Report of the
Joint Legislative Audit and Review Commission
To the Governor and
The General Assembly of Virginia

The Potential for Improving Budget Review in Virginia

In Brief

The Potential for Improving Budget Review in Virginia

The statute requiring this study directs JLARC to review how other states provide for legislative budget oversight and suggest ways to enhance legislative oversight in Virginia. The statute also directs JLARC to analyze on a pilot basis a State agency budget submission. The Department of Corrections (DOC) was selected.

This review finds that key constraints tend to limit legislative budget oversight, including a short legislative session, incomplete budget documentation, and a relatively low number of legislative fiscal staff.

Several ways to improve oversight are suggested, such as holding more agency-focused budget hearings, perhaps prior to the legislative session; ensuring legislative access to newly developed budget systems; and improved budget documentation.

The Governor accepted general fund budget reductions proposed by DOC totaling $22.7 million in FY 2009. JLARC staff found that this total does not account for offsetting costs to the State Compensation Board. However, DOC's FY 2010 savings may reach $28.8 million.

JLARC Staff for This Report

Glen S. Tittermary, Deputy Director
Walt Smiley, Project Leader
Brad Marsh
David Reynolds

This report is available on the JLARC website at http://jlarc.virginia.gov

COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission

Philip A. Leone
Director

Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

(804) 786-1258

January 7, 2009

The Honorable M. Kirkland Cox
Chairman
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia 23219

Dear Delegate Cox:

Section 30-58.4 of the *Code of Virginia*, which began as Senate Bill 1386 adopted by the 2007 General Assembly, directed the Joint Legislative Audit and Review Commission to evaluate how other states provide for legislative oversight of executive branch budget submissions and to suggest ways to enhance legislative oversight in Virginia. JLARC was also asked to analyze on a pilot basis the budget submission of one State agency, and the Department of Corrections was chosen as the agency for the pilot.

Staff findings were presented to the Commission on December 8, 2008, and are included in this report.

On behalf of the Commission staff, I would like to thank the staff at the Department of Planning and Budget, the Department of Corrections, and the Secretary of Finance for their assistance during this study.

Sincerely,

Philip A. Leone
Director

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JLARC Report Summary:
The Potential for Improving Budget Review in Virginia

Key Findings

- Virginia's budget for Fiscal Year 2008 allocated $36 billion to 153 agencies and funded more than 116,000 employees. (Chapter 1)
- Key constraints on legislative budget oversight include a short legislative session, limited routine opportunities for State agency personnel to discuss budget issues, a proliferation of documentation that is not comprehensive, and relatively few legislative fiscal staff. (Chapter 2)
- Ways to improve budget oversight include holding more agency-focused budget hearings, ensuring legislative access to newly developed budget systems, and improving budget documentation. (Chapters 2 and 3)
- At $1 billion, the Department of Corrections (DOC), the agency chosen for a pilot evaluation for this study, has the third largest budget and the largest number of authorized staff at 13,759. Personnel accounts for two-thirds of DOC's budget, and inmate medical costs another 13 percent. The inmate population is expected to increase by about 1,000 per year for the next six years. (Chapter 4)
- DOC's budget reduction plan as accepted by the Governor is unlikely to generate the full $22.7 million general fund savings claimed in FY 2009 due to offsetting costs incurred by the Compensation Board. Another key factor is DOC management of personnel reductions. As much as $28.8 million may be saved in FY 2010, however. (Chapter 5)

The 2007 General Assembly adopted Senate Bill 1386, now §30-58.4 of the *Code of Virginia,* requiring the Joint Legislative Audit and Review Commission (JLARC) to review how other states provide for legislative oversight of executive branch budget submissions and suggest ways to enhance legislative oversight in Virginia. The statute also directs JLARC to analyze on a pilot basis the budget submission of one State agency with a report prior to the 2009 General Assembly. JLARC chose the Department of Corrections (DOC) as the agency to be evaluated for this study.

MANAGING THE STATE BUDGET

The budget is perhaps the single most important statement of policies and priorities for any state. It is a complex instrument that channels funding into a variety of functions and programs and incorporates numerous trends and changes into a single dollar figure representing all state government activities.

Budget processes, or the way states produce their budgets, vary significantly. Some states budget annually while others budget on a biennial (two-year) basis. Some state legislatures manage the process with joint budget committees while others, like Virginia, use separate committees and committee staff.

Virginia's current 2008-2010 biennial budget totals almost $76 billion, or about $38 billion each year. The Governor presents a proposed two-year budget during every even-numbered year, which the General Assembly amends and adopts, and typically then amends again in each of the following two years. This process distinguishes Virginia from states with a "true" biennial budget which is adopted and then left in place, unamended, for the two-year period.

The Virginia General Assembly's role in the budget process has evolved over the past 30 years. The effect of many of these changes has been to provide legislators with more information about State agencies and the budget. An example is the requirement (stemming from a recommendation in a 1991 JLARC report) for the Governor to submit the budget prior to December 20 and for the General Assembly to hold budget hearings around the State. This provided more time and more information for legislative review as well as the opportunity for more public input.

In several recent years, it has taken more time than the regular legislative session to pass the budget. The 60-day "long" legislative session (which is shorter than some states' "short" sessions) is a compressed timeframe for consideration of such a complex budget.

ORGANIZATION AND MANAGEMENT OF LEGISLATIVE BUDGET PROCESSES IN OTHER STATES

JLARC staff conducted structured phone interviews with legislative fiscal staff in 21 states roughly comparable with Virginia. Although these comparator states' budgets ranged from $11 billion to $173 billion in size, their composition in terms of the proportion of restricted-use non-general funds were within about ten percent of Virginia's 53 percent non-general fund budget.

Most states have part-time legislatures, but most also convene for longer than the Virginia General Assembly. Of the 21 states reviewed, only Georgia at 40 days has a shorter legislative session. Four additional states—Florida, New Mexico, Kentucky, and Louisiana—have 60-day "long" sessions. Three of the 21 states have full-time legislatures and five have no time limit, even if they generally operate part-time.

Some states have a separate budget bill for each State agency—Illinois, for example, may have as many as 80 budget bills to consider, compared with Virginia's single bill. In five of the comparator states, the Governor does not introduce the budget bill; instead, legislative staff prepare a budget bill for introduction.

Virginia ranks low among the 21 comparator states in the number of professional legislative fiscal staff. The three states that had fewer staff also had substantially smaller budgets. Removing the two states with the highest number of legislative fiscal staff (Texas with 130 and California with 210), the other states averaged 28, compared with Virginia's 16.

Virginia budget reforms in the 1990s led to the money committees (House Appropriations and Senate Finance) holding public hearings at several locations prior to the legislative session. Other state legislatures hold more budget hearings, often with a narrower focus. These hearings are typically geared toward closer examination of agency budgets.

Seven states hold two or more separate rounds of hearings, one for public comment and another focused on specific agency requests. The Texas Legislative Budget Board holds three rounds of hearings: in August, when agencies submit budget requests; in September, when individual agencies hold hearings; and again during the legislative session, when each chamber's fiscal committees hold televised public hearings on agency budget requests.

One clear trend is toward televising legislative meetings and making them widely available through statewide public television and over the Internet, along with online archives of past meetings. Of the 21 states interviewed by JLARC staff, 15 (71 percent) indicated that their budget committee hearings are broadcast via Internet video or on television. This practice gives the public the opportunity to follow legislative activity more closely. Virginia currently provides closed-circuit video and audio of each chamber's floor sessions, but not committee meetings, and not over the Internet. The closed-circuit transmissions are available in only a limited geographical area.

State legislatures and their staffs in comparator states produce many budget-related products. These include both revenue and budget projections based on their own assumptions about factors such as growth, inflation, and agency workloads. Some legislative staffs combine budget analysis with performance evaluations, which Virginia could do more consistently. States also produce budget "primers" and guides to understanding budget procedures and issues. Arizona produces a "program summary" that provides details about an agency's operating funds and employment as well as a history of recent activities and expenditures.

Most of the state legislative fiscal staff interviewed for this report indicated that their state had some sort of performance measure system in place. Legislative involvement in the development and oversight of performance measures tends to improve utilization of those measures and their use in budget-making. It was also noted that interest in such measures tends to wane after their main legislative or executive branch proponents leave office.

Virginia has had a fairly robust performance measurement system in place since about 2000, although there is limited legislative oversight of the measures. The Department of Planning and Budget (DPB) manages the process, and the Council on Virginia's Future (which has eight legislative members, of 18 total) provide high-level guidance. A stronger legislative role and more and better measures could improve the impact of performance measurement and budgeting.

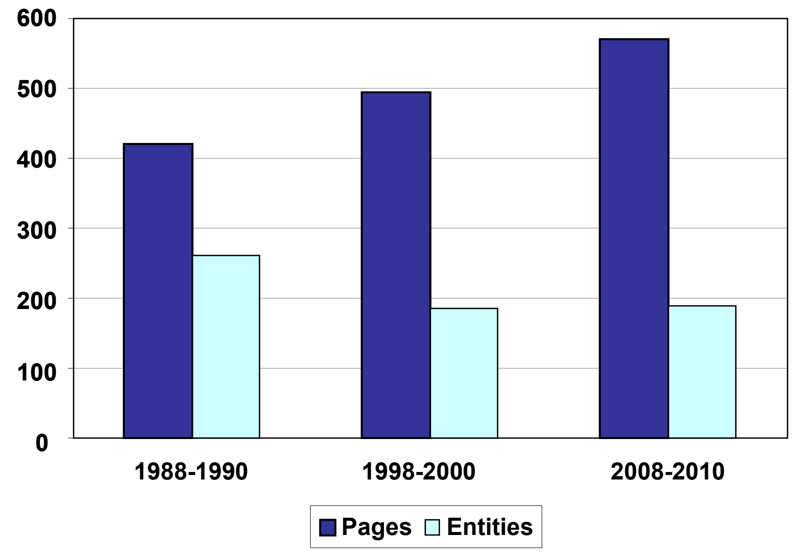
BUDGET DOCUMENTATION AND TRANSPARENCY

Nine types of budget-related documentation are produced in Virginia. No one document, however, contains all the relevant background and policy assumptions behind the budget. Agency strategic plans are the newest type of budget documentation and tend to be very detailed, but like the other documents, they often omit key policy decisions and funding assumptions.

Virginia's Appropriation Act has lengthened over the past 20 years, although the number of entities displayed in it, such as State agencies, has decreased (chart, next page). Much of the added length is due to the increasing use of budget language, such as specific instructions to agencies. Offsetting this increase, however, is the removal of budget details. For example, over the 20 years between the 1988-1990 and 2008-2010 Appropriation Acts, DOC's portion went from about 40 entities (mostly individual prison budgets) in 33 pages to nine pages and just the single entity, DOC, despite an increase in the number of correctional facilities during the period.

Although controls over appropriations have not changed, a shortened presentation of agency budgets is not necessarily consistent with the recent emphasis on budget transparency. Varying levels of detail about agencies in the Appropriation Act also make it difficult to analyze historical trends and comparisons.

Appropriation Acts Are Longer but Display Fewer Funded Entities



Source: Staff analysis of Appropriation Acts.

Ensuring the availability of and public access to budget information—transparency—is an important governmental objective. The Government Performance Project, for example, grades the 50 states on their willingness to share information, their ability to generate good information, and their "ability to get those who should use the information to do so." (Virginia received an "A" on these measures.)

A recent report from the Auditor of Public Accounts (APA) noted that citizens should be able to understand the Commonwealth's budget and how resources are used. This underlying concern with budget transparency is longstanding, and the General Assembly has in the past taken actions to make the budget more transparent. A statute adopted in the early 1990s, for example, moved the date by which the Governor must introduce the budget from mid-January to December 20. Not only did this make the Governor's recommendations available sooner, it also provided more time for the General Assembly to conduct public hearings on the proposed budget.

Other recent initiatives also have had the effect of increasing transparency. For example, since 2005 the APA's Commonwealth Data Point website has provided budget and spending data by agency, program, and fund. The ready availability of this information gives legislators, their staff, and other interested individuals the opportunity to look beyond the appropriations and see where fiscal resources are actually being spent.

Despite these actions, there remain "significant budget transparency issues that affect the ability of citizens to understand the Commonwealth's budget and how resources are used," according to the recent APA report. The report pointed to the use of appropriation transfers and sum sufficient appropriations that impair a clear understanding of the budget. The program budget structure used in the State budget also contributes to a lack of clarity, as it has not consistently been kept current. A result is that the level of detail available about agency budgets varies substantially. There seems to be no clear rule about whether or how to display administrative expenses in the budget, for example. As a result, the Appropriation Act does not always provide useable or comparable information about agencies.

One key funding assumption is the requirement for agencies to generate internal savings to cover inflationary pressures. With only a few exceptions, inflation has not been funded in State agencies since at least the early 1990s. The practice has been for agencies to use funds generated from employee vacancies to cover nonpersonal service inflation, including increases in energy costs. Some agencies, such as DOC, have also used vacancy funds to pay for major information technology projects.

Budget documentation should discuss these key policies and underlying assumptions. A new budget information system that is being developed by DPB should provide legislative staff with full access to budget data. Consideration should be given to funding major information technology software development through the capital process. Finally, agency performance measures should be aligned more closely with agency funding.

THE DEPARTMENT OF CORRECTIONS' BUDGET

The study mandate calls for JLARC staff to develop a pilot program for reviewing budget submissions of State agencies. Selected by JLARC as the agency for this pilot review, DOC is one of the largest State agencies, with an annual budget exceeding $1 billion and the most staff positions, budgeted for 13,759 for FY 2009.

DOC has grown substantially in the past ten years. The agency budget grew 51 percent, the average daily inmate population increased 11 percent to 33,551, and the caseload of persons on probation or parole increased 57 percent to 59,000. During this period, DOC closed seven facilities and opened six new facilities, for a net gain of about 1,600 beds. The most recent official forecast calls for continued growth of about 1,000 State-responsible inmates per year.

State-Responsible Inmates

State-responsible inmates have been convicted of a felony and sentenced to one or more years of confinement. "Out of compliance" State-responsible inmates have remained in jail for more than 90 days after DOC has received a final commitment order from the court. The Compensation Board pays $8 per day for each State-responsible inmate housed in jail, plus an additional $6 per day for each "out of compliance" inmate.

Personnel and inmate medical costs have been the principal areas of DOC budget growth in recent years. Personnel-related costs account for about two-thirds of the DOC budget. The agency has added personnel as new facilities have opened. Budget increases have also resulted from statewide decisions by the Governor and General Assembly to increase State employee salaries and benefits. Inmate medical services have also seen strong growth, rising 110 percent even after controlling for growth in the inmate population as well as medical services inflation.

In response to past budget cuts, DOC closed facilities and reduced overall operating costs. DOC also plays a key role in managing the backlog of State-responsible inmates in the local and regional jails. The jail backlog is a tool DOC can use to control the flow of inmates into State facilities. Using jails instead of prisons to house inmates generates savings for DOC, although it may generate additional costs for another State agency, the Compensation Board, as well as the localities that fund jail operations.

ANALYSIS OF DOC'S BUDGET SUBMISSION

DOC's fall 2008 budget submission consists of two parts: its five-, ten-, and 15-percent budget reduction plans, and the plan adopted by the Governor incorporating his choices from the DOC submission. These plans result from a forecasted decline in State revenue, which the Governor has indicated amounts to a 6.6 percent reduction in the overall general fund budget, or $1.1 billion.

The Governor exempted portions of DOC's budget from reductions, chiefly funds for prison security and inmate medical services as well as funding for detention and diversion centers. The amount available for reductions therefore, was $386 million in FY 2009 and FY 2010, or 38 percent of the agency's total budget.

The Governor endorsed reducing DOC's FY 2009 budget by $22.7 million and 697.5 staff positions. This includes closure of six facilities with 1,494 beds, the largest of which were Southampton and Pulaski Correctional Centers, with 650 and 426 beds, respectively.

Savings to the State will likely be less, because additional costs may be incurred by the Compensation Board when the backlog of State-responsible inmates in local jails increases. Closing DOC beds means that inmates will stay longer in local and regional jails, incurring costs to the Compensation Board and localities. Savings in FY 2009 may also be less than estimated because DOC wants to retain as many facility personnel as possible. This may be done by transferring individuals into vacant positions at facilities that are not slated to close or down-size.

Some of DOC's budget cuts may generate additional savings in FY 2010. Personnel-related savings may be greater because the one-time severance costs will occur in FY 2009, and because the affected positions will be vacant for the entire year instead of just part of the year. JLARC staff estimate that FY 2010 savings due to the DOC budget cuts announced in October 2008 may be as much as $28.8 million.

Chapter 1

The State Budget Process

In Summary

Virginia's FY 2008 budget allocated $36 billion to 153 agencies and funded more than 116,000 employees. The budget funds numerous governmental services and activities and encapsulates the State's position on a variety of policy and management issues. Development of such a complex instrument begins several years in advance, and may be amended by the General Assembly as many as three, and sometimes more, times. While the General Assembly's role in the budget process has evolved over the past 30 years, a key trend has been to provide legislators, as well as the public, with more information about State agencies and their budgets. Strategic plans and performance measurement are two recent examples. An aspect that has not changed is the compressed timeframe for legislative budget review. Virginia's 60-day "long" session is shorter than the "short" legislative sessions in some states, although General Assembly sessions have exceeded this timeframe in several recent years.

The 2007 General Assembly adopted Senate Bill 1386, now §30-58.4 of the *Code of Virginia,* requiring the Joint Legislative Audit and Review Commission (JLARC) to review how other states provide for legislative oversight of executive branch budget submissions and suggest ways to enhance legislative oversight in Virginia. The statute also directs JLARC to analyze on a pilot basis the budget submission of one State agency. A copy of this study mandate is included as Appendix A.

JLARC last reviewed the overall State budget process in a 1991 report. Various aspects of the process have been more recently assessed by JLARC in, for example, the 2001 *Interim Report: Review of State Spending*, which contains a review of both revenue and expenditure forecasting, and the annual *Review of State Spending*. (The focus in this report will be on agency *operating* budgets, not on their *capital* budgets.)

MANAGEMENT OF THE STATE BUDGET

The budget is perhaps the single most important statement of policies and priorities for any state government. It is a complex instrument that channels funding into a variety of functions and programs and incorporates numerous trends and changes into a single dollar figure representing all state government activities.

Collectively, the 50 state budgets provided $1.3 trillion to services and programs in FY 2006, the most recent year for which data is available from the National Association of State Budget Officers. The five largest-budget states (CA, NY, TX, FL, OH; state abbreviations are explained in Appendix D) accounted for one-third of the total, at $463 billion. Virginia's budget of $32 billion in that year ranked 15th in the nation, accounted for 2.4 percent of the total, and was slightly greater than the average state budget in size.

Budget processes, or the way states produce their budgets, vary significantly. States use different types of budgets, including line-item, program-based, performance-based, and modified zero-based. Some states budget annually while others budget on a biennial basis. As noted by the National Conference of State Legislatures (NCSL),

> Monitoring the executive's implementation of the budget helps legislatures determine if their intent is fulfilled. Constitutional responsibilities and legislative accountability justify the need for effective budget oversight. Despite their interest in improving budget oversight, legislators are hindered by their part-time status, the length of their sessions, their short time horizons, and an emphasis on enacting new laws rather than scrutinizing old ones.
>
> State legislatures use a variety of mechanisms to conduct budget oversight: structures, procedures, staff, fiscal information, audits, and evaluations. Legislative structures, especially fiscal and oversight committees, play a key role.

There are many perspectives on public budgeting (Exhibit 1), and the enacted budget reflects the positions taken by budget decision makers. management and policy concerns. In Virginia, for example, two seemingly incompatible concerns—the need to control spending along with the need to provide sufficient flexibility for the Governor to respond to certain situations, such as emergencies and natural disasters or the receipt of new federal funding, without necessarily re-convening the General Assembly—must be addressed in the State budget. The budget is a plan to limit and direct spending which must also provide enough flexibility to manage unanticipated events. This tension between control and flexibility characterizes the budget process.

Exhibit 1: Perspectives on Public Sector Budgeting

Varied perspectives on public budgeting, from the academic to the practical, are illustrated by the following statements from a widely used textbook.

- The budget system is a *means of balancing revenues and expenditures*. Our constitution requires a balanced budget and in preparing our budget we first make careful estimates of revenues for the next year. We then reduce agency budget requests to our revenue estimates.

- The budget process is a *semi-judicial process* in which state agencies come to the Legislature to plead their case. Our job as a legislative committee is to distribute the available funds equitably among state agencies.

- The main purpose of the budget system is *accountability*. The Legislature holds state agencies accountable by reviewing their budgets, setting appropriation levels the public wants, and letting state agencies know how the people want their money spent through statements of legislative intent.

- The most important single reason for a budget system is *control*. State agencies would spend the state bankrupt in two years if there weren't an adequate means of controlling their spending. The appropriations are the first line of defense against overspending. Important second lines of defense lie in allotment systems, position controls, and controls over purchasing.

- The executive budget document should be an *instrument of gubernatorial policy*. When a Governor comes into office there are certain programs and policies he would like to accomplish. The people expect the Governor to show accomplishments and the budget is a major means of showing them.

- Budgeting is *public relations*. I write my budget justifications in the way I think will best gain the appropriations I need. If the budget examiner likes workload statistics, we'll snow the examiner with statistics. If a key legislator would be influenced by how the budget will impact his constituents, we'll put that in the request.

- A budget is really a *work plan with a dollar sign attached*. As an agency official, I am committing myself to certain levels of program which I promise to attain if I receive my full budget request.

- The budget is an *instrument for planning*. A good budget system requires agency officials to project costs and program levels at least several years ahead.

- Budgeting is the *art of cutting* the most fat from an agency request with the least squawking.

Source: Thomas D. Lynch, *Public Budgeting in America*, 1995.

Virginia's FY 2008 budget allocated $36 billion to 153 agencies and funded more than 116,000 employees. Virginia's budget process provides the Governor with important flexibility to respond to unexpected events and changes in revenue, while preserving a role for the General Assembly in the formulation of the Commonwealth's fiscal policies. Program spending within an agency may diverge from budgeted amounts over the course of a year, but agency totals change only in response to General Assembly action or as authorized by language contained in the Appropriation Act.

The Virginia Appropriation Act establishes key parameters for managing State funds. These parameters help shape the way the budget may provide limited flexibility while controlling spending. Key examples include

- *Appropriations* are defined as maximums conditioned on the receipt of revenue (2008 Chapter 879, §4-0.01). Appropriations are therefore spending ceilings that are payable in full only if revenues sufficient to pay all appropriations in full are available. A non-general fund program or agency must have both an appropriation and sufficient cash on deposit in the State treasury in order to expend the funds.

- Language in the Appropriation Act (§4-1.04) authorizes the Governor to increase agency appropriations in limited cases—for insurance recoveries, surplus property sales, and the receipt of grants, for example.

- There is no language authorizing the Governor to increase general fund appropriations. The Governor is authorized to reduce appropriations under certain conditions. For example, the Governor can withhold funding of up to 15 percent if funding is estimated to be insufficient to pay all appropriations in full (§4-1.02d).

Appropriations (including general fund appropriations) may be transferred between agencies under certain limited conditions (§4-1.03). Appropriations can also be transferred from the second year to the first year to address an emergency, to provide for unbudgeted cost increases for required services, or to address unanticipated increases in workload or costs.

While the Act prohibits all State agencies from incurring a deficit, it also authorizes the Governor to approve deficit funding of up to 1.5 percent of general fund revenues in certain cases, such as an unanticipated federal or judicial mandate, insufficient funding to start up a General Assembly-approved action, or an instance where delay until the next General Assembly session may result in the curtailment of services required by statute (§4-3.01). Agency heads and governing bodies (but, interestingly, not cabinet secretaries or the Governor) may be held personally responsible for unauthorized deficits.

In most cases where the Governor or director of the Department of Planning and Budget is authorized to adjust or transfer appropriations, there is also a requirement for reporting to the chairs of the legislative money committees (House Appropriations and Senate Finance).

VIRGINIA'S BUDGET DEVELOPMENT PROCESS

Development of the biennial budget begins several years in advance. Virginia statutes place the onus on the Governor to propose a budget. Statutes require the Governor to submit to the General Assembly estimates of revenues and appropriations six years in advance. As an example, when the Governor presented his budget to the 2008 General Assembly, it was accompanied by forecasted revenues through FY 2014. Detailed planning for a full biennial budget begins 12 to 15 months in advance.

Basic Process Includes Different Roles for the Governor, the General Assembly, and State Agencies

Virginia has a biennial budget, subject to amendment annually. The Governor presents a proposed two-year budget during every even-numbered year, which the General Assembly amends and adopts, and typically then amends again in each of the following two years. This process distinguishes Virginia from states with a "true" biennial budget which is adopted and then left in place, unamended, for the two-year period. (Chapters 2 and 3 discuss other states' budget process in more detail.)

The Virginia biennial budget process, in outline, works as follows (key phases and products of the process are shown in Table 1):

Agency heads are authorized by statute to submit to the Department of Planning and Budget (DPB) "an estimate … of the amount needed" to carry out the agency mission (*Code of Virginia* §2.2-1504). In practice, they follow guidelines and timeframes set out by the Governor and DPB in developing and submitting their budget requests. For the 2008-2010 biennial budget, for example, the Governor issued a budget guidance memorandum to agencies on June 1, 2007. Detailed instructions were issued to agencies by DPB on October 1, with a submission deadline of October 31. This was a very tight and late deadline, giving DPB, the secretaries, and the Governor only about six weeks to review and decide on requests from all of State government.

Table 1: Virginia's Budget Phases

Phase	Product
Preparation:	
Agency Request	Agency Budget Submission
Governor's Recommendation	Executive Budget (Budget Bill)
Legislative Review and Approval	Joint Conference Committee Report
Governor's Review; Final Legislative Action (if needed)	Appropriation Act
Executive Implementation	Disbursement of Funds (available only through APA's Commonwealth Data Point website)
Accounting and Reporting	Comprehensive Annual Financial Report (CAFR)

Source: Staff analysis.

The Governor is required by statute to submit "the Executive Budget," containing the Governor's own conclusions and recommendations, by December 20 of each odd-numbered year (*Code of Virginia* §2.2-1508*)*. In practice, the Governor submitted the 2008-2010 budget on December 17, 2007.

Statutes also specify the contents of the Executive Budget. For example, it is to contain a statement of the Governor's goals, objectives, and policies in each of the major functional areas of government, as well as statements about "service attainments … and major goals and specific outcomes related to program expenditures" *(Code of Virginia* §2.2-1508*)*. This information is provided in a separate companion document to the budget bill.

The Governor's budget containing specific funding recommendations is normally introduced in both the House of Delegates and the Senate. The General Assembly then holds hearings on the budget and each chamber, working through its respective committees and subcommittees, takes action to amend and adopt the budget. A conference committee reconciles the separate versions of the House and Senate. The money committee staffs play key support roles with their respective chambers through these stages of the process.

The Governor then may sign the budget bill, veto it, or veto specific items. Following final legislative action on the bill, it takes effect on July 1. By then, the Governor and DPB are generally preparing guidance for agency budget requests to amend and adjust the just-enacted budget in the following year's General Assembly.

Basic Process Can Vary in Response to Circumstances

While key procedural aspects of the budget development process remain relatively constant, other aspects can change dramatically from one year to the next. In 1996, a budget was adopted but subsequently contested in court, which did not rule until after the biennium had ended, and therefore the budget was not implemented (it was a "caboose" budget containing final adjustments to the second year of a biennium, so the budget enacted in 1995 continued in effect). In 2001, the General Assembly failed to adopt a budget, and the Governor subsequently used an Executive Order to implement the budget changes he desired.

On several recent occasions it has taken more time than the regular session allowed to pass the budget. In 2004, and again in 2006, the General Assembly took until mid-June to approve the budget that would take effect on July 1. In 2006, the regular session adjourned without having approved a budget; a special session was required before the 2006-2008 budget was approved; final passage came on June 28, and the Governor signed it on July 19, 2006. This budget was amended three more times: in October 2006 and by the 2007 and 2008 Sessions of the General Assembly.

In 2007, the process for developing the 2008-2010 budget was shaped by a downturn in revenues. In May, the Governor asked agencies to curtail spending and dedicate the resulting savings toward the forthcoming budget reductions. The Governor's secretaries were asked to prepare five percent budget reduction plans, subject to certain exceptions. The secretaries were asked to avoid across-the-board reductions and to instead focus on program efficiencies and underperforming operations.

This process resulted in a proposal from the Governor in October 2007 to cut $300 million in general funds from the enacted budget. These reductions were then incorporated into the budget guidance issued by DPB—in other words, these cuts would continue into the new 2008-2010 biennium. In February 2008, the Governor again revised the revenue forecast downward for the biennium, leading to his recommendations for further reductions totaling approximately $1.06 billion in general funds.

In August 2008, in response to continued slowing of the economy, the Governor announced that the revenue forecasting process would start early. In September 2008, the Governor directed agencies to submit plans to reduce their budgets by five, ten and 15 percent. As of this writing, no instructions have been provided to agencies who may wish to increase funding for a particular activity or program.

In October 2008, the Governor announced a revision to the revenue forecast that anticipated a decline in general fund revenues for FY 2009. He also announced a combination of budget reductions and revenue enhancements totaling $1.125 billion to meet the expected decline. Some of the actions will require legislative approval (such as transferring funds from the revenue stabilization fund), although other actions were taken by the Governor under authorizing language in the Appropriation Act. Actions taken included reducing agency budgets by $191 million or 7.5 percent of the general fund "available for reduction" (after funding for education and Medicaid, among other things, was exempted from cuts), about 1.1 percent of the total FY 2008 general fund budget.

At the October announcement, the Governor noted that further budget reductions may be necessary due to the prospect of continued declining revenues. Consequently, the pilot agency budget submission reviewed in this report is the reduction plan submitted by the Department of Corrections and announced by the Governor in October.

EVOLUTION OF THE LEGISLATIVE ROLE IN BUDGET REVIEW

The General Assembly's role in the budget process has evolved over the past 30 years. The effect of many of these changes has been to provide legislators with more information about State agencies and the budget. For example, the employment of professional analytic staff by the Senate Finance Committee in the late 1970s led to the Senate introducing a budget bill for the first time; previously, the Senate had waited for the House to take action on a budget bill before beginning its review.

Another example of increased legislative involvement is the requirement (stemming from a recommendation in a 1991 JLARC report) for the Governor to submit the budget prior to December 20 and for the General Assembly to hold budget hearings around the State. This provided more time for legislative review as well as the opportunity for more public input.

Council on Virginia's Future

The Council on Virginia's Future was established in 2003 to develop a vision and long-term goals for Virginia. It was also tasked with developing a performance leadership and accountability system for State government that aligns with and supports achievement of the vision.

The 2003 General Assembly adopted a requirement for strategic plans and performance measurement results about agencies to be made available to the General Assembly as it considers the budget. These plans and measures are reviewed by the Council on Virginia's Future as well as the Governor and General Assembly.

JLARC also provides certain types of budgetary information. Budget language adopted in 1999 directed JLARC to provide second opinions on the cost of potential legislation. In 2001, JLARC was directed to annually review and report on State spending. The most recent report in this series is the *Review of State Spending: 2008 Update.*

One aspect of legislative review that has not changed significantly is the compressed timeframe for legislative review of the budget. Although Virginia's legislature does deal with the budget annually (and at least six state legislatures do not even meet annually), Virginia has by comparison with other states a relatively short legislative session. Although the time limit was exceeded on several recent occasions, a "long" session means the General Assembly has just 60 days to consider and adopt a budget. Typically, part-way through the session, legislators themselves submit billions of dollars' worth of budget amendments even though minimal time is available to consider such requests.

Chapter 2

The Budget Review Process in Other States

In Summary

An analysis of the review of executive budget submissions by 21 other state legislatures reveals that there are some commonalities between Virginia and several other states: a modified biennial budget, which is submitted by the Governor, and then reviewed by the House and Senate separately and simultaneously. Virginia also has some key constraints that may tend to limit legislative budget oversight: fewer routine opportunities for agency personnel to discuss budget issues, a shorter legislative session, and relatively few legislative staff dedicated to fiscal oversight. The review of other states' budget processes identified possible opportunities to strengthen budget oversight. Several other states hold more agency-focused budget hearings than Virginia. Legislative fiscal offices in other states also produce a variety of analytical and summary documents that provide useful insights to decision makers and improve budget transparency. Transparency could also be improved with more use of televised legislative meetings. Many states have embraced performance budgeting, but its value to the legislative budget process varies significantly from state to state.

The pilot budget review mandated by §30-58.4 of the *Code of Virginia* directs JLARC to assess legislative procedures for executive budget submission oversight in other states. JLARC staff interviewed directors of legislative fiscal oversight offices in 21 states.

JLARC STAFF SURVEYED 21 STATES

State budgets vary in size, structure, and the processes by which they are adopted and implemented. As a component of the overall budget process, legislative procedures also differ significantly.

To identify reasonably comparable states, JLARC staff identified several aspects that were deemed relevant to legislative budget oversight. As a result, JLARC staff selected 21 states as "comparator states" based on two key characteristics: budget size and structure. The goal was to survey states with budgets and processes roughly comparable to Virginia and to identify practices with the potential to improve accountability and budget transparency. A more complete discussion of the criteria for selecting the comparator states is included in Appendix B.

Budget Size and Composition Are Key Factors

The size of a state's budget in dollars is one indicator of budget complexity. Larger budgets are likely to contain more agencies and programs and therefore take more effort to fully review, while states with smaller budgets may be able to perform in-depth budget oversight with smaller staffs and more limited timeframes. Nationwide, state budgets range from more than $173 billion in California to less than $3 billion in South Dakota. Virginia ranked 15th in total budget size with almost $32 billion in FY 2006.

Another key factor that was considered in choosing the comparator states was the proportion of general funds and non-general funds in the budget. States that rely heavily on general funds, which come from broad-based taxes on, for example, retail sales as well as personal and corporate income, may require different or more intensive budget oversight practices than those that rely more heavily on the federal funds and dedicated revenue streams that make up non-general funds. Comparator states were within about ten percent of Virginia's 53 percent non-general funds in the FY 2006 budget (Table 2).

Table 2: Comparator States and Their Budgets (FY 2006; $ in Millions)

State	General Fund	Non-General Fund	Percent Non-General Fund	Total Budget
California	$91,592	$81,589	47%	$173,181
Texas	34,112	36,761	52	70,873
Florida	25,922	35,675	58	61,597
Ohio	24,866	28,582	53	53,448
Illinois	19,470	23,952	55	43,422
Massachusetts	21,719	17,488	45	39,207
North Carolina	17,190	18,015	51	35,205
Wisconsin	12,385	21,096	63	33,481
Georgia	17,272	16,142	48	33,414
Virginia	**15,111**	**16,881**	**53**	**31,991**
Washington	13,623	14,216	51	27,839
Maryland	12,356	14,024	53	26,380
Arizona	8,676	16,700	66	25,376
Tennessee	9,421	14,177	60	23,598
Louisiana	7,750	14,167	65	21,917
Indiana	11,911	9,920	45	21,831
Kentucky	8,332	12,695	60	21,027
Oregon	6,077	14,138	70	20,215
South Carolina	5,640	12,320	69	17,960
Colorado	6,293	9,087	59	15,380
New Mexico	5,820	6,022	51	11,842
Kansas	5,139	6,294	55	11,433

Source: 2006 National Association of State Budget Officers State Expenditure Report.

ORGANIZATION OF LEGISLATIVE BUDGET PROCESSES VARIES IN COMPARATOR STATES

State legislatures have established widely varying frameworks within which to exercise oversight of the State's budget. Legislatures differ in whether there are limitations on the length of a member's term, who introduces the budget, how many budget bills are introduced for legislative consideration, and in a wide variety of other factors. An examination of these variations provides a perspective on Virginia's budget process.

Term-Limited Legislatures Lose Experience

Five of the 21 comparator states (CO, OH, CA, FL, and AZ) have term-limited legislatures. These limits can also limit the institutional knowledge of the legislature, as experienced members are forced out and new members come in their stead.

Legislative staff in some of these states noted that term limits can particularly affect budgeting, in that it generally requires years for members to become knowledgeable in a particular budget area. In states with term limits, the presence and number of fiscal staff become more important, as they tend to maintain familiarity over time with budget issues and must be able to quickly educate new members on the state budget.

Budget Timeframes Vary

States may budget for one year at a time, or, like Virginia, they may use a biennial budget, budgeting for two years at a time. In many cases, including Virginia, the biennial budget is usually amended in the second year and often in the third or final session affecting the biennium's budget. The use of a biennial budget creates a distinct difference between the initial budget and the amendments that are adopted in the second year of the biennium. Generally, fewer new, large initiatives are introduced in the second year of the biennium.

Nationwide, 30 states use an annual budget, 11 use a biennial system like Virginia's where the budget is routinely amended in the second year, and nine use a "true" biennial budget which is not significantly amended in the second year. Table 3 lists the comparator states and their respective budget processes.

Most States Have Part-Time Legislatures, and Virginia Has a Relatively Short Session

The amount of time a legislature can spend considering a budget varies tremendously. The ability to independently consider the de-

Table 3: Budget Timeframes in Comparator States

State	Budget Timeframe
Arizona	Amended Biennial
Kentucky	Amended Biennial
North Carolina	True Biennial
Ohio	Amended Biennial
Virginia	**Amended Biennial**
Wisconsin	Amended Biennial
Indiana	True Biennial
Oregon	True Biennial
Texas	True Biennial
Washington	True Biennial
California	Annual
Colorado	Annual
Florida	Annual
Georgia	Annual
Illinois	Annual
Louisiana	Annual
Kansas	Annual
Maryland	Annual
Massachusetts	Annual
New Mexico	Annual
South Carolina	Annual
Tennessee	Annual

Source: National Conference of State Legislature's *Legislative Budget Processes* and staff survey of other states.

tails of a state's budget may depend, in part, on the amount of time devoted to the task.

All the comparator states have part-time legislatures like Virginia except Massachusetts and California. According to the National Conference of State Legislatures (NCSL), legislators in part-time legislatures generally must spend the time equivalent of 80 percent or more of a full-time job. Ohio is usually classified as full-time, but according to staff only meets from January to June and then reconvenes in the fall for a few weeks.

Among the part-time legislatures, there is a range of session lengths (Table 4). For part-time legislatures, the length of session can be limited in three ways: by calendar days; by legislative days (days actually in session); or by a fixed date.

Virginia's legislative session is among the shorter sessions of the 21 comparator states at 60 calendar days. Georgia, with a session lasting 40 legislative days, is the only state that could potentially have a shorter session than Virginia. Two states, Florida and New Mexico, have sessions that are the same length as Virginia's. Part-time legislature session lengths range up to 120 and 140 calendar days in Colorado and Texas, respectively.

Table 4: Wide-Ranging Session Lengths in Comparator States

State	Limits on Length of Long Session
California	Full-time
Ohio	Full-time
Massachusetts	Full-time
Illinois	None
Kansas	None
North Carolina	None
Oregon	None
Wisconsin	None
Texas	140 C
Colorado	120 C
Washington	105 C
Arizona	100 C
Maryland	90 C
Tennessee	90 L[a]
Indiana	61 C or by Apr. 29
Virginia	**60 C**[b]
Florida	60 C[b]
New Mexico	60 C
Kentucky	60 L in 85 C
Louisiana	60 L
Georgia	40 L
South Carolina	1st Thurs. in June[b]

Note: C= Calendar days; L=Legislative days.

[a] Indirectly limited by restrictions on legislators' pay.
[b] Can extend on vote of legislature.

Source: National Conference of State Legislature's Legislative Budget Procedures, Council of State Government's *Book of the States.*

Unlike Virginia's Single Budget Bill, Some States Have Multiple Bills

Of the 21 states surveyed, more than half have a single appropriation bill like Virginia (Table 5). Reviewing a single bill typically entails a simpler legislative process, requiring only one committee to be involved in each chamber. Other states have multiple appropriation bills organized and reviewed in a variety of ways.

Most multiple-budget states, including Maryland, Arizona, and Ohio, separate out at least some capital expenditures from operating appropriations into separate appropriation bills. North Carolina does this, but then also separates its operating budget into a continuation bill, which continues the previous year's service levels, and an expansion budget for new and expanded initiatives. Louisiana and Kentucky have separate appropriation bills for each branch of state government (legislative, executive, and judicial).

Table 5: Comparator States Vary in How They Design, Introduce, and Review Budget Bills

State	Number of Appropriation Bills	Entity Who Introduces Appropriation Bill(s)	House and Senate Review (Jointly, Simultaneously, or Sequentially)
California	Single	Executive	Simultaneously
Florida	Single[a]	Executive	Simultaneously
Kansas	Single	Executive	Simultaneously
Massachusetts	Single	Executive	Simultaneously
Tennessee	Single	Executive	Simultaneously
Virginia	**Single**	**Executive**	**Simultaneously**
Illinois	Multiple	Executive	Simultaneously
Maryland	Multiple	Executive	Simultaneously
Ohio	Multiple	Executive	Simultaneously
Washington	Multiple	Executive	Simultaneously
Georgia	Single	Executive	Sequentially
Kentucky	Multiple	Executive	Sequentially
Louisiana	Multiple	Executive	Sequentially
North Carolina	Multiple	Executive	Sequentially
Colorado	Single	Executive	Jointly
Wisconsin	Single	Executive	Jointly
Oregon	Multiple	Executive	Jointly
South Carolina	Single	Non-partisan Fiscal Office[c]	Simultaneously
Texas	Single	Non-partisan Fiscal Office	Simultaneously
New Mexico	Multiple	Non-partisan Fiscal Office	Simultaneously
Arizona	Multiple	Non-partisan Fiscal Office[b]	Depends
Indiana	Single	Joint Executive/ Legislative Budget Committee	Sequentially

[a] Sometimes has separate bills for different policy areas, but the current budget is a single bill.
[b] Non-partisan fiscal office and governor create separate budget recommendations, which the legislature can choose to adopt in part or in full.
[c] Fiscal office serves both the governor and the legislature.

Source: National Conference of State Legislatures and staff survey of other states.

Illinois appropriates to each agency through a separate funding bill in each chamber, resulting in about 80 budget bills. These are reviewed separately in committee and then rolled into one bill for final passage on the floor of each chamber. In New Mexico, the House takes up six appropriation bills, but then rolls them into one before transmitting to the Senate. Among the 21 comparator states, only the Oregon legislature passes an appropriation bill for each agency separately on the chamber floors.

Introduction of the Budget Bill Varies

Most of the comparator states have budgets that are introduced by the executive, as in Virginia (Table 5). The extent to which these gubernatorial recommendations guide the final budget varies from state to state within this group. Generally, states where legislative staffs develop a legislative version of the state budget appeared to utilize gubernatorial recommendations less.

For example, the Legislative Analyst's Office in California produces an alternate budget after the governor presents the executive budget recommendations. In the FY 2007 budget, the office was highly critical of the governor's across-the-board cuts to state agencies and made budget recommendations that attempted to prioritize critical programs. In contrast, Georgia's legislative budget director indicated they used the executive budget numbers rather than develop their own estimates or adjustments. Most states fall somewhere in between, either formally or informally examining the validity of executive budget numbers and/or creating independent budget projections.

The five comparator states where the executive does not introduce the appropriation bill have a variety of different budget introduction procedures. In each state, the budget is developed by professional, non-partisan legislative staff. In Texas, the governor is essentially not involved with the budget development process. Instead, agencies work with the Legislative Budget Board, a joint legislative fiscal office, to develop the initial budget. The governor is involved only after the legislature introduces their budget.

Arizona's Joint Legislative Budget Committee staff is statutorily required to prepare revenue and budget recommendations, which legislators then compare with the governor's budget recommendations. South Carolina's Budget and Control Board provides staff support to both the governor and the legislature, and additionally prepares the legislative budget document. In addition, the board-monitors agency expenditures on an ongoing basis, and has the responsibility of approving certain inter- and intra-agency transfers.

New Mexico's Legislative Finance Committee provides two volumes of recommendations to the legislature at the same time as the governor introduces his budget. The first volume discusses policy issues while the second volume contains analysis of the base budget and line-item recommendations. Indiana has a unique budget process in which the governor's staff works along with the legislature to develop the budget.

Legislative Chambers May Work Jointly, Sequentially, or Simultaneously on Review of the Executive Budget

In Virginia, after the Governor presents a proposed budget to the legislature, the House and Senate each take up the budget and work simultaneously to develop the version of the bill that will be presented in the full session of each chamber. In 12 of the 21 comparator states, each house of the legislature deals with the appropriation act separately and simultaneously. In five states, the introduced budget is first taken up in one legislative body, usually the House, and not taken up by the other legislative body, usually the Senate, until after the other body has passed the bill.

Three states (WI, OR, CO) have a joint legislative process for passing the budget, and staff in Arizona noted that in some years they have used a joint process as well. In these states, the appropriation bill is taken up by a joint committee of House and Senate members who hold hearings and develop the legislative budget. In Wisconsin and Colorado, the budget bill is referred from the joint fiscal committee to the fiscal committees in each legislative chamber, where it is discussed, referred to the full chamber and passed. In Oregon, appropriation bills are referred directly to the floor of each chamber for a vote.

States Use Several Arrangements for Legislative Fiscal Staff

JLARC staff identified three main types of legislative staff who work on budget oversight in the comparator states (Table 6). The first and most common is a joint legislative budget office that serves both chambers of the legislature. Sixteen (76 percent) of the comparator states used joint legislative budget staff. In ten of these 16 states, these joint offices provided the only full-time professional legislative fiscal staff.

A second type of staffing arrangement is the non-partisan fiscal committee staff that serves the appropriations, budget, and/or finance committees, which is the case in Virginia. A similar arrangement is found in just four of the 21 comparator states (FL, MA, GA, and WA) where these are the only full-time staff dedicated to fiscal analysis. Arizona and Georgia have a hybrid system with both a joint budget office and professional fiscal committee staff.

A third type of fiscal office is partisan fiscal staff, generally resulting in four total offices (majority and minority offices in each chamber.) Six states have fiscal committee staff or partisan fiscal caucus staff in addition to the joint office. Illinois is the only state surveyed which relies entirely on partisan staff for legislative budget analysis.

Virginia Ranks Low in Number of Legislative Fiscal Staff

According to NCSL, legislative staff size is a key indicator, along with the amount of time legislators spend on the job, of a legislature's capacity to function "as an independent branch of government, capable of balancing the power of the executive branch and having the information necessary to make independent, informed policy decisions." Among the 21 comparator states, Virginia has relatively few legislative fiscal staff, with 16 staff dedicated to budget oversight (Figure 1). The three states with fewer fiscal staff

Table 6: Three Types of Legislative Fiscal Offices in Comparator States

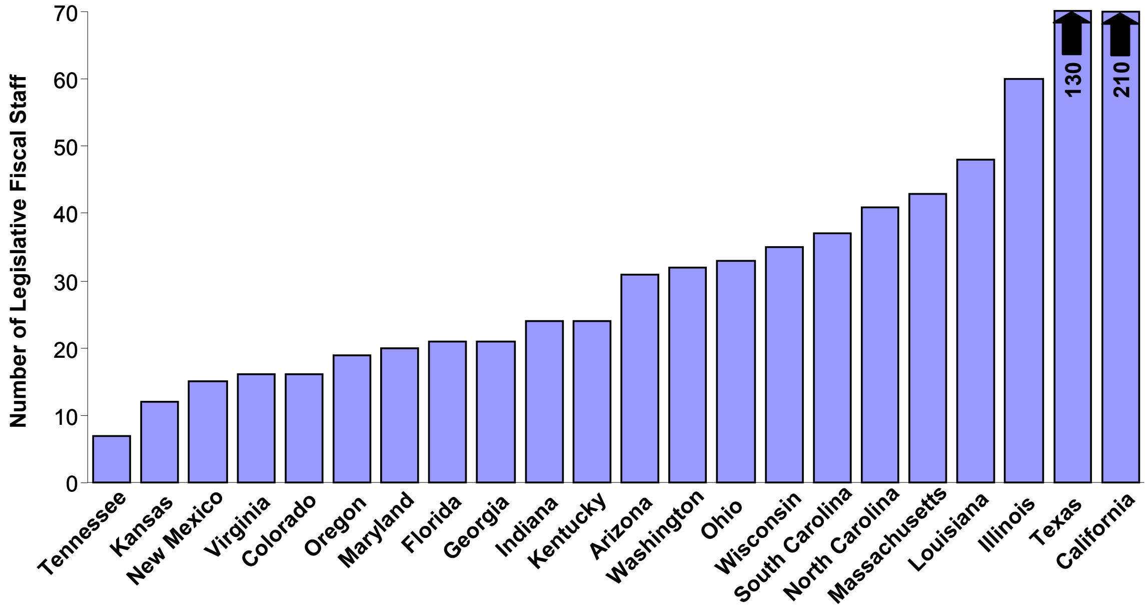
State	Type(s) of Budget Office(s): Joint Legislative Budget Office	Fiscal Committee Staff	Caucus Fiscal Staff
Colorado	X		
Kansas	X		
Kentucky	X		
Maryland	X		
New Mexico	X		
North Carolina	X		
Oregon	X		
Tennessee	X		
Texas	X		
Florida		X	
Georgia		X	
Massachusetts		X	
Virginia		**X**	
Washington		X	
Arizona	X	X	
South Carolina	X	X	
Wisconsin	X	X	
California	X		X
Indiana	X		X
Louisiana	X		X
Ohio	X		X
Illinois			X

Source: Staff survey of other states.

than Virginia had substantially smaller FY 2006 budgets than Virginia's at $32 billion: $11.4 billion (Kansas), $11.8 billion (New Mexico), and $23.6 billion (Tennessee). In the states surveyed, legislative staff ranged from a low of seven in Tennessee to a high of 210 in California. Removing the two states (TX and CA) with the largest number of legislative fiscal staff (130 and 210, respectively), the other states averaged 28, compared with Virginia's 16.

While the number of analysts in a budget office may limit or expand the complexity of analysis that an office can perform, other factors should be considered. In states with multiple legislative budget offices, there may be some duplication of effort unless the offices coordinate their analyses. Where a single legislative fiscal office exists, more in-depth analysis may be performed with the same total number of legislative fiscal staff. This may explain why states like New Mexico and Maryland, with a similar number of legislative fiscal staff as Virginia, are able to develop independent baseline budget projections.

Figure 1: Virginia Ranks Low in Number of Legislative Fiscal Staff



Source: Staff analysis.

MANAGEMENT OF LEGISLATIVE BUDGET PROCESSES VARIES IN COMPARATOR STATES

The legislative process involves public hearings, committees, and committee meetings. These practices provide legislators and the public with opportunities to learn about issues and programs and may help lead to better informed decisions on fiscal priorities. Key variations among legislatures include how they organize to manage the budget process (a joint budget committee instead of each chamber having one or more of its own), how many budget hearings and committee meetings are usually held, and whether meetings are broadly accessible through electronic media.

Other States Hold More, and More Focused, Budget Hearings

Budget hearings typically provide legislators the opportunity to learn about budget details from state agency personnel and to receive comments from interested members of the public. Virginia's budget hearings take place after the Governor's budget recommendations are released but before the legislative session begins. The Virginia hearings primarily are an opportunity for members of the public to comment on the budget.

Several other state legislatures hold more budget hearings, often with a narrower focus. Discussions with legislative fiscal officers in the 21 states indicated that budget hearings in their states tend to provide opportunities for legislators to hear from members of the public and from state agency personnel.

Many states hold two separate rounds of hearings, one for public comment, and another round focused on specific agency requests. In general, hearings occur either before the legislative session convenes or early in the session. For example, Wisconsin's Joint Committee on Finance holds both types of public hearings on their biennial budget: agency informational hearings, at which staff from designated state agencies discuss the governor's budget recommendations and the effects on the respective agencies and programs; and hearings around the state at which members of the general public have the opportunity to address any governmental program or funding.

Some states hold many budget hearings. The Ohio House and Senate budget committees, for example, hold separate budget hearings three days or more a week for several weeks. According to Ohio legislative staff, from one to six state agencies appear at each hearing, and nearly every agency appears at the hearings every year. The hearings are open to the public but are not broadcast or recorded.

Three sets of budget hearings are usually held by the Texas Legislature. The Legislative Budget Board, a joint legislative committee, holds hearings in August, when agencies submit budget requests, and in September, when individual agency hearings are held. During the legislative session, usually in January, the separate fiscal committees in each chamber hold televised public hearings on agency budget requests.

One of the more extreme examples is the Colorado legislative budget hearing process. After the governor's budget is introduced in November, the Joint Budget Committee meets every day for three to four weeks. First, legislative staff brief committee members on the specifics of each agency's budget, and several days later, the agency head appears at a hearing where committee members ask questions. The committee then votes, sometimes at the line-item level of detail, on each significant item in each agency's budget. The approved items then become the core of the legislative budget bill.

Some States Have a Joint Legislative Fiscal Process

In Virginia, after the Governor's proposed budget is presented to the legislature, the House Appropriations and Senate Finance Committees each take up the budget and work simultaneously to develop the version of the bill that will be presented in the full session of each chamber. In 12 of the 21 comparator states, each house of the legislature deals with the budget bill in like manner. In five states (NC, GA, LA, IA, KY), the introduced budget is first taken up in one legislative chamber, usually the House, and not taken up by the other legislative chamber, usually the Senate, until after the other chamber has passed the bill.

Three states (WI, OR, CO) have a joint legislative process for passing the budget. Staff in Arizona noted that they have, in some years, used a joint process as well. In these states, the appropriation bill is taken up by a joint committee of House and Senate members who hold hearings and develop the legislative budget. In Wisconsin and Colorado, the budget bill is referred from the joint fiscal committee to the fiscal committees of each legislative chamber, where it is discussed, referred to the full chamber and passed. In Oregon, appropriation bills are referred directly from the joint committee to the floor of each chamber for a vote. Washington uses a joint process to address a maintenance budget but addresses new spending in the fiscal committees of each chamber.

Use of Conference Committees Varies

In states like Virginia where each chamber of the legislature takes up the budget separately, there is a need for a conference committee to reconcile the two chambers' appropriation bills. As in most states with budget conference committees, much decision making takes place in these meetings, which are not always as public as the money committee and subcommittee meetings.

In several states, legislators not on the budget conference committee sometimes express concern about not knowing the details of the conference committee's agreement. In Illinois, a bill was proposed to provide a seven-day waiting period after the budget conference committee is finished before the final vote by both houses. Called "Sunlight on the Budget," the bill proposed the increase from the current three-day requirement and was intended to give members not involved in the conference process and the public more time to analyze the changes made. A similar proposal is pending in Colorado which would increase the number of days that each chamber's money committees have to analyze the Joint Budget Committee's work on the budget.

In some states, the conference committee process can become quite adversarial and has sometimes prevented the legislature from passing a budget. To address this, New Mexico has a constitutional provision stating that if the legislature passes a budget with three or more days left in the session, the governor must act before the end of the session or the bill becomes law. If they do not pass it by that day, the governor gets 20 extra days to review the budget. This provides added incentive for the legislature to finish the budget on time in order to limit the governor's influence on the final appropriation bill.

States Have Other Unique Legislative Budget Processes

Maryland has unique constitutional constraints that make its budget process difficult to compare to Virginia. In addition, the perpetuation of these rules illustrates the difficulty of changing a state's budget processes, according to Maryland legislative staff.

Maryland has a constitutional provision, dating from 1916, which gives its governor more authority over budgets than any other state's governor. Under this provision, the Maryland governor proposes the executive budget to the legislature and the legislature can only approve or reduce the appropriations. When the legislature makes their reductions and passes the budget, the governor cannot veto the bill.

In practice, this means that legislators must work with the governor and/or agency heads before the budget is proposed if they hope to include their own initiatives. What is particularly interesting about this process is that it has endured for more than 80 years despite the fact that, according to staff, most legislators dislike it and would like to see it change.

Trend Toward Televising Meetings

One clear nationwide trend is toward televising legislative meetings and making them widely available through statewide public television and the Internet, along with online archives of the proceedings. This practice provides opportunities for the public to follow legislative activity more closely. Virginia currently provides closed-circuit video and audio of each chamber's floor sessions, but not committee meetings. These recordings are available in only a limited geographical area.

Of the 21 states interviewed by JLARC staff, 15 (71 percent) indicated that their budget committee hearings are broadcast via Internet video or on television (Table 7). For example, the states of Wisconsin and Washington have statewide public affairs television networks (Wisconsin Eye and Washington's TVW) which carry all legislative committee meetings and floor sessions, including budget committee hearings and activities. Much of this material is also stored and made available through Internet archives. TVW has online video archives of legislative meetings dating back to 1997.

Kentucky's educational network (KET) provides live coverage and Internet streaming of legislative committee meetings, including budget committees. KET also compiles 30- and 60-minute "highlights" of committee actions. Tennessee's legislature provides video coverage of committee meetings, including budget committees, over the Internet, and archives the material on the legislative website. The website for Tennessee's governor also has video archives of agency budget hearings, presided over by the governor.

Some states have implemented audio-only coverage. The North Carolina legislature places the audio of appropriations and finance committee meetings on the Internet but as yet has not chosen to televise them. Maryland also archives audio coverage of legislative floor sessions online. Kansas streams live audio of floor sessions and committee meetings but does not archive them.

Table 7: Many States Broadcast Fiscal Committee Hearings

State	Fiscal Committees Broadcast Via Internet or TV
Arizona	X
California	X
Colorado	X
Florida	X
Georgia	X[a]
Kansas	X
Indiana	X
Louisiana	X[a]
Maryland	X
North Carolina	X
Oregon	X
Tennessee	X
Texas	X
Washington	X
Wisconsin	X
Illinois	
Kentucky	
Massachusetts	
New Mexico	
Ohio	
South Carolina	
Virginia	

[a] In GA and LA, House and Joint budget hearings but not Senate hearings are broadcast online.

Source: Staff survey of other states.

LEGISLATURES AND THEIR STAFF UTILIZE A VARIETY OF ANALYSES IN THEIR OVERSIGHT OF THE EXECUTIVE BUDGET

Legislatures and their staff in other states use a wide variety of methods to oversee the enactment of the executive budget. Legislatures have varying control over the revenue projections process, and those projections may or may not be binding on the appropriation act. Some legislatures rely on the executive branch for forecasts of agency needs, while other state prepare separate legislative base budget projections. Base budget analysis can present particular problems for legislative oversight, as it is difficult to examine all underlying programs every year. Lastly, some states noted that utilizing base budget analysis as a part of performance evaluations can provide unique insight into programs and agencies.

Legislatures Take a Variety of Roles in the Revenue Projection Process

Revenue projection is an important part of the appropriation process as it sets the total dollars to be allocated through the budget. States take a variety of approaches to this process, with the roles of legislators and legislative staff varying from state to state. Revenue projections may or may not be binding on the legislative budget, and legislators may or may not have a role in selecting the official projection.

Virginia's revenue projection process takes place almost exclusively in the executive branch with limited legislative involvement. The Governor convenes two boards comprised of economists, industry leaders, and legislators that provide advice on revenue estimates. After these meetings, the Governor chooses an estimate to use in the executive budget request. Unlike in some states, the estimate is not statutorily binding on the legislature in Virginia.

In 2006, JLARC staff reviewed revenue projection processes in the 50 states and identified five types of forecasting processes that are utilized (Table 8):

- Seven states use a process similar to Virginia's, wherein the executive branch prepares a forecast, and the legislature reviews it through membership on advisory committees or with assistance from legislative staff.
- Four states utilize an exclusively executive process with no legislative involvement.
- In 22 states, the revenue projection process is a joint effort of the legislature and the executive branch, where legislators and/or legislative staff participate in the development of the revenue estimate. In these cases, the legislature is actually involved in the selection of the final revenue estimate.
- The process in 13 states involves the legislature preparing its own forecast and selecting the official forecast through an exclusively legislative process. In these states, the legislature may or may not consider an executive forecast.

Lastly, four states utilize an independent individual or group, appointed by the legislature or governor, who prepares and chooses a forecast independent of legislative or executive involvement. Find-

Table 8: Revenue Projection Processes Used Nationwide

Type of Revenue Projection Process	States
Exclusively Executive	AK, MN, OK, WV
Executive, with Legislative Participation/Review	AR, DE, GA, ND, OR, PA, VA
Joint Legislative and Executive	FL, IN, IA, KS, KY, LA, MD, ME, MA, MI, MS, MO, NE, NM, NY, NC, RI, TN, UT, VT, WA, WY
Separate Legislative	AL, AZ, CA, CO, CT, ID, IL, MT, NH, NJ, OH, SD, WI
Independent	HI, NV, SC, TX

Source: Staff review of general fund revenue forecasting processes.

ings of the JLARC review and potential improvements to Virginia's revenue forecasting process that were identified were presented at a November 2006 subcommittee briefing; however, the improvements have yet to be implemented. Specifically, it was suggested that a separate, competing forecast should be developed with a different methodology and performed by an agency other than the Department of Taxation (such as DPB). This was suggested because a consideration of competing estimates would force the merits of each model to be debated and improve oversight of the process. In addition, the review suggested that the Governor's Advisory Board of Economists (GABE) should examine the technical design and assumptions of each of these models and recommend a particular forecast.

In Washington, Budget Data Is Maintained by an Independent Agency

A unique process is utilized in Washington. The Legislative Evaluation & Accountability Program (LEAP) provides the legislature with all data required for in-depth analysis and monitoring of budgets, expenditures, and other fiscal matters. This independent agency has a staff of 11 dedicated to fiscal database development, and provides a common set of numbers for all sides to work with. The agency also maintains formulas for school funding and other formula-driven spending. The office does not generally do analysis, but instead provides a common set of data that others use.

Processes for Legislative Budget Projections Vary

Eleven of the 21 comparator states surveyed by JLARC staff indicated that their legislative fiscal staff generate forecasts of underlying base budget growth, based on their own assumptions about inflation, caseload growth, and other relevant factors, instead of relying upon executive branch forecasts. Legislative fiscal offices that did not create their own budget projections either performed a more limited evaluation of the governor's budget numbers, examining only new and expanded proposals, or evaluated some or all of the executive base budget projections.

Arizona produces a "baseline note" that projects individual agency and program budget needs based on no policy changes. The baseline note estimates down to the object level and is a counterbalance to estimates provided by the executive. Additionally, the office contracts with outside consultants for econometric models that project spending for Medicaid and K-12 education. Oregon legislative fiscal staff works along with the executive branch to create ten-year budget and revenue projections, thus providing some consensus for future budget negotiations. Colorado produces "figure-setting papers" that describe the legislative staff response to each agency's estimate and alternative budget estimates for agencies and programs.

Legislative Oversight of the Base Budget

One of the concerns most often referenced in interviews with other states' fiscal staffs was that legislators did not know what was in the base budget. If a new program makes it through the budget process and receives funding, it generally becomes a part of the next year's "base" budget and is subjected to less scrutiny as a result. To some degree, this is necessary for prioritizing issues for analysis in a large budget with limited review time.

In an attempt to address base budget issues, some states, such as Florida, subject programs to sunset review or review agencies on a cycle. Sunset review refers to the practice of building an expiration date into the authorization language for a new program, and performing a thorough evaluation of that programs effectiveness before renewing it. Legislative staff indicated that these processes are not always effective because the review may occur in a year when there is not sufficient legislative or public interest. One potential process improvement in Virginia would be to evaluate new initiatives each year for at least two biennial budgets. This would allow time for program implementation and evaluation of program effectiveness before allowing the program to be subsumed into the base budget.

As described in Chapter 1, in Virginia, preparation of the Governor's proposed budget involves DPB collecting budget requests from each agency which outline appropriation needs. Currently, hard copies of those requests are distributed to the Senate and House fiscal staff as a courtesy. These requests describe only new or expanded programs and not the changes to the base operating budget for factors such as inflation and energy costs. Such changes to the base operating budget are considered technical adjustments and may not reflect the agency's request, but instead how they were funded in the Governor's budget. Legislators and their staff need access to these technical adjustments to perform a thorough analysis of base budget growth

Budget Analysis Can Complement Performance Evaluations

Combining performance evaluations with budget analysis can add value in legislative decision making. According to the director of the New Mexico fiscal office, combining budget analysts and performance evaluation staff into teams that study a particular agency or issues results in more thorough performance reviews. South Carolina's fiscal director indicated that if an agency has a performance audit that year, then fiscal staff focus on that agency as well.

Virginia budget analyses could more consistently incorporate performance evaluations. Performance standards exist for certain State agencies such as institutions of higher education, and these can be useful for peer comparisons. Relatedly, JLARC reviews of State agencies could consistently include a history of appropriations for the agency and identify employment levels, funding sources, and major budget drivers. Including such material in agency reviews would also create a record of budget issues and responses for the various agencies.

LEGISLATIVE FISCAL OFFICES PROVIDE EXTENSIVE ANALYSIS THROUGH A VARIETY OF PRODUCTS

Legislative fiscal staffs produce a variety of documents that present widely varying amounts of information. JLARC staff identified a selection of these documents and analyses that appeared to provide interesting and valuable information to legislators and their staffs.

Some States Have Legislative Process and Budget Issue Primers

Several legislative budget directors indicated that their office creates briefs on general fiscal issues and/or recurring budget issues for a particular agency. These documents create a permanent and growing knowledge base for legislators and staff who are new to a particular issue or the budget process in general.

- Texas produces a 65-page primer on the appropriation process in that state called "Budget 101." Both Wisconsin and Washington produce similar documents that describe the budget process in detail.
- Maryland's fiscal staff put together a handbook series on revenue structure and budget issues that are utilized to orient new members and the public to the budget process.
- Staff in New Mexico create documents called "Finance Facts," two-page descriptions of particular issues or elements of the budget process.
- Arizona has begun to produce "Program Summaries" for a select group of agencies. As shown in Exhibit 2, these two-page fact sheets discuss the program or agency, its goals, and the items contained within the agency subprograms. In addition, the summary provides a breakdown of operating funds and employment for the most recent fiscal year, relevant per-

formance measures, as well as a history of program funding and expenditures for recent years.

Budget Summary Documents Can Be Useful

Legislative fiscal offices produce a variety of documents that both analyze various budget proposals during the budget development process and provide a review of changes to the budget as it moved through the legislature. Several legislative staffs create a document, generally a spreadsheet, which identifies funding levels at the agency, program, or sub-program level at each stage of the legislative process. This usually involves showing the governor's proposed budget, the budgets passed by each chamber, the conference budget, and the final appropriation act. Staff in some states also creates a document that lists appropriations at various levels of detail for preceding fiscal years. This allows an examination of how each agency, program, or subprogram's budget has changed from year to year.

In South Carolina, the legislative staff creates a document that explains any major policy changes set forth in budget language in simple, understandable terms. In Ohio, at the end of each session, legislative staff develops a catalog of budget line items with their legal basis and funding history. Ohio's legislative budget director indicated there is substantial interest in this document from members and the public.

Budget Analysis of Complex Programs Operated by Several Agencies. Most other states' legislative fiscal staff indicated that they analyze complex budget issues that cut across agencies. Examples of such cross-cutting programs include substance abuse treatment and workforce training programs usually provided by several separate agencies, such as mental health, corrections, education, and other agencies. These types of analyses rarely involve simple extractions from budget data systems, but instead require analysts to work with agencies to determine what parts of their budget to include.

One state, New Mexico, indicated that the administration limits legislative staff's access to the budgeting system, which hinders their ability to perform this type of analysis. According to staff in Oregon, even when budget data systems are accessible and have the capability to perform this type of analysis, agencies must be required to flag expenditures with these cross-cutting categories. Otherwise, the system cannot be used for this type of analysis.

Exhibit 2: Arizona's Program Summary Provides Budget Information in a Concise Manner

1 program within a larger agency

Program Funding Detail

Program Summary
Department of Health Services
Emergency Medical Services

Program Overview

The Emergency Medical Services (EMS) Operations Special Line Item funds the operational needs of the Bureau of Emergency Medical Services in the Department of Health Services as well as grants to regional councils.

The funding for operating costs is distributed to the following program areas within EMS:

- **Administration** – Bureau Chief and Business Operation Section staff.
- **Ambulance and Regional Services Section** – Oversees the regulatory process for ambulance services in Arizona. Regulation includes all matters affecting ambulatory services to the public, including: Certificates of Necessity for ambulance service areas, ambulance registration and inspections, ambulance response times, and rates and charges. This section also audits ambulance companies to ensure providers are charging appropriate fees. Funding for Attorney General expenses and the EMS Rule Writer are also included here.
- **Certification, Training and Enforcement Section** – Oversees the certification of all Emergency Medical Technicians (EMTs) and the approval of all EMT training courses. This section also conducts investigations of all complaints by the public concerning certified EMTs and providers.
- **Staff in Tucson and Flagstaff Offices** – Staff at these offices assist in the Certificate of Necessity program and each office also has 1 staff member who is part of the EMS Certification staff.
- **Special Programs** – Includes funding for Regional Liaisons, support staff, and data collection for the documentation and evaluation of pre-hospital EMS delivery performance.
- **Tucson Information Technology Services (ITS) Staff** – EMS's share of ITS staff.

In addition, some monies are also distributed to fund 4 EMS Regional Councils, pursuant to A.R.S. § 36-2208. The regional councils conduct annual needs assessments of local EMS providers within their region, determine where funding is needed, and distribute funds through grants to providers for assistance in purchasing equipment and training.

Program Funding

The EMS Operations line's only source of appropriated funding is the EMS Operating Fund. The EMS Operating Fund receives 48.9% of the Medical Services Enhancement Fund, which in turn receives monies from a 13% surcharge on fines charged for criminal offenses and traffic violations. In FY 2008, EMS Operations is funded at $3,263,900. *Table 1* displays how this funding was allocated in FY 2008.

Table 1
EMS Operations Special Line Item
FY 2008 Appropriated Funding

	FTE	Allocation
Administration	6.0	$ 496,500
Error Suspense Labor	0.0	6,000
Ambulance & Regional Services	8.0	688,200
Certification, Training and Enforcement	14.0	938,000
Staff in Tucson	3.0	122,000
Staff in Flagstaff	2.0	173,500
Special Programs	1.0	204,500
Tucson ITS Staff	0.2	8,500
Operations Total	34.2	$2,637,200
Regional Councils	-	610,200
Risk Management/ERC	-	16,500
Total	**34.2**	**$3,263,900**

FY 2008 funding represents a 7.4% increase from the FY 2001 level of $3,040,400. The Bureau also receives some non-appropriated and federal funding (see *Table 2* for funding history).

The EMS Operating Fund is allocated to many different programs within DHS besides the EMS Operations SLI. *Table 3* displays the distribution of the EMS Operating Fund in FY 2008.

General Program Discussion

Program Funding History

Table 2
EMS Operations Special Line Item
Funding History

Fund	FY 2001	FY 2006	FY 2007	FY 2008
EMS Operating	$3,040,400	$2,992,900	$3,163,900	$3,263,900
Non-Appropriated	NA	400	2,000	2,000
Federal	86,600	174,200	99,900	99,900
Total	$3,127,000	$3,167,500	$3,265,800	$3,365,800

JLBC Staff Program Summary 1 *Updated August 15, 2007*

Performance Measure Analysis

Table 3

EMS Operating Fund FY 2008 Distribution	
Recipient	**FY 2008**
Administration Operating Budget	$ 203,900
Administration AG Legal Services SLI	50,000
Public Health Operating Budget	837,300
Medical Loan Repayment SLI	150,000
EMS Operations SLI	3,263,900
Trauma Advisory Board	405,400
High Risk Perinatal Services SLI	450,000
Total	**$5,360,500**

A notable change took place in the EMS Operating Fund for FY 2006. A fund shift was implemented which included a decrease of $(779,200) from the General Fund and a corresponding increase of $779,200 from the EMS Operating Fund for the Public Health operating budget. The fund has had consistent fund surpluses (see *Table 4*) and if receipts continue at the FY 2007 level, the fund will be able to support the fund shift along with the current level of funding almost indefinitely.

Performance Measures

Emergency Medical Services includes 3 performance measures in the 2008 Master List (see *Table 5*), none of which are included in the General Appropriation Act. The 3 measures are useful for the goals which they measure: to ensure that ambulances are registered and trauma centers are designated within established timeframes. The first measure is a simple output measure and is limited in assessing effectiveness of the program. However, the second and third measures are outcome measures that directly show how well the program addresses its goal. Prior to FY 2006, DHS only had 2 performance measures: the number of ambulances inspected and the number of ambulances with three or more deficiencies. In FY 2006, DHS changed these measures in an attempt to demonstrate consistency within performance measures that pertain to licensing functions.

A performance measure that DHS could implement is the number of EMTs trained in rural areas. Most emergency services in rural areas are provided by volunteers, so there is a need to have effective training for EMTs in those areas. Having a performance measure that assessed the number of EMTs per resident and making comparisons to communities of similar demographics could contribute to more effective delivery of emergency medical services by displaying where the need for additional money for EMT training needs to be disbursed.

An additional performance measure that would provide useful information is the average number of calendar days to resolve a complaint. This outcome measure would provide insight into how well the Bureau of EMS performs in addressing complaints regarding EMTs and providers.

Table 4

EMS Operating Fund Surplus

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Funds Expended	$3,216,600	$2,927,600	$4,346,200	$5,015,900	$5,030,900
Year-End Balance	$1,110,300	$2,779,300	$3,657,400	$3,474,700	$3,277,000

Table 5

Emergency Medical Services Performance Measures

Performance Measure	FY 2006 Actual	FY 2007 Estimate	FY 2008 Estimate
Number of ambulances registered	861	920	984
Percentage of ambulance registrations granted within licensing timeframe	96.8	98	98
Percent of trauma centers granted designation within established timeframes	100	100	100

Historical Performance Measures

JLBC Staff Program Summary 2 *Updated August 15, 2007*

Source: Arizona Joint Legislative Budget Committee (document modified by JLARC staff).

In states where budget analyses of cross-agency programs are performed, legislators and staff appear to find such analyses valuable. In Arizona, staff conduct strategic program area reviews that look at programs or issues that cut across agencies. This analysis allows decision makers to examine budget priorities on an issue-oriented basis. Oregon staff pointed to their state's "children's budget," which identifies services provided to children across various agencies. Staff noted that this is one of their most requested analytical documents.

SOME COMPARATOR STATES USE PERFORMANCE BUDGETING

All of the state legislative fiscal staff interviewed indicated that their state had some sort of performance measurement system in place (Table 9). Differences between states came from the degree of legislative involvement in the performance measurement process and the degree to which legislators and their staffs use these types of measures to help make budgetary decisions.

Table 9: Legislators Use Performance Measures in Less Than Half of Comparator States

State	Agencies Have Performance Measures	Legislators and/or Staff Use Performance Measures	Legislators Evaluate Performance Measures
Colorado	X		
Georgia	X		
Illinois	X		
Massachusetts	X		
North Carolina	X		
Tennessee	X		
Virginia	**X**		
Wisconsin	X		
Washington	X		
Indiana	X	X	
Oregon	X	X	
Arizona	X	X	X
Florida	X	X	X
Louisiana	X	X	X
Maryland	X	X	X
New Mexico	X	X	X
South Carolina	X	X	X

Source: Staff survey of other states.

Some Legislatures Participate in Performance Management

Legislative involvement in performance management ranges from legislative staff working with agencies to develop strategic plans to legislative prescription of the actual measures. In Louisiana, the legislature identifies primary objectives and allows agencies to choose performance measures related to those objectives.

In South Carolina, every agency does an accountability report and legislative staff write the guidelines for what is included in these reports. Legislative staff then help agencies develop these reports and ensure that measures are in line with the standards outlined by the Malcolm Baldridge National Quality Program, a group that certifies performance management programs in public and private organizations.

A Legislative View of Performance Measures

One state's legislative fiscal officer observed, "If you're going to insist on strategic plans and then fund them, and also come along and impose limits on out-of-state travel or impose a hiring freeze, then how do you hold managers accountable for their strategic plans? We've had performance-based budgeting and strategic planning in place for about 15 years. But the legislators who championed these approaches are no longer in place, and their replacements are more concerned about how much gasoline is being used, say, than in what they see as grandiose plans."

In Maryland, every management and performance evaluation study has an analysis of the performance measures used by the agency being reviewed. The study also discusses their value and purpose, and whether those performance measures are appropriate metrics for agency achievement. These studies also present the results of performance measurement, which allows legislators to hold agencies accountable for achieving goals.

Legislative involvement in the development and oversight of performance measures tends to increase utilization of those measures in their development of the budget. Conversely, in states where there is no legislative oversight, performance measures are mainly internal management tools of the executive branch and are not used in legislative decision making. Based on comments from the comparator states' legislative fiscal staff, state legislatures often find little value in performance measures over which they have no influence.

Other states' legislative staff also indicated that without a codified and formalized performance management program, legislative and/or executive interest can wane and leave the program ineffective. Many states cited recently implemented performance management programs that fell into disuse after their main legislative or executive proponent was no longer in office. This may indicate the need for periodic legislative review of performance measures to ensure that the measures continue to be useful and appropriate.

Legislative staff in other states also identified limitations to the value of performance measures, particularly in relation to budgetary decisions. A staff director in Florida indicated that it can be difficult to connect budget line items directly to performance outcomes, and that performance measures are generally not available when there are value conflicts about which core services are the highest priorities. Oregon legislative staff indicated that they try to mitigate this problem by requiring agencies to prioritize programs in their budget requests and identify the performance measure that the program is meant to affect. This allows legislative staff to, at the very least, ensure that agencies are properly prioritizing programs in relation to the highest priority performance measures.

Changing Legislative Procedures

The legislative fiscal officer of one state observed, "Legislatures are tradition-bound organizations. Change comes slow. Our Joint Committee started in 1911, the same year we adopted an income tax. The committee's powers are almost unchanged since then."

While Virginia has had a fairly robust performance management system in place since 2000, there is limited legislative oversight of the measures. DPB manages the process, helping agencies to select measures, collecting that data, and posting it on the Virginia Performs website. The Council on Virginia's Future, whose 18 members include eight legislators, provides vision and high-level guidance on performance management and strategic planning, but does not weigh in on the value and appropriateness of the measures. The Auditor of Public Accounts (APA) validates that agencies have measures and are collecting data for those measures, but does not examine the usefulness of those measures in evaluating performance.

OTHER STATES' PROCEDURES MAY WARRANT CONSIDERATION

The 21 state legislative fiscal offices contacted for this study identified a variety of budget review procedures and products. This review identified that key constraints in Virginia are the relatively short legislative session and relatively few number of legislative fiscal staff. The following selected practices of other states may warrant consideration in Virginia:

- Holding additional hearings for agency personnel to describe and discuss their budgets.
- Evaluating new initiatives each year for at least two biennial budgets.
- Setting earlier deadlines for filing budget amendments and limiting the number introduced per patron, to provide more time for their consideration.
- Calling a brief recess following adoption of each chamber's budget to provide legislators more time to review changes made by each chamber.
- Describing more fully each agency's funding and operations in a single document and/or website, including indicators of performance and comparisons with peer agencies in other states.
- Including a history of appropriations for the agency in JLARC reviews of State agencies and identifying employment levels, funding sources, and major budget drivers.
- Making wider use of televised legislative meetings and hearings.

Additional suggestions for improving budget transparency and documentation are included in Chapter 3.

Chapter 3

Budget Documentation and Transparency in Virginia

In Summary

No single document fully describes the rationale and actions taken in formulating and finalizing the Virginia budget. This lack of documentation hinders an understanding of the policies underlying agency appropriations. Problems stemming from this lack of budget transparency are evident when considering how inflation affects agency budgets as well as other aspects of the budget such as transfers and sum sufficient appropriations. It is difficult to identify policies for managing inflation or staff vacancies or budgetary assumptions about gasoline and energy prices. Based on the JLARC staff review of 21 other states' budget processes, the availability of budget information in Virginia could be improved. Budget documentation from several other states and some Virginia localities could be models for these improvements.

Chapter 2 noted that several other states make extensive efforts to provide a transparent budget process. These efforts include agency-focused budget hearings prior to or during the legislative session, televising or webcasting the hearings, and producing extensive documentation and analyses about agency and program budgets.

The Virginia General Assembly holds public hearings around the State on the budget prior to each legislative session. Budget information is contained in a variety of documents including agency strategic plans, the "Executive Budget" document submitted in December, and the post-session joint money committee staff summaries. Each of these documents is produced at a different point in time and thus reflects somewhat differing sets of budget assumptions and facts. No one document, however, contains all the relevant background and policy assumptions behind the budget.

BUDGET DOCUMENTATION IN VIRGINIA

Nine types of budget-related documentation are generated in Virginia, most of it every year (Table 10). Several of these documents have limited usefulness, as they are accurate only until the next step of the budget process. Currently, there is no one document, database, or website that contains all of the information used in the budget process. To view all the available budget information would require a review of all nine documents shown in Table 10, one of which is not usually made public. Even then, some information would be missing.

Table 10: Documentation of Virginia's Budget Process

Document	Timing of Release	Content	Availability to Public
Budget Instructions	Summer/Fall	Spells out Governor's guidance and assumptions for use by agencies in making requests.	Department of Planning and Budget website
Agency Strategic Plans	Fall	Explains what each agency plans to achieve, with descriptions of its mission, programs, budget, and performance measures	Virginia Performs website
Agency Budget Submissions	Fall	Explains what agencies asked for and why	Not generally made public
Governor's Budget Request and **Executive Budget Document**	Prior to December 20	Describes Governor's recommendations	Department of Planning and Budget website
Summary of Governor's Introduced Budget by Joint Money Committee Staff	Prior to the session	Succinct summary of Governor's recommendations	Legislative Information System website
Subcommittee Reports	Mid-session	Describes subcommittee and committee actions	Contained in conference committee reports
Joint Conference Committee Reports	Before end of session	Itemizes the conference committee actions, with short explanations	Legislative Information System website
Appropriation Act	When Governor signs enrolled budget bill	Official record of appropriations	Legislative Information System website
Summary of Budget Actions by Joint Money Committee Staff	After the Appropriation Act is enacted	Best available discussion of what actions were taken	House Appropriations and Senate Finance committee websites

Note: Bold type indicates a key document for understanding State agency budgets.

Source: Staff analysis.

Budget instructions, for example, provide guidance to agencies about how to shape their budget requests and submissions and how to budget for specific factors such as salaries and benefits. The Governor and General Assembly often change these assumptions as they consider and mold the budget.

Agency budget submissions, which have not been routinely released to the public, contain information that is useful for understanding what each agency requested. Subcommittee reports, released in mid-session, describe recommendations by each respective subcommittee of House Appropriations and Senate Finance, and are generally subsumed within the conference committee report, produced at the end of the session. That report is subsequently described more fully in the *Summary of Budget Actions,* produced annually and jointly by the staff of the House Appropriations and Senate Finance committees.

Some of the budget-related documentation is contained on five separate websites. The Governor's proposed budget and related documentation is maintained on DPB's website, while the Budget Bill and Appropriation Act can be found on the online Legislative Information System. The House Appropriations and Senate Finance Committees' *Summary of Budget Actions* is found on the respective committees' websites. Agency strategic plans are available on the Virginia Performs website. Cross-referencing these websites would be a useful step because the lack of centralized budget documentation hinders citizen access to information about the biennial budget process.

From the public's point of view, the four key documents needed to understand agency budgets include agency strategic plans, the Executive Budget Document, the Appropriation Act, and the *Summary of Budget Actions*.

Agency Strategic Plans Are Useful but May Omit Policy Decisions

Agency strategic plans have been available for most agencies since 2006. They provide the most complete and detailed discussion available of each agency's budget and activities. Because agencies update their strategic plans annually, they also contain the most current information available (strategic plans from prior years are not available, however).

An indication of how budget policies are applied may be found in agency strategic plans. Key budget policies and assumptions are sometimes discussed in these plans, although they may be buried in other language. Important details of budget policy are also omitted at times. An example is found in an excerpt from "Factors Impacting Products and/or Services" from the Department of State Police FY 2009 strategic plan:

> In order to accommodate budget shortfalls caused by the rising cost of gasoline, vehicles, and insurance, the department has been forced to leave a number of authorized sworn positions vacant. These vacancies have an adverse impact on both public safety and officer safety.

Neither this agency's plan nor any other budget documentation provided data about specific gasoline price assumptions in the budget, although how the agency intended to respond to the cost increase was clear.

Virginia's Executive Budget Document Is Quickly Outdated

The biennial budget reflects the program and financial policies, plans, and goals of government operations in the Commonwealth. Much of this information is contained in the Executive Budget document, submitted with the Governor's proposed budget in December. This document becomes outdated when the money committees take action on and change many provisions of the budget bill, usually by mid-February each year; nevertheless, it contains a useful overview of each agency's budget, as well as the Governor's priorities and statewide economic trends.

The *Code of Virginia* directs DPB to include "program measures and performance standards to be used in monitoring and evaluating services" in the Governor's proposed budget (§2.2-1508 4d). The Executive Budget document lists key agency performance measures, but includes no outcome data and does not set or discuss agency performance standards. While the document summarizes the broad fiscal and policy goals of the Commonwealth, more specific policies and assumptions are sometimes not mentioned in any available documentation. The State Police example cited above indicated that fuel and other vehicle-related costs are not identified. Assumptions about inflation, to be discussed in more detail below, are also not discussed. Noting trends in these budget drivers for each agency would allow a better understanding of the financial pressures impacting agency budgets.

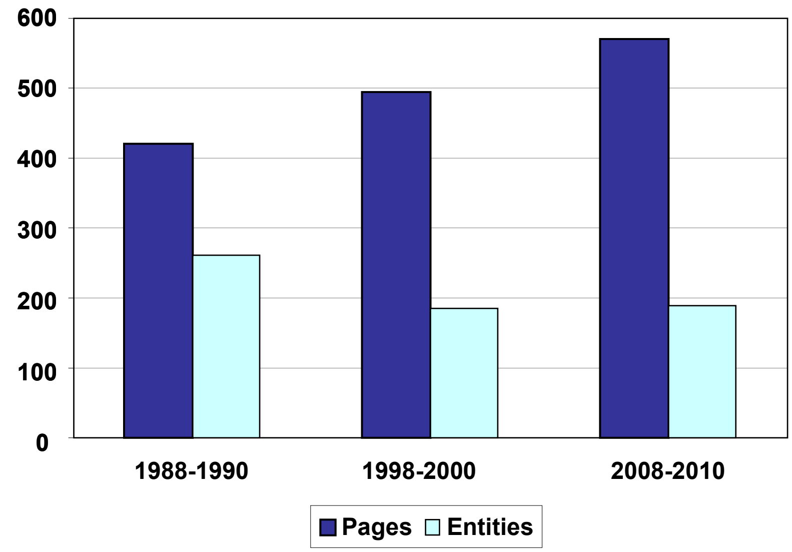
Identifying key internal and external issues affecting revenues and expenditures provides insight into the actions of budget decision makers. The lack of such information hinders efforts to identify the policies and goals of the Commonwealth.

Longer Appropriation Act Displays Fewer Entities

Virginia's Appropriation Act has gotten longer over the past 20 years, although the number of funded entities displayed in it, such as State agencies, has decreased (Figure 2). The 2008-2010 Virginia Appropriation Act is 149 pages longer than the 1988-1990 version (569 pages versus 420), and provides funds to 73 fewer entities, such as State agencies, listed in the indexes (188 versus 261). The Appropriation Act lists agency and program appropriations and language containing instructions to agencies, but as a statute, provides no background information or rationale for particular budget decisions.

The Appropriation Act has gotten longer primarily because of the inclusion of instructions to agencies and expressions of legislative intent in the form of budget language. For example, in the 1988-

Figure 2: Appropriation Acts Are Longer but Display Fewer Funded Entities



Source: Staff analysis of Appropriation Acts.

1990 Act, the Department of Medical Assistance Services (DMAS) took up about 6½ pages. By 2008-2010, DMAS occupied 20 pages, much of which was language. The Department of Social Services' portion of the Act expanded from 10 to 17 pages, again due largely to additional language.

Removal of Facility Detail Reduced the Number of Funded Entities. The declining number of entities funded in the Appropriation Act is not due to a consolidation of agencies. Instead, the change is due mainly to the amount of budget data displayed for certain large agencies. In the case of the Department of Corrections (DOC), for example, the 1988-1990 Act included 40 entities, most of which were individual prisons, requiring 33 pages. By the 2008-2010 Act, DOC occupied nine pages and displayed only the single entity, DOC, despite an increase in the number of correctional facilities during the period. (DOC was chosen by JLARC as the agency for this pilot review.)

The main reason for the declining page length for DOC is that budget details for each of the correctional centers are no longer shown. The 1988-1990 Appropriation Act listed budget program details for each of 21 correctional centers and four sets of regional field units. By the 1998-2000 Appropriation Act, these details, which had been spread over 18 pages, were consolidated into a two-page table. The table listed each correctional center and its respective dollar amount and the number of positions assigned. Several pages of the 1988-1990 Act reflected ten juvenile correctional programs separated from DOC in the 1990-1992 biennium and consolidated into the Department of Juvenile Justice.

By 2008-2010, the two-page table showing the individual facilities had been replaced with a single budget program called "Operation of Secure Correctional Facilities." This included supervision and management of inmates, food services, medical and clinical services, agribusiness, correctional enterprises, physical plant services, and related items.

While the display of information about DOC in the Appropriation Act has changed dramatically over this 20-year period, the degree of control over the agency's budget has not changed. The key "control number" has always been the total appropriation for the agency, not the sub-agency detail about dollars and positions assigned to specific facilities or programs. The controlling appropriation for an agency, as defined by the Act, is the maximum amount an agency can spend, contingent upon the receipt of revenue. Language in the Act permits the transfer of appropriations between programs and activities within an agency only in limited circumstances and with the approval of the DPB director. Although controls over appropriations have not changed, a shortened presentation of agency budgets is not necessarily consistent with budget transparency, which would generally favor the display of more information rather than less.

It should be noted, however, that the DOC facility-level detail previously included in the Appropriation Act was for informational purposes and the numbers were estimates. The detail was not necessarily the definitive appropriation for the facilities. According to DPB staff, the fact that detailed facility numbers were included in the Act had sometimes been mistakenly construed as defining each facility's budget. Consequently, moving away from this detail may make it easier to understand other aspects of the overall agency budget.

The level of detail available for DOC in the current Act is less than that provided for the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS). This agency operates five mental retardation training centers and ten mental health treatment centers, and occupies 19 pages of the 2008-2010 Act. These 15 facilities are listed in tables, much as DOC facilities were until the 2008-2010 changes. Language makes it clear that the facility budgets shown are approximate amounts and may vary, based on department and facility needs.

This varying level of detail about agencies in the Appropriation Act makes it difficult to make comparisons and analyze historical trends. Changes in the presentation of agency budgets within the Act also make it difficult to compare current agency appropriations with appropriations in previous biennia.

Post-Session Summaries Describe Changes to the Budget but Do Not Explain Their Rationale

The *Summary of Budget Actions*, prepared jointly by the money committee staff soon after the General Assembly Session, is generally the best description of the changes made to Virginia's budget. These summaries have some limitations, however, because they do not always explain the reasons, assumptions, and calculations behind the actions. In addition, these summaries generally tell the story in biennial amounts, not annual, and focus on general funds to the exclusion of non-general fund items.

ENHANCING BUDGET TRANSPARENCY

Despite the volume of information contained within the Commonwealth's budget documentation, concerns about insufficient budget data have been expressed in recent years. These concerns have focused on the need for more openness and participation in the decision-making process, more sharing of documents and data, and a simpler, easier-to-understand budget bill and Appropriation Act. In recent General Assembly sessions, such concerns were incorporated in bills that aimed to make the budget easier to understand (2004 HB 973, for example, which provided for the Budget Bill to set forth each agency's mission, goals and objectives, and performance measures). Several bills seeking to establish a searchable, online budget website were introduced in 2008. Although none of these bills passed, they reflect concerns with currently available budget information. Longer Appropriation Acts and new sources of information (such as strategic plans) have not necessarily made it easier to understand the State budget.

The Commonwealth's budget, besides directing the spending of agencies and programs, is a document that reflects policy decisions about taxation, finance, and the allocation of limited financial resources. As noted, Virginia's key budget materials do not list or fully explain these policy choices or other key factors that influence budget decision making. This lack of detail makes the budget less accessible to persons without prior experience in State budgeting.

Budget Transparency Has Many Proponents

Ensuring the availability of and public access to budget information—transparency—is an important governmental objective. The Government Performance Project, an initiative of the Pew Center on the States, for example, grades states on their willingness to share information, their ability to generate good information, and their "ability to get those who should use the information to do so." (Virginia received an "A" on these measures.)

A recent report from the Auditor of Public Accounts (APA)—*Review of the Budget and Appropriation Processing Control System*—noted that citizens should be able to understand the Commonwealth's budget and how resources are used. The report explains, "A transparent budget process allows any informed citizen sufficient ease in understanding and following the budget process without having any special training. This term describes a budget process which is clear, visible, and understandable" to an interested citizen.

The Governor, in a recent speech to the joint money committees, spoke of making budget decisions "in an open and transparent way," by providing the General Assembly with information about where reductions will be made as well as reduction ideas that were considered but not chosen. Although the concept of budget transparency continues to evolve, in general the key goals are to make the budget and budget-making process open, understandable, and accessible to the public.

The General Assembly has in the past taken actions to make the budget more transparent. A statute adopted in the early 1990s, for example, moved the date by which the Governor must introduce the budget from mid-January to December 20. Not only did this make the Governor's recommendations available sooner, it also provided more time for the General Assembly to conduct public hearings on the proposed budget.

Other recent initiatives also have had the effect of increasing transparency. For example, the APA's Commonwealth Data Point website, launched in November 2005, provides spending data by agency, program (or service area), and fund. The ready availability of this amount of information gives legislators, their staff, and other interested individuals the opportunity to look beyond the appropriations and see where fiscal resources are actually being spent.

Appropriation Act Creates Some Transparency Issues

One aspect of the Appropriation Act that is problematic for transparency concerns the program budget structure. In addition, a wide variety of transfers, sum sufficient adjustments, and transfers create something of a disconnect between the Appropriation Act and the actual expenditure of funds. The APA report noted above also identified "significant budget transparency issues that affect the ability of citizens to understand the Commonwealth's budget and how resources are used."

Program Budget Structure Does Not Always Provide Useable Information. The program budget format used in the Appropriation Act tends to constrain the amount of information provided. This format was developed in the 1970s as a more useful approach to budgeting than the excessive detail of traditional line-item budgets. Budget programs may appear in several agencies; examples include funding directed toward specific objectives, such as developing or preserving a public resource or improving a service or condition that impacts the public.

Budget decisions are commonly line item in nature—deciding to fund a specific number of mental retardation waivers is an example of a line-item approach, as is funding a specific school enrollment forecast or organizational membership dues—yet Virginia's program-based budget typically does not display line items. This is one reason why language has proliferated in the Appropriation Act, as it is the main way to display decisions and provide specific instructions. Exhibit 3 is an example of a budget program (366, Water Protection) and its associated subprograms in the 2008-2010 Appropriation Act, with the appropriation ($48.3 million) and instructions for certain uses of the funds.

The content and integrity of many budget programs have changed significantly over the years since program budgeting was adopted in Virginia. Apparently, it was expected that there would be regular monitoring and updating to keep the budget programs current, but this has not happened consistently.

Program appropriations may fluctuate significantly from one year to the next for a variety of reasons, including changes in federal or State law as well as the redefinition and reuse of already existing program codes. For purposes of tracking appropriations over time, budget programs often do not alert the reader to these types of substantive changes. An example is the budget program for Temporary Assistance for Needy Families (TANF, budget program 452) in the Department of Social Services. Instead of creating a new budget program code when TANF was adopted in the mid-1990s, the pre-existing 452 (used for Aid to Families with Dependent Children, AFDC) was used. Consequently, this major change in the program was not apparent from the budget.

Administrative costs provide another illustration of how budget programs can hinder an understanding of the budget. There seems to be no clear rule about how or whether to display administrative expenses in the budget. For example, the Appropriation Act displays no administrative funds for numerous agencies, including

Exhibit 3: Example of a Budget Program in the Appropriation Act

Department of Environmental Quality (440)

		Item Details($)		Appropriations($)	
		First Year FY2009	Second Year FY2010	First Year FY2009	Second Year FY2010
366.	Water Protection (51200)	$10,031,805	$10,031,805	$48,385,003	$48,435,003
	Water Protection Permitting (51225)	20,661,044	20,661,044		
	Water Protection Compliance and Enforcement (51226)	4,318,127	4,368,127		
	Water Protection Outreach (51227)	5,959,174	5,959,174		
	Water Protection Planning and Policy (51228)	7,414,853	7,414,853		
	Water Protection Monitoring and Assessment (51229)				
		20,578,937	20,628,937		
Fund Sources:	General	135,222	135,222		
	Special	10,594,054	10,594,054		
	Trust and Agency	7,051,518	7,051,518		
	Dedicated Special Revenue	10,025,272	10,025,272		
	Federal Trust	10,031,805	10,031,805		

Authority: Title 5.1, Chapter 1; Title 10.1, Chapter 11.1; and Title 62.1, Chapters 2, 3.1, 3.2, 3.6, 5, 6, 20, 22, 24, and 25, Code of Virginia.

A. The Department of Environmental Quality is authorized to commit resources necessary to qualify for in-kind match for the U.S. Army Corps of Engineers for the John H. Kerr Dam and Reservoir, Virginia and North Carolina Feasibility Study, to be conducted in accordance with § 216 of the River and Harbors Flood Control Act of 1970.

B. The appropriation includes annual membership dues for the Interstate Commission on the Potomac River Basin, $156,000 the first year and $156,000 the second year, from the general fund.

C. The appropriation includes annual membership dues for the Ohio River Valley Water Sanitation Commission, $49,500 the first year and $49,500 the second year, from the general fund.

D. Out of the amounts for this Item shall be paid $50,000 the first year and $100,000 the second year from the general fund to the Chesapeake Bay Foundation to support Chesapeake Bay education field studies.

E. Notwithstanding the provisions of § 62.1-44.15, Code of Virginia, the Department of Environmental Quality is authorized to implement an inspection schedule for confined animal feeding operations using risk-based criteria.

Source: 2008-2010 Appropriation Act.

the Department of Forestry, the colleges and universities, the Office of the Attorney General, and the State Board of Elections. Administrative costs in these agencies are subsumed under other budget programs. For other agencies, however, such as the Department of Corrections and the State Compensation Board, an "Administration and Support Services" budget program is clearly identified in the Act.

Transfers Are the Largest Type of Adjustment. The Appropriation Act authorizes the Governor to transfer dollars between programs in an agency and between agencies, under certain conditions. Transfers allow the Governor to react to situational changes that occur between General Assembly sessions. The Act contains language that defines the rules and procedures that the executive branch must follow when making these transfers.

These transfers and adjustments made after passage of the Appropriation Act effectively change the general fund and non-general fund operating budgets; these changes lead to issues of transparency. Table 11 lists the most significant of these adjustments in FY 2007. As shown in the table, the budget at the end of the fiscal year differs notably from the originally adopted budget. Overall, the year-end FY 2007 budget is $2.6 billion (7.2 percent) higher than the appropriated budget. In addition to the increase in overall magnitude, the breakdown of the budget between general and non-general funds has changed considerably as well. While the Appropriation Act is 48 percent general fund, the year-end budget is only 38 percent general fund due to some large transfers.

A portion of the change is due to final or "caboose bill" actions by the General Assembly. Table 11 indicates legislative adjustments of $254.7 million in general fund enhancements to FY 2007. Several other large adjustments were also made.

In dollar terms, transfers are the largest type of budget adjustment, particularly transfers from general to non-general funds. This type of transfer accounted for a more than $3 billion difference between the Appropriation Act and the year-end budget in FY 2007.

Two items, Higher Education Operating Funds and the Personal Property Tax Relief program, account for the majority of this type of transfer. These transfers occur to comply with Appropriation Act provisions which require moving these appropriations into a separate fund. For example, Personal Property Tax Relief ($950 million) is placed in a special fund before it is disbursed to localities, so that expenditures can be monitored separately from the rest of the general fund. The other major transfer, to Higher Education

Table 11: Operating Budget Adjustments (FY 2007)

	General Fund	Non-General Fund	Total
Original Budget (Chapter 3)	**$16,779,048,401**	**$18,125,220,885**	**$34,904,269,286**
Subsequent Legislative Adjustments:			
Legislative Amendments in 2008 session	254,702,914	(62,541,713)	192,161,201.0
Administrative Adjustments:			
Transfers:			
General fund to non-general funds	(3,041,980,382)	3,040,065,904	(1,915,478)
Other transfers	6,865,907		6,865,907.2
Adjustments and Reappropriations:			
Sum sufficient appropriations	6,404,168	1,432,320,021	1,438,724,189
Additional revenues	358,728	365,500,848	365,859,576
Carry forward prior year cash balances		310,905,440	3,310,905,440
Other non-general fund appropriations		199,012,561	199,012,564
Mandatory reappropriations	84,792,098		84,792,098
Discretionary reappropriations	22,422,471		22,422,471
Deficit appropriations	3,634,014		9,634,014
Adjusted budget as of June 30, 2007	**$14,122,247,319**	**$23,410,483,949**	**$37,532,731,268**

Source: APA's *Review of the Budget and Appropriation Processing Control System, 2007.*

Operating Funds ($1.6 billion), was originally permitted over 20 years ago to simplify accounting for these funds at each university.

The size of these transfers creates a significant difference between the budget and expenditures for these programs. The general funds lose their identity, and transparency in the budget is reduced with regard to how general funds are used for higher education and aid to localities.

Sum Sufficient Appropriations Affect the Final Budget. A sum sufficient appropriation is a mechanism within the Appropriation Act to allow the Governor and agencies to manage programs where the precise amount of program revenues or expenditures are not known in advance. They are also used to avoid double-counting appropriations. Sum sufficient appropriations are described in the Act as appropriations for which the Governor is authorized to exceed any amount shown if such a change is required to carry out the purpose for which the appropriation is made.

The "Administration of Health Insurance" program is an example of a sum sufficient appropriation. The Department of Human Resource Management manages this $165 million program by collecting premiums from State agencies and employees to cover State employee health claims. The Act also includes the cost of employee-paid premiums, included in each agency's budget. The Administration of Health Insurance costs are thus budgeted as "a sum sufficient" so as not to count these amounts twice.

Inflation for Non-Personal Services Is Generally Not Funded. A key requirement in Virginia budgeting is for agencies to generate internal savings to cover inflationary pressures. With only a few exceptions, inflation has not been funded in State agencies since at least the early 1990s. Key exceptions have included re-benchmarking costs for Medicaid and the Standards of Quality (SOQ) for school divisions to incorporate adjustments for inflation, and employee compensation, which has been adjusted at the discretion of the Governor and General Assembly. Few other agencies or programs have received additional funding to cope with inflation.

DPB has generally budgeted for inflation primarily by fully or nearly fully funding staff positions, even though not all positions are filled continuously for an entire year. In FY 2007, for example, State agencies averaged an 11 percent vacancy rate. Statewide, this vacancy rate means that as much as $380 million in general funds ($7.2 billion payroll X 0.11 = $380 million, assuming 48 percent general funds) may have been appropriated for employee compensation (including benefits) when there was a reasonable expectation that these funds would not be spent on compensation.

Although this estimated $380 million may have been provided for but not spent on employee compensation, DPB has routinely required agencies to estimate projected turnover and vacancy savings and identify how the agency proposes to spend it. Each agency's proposed spending is then reviewed and approved as part of the budget process. These plans are not routinely noted in publicly available documentation. A consequence of this process, however, is that the Appropriation Act may indicate spending on personal services when the agency—with DPB and possibly General Assembly knowledge and consent—plans to spend the funds on something else. Certain initiatives, such as information system development, have frequently been funded from these internal savings.

Agency strategic plans do not consistently mention how inflation in non-personal services should be handled. DOC's FY 2009 strategic plan, for example, makes no mention of fuel prices, even though the agency reported nearly 21 million miles of inmate transportation and other travel in FY 2006. The Department of State Police's strategic plan, as already noted, mentions the impact and likely consequence of fuel price increases, but does not indicate the fuel price assumed in the agency's budget.

Budget Policies Should Be Discussed in Documentation

The Commonwealth's budget incorporates numerous policies and assumptions. Some have been common practice for a number of years, but are not often discussed in budget documentation. These policies and practices can be seen in the example of the DOC budget.

Transfers Account for Major Difference between the Appropriation Act and DOC's Operating Budget. The Appropriation Act sets legal spending limits at the secretarial, agency, program, fund, and project levels. The Commonwealth Accounting and Reporting System (CARS) also limits agency spending at each of these levels. DPB maintains the Form 27 Automated Transaction System (FATS) processing system, which allows agencies (upon proper authorization) to redistribute appropriations in the course of a fiscal year.

In FY 2007 and FY 2008, DOC executed a total of 69 FATS transfers, of which 36 were intra-agency adjustments (those having a net effect of zero on the total agency budget). A total of $48.6 million in FY 2007 and $56.1 million in FY 2008 was moved between DOC programs, representing 5.0 percent and 5.5 percent, respectively, of the total initial appropriations for the agency (Table 12).

For DOC, the largest dollar value transfer in each fiscal year occurred within a single transaction, ostensibly to align DOC appropriations with the agency's operating budget. In FY 2007, $31.7 million was redistributed within a single transaction, on August 15, 2006. Similarly, on November 26, 2007, DPB approved the reallocation of $47.7 million across 26 of DOC's 28 subprograms. DOC has indicated that this is an annual adjustment process due to central appropriation adjustments for salary and benefit increases, as well as longstanding DPB policies to not adjust agency base budgets for inflation.

Table 12: DOC Internal FATS Transfers Were at Least 5 Percent of Total Appropriations in FY 2007 and FY 2008

Fiscal Year	Chapter 847 Appropriations	Total Internal FATS Transfers	Internal FATS Percentage of Appropriations
2007	$ 964.0	$48.6	5.0%
2008	1,025.1	56.1	5.5%

Source: Department of Corrections.

In each fiscal year, more than 70 percent of total intra-agency transfers occurred in five subprogram areas. In DOC, subprograms with large personal services components, such as the "Supervision and Management of Inmates" program, have been used as sources for funds to support other operational areas. Vacancy savings have allowed DOC to use these funds to provide funding for information technology, utilities, and other operational areas. Historically, DOC's personnel costs for the opening of new prisons have been fully funded only in the first year of operation, making turnover and vacancy savings a major source of funds to cover operational shortfalls and other needs.

Underfunding of Non-Personal Service Inflation at DOC. By requiring agencies to cover inflationary costs from their existing budgets, agencies should have an incentive to economize and conserve. Some agencies request additional funding for these cost increases, although they are only rarely approved.

For example, the Governor and General Assembly did not approve DOC's requested increase of $6.2 million for physical plant operations in FY 2009. DOC was appropriated $69.1 million in FY 2007 and $74.3 million in FY 2008 for physical plant operations, which includes utilities such as electricity, water and wastewater, natural gas, coal, and fuel oil. DOC's actual expenditures were higher by approximately $2.6 million in FY 2007 and $6.8 million in FY 2008. Consequently the agency had to "find" funding internally to cover these necessary expenses.

Funding requests for increases in some information technology (IT) costs have not been approved since DOC upgraded its network in the early 2000s. DOC estimated the shortfall for the FY 2007-2008 biennium to be $26 million. The $26 million shortfall consisted of $16 million for increased costs of maintaining the upgraded network and $10 million in increased costs due to rate increases by the Virginia Information Technologies Agency (VITA). While DOC included this in their budget request, it was not funded, and as a result, DOC used turnover and vacancy savings to cover the shortfall.

In the FY 2009-2010 biennium, DOC's budget request estimated a $27.6 million shortfall for the two fiscal years. While the Governor's proposed budget did fund these shortfalls, it did so through "recover[ed] turnover and vacancy savings." In essence, the Governor acknowledged DOC's funding strategy yet provided no new funding. This realignment, however, does not appear to be included in the final Appropriation Act.

DOC Holds Positions Vacant to Fund Operations. The savings generated by employee turnover can be increased by holding positions vacant for an extended period of time. For example, when the Governor recently ordered that vacant positions could only be filled after review and approval by the respective Secretary, at minimum the order lengthened the time during which a given position would remain vacant, increasing the resultant savings within the agencies. One additional month's compensation for vacant positions statewide could generate up to $60 million.

In FY 2006, DOC had an authorized employment level of 12,385 positions and averaged 11,433 filled positions, according to the APA audit. This 11 percent vacancy rate meant that DOC averaged 952 vacant positions during the year. Assuming $50,000 as a typical employee compensation package (including salary and benefits), for example, DOC could have realized about $47.6 million in turnover and vacancy savings, or about four percent of the agency's total appropriation.

According to both DPB and DOC, recently-opened DOC facilities have been fully funded, meaning all their operating costs, including utility and maintenance costs, were funded at 100 percent of expected costs, with no expectation, at least in the first year of operation, that any expenses would be covered from holding vacant positions. Agency-wide, this has provided significant budgetary relief by generating internal savings. Fourteen of DOC's 30 major correctional centers have been opened since the policy of leaving vacancy savings with the agencies went into effect in the early 1990s.

Current Budget Process Is Problematic for Large IT Projects. The Virginia Correctional Information Systems (CORIS) is a major IT project in DOC. After this project is finished, the information system will trace offenders from their entry to their exit from DOC supervision. All offender data will be stored in a single repository operating on a current technology platform. This involves upgrading many older data systems through implementation of a new offender management system.

CORIS is being implemented in three phases, beginning in 2008. The first phase of implementation is a time management system which will help DOC process inmates from jails and track their time spent in DOC facilities. The second phase will replace the old Parole Board system and help DOC track individuals on probation, keeping all of their information on a single database. Lastly, the third phase of the project will create a central system for storing information and tracking inmates in DOC facilities.

Funding for the CORIS offender management system was first requested by DOC prior to the 2004 General Assembly Session. DOC asked for a change in budget language that would allow $3.9 million to be spent on the system, consisting of a $2 million grant from the Department of Criminal Justice Services and a transfer of nongeneral funds from out-of-state prisoner revenue. DOC actual expenditures for CORIS for FY 2005 and FY 2006 were not this high, and over the biennium, only about $1.7 million was spent (Table 13).

For FY 2007, DOC was initially appropriated $2.8 million in general funds, which was reduced to $1.1 million. In addition, DOC was also appropriated $730,000 from a federal grant and $500,000 from out-of-state prisoner revenue. In FY 2008, the department was appropriated $5.8 million in general funds and an additional $1 million in out-of-state inmate revenue. Of the FY 2008 appropriation, only $300,000 was expended, but DPB allowed DOC to retain the remaining resources into the next biennium.

The final phases of the project received funding in the current FY 2009-2010 budget in the amounts of $5.8 million in general funds and $1 million in out-of-state prisoner revenue in each fiscal year. As Table 13 shows, the total planned costs of the project, if all appropriated and retained resources are exhausted, will be more than $24 million.

Capital Budget Process Should Be Considered for Information Technology IT Projects. The CORIS funding experience at DOC points to a problem with how agencies must deal with large-scale IT upgrades and may indicate that some IT projects could be better appropriated through a capital budget process. Currently, agencies budget for IT projects like CORIS incrementally in a series of biennial budgets. This requires agencies to request large amounts of funding or build up reserves of cash through savings in other years to pay for the development and startup costs of major new software. This can delay implementation of needed systems. In addition, agencies do not always consider the ongoing costs of main-

Table 13: CORIS Received $24.5 Million Over Six Fiscal Years

	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Projected	FY 2010 Projected
Expenditures	$488,645	$1,252,394	$2,063,666	$ 305,568	$ 7,152,552	$ 5,207,619
Cumulative Total Expenditures	488,645	1,741,039	3,804,705	4,110,273	11,262,825	16,470,444
Appropriations						
General Fund Appropriated	-	-	2,802,359	5,764,629	5,764,629	5,764,629
Governor's Adjustment	-	-	(1,700,463)	-	-	-
Federal Grant	305,892	1,029,811	730,063	-	-	-
Out-of-State Inmate Revenue	125,000	371,200	500,000	1,000,000	1,000,000	1,000,000
Total Appropriations	430,892	1,401,011	2,331,959	6,764,629	6,764,629	6,764,629
Cumulative Total Appropriations	**$430,892**	**$1,831,903**	**$4,163,862**	**$10,928,491**	**$17,693,120**	**$24,457,749**

Source: Department of Corrections.

taining software. Many software packages require updates and annual maintenance and licensing fees.

DOC reports that upgrading from the current system will provide substantial savings to the department from a reduction in maintenance costs as a result of moving from an amalgam of older systems to a single, modern system. Currently, DOC spends $2.5 million per year to maintain legacy systems, and that amount could increase as the systems become more outdated. After full implementation of CORIS, maintenance costs are expected to be about $400,000 per year, as the new system will require less staff to maintain. CORIS is expected to last 20 to 30 years, making the maintenance savings increasingly positive in future years. The present value of these savings is around $27 million over 20 years, adjusted for inflation.

A potentially better way of budgeting for such IT projects and expenses would be to use a process similar to the capital outlay process. In 2002, the Secretary of Technology recommended in the first statewide Strategic Plan for Technology that the State develop a capital planning and funding process for IT. Capital IT budgeting was also a recommendation in a 2003 JLARC report entitled *Review of Information Technology Systems Development,* which noted that

- Problems with IT funding arise from the fact that funding is tied to the biennial budget process despite many IT projects extending across more than one biennium.
- The General Assembly is not inclined to directly appropriate the large amounts needed for major projects.
- Agencies are not likely to be able to fund high-cost projects through their operating budgets.
- There is no formalized structure to consider the overall needs and priorities of IT in making IT funding decisions.
- Instead, those decisions are made in isolation without consideration of the State's overall IT needs or priorities

Despite implementing many aspects of the Secretary's plan and the JLARC report, this recommendation has yet to be implemented. In contrast, Massachusetts is currently funding large IT projects as a part of its standard capital budget process.

Using a capital process for IT could improve the current process by improving long-term decision making at agencies and strengthening oversight of IT expenses. Using planned obsolescence and considering both the up-front and ongoing maintenance costs of the project, an agency could make a level annual payment over a portion of the project's useable life. Agency decisions on whether to proceed with a project could be based on the net present value of the project over time. In addition, creating a capital IT budget for the State as a whole would provide a central list of all approved projects and facilitate oversight and control of their total costs. This would allow better tracking and oversight of IT expenses by legislative and executive budget analysts.

ENHANCING LEGISLATIVE BUDGET OVERSIGHT

The Commonwealth of Virginia is moving towards a more performance-based budgeting system through the implementation of performance measures linked to budget line items. As the executive branch develops and improves these systems, legislators and their staff may find value in evaluating these measures when evaluating the budget.

Budget Documentation Should Describe Key Policies, Plans, and Goals

Although the Appropriation Act has grown longer, it is a challenge to understand the fundamental assumptions underlying the budget. Examples of these fundamental assumptions include how inflation, employee turnover, and vacant positions will be handled, and assumptions about gasoline and heating oil prices. No one document currently addresses all of these concerns, and some are not addressed in any document.

Several of the 21 comparator states use their budget document to more closely link agency spending with agency activities and performance. Texas specifies agency goals, performance targets, and workload projections in its budget document, and where appropriate, provides funding for each targeted activity. North Carolina provides agency performance indicators by source of funds. Outcome measures are included for each performance indicator over several fiscal years. Performance goals or standards, however, are not provided.

Maryland sets agency performance goals by setting key goals and objectives for agency operations. Objectives are explicit targets that fall within broad, agency-wide goals (for example, "Objective 3.3 – No offender or detainee confined in a DPSCS facility will be incorrectly released" falls within Public Safety Goal 3: Offender Security). Performance indicators for each objective are listed, and both outcome and workload measures are provided for the previous two fiscal years and estimated for the following two fiscal years. Language explicitly declares whether agencies have met their performance targets for the previous fiscal year.

Virginia's largest municipalities also provide more detail on agency performance and goals in their budget documents than does the Commonwealth. Henrico County's budget document discusses workload indicators and how they affect program appropriations. Prince William County's document discusses major budget issues within each agency, summarizes agency budget adjustments, and identifies the strategic goals affected by the proposed changes.

In Chesterfield County's budget, each agency has a "How are we doing?" section that provides agency goals and the objectives and measures for each goal. Initiatives affecting performance indicators are explicitly identified. A graph shows the target level and actual levels of performance over time for each performance measure. Both Fairfax County and the City of Virginia Beach use their budget to identify key performance indicators for every agency, and include time series data about them. However, neither municipality's budget document specifies performance benchmarks or targets. In Fairfax County, general service area goals are published in an accompanying document, the *Citizen's Guide to the Budget*.

As the State budget process becomes more aligned with performance goals, the Appropriation Act or the Executive Budget document could be reformatted to include some or all of the additional elements listed in this section. This would enhance the ability of legislators and interested citizens to understand and analyze budgetary decisions.

Legislative Staff Need Full Access to Executive Budget Data

Legislative fiscal directors in most of the comparator states indicated that they generally receive agency budget requests directly from the agencies without significant involvement from the governor's office. What is contained in these budget requests, however, varies from state to state. Some states' budget requests include agency base budget requests as well as requests for new and expanded initiatives. Requests in some other states include only requests for new programs.

Access to the detailed agency budget requests provides an important level of legislative oversight as it allows legislators and their staff to "look behind" the governor's decisions on policy priorities. It can also provide insight into the methods used for projecting executive budget numbers.

States also varied as to whether provision of agency budget requests was an informal practice or codified in law. In at least one state, it was noted that some governors had been reluctant to provide such information in the past. New Mexico's administration limits legislative access to their budgeting system, which hinders legislative staff from performing oversight and analysis. This may indicate that it is well-advised to codify what information the governor must provide and by what date it must be provided.

Legislative staff in Oregon indicated that they have recently implemented a performance budgeting tool called the Oregon Budget Information Tracking system (OBIT). In addition to giving the executive branch better tools for budgeting, it also allows legislative staff to access the same system the governor uses to develop the executive budget. Electronic access to agency budget requests at the object level has proven to be a valuable tool in legislative budget oversight.

DPB is in the process of updating and automating its budget development processes, with an emphasis on performance budgeting. It has developed a Request for Proposals (RFP) for this purpose and received proposals as well as vendor presentations. While it is currently unclear whether the final product will be provided by one of these vendors or created in-house, legislative fiscal staff need access to any such system. This would allow legislative staff to examine the manner in which executive budget projections were created and more fully analyze the base budget. DPB should ensure that legislative staff have access to whatever performance budgeting product DPB procures.

Performance Measures Should Be Aligned With Appropriations

The *Code of Virginia* states that

> The Auditor of Public Accounts shall…determine that state agencies are providing and reporting appropriate information on financial and performance measures, and the Auditor shall review the accuracy of the management systems used to accumulate and report the results. (§ 30-133 B.)

The APA fulfills this responsibility in a report to the General Assembly each session. The report for FY 2007 identified issues with the transparency of performance measures and the budget structure. According to the APA,

> Budget Transparency is a part of government's accountability to the public and legislative body on how the government manages resources. Performance measures are a component of the accountability and should reflect the combined consent of public, legislative, and executive branches on what the government seeks to achieve with committing resources to particular program.

> Isolating programs and their resources are the only way to relate the use of resources with measuring performance. Although financial resources are only one of the performance measure inputs, it is not possible to compare the cost of a program's achievement to a performance measure, without separating the cost of only that performance measure. Governments must isolate performance measure costs from other costs or it will either over or under report the resources necessary to achieve the measure. (p. 3, 2007 *Review of Agency Performance Measures)*

APA reviewed a sample of agencies to evaluate the relationship between service areas, service area functions, the corresponding performance measures, and budget. Many instances were found where performance measures did not align with policy outcome goals or the budget. APA expressed optimism that DPB, in moving to a new performance budgeting system, would be able to address many of these issues.

Following are other considerations derived from the review of other states' legislative budget oversight procedures:

- DPB and VITA should consider a process for funding IT projects in a fashion similar to capital projects.
- Consideration should be given to codifying what budget-related information the Governor must provide and by what date it must be provided.
- DPB should ensure that legislative staff have access to whatever performance budgeting product DPB procures.

Chapter 4

Pilot Review: Budget Growth at the Department of Corrections

In Summary

The budget of the Department of Corrections (DOC), the agency chosen for a pilot evaluation, grew 51 percent between FY 1999 and FY 2008, from $681 million to $1.026 billion. The inmate population increased 11 percent to 33,551 over the ten-year period, and the caseload of persons on probation or parole increased 57 percent, to 59,000. A handful of cost drivers were the principal contributors to this budget growth, chiefly personnel-related costs as new facilities opened during the period. Personnel costs now account for two-thirds of DOC's budget, and inmate medical services, also growing rapidly, represent 13 percent of the agency budget. Past budget cuts have prompted DOC to use strategies such as closing facilities and programs and trimming operating costs. DOC also plays a key role in managing the backlog of State-responsible inmates in local and regional jails, and has sometimes used this to generate savings. This approach generates costs for another State agency (the Compensation Board) and localities.

The study mandate calls for JLARC staff to review the budget submission of an agency. The Department of Corrections (DOC) was selected by JLARC as the agency for this pilot review. To understand the agency's budget submission, discussed in Chapter 5, it is first necessary to have background information on DOC's budget.

DOC IS A LARGE STATE AGENCY WITH A COMPLEX MISSION

DOC is one of the largest State agencies, with an annual budget exceeding $1 billion, and has the most authorized positions, at 13,759. At $960.1 million, the general fund portion of the agency's budget is the third largest of all agencies in FY 2008, behind only the Department of Education and the Department of Medical Assistance Services (Medicaid).

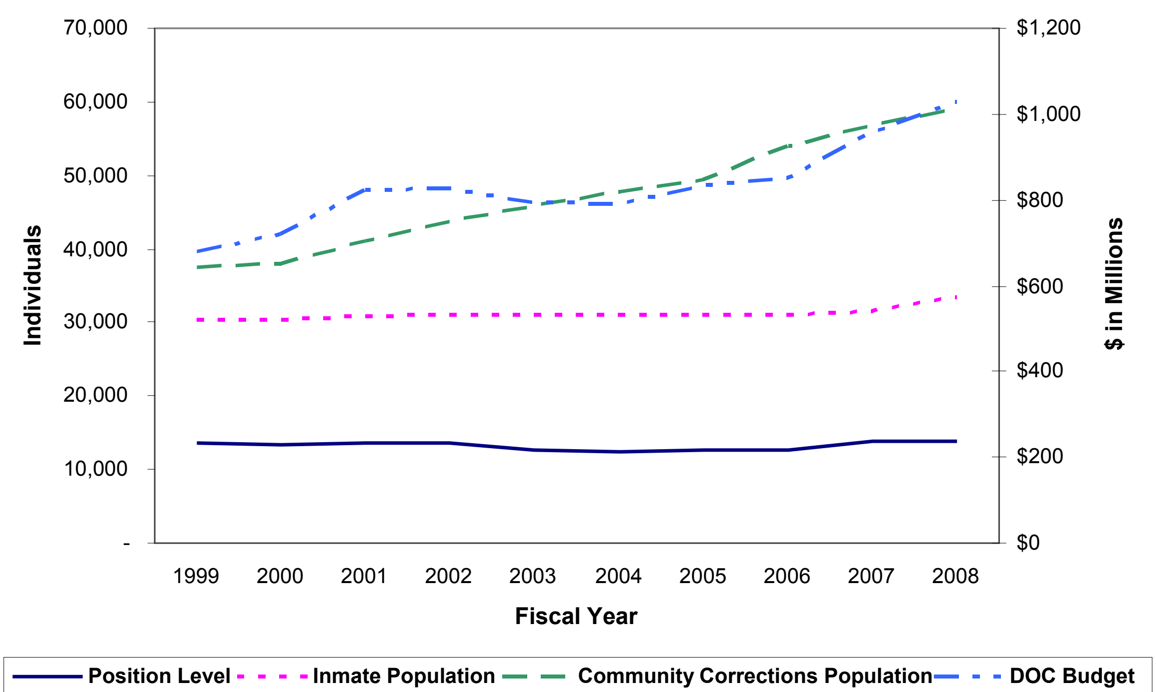
The primary mission of DOC is to supervise and manage inmates housed in State correctional facilities, and to provide treatment programs and other services to inmates in the course of their incarceration. Post-release supervision, also a prominent part of the agency's mission, is provided through DOC's probation and parole services and serves offenders who have been released from prison through eight programs, including substance abuse services, sex offender supervision, and residential facilities such as detention and diversion centers.

In the past ten years, DOC's budget grew from $681.3 million to $1.026 billion, a 51 percent increase (Figure 3). Over that same period, the average daily population of inmates increased 11 percent, from 30,254 to 33,551. The average cost of housing an inmate grew from $18,590 in FY 1999 to $22,830 in FY 2007. The caseload of persons on probation or parole increased 57 percent over the period, to 59,000 in June 2008. Employment with the department grew two percent.

During this ten-year period, DOC had a net gain of 1,581 inmate beds, or about two percent growth. The department closed seven facilities, taking 2,190 beds off line, and opened six new facilities or new housing units at existing facilities, adding 3,392 beds to the system's capacity. In FY 2002, DOC added 839 "temporary" beds by double-bunking several dormitory facilities; these beds remained in use in 2008. Various smaller adjustments to capacity were also made during the period.

The official forecast of the inmate population calls for continued slow growth. The forecast released in November 2008 predicts growth of about 1,000 State-responsible inmates per year through FY 2014.

Figure 3: DOC Prison and Community Corrections Population, and Total Employment ($ in Millions)



Source: Auditor of Public Accounts, Department of Corrections, Appropriation Acts.

DOC'S BUDGET IS COMPLEX

Although DOC's budget consists of mainly general funds, DOC's budget is complex, reflecting the broad scope of the responsibilities and activities of the agency. The budget covers the operation of 43 secure facilities, inmate health care, transportation between the facilities, and extensive community corrections programs, among others. DOC also plays a key role in managing the backlog of State-responsible inmates in jails, which can function as a means of controlling DOC spending—though sometimes at the expense of localities and another State agency, the Compensation Board.

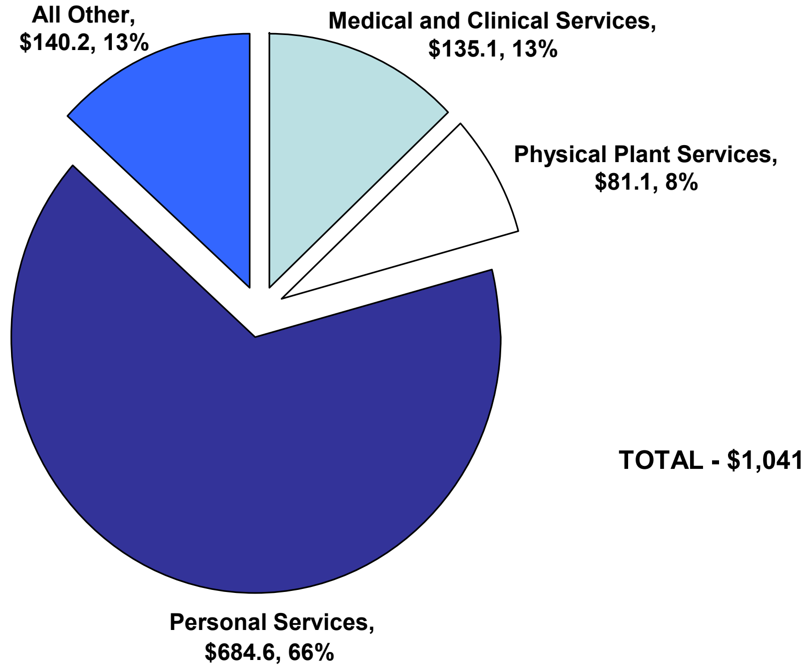
Personnel Costs and Inmate Medical Service Costs Have Been the Principal Areas of Budget Growth

Since FY 1999, a handful of cost drivers have been the principal areas of growth in DOC's budget. Personal, medical, and physical plant services comprise most of DOC's budget and expenditures (Figure 4). In FY 2008, these three activities accounted for 87 percent of DOC's expenditures. Personal services expenditures, those related to employee salaries and benefits, totaled $684.6 million in FY 2008 and represented two-thirds of total expenditures. Expenditures on medical services for inmates totaled $135.1 million. Physical plant expenditures were approximately eight percent, or $81.1 million, of total DOC expenditures. Of the remaining $140.2 million in expenditures, significant costs were for inmate food services ($40.6 million) and information technology services ($24.0 million).

It is important to note that spending increases in these areas are driven by factors largely beyond the agency's control, such as growth in the inmate population, inflation and energy costs, and employee salary increases approved by the General Assembly.

Personnel Costs Are a Key Source of Budget Growth. Personnel-related costs represent about two-thirds of DOC expenditures, and have been the key source of budget growth for both secure confinement and community corrections. In the six years between FY 2003 and FY 2008, personnel costs grew 30 percent, from $527.8 million to $684.6 million (Table 14). The number of employees assigned to DOC grew eight percent in the period, from 12,716.5 in FY 2003 to 13,759.5 in FY 2008. The General Assembly approved cumulative salary increases of 13 percent in the period, in addition to increases in certain employee benefits. The opening of 2,048 beds at Green Rock and Pocohaontas Correctional Centers in late FY 2007 added 683 employees and $26.0 million in personnel-related expenditures in FY 2008. DOC has several controls on personnel expenditures. Facility managers have been instructed to minimize the incidence of overtime and have used various strate-

Figure 4: In FY 2008, 87 Percent of Total DOC Expenditures Were for Personal, Medical and Clinical, and Physical Plant Services ($ in Millions)



Source: Department of Accounts, Department of Corrections, APA's Commonwealth Data Point website.

gies to reduce overtime spending. Under the federal Fair Labor Standards Act, correctional officers are entitled to overtime pay after they work more than 216 hours in a 28-day cycle. For FY 2006 through FY 2008, DOC overtime expenditures remained steady at less than one percent of total expenditures each year. DOC staff noted that overtime spending was significantly higher in the past, but has declined steeply since new overtime management strategies were adopted.

Table 14: Expenditures on Personal Services and Inmate Medical Services Increased From FY 2003 to FY 2008 ($ in Millions)

Fiscal Year	Personal Services	Inmate Medical Services
2003	$527.8	$62.6
2004	527.0	61.8
2005	555.2	107.7
2006	608.6	109.9
2007	595.4	121.8
2008	684.6	135.1
6-Year Growth	156.8	72.5
6-Year Percent Growth	30%	116%

Source: Auditor of Public Accounts.

DOC has also reviewed security staffing at all facilities in order to identify and implement proper staffing levels. In 2005, DOC management conducted a system-wide review of security staffing needs using daily rosters to identify the number of shifts worked at each security post, and then made staffing changes accordingly

Medical and Utility Costs Have Been Fast Growing. The budget program "Medical and Clinical Services" has been among the fastest growing in DOC's budget. Spending on these inmate-related services grew $94.2 million over the ten-year FY 1999-2008 period, from $40.4 million in FY 1999 to $135.1 million in FY 2008. Adjusted for the 11 percent growth in DOC's inmate population and medical services cost inflation of 45 percent, the budget for "Medical and Clinical Services" grew by approximately 110 percent over the period.

According to DOC staff, this strong growth may stem from such factors as the increasing average age of DOC inmates and higher incidences of diseases such as AIDS and diabetes which require expensive, ongoing care. Federal court decisions require DOC to provide inmates with medical services that meet prevailing community standards of care.

Appropriations for DOC costs related to electricity, water, fuel, and other utilities (identified as "Physical Plant Services") increased by 67 percent between FY 1999 and FY 2008, from $44.5 million to $74.3 million. In the two most recent fiscal years, DOC expenditures for Physical Plant Services were higher than their appropriations, by $2.6 million in FY 2007 and $6.7 million in FY 2008. Funds were shifted from other sources within DOC to cover these expenses.

DOC Received $87 Million to Open Three New Facilities in FYs 2007-2008

From FY 2007 to FY 2009, DOC's budget grew $220 million or 28 percent. The growth included a mixture of additions to as well as subtractions from the budget, although the net change was decidedly positive. While the agency opened three new facilities during this period, and had planned to open a fourth, the largest addition to DOC's budget was $123 million in "technical adjustments." These technical adjustments totaled 56 percent of the total three-year growth.

The largest recent additions to DOC's budget involved opening new facilities. In September 2005, DOC submitted a budget request seeking an additional $196 million in general funds for the 2006-2008 biennium. This request included $95 million to open four new facilities during the biennium (Pocahontas Correctional

Center, which opened in June 2007 with 347 staff positions, Green Rock Correctional Center, which opened in July 2007 with 336 staff positions, an expansion at Deerfield Correctional Center, which opened in January 2007, and Phase II at St. Brides Correctional Center, then expected to open in July 2007). The next largest request was for $24 million in general funds for increasing medical and other expenses directly related to the inmate population.

The Governor recommended and the 2006 General Assembly approved more funding for DOC than it requested. This was primarily because both the Governor and General Assembly funded some items not requested by the department. On the other hand, they did not fund all of the items sought by the agency.

The new facilities and inmate medical expenses were funded by the Governor and General Assembly, although with some funding adjustments. DOC delayed the opening dates of the St. Brides' expansion, reducing the amount of funding needed. Thus, a total of $87 million was provided for the new facilities.

Funds were also provided for medical expenses, although at a lower level than requested by the agency. Of the $24 million request, $15.8 million was provided.

Other enhancements funded but not included in the department's initial request included

- $6.7 million recommended by the Governor and approved by the General Assembly for increased operating costs incurred by the department;
- $6.1 million added by the General Assembly for electronic monitoring of sex offenders, pursuant to enacted legislation (HB 559);
- $1.2 million for the State's share of improvements at the wastewater treatment plant serving both Augusta Correctional Center and the town of Craigsville.

Two large items requested by the department but neither recommended by the Governor nor approved by the General Assembly included $10.8 million to adjust the compensation of security staff to be more competitive with salaries paid to deputy sheriffs, and $10 million for the department to purchase mental health services for community corrections from community services boards (CSBs).

For FY 2009, Most Adjustments to DOC's Budget Were Technical in Nature

Of the $52 million requested by DOC for FY 2009, just $13.6 million or 26 percent was funded by the 2008 General Assembly. By contrast, $56 million in technical adjustments was approved. These technical adjustments primarily carried forward into the new biennium the cost of statewide decisions made by the 2007 and 2008 General Assemblies. These decisions were mainly related to employee compensation (Table 15).

The additional $52 million in general funds sought by DOC were for 25 separate items. Most of these requested items were to cover ongoing operating expenses that the agency would have to pay for, in many cases regardless of whether additional funding was received. These ongoing operating requests totaled $35.4 million or 68 percent of the agency's $52 million total request.

Table 15: Technical Budget Adjustments, Department of Corrections, FY 2009

Budget Adjustment	General Funds ($ Millions) [a]
FY 2007 & FY 2008 State employee salary increases [b]	$38.7
Pay practices	2.4
FY 2007 and FY 2008 health insurance rate increases	12.8
Virginia Retirement System rate increase	2.8
VaLORS rate reduction	-2.8
State employee group life rate changes	0.7
State employee sickness & disability insurance rate changes	1.3
Other	0.6
Total	**$56.3**

Note: VaLORS is the Virginia Law Officers' Retirement System.

[a] May not sum due to rounding.
[b] The FY2007 employee pay raise was three percent of salary plus $50 for each year of continuous service (above five years). The FY 2008 pay raise was four percent of salary. Both took effect with mid-December paychecks.

Source: Department of Corrections.

Funding requested for ongoing costs included $11.9 million to cover increased medical and other direct expenses of housing inmates, $6.2 million for increasing utility costs (natural gas, fuel oil, water and wastewater), and $1.3 million for rent increases at leased probation offices. Also requested to fund an ongoing operating expense was $13.8 million to continue information technology operations and system development.

DOC sought $16.6 million for new initiatives. These included items such as $6.9 million for several workforce retention initiatives and $1.3 million for additional mental health services. DOC also requested $2.6 million for the addition of 75 probation officer positions to compensate for the increasing community corrections caseload.

The Governor recommended $1.1 million for three initiatives not included in DOC's request:

- Funding to create 100-bed re-entry programs at three correctional centers, which would provide intensive services to prepare inmates for their return to society.
- Funding for a 100-bed program at an existing correctional center to house offenders who had violated the conditions of their probation or parole but who had not committed a new crime.
- Transfer of funding from DOC to the Department of Correctional Education to provide additional educational staff at Deep Meadow Corrections Center, to facilitate conversion of Deep Meadow from a reception center to a general purpose correctional center.

The General Assembly did not include these three Governor's recommendations in the final budget. The only new initiative requested by the department to be funded by the 2008 General Assembly was an upgrade to the wastewater treatment plant serving both Augusta Correctional Center and the town of Craigsville. The $1.3 million State share of this project was funded through the issuance of bonds from the Virginia Public Building Authority.

DOC USED SEVERAL STRATEGIES TO OFFSET PAST BUDGET CUTS

Over the past decade, DOC has used several strategies to cope with budget shortfalls, mostly during the major budget reductions of October 2003 and adjustments in FY 2008 and FY 2009. A handful of such activities have accounted for the largest cost savings to the agency.

DOC Closed Facilities to Reduce Spending

The closure of an existing facility or delayed opening of a new facility has the potential to generate large savings for the agency by avoiding various operating and personnel expenditures. In FY 2002, DOC closed Nottoway Work Center, Staunton Correctional Center, and the Fairfax Field Unit, for a loss of 1,220 beds. Approximately 839 temporary beds were created by double-bunking in various facilities.

The net result during FY 2002 and FY 2003 was that the department permanently eliminated $46 million and more than 450 staff positions from its budget. The delayed opening of St. Brides Phase II in FY 2008 allowed DOC to avoid the approximately $9 million and 169 employees needed to operate the new facility. DOC is closing additional facilities in FY 2009, as discussed in Chapter 5.

DOC Also Reduced Some Operating Costs

Between FY 1999 and FY 2008, DOC's budget for food services at correctional facilities decreased by approximately $1.7 million, even though the average daily population in State prisons increased by 11 percent during the period. DOC's agribusiness program has kept food costs down by trading high-value foodstuffs for larger volumes of lower-value foodstuffs, as well as through the sale of foodstuffs on the open market. The 2008-2010 Appropriation Act (Item 390E) authorizes DOC to sell on the open market any dairy, animal, or farm product of which Virginia is a net importer (such as strawberries). DOC has also privatized food operations at three facilities to introduce competition in food services delivery. System-wide, the average cost of feeding an inmate, including labor, is now less than $2 per day.

In FY 2003, DOC eliminated a total of 390 general fund and 68.5 non-general fund positions to meet targets for the October 2003 budget reductions. Cumulatively, these reductions cut DOC's general fund portion of the operating budget by approximately $3 million and non-general funds by $163,000 for FY 2003. These amounts are in addition to the $10 million in turnover and vacancy savings the agency eliminated from its budget.

DOC achieved a one-time savings of $4.1 million by delaying planned equipment purchases in FY 2003. Also in the 2002-2004 biennium, DOC transferred $1.5 million of the non-general fund from the Correctional Enterprise fund to cover general fund expenditures.

Jail Backlog Is a Key Tool for Management of Virginia's Prison Population and DOC's Budget

The 67 local and regional jails are the principal source of prison admissions, as jails are required to hold individuals awaiting trial and sentencing. The jail backlog, which is composed of State-responsible inmates awaiting transfer to prisons, is used to manage the flow of inmates into State facilities. Additionally, using jails instead of prisons to house inmates generates savings to the

State, although the cost impact on local governments should be considered.

Management of the jail backlog provides an example of how a policy approach that generates savings to one agency (DOC) can lead to cost increases in other areas of government (Compensation Board and jails).

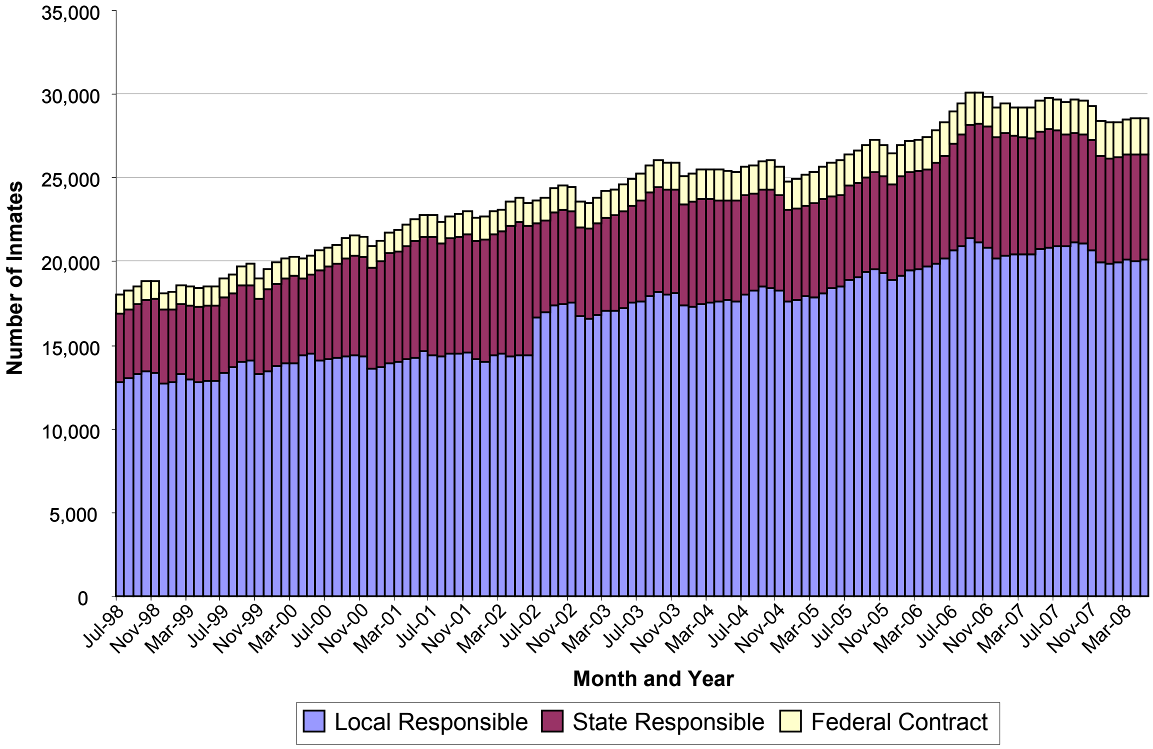
Total Jail Population Has Increased 59 Percent Since FY 1999, but Its Composition Is Largely Unchanged. The jail population is composed of local-responsible (individuals awaiting trial or sentencing, or those receiving a felony sentence of 12 months or less), State-responsible, and federal contract inmates. State-responsible prisoners are individuals convicted of a felony and sentenced to one or more years of confinement. The federal government also provides funding through contracts with jails that house federal inmates.

The State Compensation Board pays local and regional facilities $8 per inmate-day for holding local-responsible and State-responsible prisoners. Jails receive an additional $6 per diem for out-of-compliance State-responsible prisoners, or those still held in jail 90 or more days after a commitment order has been sent to DOC. This definition of out-of-compliance inmates differs from that used by DOC, which defines such inmates as those still held in local or regional jails more than 60 days after DOC receives a commitment order. The analysis in this report utilizes the Compensation Board definition because it is the definition used to determine expenditures for State-responsible prisoner per diems.

As seen in Figure 5, total jail average daily population (ADP) increased 59 percent between 1999 and 2008, from 17,998 to 28,581. Local-responsible inmates represent the largest portion of total jail ADP. Local-responsible inmate ADP increased 57 percent since the beginning of FY 1999, from 12,800 in July 1998 to 20,108 in May 2008. Local-responsible inmate ADP as a percentage of total jail ADP was approximately 70 percent in May 2008. This proportion has remained relatively stable since FY 2008, with a low of 60 percent in May 2002.

The transfer of State-responsible prisoners from local custody has been used as a way of generating savings, and freed beds have been used to generate revenue through housing out-of-state inmates. Language in both the 2002-2004 (Item 421E) and 2008-2010 (Item 390B) Appropriation Acts authorized DOC to enter into agreements to house out-of-state inmates. Because the State-responsible population is greater than State bed capacity, authorizing DOC to house out-of-state inmates constitutes an endorsement of an enhancement of the State-responsible inmate population in local and regional jails.

Figure 5: Jail Average Daily Population Increased 59 Percent Between 1998 and 2008



Source: Staff analysis of Compensation Board data.

State Spending on Jail Per Diems Has Increased. In FY 2007, the State paid $88.1 million to jails for inmate per diems (Table 16). Of this, $60.4 million was for local-responsible prisoner per diems, representing 69 percent of total State spending. State spending on local-responsible per diems rose by 6.7 percent over FY 2006 spending.State spending on State-responsible prisoners rose to $27.7 million in FY 2007, a nearly 25 percent increase in spending over FY 2006 (Table 17). Nearly all of this increase can be attributed to an increase in spending on out-of-compliance State-responsible prisoners. State out-of-compliance per diem payments increased by nearly $5 million from FY 2006 to FY 2007, while spending on in-compliance prisoners increased by only about. $500,000. The total number of out-of-compliance State-responsible prisoner days increased by 40 percent in FY 2007.

Increasing the Jail Backlog Creates Savings for the General Fund and DOC. In the 2008-2010 biennium, DOC is experiencing a budget shortfall of $19.2 million in FY 2009 and FY 2010. This shortfall predates the budget cuts announced in October 2008 (discussed in Chapter 5). To offset the $19.2 million shortfall, language in the Appropriation Act authorized DOC to enter into agreements to house out-of-state inmates.

Table 16: The State Spends More to House Local-Responsible Inmates in Jails

Fiscal Year	Local-Responsible Inmates	State-Responsible Inmates	Total
1999	$38,000,464	$16,110,798	$54,111,262
2000	40,605,014	17,778,090	58,383,104
2001	41,247,816	23,823,158	65,070,974
2002	41,923,948	27,535,120	69,459,068
2003	49,887,270	21,299,252	71,186,522
2004	51,847,870	23,966,088	75,813,958
2005	52,975,626	21,298,918	74,274,544
2006	56,630,480	22,177,782	78,808,262
2007	60,410,768	27,701,470	88,112,238

Source: Staff analysis of Compensation Board data.

Table 17: Out-of-Compliance Inmate Costs Are Larger Share of State Per Diem Spending for State-Responsible Prisoners

Fiscal Year	Out-of-Compliance	In-Compliance	Total
1999	$8,095,710	$8,015,088	$16,110,798
2000	8,870,918	8,907,172	17,778,090
2001	12,871,754	10,951,404	23,823,158
2002	14,672,462	12,862,658	27,535,120
2003	11,714,500	9,584,752	21,299,252
2004	13,902,980	10,063,108	23,966,088
2005	11,390,512	9,908,406	21,298,918
2006	12,088,300	10,089,482	22,177,782
2007	17,039,666	10,661,804	27,701,470

Source: Staff analysis of Compensation Board data.

To create sufficient bedspace for the out-of-state inmates, the size of the jail backlog was increased. Due to the savings to the State associated with this approach and the potential out-of-state inmate revenues, DPB staff indicated that they considered increasing the jail backlog to be preferable than the alternative of closing more DOC facilities.

It would have cost DOC approximately $76.7 million plus construction costs to reduce the number of out-of-compliance inmate days to zero.

From the Commonwealth's perspective, it is less costly to house State-responsible prisoners in local and regional jails than it is to house them in State prisons. In FY 2007, DOC spent an average of $63 per inmate-day to incarcerate prisoners. In FY 2007, it would have cost the State approximately an additional $76.7 million plus the cost of constructing bedspace to reduce the number of out-of-compliance inmate days to zero. This is approximately $59.7 million more expensive than the $17 million the State spent to house out-of-compliance inmates in local and regional jails.

The jail backlog has also served as a population management tool. Since FY 1999, changes in DOC bed capacity have had an inverse relationship with the out-of-compliance population. As the State-responsible population has grown faster than the bed capacity in State prisons, the jail backlog has been used to relieve pressure on an oversubscribed State prison system. DOC meets with sheriffs at the jails to prioritize the transfer of State-responsible prisoners, with a focus on relieving crowded jails and transferring violent and dangerous offenders as beds become available.

Chapter 5 Pilot Review: Analysis of the Department of Corrections' Budget Submission

In Summary

Budget cuts made during revenue downturns tend to become permanent, as illustrated by the Department of Corrections' (DOC) reductions in 2002-2003. The current round of reductions, announced in October 2008, would cut $22.7 million or two percent from DOC's total general fund appropriation. A majority of DOC's budget was deemed "off the table" for cuts. The DOC reduction proposals accepted by the Governor would close six facilities, eliminate 1,460 beds, and cut 656 staff positions agency-wide. Some of these savings may be partly offset by additional costs, such as the proposed increase in the jail backlog which could increase costs for the Compensation Board and localities. DOC's efforts to place laid-off facility staff in existing vacancies may also reduce first-year savings. JLARC staff estimate that DOC's reductions could result in as much as $28.8 million in FY 2010 general fund savings.

This chapter reviews DOC's budget submission, as directed by the study mandate. The submission consists of two parts: the five-, ten-, and 15-percent budget reduction plans submitted by DOC in September 2008 and made public by the Governor on October 9; and the plan adopted by the Governor that incorporates his choices from the DOC submission.

ECONOMIC DOWNTURNS COMPEL MORE THOROUGH BASE BUDGET ANALYSES

Budget cuts made during revenue downturns tend to become permanent. In the economic downturn of FYs 2002-2003, for example, DOC's budget was permanently reduced by $46 million and more than 450 staff positions. These actions included closing Staunton Correctional Center (which had employed 306 staff and housed as many as 750 inmates) in December 2002, and the elimination of an assistant warden position in each prison, unit managers in the housing units of certain prisons, and half the deputy chief probation officer positions. While additional funding was added to DOC's budget in subsequent years, these particular reductions were never restored.

According to DPB staff, revenue downturns generally compel more thorough analyses of agency base budgets. Normally, the base budget development process is intended to arrive at a dollar figure that represents the cost of continuing the current level of services and activities for each agency. This amount is then the starting point for the Governor and General Assembly to make changes by funding initiatives, making reductions, and making other adjustments. Conversely, the budget development process used in the 2002-2004 revenue downturn, for example, resulted in initial reductions of seven to eight percent in agency budgets, with agencies required to submit contingency plans for further reducing their budgets by seven, 11, and 15 percent in each year. This process required agencies to rank their programs and activities, a step that helped decision makers identify the least important agency functions, which potentially could be cut.

During the development of the Commonwealth's biennial budget, base budgets are developed for each agency, and the Governor recommends amendments which the General Assembly can approve, reject, or modify. This process does not usually require detailed analysis or re-justification of an agency's current level of services. While there is a requirement that each funded activity be authorized in statute, there is no general requirement that agency budgets be zero-based or adjusted for inflation, for example.

A State agency's base budget is determined on a biennial basis by staff at DPB and the agency. The starting point is the most recent even-numbered year's appropriation for each agency, with certain adjustments. Adjustments are then made to this amount by removing one-time savings and costs, annualizing partial year spending or reductions, annualizing the funding for employee pay increases, and making certain other adjustments. The outcome of these "technical adjustments" is the agency's base budget. These adjustments were illustrated in the case of DOC in Chapter 4, Table 15.

Routine biennial base budget reviews are somewhat less thorough and often appear to be primarily technical in nature. Removing one-time funding and annualizing the cost of partially funded items are important steps in developing a full-year budget, but do not require much analysis.

DPB staff, as well as money committee staff, continue to examine agency budgets in some detail, but face significant resource and time constraints. A number of analytic techniques can be useful in such a process, including comparing spending to appropriations at the most detailed level available and comparing spending to agency goals and objectives. A more thorough review might focus on priorities and trends within an agency, as well as a line-by-line assessment of agency spending.

HOW THE OCTOBER 2008 BUDGET REDUCTIONS IMPACT DOC

As a result of declining State revenue, the Governor in October 2008 announced a series of general fund reductions and revenue enhancements totaling $1.125 billion. Several of the actions will require legislative approval, although other actions were taken by the Governor under authorizing language in the Appropriation Act.

The principal focus of this study is the portion of the reduction proposed by DOC. DOC absorbed a slightly disproportional cut in the October budget reduction plan. DOC's budget represents 6.5 percent of the total FY 2009 general fund budget, yet DOC is absorbing 8.1 percent ($22.7 million) of the overall $279 million in agency reductions proposed for FY 2009.

DPB's Budget Reduction Instructions Required Only Limited Information

On September 2, 2008, DPB sent all executive agencies instructions for budget reduction plans for the 2008-2010 biennium. DPB instructed agencies to submit plans for five-, ten-, and 15-percent budget reductions, and to focus on finding ongoing savings in the general fund budget. Agencies were required to submit their plans by September 26, 2008. Most of the instructions were administrative in nature, focusing on the preparation and format of the submitted reduction plans and the process for submission.

DPB did not ask agencies to provide details on the outcomes of their proposed reductions, or which, if any, alternatives were considered by the agency. Agencies were simply asked to describe with a few sentences each specific cut, whether there were any up-front costs of making the cut, and the impact each proposed cut may have on clients, citizens, or agency service levels. This level of detail is less than DPB requires of agencies for preparing their budget requests. In those documents, agencies must first indicate whether a budget request will impact a key agency objective or measure and provide a justification for the request. Agencies must also explain the general consequences of not funding the request, what alternative approaches were considered, and what results agencies hope to achieve if the request is funded.

Failure to collect such information leaves decision makers with less information about the consequences of cuts, particularly when cuts are made to one agency that impact the spending of other State agencies and government entities. This is the case with DOC facility closures and the subsequent impact on the jail backlog.

Table 18: Portions of the DOC Budget Were "Off the Table" and Not Considered for Reductions (General Fund $ in Millions)

	FY 2009	FY 2010
Prison Security	$445.3	$447.5
Inmate Medical Services	146.5	146.5
Contract for Lawrenceville Correctional Center	21.3	21.3
Detention and Diversion Centers	11.6	11.6
Lease Payments	3.7	3.7
Governor's August 2008 Reductions	1.9	1.4
Total Amount Exempted from Cuts	630.3	632.0
Balance –Amount Available for Reductions	385.9	386.1
Total DOC Budget	**$1,016.2**	**$1,018.1**

Source: DOC, Governor's October 9, 2008 Reduction Plan.

DOC's FY 2009 Budget Reduction Plan

Although DOC's FY 2009 general fund budget totals $1.016 billion, the agency was required to make cuts from an adjusted base budget of $386 million, or 38 percent of the total agency budget. Several activities—including security services, inmate medical services, and contracted services such as the privately operated Lawrenceville Correctional Center—were exempted by the Governor from budget reductions in FY 2009 (Table 18).

The five-, ten-, and 15-percent reduction targets were thus set at $19.3 million, $38.6 million, and $57.9 million for DOC. DOC set an internal goal of meeting the five percent reduction target without reducing its bed capacity or closing any facilities, and managed to do so, but closures were necessary to meet the ten- and 15-percent targets.

The agency considered several factors when choosing the proposed facility closures. The age and current condition of the facility were considered. Older facilities generally are smaller, and their design and layout are less efficient, leading to a higher number of staff required per inmate than at the newer facilities with more efficient designs. Older facilities also tend to be in poorer condition, requiring more maintenance expenditures than the newer institutions.

DOC also considered the region in which the facility is located, as well as its proximity to other State correctional facilities. The latter factor helped DOC consider the likelihood that employees at closed facilities could be offered positions elsewhere within the State correctional system. The agency also wanted to propose closures that did not disproportionately affect any particular region of the State.

The Governor's Plan for Reducing DOC's Budget

The Governor selected some items from the five-percent plan, some from the ten-percent plan, and some from the 15-percent plan submitted by DOC. This hybrid plan resulted in a total reduction for DOC of $22.7 million in general funds in FY 2009 and 656 positions. The plan reduces or eliminates services currently provided by the agency (Table 19).

Table 19: DOC's Budget Reduction Plan (General Fund $ in Millions)

Savings Type	Net General Fund Savings	Positions Eliminated	Estimated Layoffs
Defer Equipment Purchases	$3.6	n.a.	n.a.
Close Six Facilities	5.6	524	253
Increase Turnover and Vacancy Savings	2.2	n.d.	n.d.
Close Day Reporting and Therapeutic Transition Communities	1.5	53	27
Realignment of Administrative Functions	1.6	76	30
Reductions in Funding for Direct Services	1.2	45	20
Issue Bonds for Charlotte County Facility Planning	7.0	n.a.	n.a.
Total	**$22.7**	**698**	**330**

Note: n.a., not applicable; n.d., no data.

Source: Staff analysis of Governor's October 9, 2008, budget reduction plan.

The most significant operating budget reductions came in the closure of six facilities, the largest of which were Southampton and Pulaski Correctional Centers, with 650 and 426 beds, respectively. The six facility closures result in an estimated FY 2009 general fund savings of $5.6 million and will eliminate 524 positions and potentially result in 253 employees being laid off. Other large reductions include the deferral of institutional equipment purchases ($3.6 million) and an increase of DOC's overall turnover and vacancy rate ($2.2 million).

DOC estimates savings of $1 million through the implementation of a variety of improved business practices and efficiencies. DOC staff have stated that none of these cuts would affect current service levels within the agency. Due to a lower than expected utilization rate, funding for the post-release supervision of sexually-violent offenders was reduced by $500,000.

The Governor's plan will also reduce funding for prison-based therapeutic community programs. A total of $972,000 in general fund savings will occur as a result of this cut.

Other cuts focused on realigning administrative functions. DOC will eliminate 24 positions in correctional facility warehouses and another 24 by re-structuring purchasing, with estimated FY 2009 general fund savings of $291,032. DOC will cut $100,000 from post-release drug testing and move from a policy of testing virtually all offenders in community corrections to a policy of targeted testing, initiated by probation and parole officers. This move will save money by reducing the number of drug tests and may lead to additional savings from reducing the number of probation revocations due to failed drug tests. However, conducting fewer drug tests may also mean failing to detect offenders who violate terms of their release. The agency will save approximately $46,763 by eliminating a contract with a private vendor to provide food services at several facilities. DOC indicates it can provide comparable services at a lower cost using State employees to supervise inmate labor, as is done at most correctional facilities.

In the central office, a medical services analyst position and three financial reporting positions were eliminated, and these functions were transferred to DOC's central budget section; savings from these measures are estimated to be $45,229 in FY 2009. DOC will also generate $123,048 in savings by eliminating the Chief of Architecture and Engineering position. DOC indicates it has been unable to find a qualified candidate for this position since the previous employee left the agency.

The $7 million reverted from DOC's capital outlay balances represents general funds appropriated for pre-construction activities for the planned Charlotte County State correctional center. Planning is not expected to stop because DOC expects the funds to be replaced as part of the Governor's bond proposal.

Some Proposed Savings May Be Offset by Additional Costs

DOC's budget reduction plan may not generate the indicated savings, based on interviews with DOC budget staff and JLARC staff analysis. Additional costs may also be incurred because by reducing the number of State prison beds the jail backlog will increase, as will Compensation Board spending. DOC also has a goal of retaining as many employees from the closed facilities as possible, making estimated personnel savings more difficult. Programmatic cuts may also reduce long-term savings to the agency.

Increasing the Jail Backlog May Reduce Statewide Savings. With the closure of six DOC facilities, the State prison capacity will be reduced by approximately 1,460 beds. DOC has stated that no beds will be added to existing facilities, as occurred following the closure of facilities in prior budget reduction rounds. DOC also plans to keep the recently completed 800-bed St. Brides Phase II facility closed as part of its continuing budget reduction strategy.

By mid-October, DOC had started transferring inmates from the closing facilities to beds available elsewhere in the system as they became available. By slowing the intake of State-responsible prisoners from local jails, DOC estimates it will free as many as 165 prison beds per week, and will be able to transfer all prisoners out of the closed facilities over the course of six weeks.

While closing facilities and increasing the jail backlog will create savings for DOC, these savings will be partially offset by increases in Compensation Board expenditures, and by extension, overall State spending. DOC budget staff indicated that once the reduction plan is fully implemented, the jail backlog could increase by approximately 1,300 inmates. At a cost to the State of $14 per inmate day, the Compensation Board could pay $4.3 million in FY 2009 and $6.6 million in FY 2010 to house an additional 1,300 State-responsible prisoners in local and regional jails.

This outcome was not discussed in the Governors' proposed budget reductions and dwarfs the $553,028 general fund reduction proposed for the Compensation Board in FY 2009. Whether the Compensation Board has the funds available to cover these additional obligations remains unclear. Funding the likely cost increases for the Compensation Board will decrease the estimated savings identified in the Governor's plan.

Efforts to Avoid Facility Personnel Layoffs May Reduce Savings. DOC budget staff indicated to JLARC staff that estimates of savings from layoffs at facilities assumed that 50 percent of the positions cut would result in actual layoffs. DOC staff noted that they anticipated actual layoffs to be significantly lower, around the 15-percent range, as a result of aggressive efforts to place these individuals in vacancies at other DOC facilities.

As shown in Table 20, DOC's actual savings could be reduced from the estimated $5.3 million to around $1.6 million. Since DOC will be responsible for cutting the estimated amount from its total appropriation, as much as $3.8 million may need to be found elsewhere in the agency. DOC has held vacancies in anticipation of budget cuts this fiscal year, but the agency may be unlikely to meet these budget reduction targets.

Table 20: Actual DOC Facility Personnel Savings May Be Less Than Estimated (FY 2009)

Facility	General Fund (GF) Cost	Gross GF Savings	Net GF Savings	Position Level	Layoffs
Southampton Correctional Center	$2,114,191	$(4,237,756)	$(2,123,565)	231	116
Pulaski Correctional Center	1,040,225	(2,691,367)	(1,651,142)	123	62
Dinwiddie Field Unit	486,226	(1,064,288)	(578,062)	46	23
Tazewell Field Unit	428,839	(961,047)	(532,208)	44	22
Day Reporting Program	449,510	(944,889)	(495,379)	53	27
Totals (If 50 Percent of Employees Are Retained)	**4,518,991**	**(9,899,347)**	**(5,380,356)**	**497**	**250**
Totals (If 85 Percent of Employees Are Retained)	**$1,355,697**	**$(2,969,804)**	**$(1,614,107)**	**497**	**75**

Note: Does not include White Post Men's Detention Center, which used different layoff assumptions.

Source: Staff analysis of Governor's Budget Reduction Plan.

Some of DOC's Budget Cuts May Generate Additional Savings in FY 2010

The DOC budget reduction plan for FY 2009 was not adopted until several months into the fiscal year, and assumed an implementation date of February 10, 2009, according to DOC staff. JLARC staff estimates that DOC's budget reduction plan, if continued, could generate $28.8 million in savings in FY 2010. This reflects growth of $13 million over the $15.7 million in FY 2009 operating budget reductions (Table 21). (Methods used in calculating the estimated FY 2010 reductions can be found in Appendix C.)

Due to severance benefits payable in FY 2009 under the Workforce Transition Act (*Code of Virginia* §2.2-3200 *et seq.)* and the fact that DOC cuts are not expected to be fully implemented until February 10, 2009, personnel-related savings in FY 2010 will exceed those in FY 2009. Workforce Transition Act costs were expected to end before FY 2010 begins, so they were not included in the JLARC staff estimate of FY 2010 savings. In addition, savings from layoffs were increased to reflect the fact that they will be realized over 52 weeks in FY 2010 instead of only 21 weeks in FY 2009. In addition, turnover and vacancy savings were estimated to grow to reflect a full year's savings as well. Three programs took cuts that will likely be held constant from the FY 2009 reductions into the FY 2010 budget. These three funding reductions consisted of $500,000 for supervision of sexually violent predators, $200,000 for substance abuse treatment of offenders, and $100,000 for a community corrections drug testing program. These funding cuts were assumed to continue at their current levels.

Table 21: DOC's FY 2009 Budget Reduction Plan Will Produce Additional Savings If Continued in FY 2010

	FY 2009	FY 2010
Community Corrections	($2,477,342)	($4,872,674)
Facilities	(9,961,107)	(16,788,746)
Central Office	(652,254)	(1,256,806)
General	(2,608,796)	(5,844,409)
Total for DOC	**($15,699,499)**	**($28,762,635)**

Source: Staff analysis of the Governor's Budget Reduction Plan.

Two contract programs were cut in FY 2009 and will likely remain unfunded in FY 2010, but their effect will likely be larger in FY 2010 to reflect a full year's savings. One contract is for food service at two facilities, and the other is for operation of a transitional therapeutic community program. These cuts were increased in the FY 2010 estimates to reflect the elimination of the contracts for the entire fiscal year.

Two of the FY 2009 reductions are one-time cuts and are not included in the FY 2010 budget reduction estimate. The first is the reversion of capital funding for the planning of the Charlotte County prison, and the second is the deferral of institutional equipment purchases.

Reductions Proposed by DOC but Not Accepted

As part of DOC's budget reduction submission, the agency proposed three options for enhancement of its turnover and vacancy savings; none of the options were adopted. DOC proposed turnover and vacancy savings of $5.8 million, $20.9 million, and $37 million as part of their five-, ten-, and 15-percent plans, respectively (Table 22). Each proposed plan was significantly larger than the $2.2 million adopted by the Governor.

DOC staff have noted that DPB tried to minimize the turnover and vacancy savings required of DOC by meeting the agency target through reductions in other areas. This approach has important effects on DOC in general, because the larger the reduction due to turnover and vacancy savings, the less money is available for the agency to cover perennial shortfalls in various operational areas (see Chapter 4). Because FY 2009 budget reduction requirements were relatively high considering that less than nine months remained in the year, turnover and vacancy savings were used to meet the difference between other DOC cuts and the agency's budget reduction target.

Table 22: DOC's Proposed Turnover and Vacancy Savings ($ in Millions)

Proposed Plan	General Fund Savings
5 Percent Turnover and Vacancy Savings	$5.8
10 Percent Turnover and Vacancy Savings	20.9
15 Percent Turnover and Vacancy Savings	37.0
Turnover and Vacancy Adopted in Governor's Budget Reductions	**2.2**

Source: Staff analysis of Governor's Proposed Budget Reductions

Two other proposed closings were not accepted by the Governor: the recently occupied 392-bed St. Brides Phase I and the 200-bed Nottoway Work Center. Closing these facilities would have resulted in FY 2009 savings of $2.9 million in general funds, the elimination of 234 positions, and an estimated 117 layoffs.

Three service reductions in the Division of Community Corrections were proposed but not adopted. The Governor declined to reduce the Evidence Based Practices program by $78,455. It is relatively new and offers potentially long-term savings through reduced recidivism. Similar sentiments prevented the elimination of the VA-SAVOR (Virginia Serious and Violent Offender Re-entry) program and the $200,000 of savings possible with such an action.

The Governor did not accept DOC's proposal to reduce community residential placement funding by $588,000 in FY 2009. The community residential placement program provides residential services focusing on substance-abuse treatment and education to non-violent offenders that lack a stable residence or exhibit a need for care when transitioning from incarceration. The program operates in six localities.

DOC also proposed the sale of the 46-acre Haymarket Field Unit site in Prince William County for an estimated $80,000 per acre, or $3.7 million. According to DOC staff, this was not adopted for two reasons. First, the instructions issued by DPB requested agencies to focus on reductions that create ongoing savings. The one-time benefit of the sale of this property made it less desirable than reductions in operating expenditures. Second, the recent reduction in real estate activity and real estate values has created an unfriendly environment for the sale of such a large parcel. The State would likely benefit from holding the property until the real estate market in Northern Virginia has recovered.

CONCLUSION

As required by the study mandate, this report identified a variety of procedures for legislative review of the executive budget. These procedures, discussed in Chapters 2 and 3, are focused on providing more information about agency budgets to decision-makers and the public, and on identifying ways to provide more time for citizen-legislators to consider the budget. A key finding is that compared to other states the Virginia General Assembly has a relatively compressed timeframe in which to consider and adopt a budget.

The other principal objective of the study mandate is to review one agency's budget request. The selected agency, the Department of Corrections, submitted options to reduce the portion of its budget deemed eligible for reductions ($386 million of the agency's total $1.01 billion FY 2009 appropriation) by five-, ten-, and 15-percent, as required by the Governor. This review found that some of the projected $22.7 million in general fund savings accepted by the Governor may be partially offset by additional costs to another agency, the State Compensation Board, and by the Department's efforts to place laid-off staff in existing vacancies. However, FY 2010 savings from DOC's actions could result in as much as $28.8 million in FY 2010 general fund savings.

To make this relatively detailed assessment of DOC's budget, JLARC staff had to develop an understanding of DOC's operations, budget policies, and the impact of its actions on other agencies, such as the State Compensation Board. For the legislature to do this on a continuing basis, comparable information about agencies, programs, and policies would be required for many of the 153 State agencies. As discussed in Chapters 2 and 3, some states have found ways to provide legislators with this information. Some of these procedures may be helpful to Virginia's General Assembly.

Procedures that could potentially be adopted in Virginia include holding additional legislative hearings focused on agency budgets; providing more time for budget review, possibly by holding agency-focused hearings prior to the legislative session; requiring better budget documentation that would describe budget policies and agency operations, funding, and requests more fully; and ensuring that legislators and their staffs have full access to all budget-related information systems the executive branch may develop.

Appendix A Study Mandate

CHAPTER 803

An Act to amend the Code of Virginia by adding a section numbered 30-58.4, relating to the Joint Legislative Audit and Review Commission; pilot program for analysis of state agency budget submissions.

[S 1386]
Approved March 23, 2007

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 30-58.4 as follows:

§ 30-58.4. Pilot program for analysis of state agency budget submissions.

The Commission shall develop a pilot program to analyze and evaluate estimates submitted by state agencies and provided to the chairmen of the House Committee on Appropriations and the Senate Committee on Finance pursuant to § 2.2-1504 to ascertain that sums requested are appropriated based on the missions, operations, practices, and duties of such agencies. Such pilot program shall include, but not be limited to, (i) an assessment of the procedures for executive budget submission oversight in other states, (ii) development of procedures that could be adopted in Virginia for state agency budget submission analysis, and (iii) preliminary analysis and evaluation of the budget submission of one state agency, to be selected jointly by the Chairmen of the House Appropriations Committee, the Senate Finance Committee and the Joint Legislative Audit and Review Commission, in accordance with such procedures. Technical assistance shall be provided to the Joint Legislative Audit and Review Commission by the Department of Planning and Budget. All agencies of the Commonwealth shall provide assistance to the Commission in conducting the pilot program, upon request.

The Commission shall submit to the Division of Legislative Automated Systems an executive summary and report of its progress in meeting the directives of this statute no later than the first day of the 2009 Regular Session of the General Assembly. The executive summary and report shall be submitted for publication as a report document as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

Appendix

B Research Activities and Methods

Key research activities for this study included

- structured phone interviews with legislative fiscal directors in 21 states about legislative budget oversight;
- review of other states budget bills, analyses, and budget-related websites;
- structured interviews with Virginia budget staff;
- site visits to correctional institutions;
- review of the Department of Corrections' historic budget requests, strategic plans, and relevant reports;
- analysis of the Department of Corrections' budget transfers; and
- review of budget literature, regulations, and policy;

STRUCTURED INTERVIEWS WITH LEGISLATIVE FISCAL DIRECTORS

In order to assess the procedures for executive budget submission oversight in other states, JLARC staff conducted structured phone interviews with legislative fiscal directors in 21 states deemed comparable to Virginia. The survey instrument used for these interviews contained questions regarding budget process, legislative fiscal office organization, and how legislative oversight of the executive budget is conducted.

In order to identify reasonably comparable states, JLARC staff determined several aspects that were most important in regards to legislative budget oversight. The goal was to conduct a survey of states that were most likely to have legislative oversight procedures that could be adaptable to Virginia's appropriations process. Preliminary information on other state budget processes came from the National Conference on State Legislatures (NCSL) website and was either verified or changed as the result of JLARC staff's phone survey. JLARC staff selected 21 states (the comparator states) to survey based on a variety of aspects of budget size and structure.

The National Association of State Budget Officers (NASBO) reported that in FY 2006, state expenditures ranged from more than $173 billion in California to less than $3 billion in South Dakota. Virginia ranked 15th in total expenditures with almost $32 billion in FY 2006. JLARC staff determined that 15 states with budgets of less than $10 billion were too small to compare with Virginia (AK, DE, HI, ID, ME, MT, NE, NV, NH, ND, RI, SD, UT, VT, WY).

Another aspect of budget size that was considered was the relative balance of general fund expenditures to non-general fund expenditures in the budget. States relying heavily on general funds, which come from broad-based taxes on retail sales as well as personal and corporate income, may require different budget oversight practices than those that rely more heavily on fees, federal funds, and dedicated revenue streams that make up non-general funds.

In Virginia, non-general funds made up 54 percent of the FY 2006 budget. JLARC staff determined that states that fell within 15 percentage points of Virginia (that is, from 39 to 69 percent non-general funds) would be reasonably comparable. Seven states were eliminated as a result (AR, CT, MI, MN, MS, NJ, WV). Oregon was originally eliminated from the comparator states because its budget is 70 percent non-general funds. A decision was made to include Oregon in the analysis after several other states' legislative fiscal staff cited it as a "best practices" state.

Since, unlike Virginia's single budget bill, many states have multiple budget bills each year, JLARC staff determined that those with a small number of appropriations documents may still be comparable to Virginia. The team determined that states with more than ten appropriations bills would be difficult to compare to Virginia because they generally split individual agencies or secretariats into different bills. As a result, only one comparator state, Oregon, passes a separate bill for each agency for reasons explained previously. Six states were eliminated as a result of this decision (AL, IA, MO, NY, OK, PA). The 21 states that remained became the comparator states with whom JLARC staff conducted phone interviews.

REVIEW OF OTHER STATES BUDGET BILLS, ANALYSES, AND BUDGET-RELATED WEBSITES

In addition to interviews with legislative fiscal office directors, JLARC staff examined the budget bill itself, as well as related fiscal analyses conducted in the comparator states. These documents were generally located through the websites of legislative fiscal offices and governors of the comparator states. JLARC staff identified common elements as well as unique aspects or analyses found in these documents.

STRUCTURED INTERVIEWS WITH VIRGINIA BUDGET STAFF

In order to better understand the process of budget development and oversight in Virginia, staff conducted interviews with individuals in the executive and legislative branch regarding both the budget process in general, and budget issues specifically related to the pilot review agency, the Department of Corrections. Those interviewed included individuals from

- Department of Planning and Budget (DPB)
- Department of Corrections (DOC)
- Auditor of Public Accounts (APA)
- Senate Finance Committe
- House Appropriations Committee

SITE VISITS TO CORRECTIONAL INSTITUTIONS

To gain a better understanding of how budget issues at DOC affect decisions at individual correctional facilities, staff conducted site visits at several of these institutions. In addition to touring the facilities, staff conducted interviews with wardens, business managers, and correctional officers during these site visits. Facilities visited included

- Powhatan Correctional Center
- Deep Meadow Correctional Center
- Virginia Correctional Center for Women

REVIEW OF DOC'S HISTORIC BUDGET REQUESTS, STRATEGIC PLANS, AND RELEVANT REPORTS

In order to provide context for JLARC's review of DOC's budget submission, staff reviewed a variety of documents related to the department's budget. Staff examined budget requests and subsequent appropriations from FY 2004 to FY 2010. Doing so allowed staff to identify recurring issues and where funds had been appropriated to DOC for new initiatives. Staff reviewed DOC's strategic plan to determine how well service areas aligned with appropriations. Additionally, the strategic plan provided some background on budget drivers within those service areas. Lastly, staff examined DOC reports, particularly those to the General Assembly that related to relevant budget issues.

ANALYSIS OF DOC'S BUDGET TRANSFERS

To get a sense of how DOC's operating budget diverged from the Appropriation Act, staff analyzed the DOC record of all Form 27 Automated Transfers (FATS) approved by DPB and executed during the 2006-2008 biennium. FATS, a processing system maintained by DPB, is the formal process by which an agency brings its appropriation in line with its operating budget and deals with unexpected revenues or expenditures. The documentation provided by DOC identified the agency's accounts at the subprogram level and allowed staff to see when transfers were executed, from and to which subprograms money was transferred, the amounts transferred, and a brief explanation of why each transfer occurred.

REVIEW OF BUDGET LITERATURE, REGULATIONS, AND POLICY

Staff reviewed a variety of budget-related materials to gain a better understanding of standards for budget process and review. Included in this review were documents on national trends and standards from groups like the Government Finance Officers Association, NASBO, Government Accounting Standards Board, NCSL, and the Pew Center on the States. JLARC staff reviewed APA reports on Virginia's budget control and performance budgeting programs as well. In addition, staff reviewed Virginia regulations and code sections related to the budget process, to examine the legal framework within which the Virginia budget is created.

Appendix

C Governor's Planned Budget Reductions: FY 2009 Estimates and FY 2010 JLARC Projections

JLARC staff estimated the projected FY 2010 savings for DOC that would result if all of the reduction strategies utilized in the Governor's 2009 budget reduction plan were continued into the next fiscal year. As shown in Table C-1, projected FY 2010 general fund (GF) savings total $28.8 million.

For a variety of reasons, including the fact that the Governor's FY 2009 reductions would not be implemented until well into the fiscal year, projections for 2010 required inflating FY 2009 savings, holding them constant, or eliminating them, as appropriate. Savings strategies were classified into four categories, each of which used a different methodology to develop the FY 2009 projection. The four savings categories were personnel, program, contract, and one-time.

Personnel

Projections of personnel savings were inflated from FY 2009 due to severance benefits payable in FY 2009 under the Workforce Transition Act (WTA), (*Code of Virginia* §2.2-3200 *et seq.)* and the fact that DOC cuts are not expected to be fully implemented until February 10, 2009. DOC budget staff indicated that WTA costs were expected to last 16 weeks in their estimate, so they were not included in the JLARC estimate of FY 2010 savings. WTA costs were estimated to be the GF costs listed in the Governor's reduction plan for each "personnel" savings strategy.

Utilizing the FY 2009 gross GF savings listed in the Governor's reduction plan, which do not include the FY 2009 GF costs, JLARC staff determined an average salary for each personnel savings strategy. In order to do this, staff utilized the formula:

$$Salary = \frac{G}{P + .4L}$$

where G = FY 2009 gross GF savings due to the elimination of staff positions, P = unfilled positions eliminated, and L = actual layoffs of filled positions. This accounted for the fact that the entire salary of an unfilled position was included in the FY 2009 savings, but layoffs would only result in 21 weeks of savings (21/52 = .4). After an average salary was determined, JLARC staff estimated FY 2010 savings to be the average salary multiplied by all eliminated positions, reflecting the fact that layoff savings would be realized over a full year.

Programs

Three programs took cuts that will likely be held constant from the FY 2009 reductions into the FY 2010 budget. These three reductions consisted of a $500,000 reduction in funding for supervision of sexually violent predators, a $200,000 reduction in funding for substance abuse treatment of offenders, and a $100,000 reduction in funding for a community corrections drug testing program. These funding cuts were assumed to continue at these levels.

Contracts

Two contract programs were cut in FY 2009 and will likely remain unfunded in FY 2010, but their effect will be larger in FY 2010, reflecting a full year's savings. One contract is for food service at two facilities, and the other is for operation of a transitional therapeutic community program. These cuts were increased in the FY 2010 estimates to reflect the elimination of the contracts for the entire fiscal year.

While not a contract, turnover and vacancy savings were estimated in the same manner, reflecting the fact that those savings will be full-year savings in FY 2010

One-Time

Two of the FY 2009 cuts are one-time cuts and are not included in the FY 2010 budget reduction estimate. The first is the reversion of $7 million in capital funding for the planning of the Charlotte County prison, and the second is the deferral of institutional equipment purchases.

Table C-1: Governor's Budget Reduction Plan: FY 2009 Estimates and FY 2010 Projections

Description	FY 2009 Estimated Savings	FY 2010 Projected Savings	FY 2010 Estimation Type
Eliminate vacant clerical positions	($416,929)	($416,929)	Personnel
Streamline procurement	(104,354)	(303,207)	Personnel
Reduce Warehouse Staff	(186,678)	(499,457)	Personnel
Reduce treatment staff at Indian Creek Correctional Ctr.	(68,587)	(184,736)	Personnel
Reduce counselors throughout the system	(263,751)	(704,953)	Personnel
Eliminate psychologist positions	(30,406)	(79,783)	Personnel
Close White Post Detention Center	(744,620)	(1,065,422)	Personnel
Close Tazewell Field Unit	(532,208)	(1,372,924)	Personnel
Close Southampton Correctional Center	(2,123,565)	(6,065,190)	Personnel
Close Pulaski Correctional Center	(1,651,142)	(3,858,253)	Personnel
Close Dinwiddie Field Unit	(578,062)	(1,520,411)	Personnel
Close Chatham Diversion Center	0	(1,018,614)	Personnel
Eliminate unfilled probation and parole positions	0	0	Personnel
Eliminate program assessment specialist position	(80,249)	(80,249)	Personnel
Eliminate Parole Examiner Position	(24,956)	(24,956)	Personnel
Eliminate one Community Corrections management level position and support staff	(4,099)	(99,108)	Personnel
Eliminate drug court positions	(100,659)	(100,659)	Personnel
Eliminate Day Reporting Program and Increase Electronic Surveillance	(495,379)	(1,360,846)	Personnel
Reduce sanitarian positions	(72,570)	(72,570)	Personnel
Reduce fiscal technician positions in central office	(91,276)	(91,276)	Personnel
Realign Headquarters financial reporting functions	(13,569)	(282,053)	Personnel
Eliminate regional human capital positions	(32,743)	(101,537)	Personnel
Eliminate regional environmental staff	(30,067)	(93,617)	Personnel
Eliminate position of chief of Architect & Engineering Section	(123,048)	(123,048)	Personnel
Eliminate one internal auditor position	(8,181)	(48,755)	Personnel
Eliminate headquarters stockroom supervisor	(57,489)	(57,489)	Personnel
Eliminate headquarters office services specialist	(35,691)	(35,691)	Personnel
Eliminate hqtrs. finance and real estate coordinator	(31,708)	(31,708)	Personnel
Eliminate headquarters buyer	(56,726)	(56,726)	Personnel
Eliminate Controller's office	(8,336)	(171,488)	Personnel
Eliminate accountant position in central office	(59,190)	(59,190)	Personnel
Consolidate medical services analysis function	(31,660)	(31,660)	Personnel
Use funds for drug testing more efficiently	(100,000)	(100,000)	Programs
Reduce funding available for substance abuse treatment of offenders	(200,000)	(200,000)	Programs
Adjust funding for supervision of sexually violent predators	(500,000)	(500,000)	Programs
Increase overall agency turnover and vacancy rate	(2,191,867)	(5,427,480)	[See text]
Eliminate contracts for food service	(46,763)	(115,794)	Contracts
Cease operation of therapeutic transitional community program	(972,000)	(2,406,857)	Contracts
Revert funding from planning of new Charlotte County prison	(7,000,000)	0	One-time
Defer institutional equipment purchases	(3,630,971)	0	One-time
DOC Totals	**($22,699,529)**	**($28,762,635)**	

Source: Staff analysis of Governor's FY 2009 Budget Reduction Plan.

Appendix

D State Postal Abbreviations

State	Postal Abbreviation	State	Postal Abbreviation
Alabama	AL	Montana	MT
Alaska	AK	Nebraska	NE
Arizona	AZ	Nevada	NV
Arkansas	AR	New Hampshire	NH
California	CA	New Jersey	NJ
Colorado	CO	New Mexico	NM
Connecticut	CT	New York	NY
Delaware	DE	North Carolina	NC
Florida	FL	North Dakota	ND
Georgia	GA	Ohio	OH
Hawaii	HI	Oklahoma	OK
Idaho	ID	Oregon	OR
Illinois	IL	Pennsylvania	PA
Indiana	IN	Rhode Island	RI
Iowa	IA	South Carolina	SC
Kansas	KS	South Dakota	SD
Kentucky	KY	Tennessee	TN
Louisiana	LA	Texas	TX
Maine	ME	Utah	UT
Maryland	MD	Vermont	VT
Massachusetts	MA	Virginia	VA
Michigan	MI	Washington	WA
Minnesota	MN	West Virginia	WV
Mississippi	MS	Wisconsin	WI
Missouri	MO	Wyoming	WY

Source: United States Postal Service.

Appendix E

Agency Response

As a part of the extensive validation process, State agencies and other entities involved in a JLARC assessment are given the opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from comments provided by these entities have been made in this version of the report. This appendix includes a written response from the Department of Corrections.

DEC 02 2008

COMMONWEALTH of VIRGINIA

Department of Corrections

GENE M. JOHNSON
DIRECTOR

P.O. BOX 26963
RICHMOND, VIRGINIA 23261
(804) 674-3000

December 1, 2008

MEMORANDUM

To: **Philip A. Leone**
Director, Joint Legislative Audit and Review Commission

From: **Gene M. Johnson**
Director, Department of Corrections

Subject: **Potential for Improving Budget Review in Virginia**

Dear Mr. Leone:

I received a copy of your exposure draft, Potential for Improving Budget Review in Virginia on November 20, 2008. The Department's Budget Unit sent a list of technical corrections in a separate document to your staff on November 25, 2008.

Your staff were very professional, courteous, and meticulous while working with different units throughout the Department of Corrections. Please feel free to contact me if the DOC can provide you with any additional information.

JLARC Staff

Executive Staff

Philip A. Leone, Director
Glen S. Tittermary, Deputy Director

Division Chiefs

Robert B. Rotz, Senior Division Chief
Harold E. Greer III, Division Chief

Section Managers

Paula C. Lambert, Fiscal & Administrative Services
Gregory J. Rest, Research Methods
Walter L. Smiley, Fiscal Analysis

Project Leaders

Aris W. Bearse
Justin C. Brown
Ashley S. Colvin
Martha L. Erwin
Eric H. Messick
Nathalie Molliet-Ribet
Kimberly A. Sarte

Project Staff

Janice G. Baab
Jamie S. Bitz
Jennifer K. Breidenbaugh
Mark R. Gribbin
Bradley B. Marsh
Ellen J. Miller
Stefanie R. Papps
David A. Reynolds
Tracey R. Smith
Shannon M. White
Massey S. J. Whorley
Christine D. Wolfe

Administrative and Research Support Staff

Joan M. Irby
Betsy M. Jackson

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Joint Legislative Audit and Review Commission
Suite 1100
General Assembly Building
Capitol Square
Richmond, Virginia 23219
804-786-1258 Fax 804-371-0101
http://jlarc.virginia.gov