parties:
  - Patrons, SFC and HAC, DLS, Governor, Lieutenant Governor, Speaker, Affected Cabinet Secretaries
  - NEW: House and Senate Clerks will receive for committee chairs

- FISs updated when Bill Room reissues - Substitute or Amendments

Comments on Implementation

- Work cooperatively with agencies; they are the program experts
- Develop guidelines; otherwise agencies may exaggerate costs
- Get copies of bills into agencies hands to start review as soon as possible

Comments on Implementation (cont'd.)

- Maintain working relationship with Tax, SCC and VRS
- Prevent members from asking for FISs for different scenarios - - Workload Increases
- Be selective on number or types of bills reviewed

Presentation to

Commission on the Commonwealth's Planning and Budgeting Process - SJR 94 (1998)

October 12, 1998

Division of Legislative Services

FISCAL NOTE PREPARATION OVERVIEW

States(N=46)	
36	LEGISLATIVE AGENCY(IES)
31	EXECUTIVE AGENCY
	» » » » » » » »» » » » » » » »
14	LEGISLATIVE AGENCY ONLY
9	EXECUTIVE AGENCY ONLY
22	LEGISLATIVE AND EXECUTIVE AGENCIES EACH DO ANALYSIS
1	NO ANALYSIS

Source: NCSL, Legislative Budget Procedures in the 50 States (1988)

COORDINATE/MONITOR FISCAL NOTE PROCESS

LEGISLATIVE ENTITY (27)

ADMINISTRATIVE AGENCY (16)

BOTH (1)

NO ANSWER (6)

(Source: 1990 Washington State Survey)

LEGISLATIVE AGENCY RESPONSIBLE FOR FISCAL NOTE

States(N=36)	Agency Responsible
25	FISCAL OFFICE (Agency or Section of General Legislative Services Agency)
9	BUDGET COMMITTEE(S)
2	OTHER (Eg., Program Audit Office)

Source: NCSL, Legislative Budget Procedures in the 50 States (1988)

ASSUMPTIONS

- NCSL ESTIMATE: 120-150 NOTES PER PERSON
  (Range No Impact to Extensive Analysis)

- DPB REVIEWED 1100 BILLS IN "SHORT" 1997 SESSION (1998 INTERIM REPORT, COMMISSION ON THE COMMONWEALTH'S PLANNING AND BUDGETING PROCESS, PAGE A-42)

- TAXATION, SCC, VRS, COMMISSION ON LOCAL GOVERNMENT CONTINUE TO PREPARE NOTES

- AGENCIES COOPERATE

STAFF

10 PROFESSIONAL

2 ADMINISTRATIVE/CLERICAL

FIRST YEAR	SECOND YEAR
$529,487 *	$529,487*

*LOW ASSUMPTION: EACH POSITION AT FIRST STEP OF PAY GRADE

SPACE AND EQUIPMENT
(FIRST YEAR)

SPACE	**$30,600**

1500 SQUARE FEET @ $17.00 PER SQUARE FOOT

EQUIPMENT:

MODULAR OFFICES	**$42,000**
PHONE SYSTEM	**$45,000**
WORK STATIONS	**$42,000**
COPIER	**$10,000**
TOTAL	**$139,000**

SUMMARY

	FIRST YEAR	SECOND YEAR
STAFF	$529,487	$529,587
SPACE	$ 30,600	$ 30,600
EQUIP-MENT	$139,000	$ 30,000
TOTAL	$699,087	$590,087

Multi-Year Budget Planning Model

Presentation to:

Commission on the Commonwealth's Planning and Budgeting Process

Robert Cline, Eric Cook and Jared Kimble

Barents Group LLC

October 12, 1998

Agenda

- Introduction to Barents Group
- North Carolina's Experience with a Multi-Year Budget Planning Model
- Overview of the Budget Planning Model
- Questions and Answers

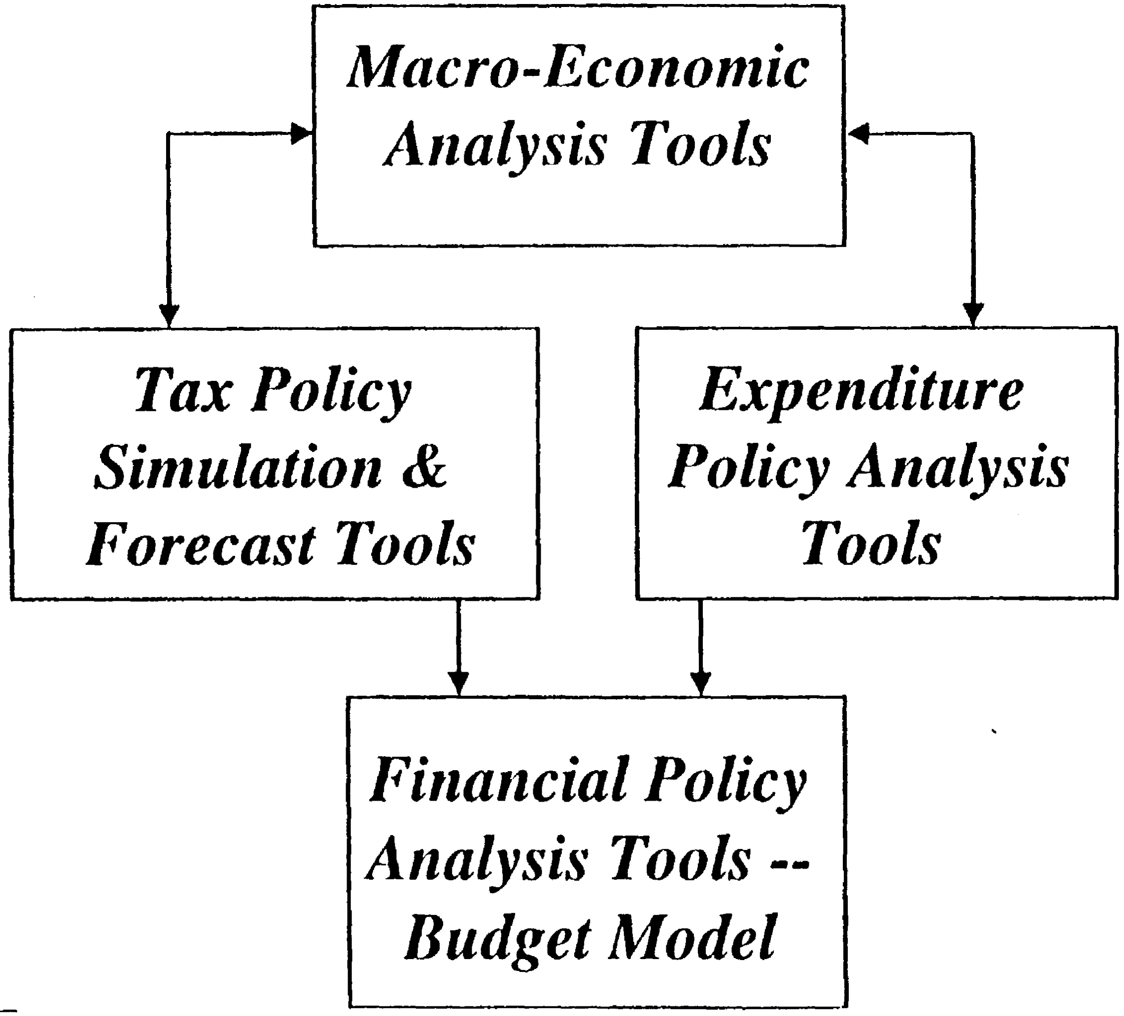
BARENTS GROUP LLC

Description of Our Business

- Clients include state legislatures and tax agencies as well as local governments
- Products and services include delivered software and economic and fiscal policy studies
- Barents Group has worked with governments and private-sector clients in over 25 states
- Budget Model is an important addition to our fiscal tool kit -- delivered to NC General Assembly and under development for Johnston County, NC

BARENTS GROUP LLC

Delivered Software Products



BARENTS GROUP LLC

Key Features of Our Approach

- State-of-the-art, customized Budget Planning Model linked to existing budget system data
- Client involvement throughout the project
  - Identification of policy capabilities
  - Review of model prototype
  - Customization of output tables and graphics
- On-going technical support -- maintenance & updating
- 15-year record of commitment to client service

BARENTS GROUP LLC

North Carolina Budget Planning Model

- Developed by Barents in 1993 as a response to budget crisis in early 1990s; updated and expanded in 1997
- Ten-year budget forecast and simulation horizon for General Fund and Highway Funds (current services and continuation budgets)
- Model imports certified budget at object code level
- User-controlled drivers link positions, revenues and outlays to economic and demographic factors -- population, income, inflation, employment, ADM

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How the Model is Used in North Carolina

- Model is run and maintained by General Assembly Fiscal Research staff; State Budget Office and Dept. of Revenue participate in the process
- Updated annually to reflect any structural changes in the budget -- Barents provides assistance, as needed
- Budget Model database is updated during the year to reflect legislative or economic forecast changes
- Runs are presented to the Joint Appropriations Committee early in the legislative session

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Budget Model Features

- Ten-year budget forecast and simulation horizon
- Detailed economic and demographic "drivers" used to forecast revenues, expenditures and budget balances
- Comprehensive set of budget policy parameters easily accessible through drop-down menus
- Simulates budget impacts of changes in service levels, input costs, tax bases and rates and economic and demographic factors -- "budget neutral" packages
- Build-in flexibility to update and expand budget model

BARENTS GROUP LLC

Policy Simulation Examples

- Alternative growth rates for Medicaid expenditures
- Budget impacts of different population growth rates
- Alternative growth rates for K-12 teacher salaries
- Budget savings from welfare reform -- TANF
- Alternative rates of growth of the sales tax base
- Different school aid formulas or changes in federal aid
- Increased costs of employee health insurance

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Multi-Year Budget Planning Model Demonstration

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NC BUDGET PLANNING MODEL
FY 1995/1996 BASE YEAR

SIMULATION

Teacher's Salaries Raised to National Average

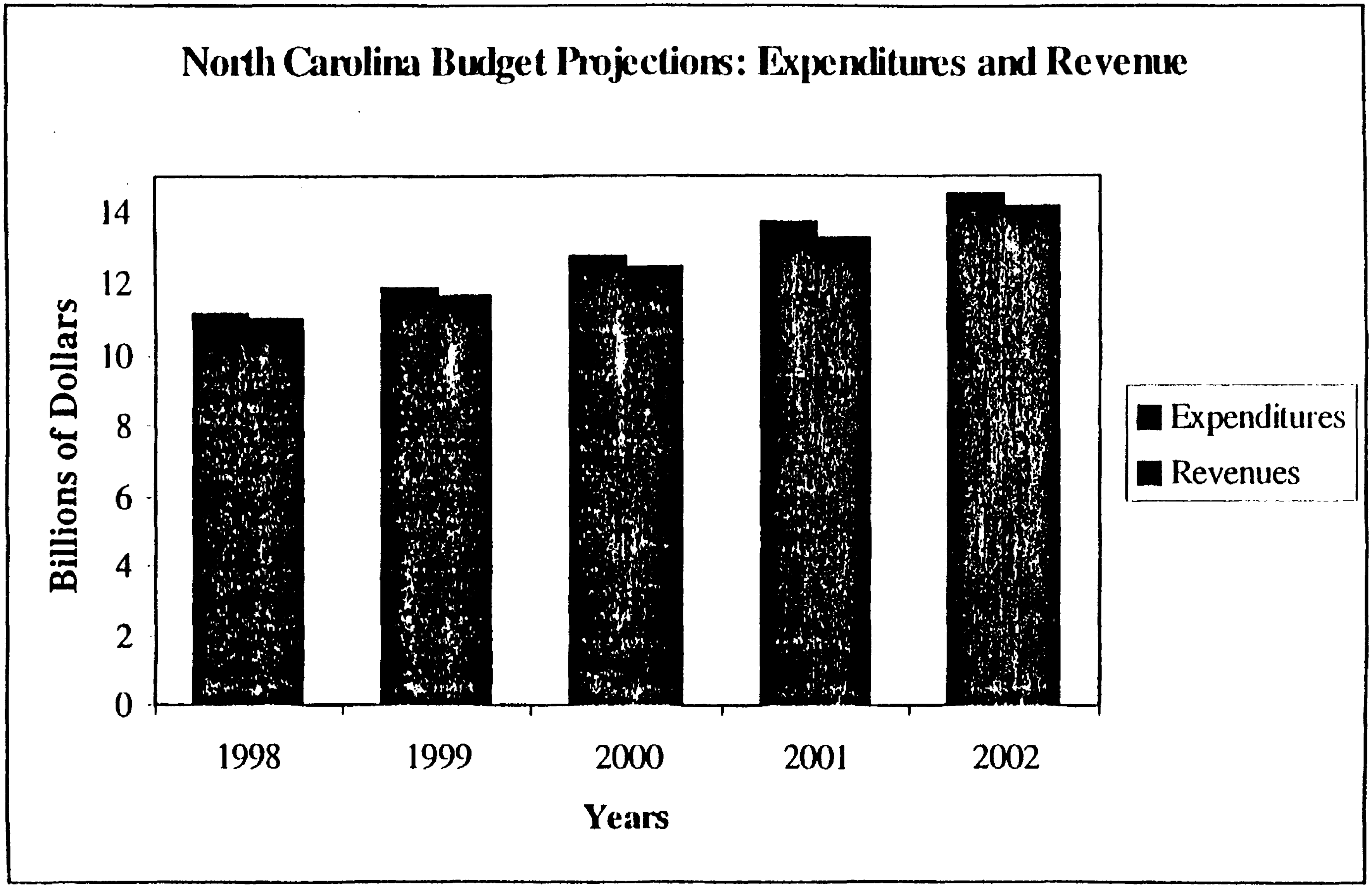
GENERAL FUND EXPENDITURES AND REVENUE ($millions)

		1997/98	1998/99	1999/00	2000/01	2001/02
Expenditures		$ 11,109.8	$ 11,893.5	$ 12,738.0	$ 13,661.6	$ 14,522.3
Revenues		$ 10,985.0	$ 11,684.6	$ 12,424.4	$ 13,221.8	$ 14,094.4
Surplus/(Shortage)		($124.8)	($208.9)	($313.6)	($439.8)	($391.6)
Growth Rates:	**Expenditures**	7.2%	7.1%	7.1%	7.3%	6.3%
	Revenue	6.1%	6.4%	6.3%	6.4%	6.6%

GROWTH ASSUMPTIONS

Avg. Annual Growth Assumptions

	95-99	99-04	95-04
1. N.C. Population	1.1%	0.8%	1.0%
2. Total Personal Income	5.7%	5.8%	5.8%
3. CPI	3.0%	3.4%	3.2%
4. Avg. Daily Mem.	2.0%	1.0%	1.4%
5. Employment	1.9%	1.6%	1.7%


North Carolina Budget Projections: Expenditures and Revenue
14
12
10
8
6
4
2
0
Billions of Dollars
1998
1999
2000
2001
2002
Years
Expenditures
Revenues

Contribution to the Budget Process

- Budget Planning Model adds a key long-range strategic planning dimension to short -run biennial budget process
- Decision-makers quickly and accurately estimate long -run impacts of complex policy changes
- Model helps reduce time spent debating the numbers and focuses attention on policy issues
- Provides a consistent, understandable framework for presenting and evaluating budget options

BARENTS
GROUP·LLC

Expenditure Forecasting and Fiscal Impact Statements:

Options for Consideration

January 13, 1999

House Appropriations Committee Staff
Senate Finance Committee Staff

Expenditure Forecasting and Fiscal Impact Statements: Options to Consider

- At its October meeting, the Commission on the Planning and Budgeting Process was briefed on (1) a budget forecasting model that is used in North Carolina; and (2) Virginia's fiscal impact statement process.

- At the conclusion of the meeting, HAC, SFC, and JLARC staff were asked to provide options for developing legislative capacity to do long-term expenditure forecasting and independent assessment of the fiscal impact on proposed bills.

Fiscal Impact Statements

- Of the 2,149 bills introduced last session, roughly 60 to 70 percent required a fiscal impact statement, prepared by:

  1) Department of Planning and Budget;
  2) Department of Taxation;
  3) State Corporation Commission
  4) Virginia Retirement System;
  5) Department of Motor Vehicles;
  6) Department of Treasury; or
  7) Other Agencies.

- Four elements are key to preparing a good fiscal impact statement:

  1) Detailed knowledge of the affected programs or funding streams;

  2) Thorough understanding of the state's budget;

  3) Immediate and ready access to up-to-date information on program activity, clients, costs, and trends (data that resides with the executive agencies actually administering the programs);

4) Review by an experienced analyst who has broader knowledge and perspective, and who scrutinizes the estimates for flaws in methods, data, or assumptions.

  -- Some bills that seem to have a limited application have ripple effects on other agencies.

- The range of programs and issues involved in proposed legislation makes it highly unlikely that the General Assembly could create the capacity to prepare fiscal impact statements across the board, without:

  - adding a significant number of permanent staff for what would be a seasonal activity. Those staff would lack detailed program knowledge, and would still be dependent on executive agencies for information on programs, clients, and costs; and

  - duplicating processes that will continue to go on in the executive branch.

Expenditure Forecasting

- Regardless of the statistical techniques employed, all multi-year forecasts involve extrapolating past history into the future.

  - The longer the forecast horizon, the greater the forecast error is likely to be.

- Excluding revenues, there are four major forecasts which are central to the Commonwealth's general fund budget:

  1) Medicaid;

  2) Adult and Juvenile Corrections;

  3) Public School Enrollment; and

4) Higher Education Enrollment.

- Over the past decade, the first three budget drivers have explained almost three fourths of the Commonwealth's budget growth.

  - In recent years, the higher education forecast has been less significant, because substantial enrollment growth has not occurred.

  - Funding increases for higher education have been tied more to policy objectives than enrollment demands.

- Forecasts for all four programs/client groups are prepared by executive agencies, with varying levels of legislative participation.

  1) <u>Medicaid</u>: Prepared by the Department of Planning and Budget; no substantive legislative involvement.

  2) <u>Adult and Juvenile Corrections</u>: Prepared by the Departments of Corrections and Juvenile Justice, in cooperation with a multi-department Technical Committee, as well as a multi-player Policy Committee. There is legislative involvement through staff at the end of the process, with limited oversight.

  3) <u>Public School Enrollment</u>: Prepared by the Department of Education; no substantive legislative involvement.

  4) <u>Higher Education Enrollment</u>: Prepared by the State Council of Higher Education, in cooperation with state colleges and universities. DPB has had involvement in some years. Limited legislative involvement through staff.

- Any meaningful attempt to project long-term expenditures will have to accurately project these programs/client groups.

Options

- Since the October meeting, legislative staff met to consider options. DPB's Director attended. The following objectives were identified:

    - *For fiscal impacts*, provide a legislative capacity to analyze fiscal impacts, without duplicating executive processes.

    - *For expenditure forecasting*, provide the capacity to test the usefulness of expenditure forecasting in the legislature. Establish the capacity in such a way that it could be expanded over time, if the General Assembly judged it desirable.

    - For both efforts, minimize the number of new, permanent staff which are added to legislative agencies.

    - Strengthen existing analytical capacity where it exists, rather than adding entirely new functions to agencies.

<u>**Option I**</u>

- Expand JLARC's technical capacity to conduct fiscal analyses and oversee expenditure forecasts.

    - Add 3 legislative statistical analysts to JLARC staff.

    - Charge them with overseeing executive forecasts for Medicaid, public school enrollment, adult and juvenile correction (and maybe higher education).

        -- These functions would be most active when the legislature is not in session. Most of the work would suspend when the session begins.

    - Charge this unit with analyzing fiscal impact statements during the session, when statements are referred to them.

        -- Referrals could occur through a letter to the JLARC Director from the chairman of a standing committee.

-- Requiring a referral would concentrate the analytical effort on bills with the most significance.

-- Other JLARC staff, who garner program knowledge through their evaluation studies, could bolster the analyses as needed.

First Year Cost:		
	Salaries and Fringe Benefits	$200,070
	Furniture, Computer Hardware Software	13,000
	Session Intern	3,600
	Total	$216,670

Option II

- Add staff beyond the 3 statistical analysts in Option I. Adding 3 more analysts would allow the unit to:

  - undertake independent forecasts of key programs rather than just overseeing them, particularly for Medicaid, public school enrollment, and adult and juvenile corrections.

  - become involved in more fiscal impact statements than would be possible with the core staff.

Cautions:

- There will be a fairly steep learning curve for new staff.

  -- Even if this option is selected, this unit could not begin producing forecasts right away. It would require time to learn the programs, understand the available data, and begin to construct a model of what explains/drives the program costs and numbers of clients.

  -- Producing the forecasts would require direct (probably on-line) access to data on programs, clients, and costs.

- Even at this staffing level, the unit could not produce all fiscal impact statements. Staff would still be dependent on executive agencies for data, and would lack the detailed program knowledge required.

Estimated Cost: More than doubling of the cost of Option I;

-- With 6 staff, administrative support and supervision become a budget factor. A chief analyst would probably need to be added.

-- If the unit produces forecasts, data needs and direct access to executive information systems becomes more important. There could well be a systems cost, but more detailed information is needed to develop a reliable estimate.

- Option II is an extension of Option I. It would be possible to start with Option I, and then move over time to Option II, if the General Assembly judged it desirable.

1999 SESSION

999545661

SENATE BILL NO. 911

Offered January 14, 1999

A BILL to repeal § 30-19.1:8 of the Code of Virginia, as it is scheduled to become effective, relating to impact statements.

Patrons—Gartlan, Chichester and Walker

Referred to Committee on Rules

Be it enacted by the General Assembly of Virginia:

1. That § 30-19.1:8 of the Code of Virginia, as it is scheduled to become effective, is repealed.

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: ______________________

______________________ ______________________

Clerk of the Senate Clerk of the House of Delegates

999545661

SB911

1/14/99 16:36

Next Item | Prev Item

Legislative Department	FY 98-99	Item 16 #5s FY 99-00
Joint Legislative Audit And Review Commission	$0 0.00	$216,670 GF 3.00 FTE

Language:
Page 12, line 33, strike "2,689,168" and insert "2,905,838".
Page 12, line 33, strike "2,689,168" and insert "2,905,838".
Page 14, following line 47, insert:
"J. Out of this appropriation, funds are provided to expand JLARC's technical support staff, in order to assist with legislative fiscal impact analysis, when an impact statement is referred from the chairman of a standing committee of the House or Senate, and to conduct oversight of the expenditure forecasting process. Pursuant to existing statutory authority, all agencies of the Commonwealth shall provide access to information necessary to accomplish these duties."

Explanation:
(This amendment provides $216,670 and three FTE positions the second year from the general fund to expand JLAF technical capacity to conduct fiscal analyses and budget forecasts, as recommended by the Joint Commission on the Commonwealth's Planning and Budget Process. A companion amendment transfers these funds from the legislative contingency account.)

Goto Item List | Goto By Agency | Goto By Secretarial Area