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HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE COMMITTEE ON
GENERAL APPROPRIATIONS
ANALYSIS

BILL #: CS/HB 1

RELATING TO: State Agency Strategic Plan

SPONSOR(S): Committee on Governmental Operations and Representative Posey

COMPANION BILL(S): SB 228 (S)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL OPERATIONS YEAS 4 NAYS 0
(2) FINANCIAL SERVICES YEAS 10 NAYS 0
(3) GENERAL APPROPRIATIONS

I. SUMMARY:

This bill provides policy makers with a supplemental tool, **Unit Cost measures**, intended for use with Florida's Performance-based Program Budgeting initiative (PB2).

The Office of Program Policy Analysis and Government Accountability (OPPAGA), which is charged by the Legislature to maintain ongoing monitoring and evaluation of PB2 efforts, has found some key problems related to the implementation of Performance-based Program Budgeting. Such problems include: inadequate and unreliable information, too few measures, and measures which are hard to interpret. One of OPPAGA's recommended remedies to such problems is the adoption of unit cost-based measures tied to PB2 outputs.

Clearly, performance data must be understandable to policy makers and citizens alike. They all know how much they are willing to pay for each item they, themselves, purchase. Similarly, they want to know how much it will cost for each service such as per acre management of state lands, or repairs for each mile of highway, when purchasing indirectly, through the state. They want programs funded that they perceive as the most critical, and which provide the greatest "bang-for-the-buck". If resources are allocated to one area, they want to know what other programs or areas cannot be funded.

In order to effectively conduct their oversight responsibilities, policy makers must be able to fully understand how well organizations are performing their functions. They must also ensure limited resources are being **efficiently** (i.e., no $795 hammers) and **wisely** utilized. Unit cost measures are considered to be probably the best single tool for policy makers to use when deciding whether or not limited resources could provide more desirable results if directed to one program, rather than another. This ability is critical when all desired activities cannot be funded.

Unit cost data could be useful, for example, when deciding whether to fund health care vocational training (at a cost of $10,000 per person at one community college), or computer network technician training ($3,900 per person at the same community college). With demand equally high for both classes of workers, and with beginning pay rates over twice as high for computer technicians as for health care workers, unit cost data could be vital to thoughtful policy makers when assessing the potential impact of their allocation decisions on family income, tax revenues, and community health needs.

This bill requires agencies to provide as part of their annual performance reports, a one page line item summary of major service or product categories, expressed in total, and by unit cost. Moneys expended by agencies, subordinate organizations and contractors will be so expressed. Other moneys will be expressed in separate line items by totals only.

This bill provides for fiscal disincentives if agencies fail to submit such summaries, by threatening to reduce future appropriations. Such disincentives, however, are not binding on future legislatures.

This bill has no significant direct fiscal impact on state or local governments other than the possible reduction of appropriations to state agencies for non-compliance.

SEE: <u>COMMENTS</u> SECTION FOR FINANCIAL SERVICES COMMITTEE ANALYSIS

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

In an effort to increase accountability regarding how state agencies spend tax dollars, the Legislature passed Chapter 94-249, Laws of Florida. This law directs state agencies to prepare performance-based budgeting measures in consultation with the Governor's Office of Planning and Budgeting, staff from the appropriate legislative committees, and the Office of Program Policy Analysis and Government Accountability (OPPAGA).

State agencies are then required to submit performance-based program budgeting (PB2) requests, with performance measures and standards, to the Legislature for approval. The Legislature includes the approved measures and standards in the annual General Appropriations Act.

State agencies must report annually on their performance, relative to these standards, to the Governor and the Legislature in their Legislative Budget Requests. The Legislature considers this information in making funding decisions, and may award incentives or attach disincentives for program performance which exceeds or fails to meet the established standards.

Section 11.513, F.S, directs OPPAGA to complete a program evaluation and justification review of each state agency program that is operating under a PB2 mandate.

Florida's initiative is part of a national movement toward performance-based budgeting, but Florida's is among the most ambitious state efforts.

Gail C. Christopher, co-chair of the Alliance for Redesigning Government, is quoted in Issue Number 88-89 of The Public Innovator, as saying "What was once a grassroots, or locally motivated innovation in the late 1980s and early 1990s is now often authorized or mandated through federal or state legislation. The transformation in government is not limited to the United States. Governments all over the developed world are being reformed for greater accountability, efficiency, and effectiveness."

The federal Government Performance and Results Act (GPRA, or "the Results Act") was passed in 1993, requiring all federal agencies to submit five-year strategic plans. It began with pilot projects, but wasn't really given much legislative attention until 1997. Since then, there has been an enormous amount of attention directed to it. The Results Act grew to such importance that Vice President Gore spearheaded the production of the book, "Reaching Goals: Managing Government for Results", and that book has, in turn, further increased the momentum of federal accountability-in-government efforts.

Like the federal Results Act, Florida's PB2 initiative is making a dramatic difference in the way agencies and the Legislature view budgeting, and accountability.

As the state has gained more experience with the process of developing standards for outputs and outcomes, the Legislature is learning where the strengths and weaknesses in current approaches are. OPPAGA is charged by the Legislature to maintain an ongoing monitoring and evaluation of PB2 efforts, as well as assisting agencies in the development of programs and measures.

OPPAGA has become one of the Legislature's most valuable resources, providing important insights in the area of feasible methodologies with which to improve Florida's ability to use PB2 to maximize accountability, while maintaining the flexibility which is an integral part of PB2.

In OPPAGA's PB2 status report of April 1997, it noted that agencies' desire to maximize flexibility in using resources has tended to drive the way they define programs in their PB2 proposals. Thus, some departments have proposed to combine their activities into very large programs.

Under traditional line-item budgets, the Legislature appropriates funds for specific expenditure categories, such as salaries or expenses, within budget entities that describe major activities, such as statewide health programs, or student financial assistance. Agencies may transfer a limited amount of funds among budget entities, or they may transfer a limited amount of funds between different expenditure categories within the same budget entity.

Under PB2, agencies have more transfer flexibility within a program, but cannot transfer funds between programs. Because this can limit flexibility, some agencies identify large PB2 programs to maximize flexibility.

Large programs, however, pose an accountability problem because they often contain too many activities and goals to be meaningful. Ideally, PB2 programs should consist of a logical set of activities that are all directed toward a common purpose.

Other vexing implementation problems found by OPPAGA include: Inadequate measures, unreliable measures, too few measures, and measures which are hard to interpret.

Clearly, measures must be understandable to citizens. Perhaps even more importantly, policy makers must be able to fully understand and use performance measures to determine not only how well organizations are performing their functions, but if limited resources are being efficiently utilized.

Legislators and other state policy makers are subjected to relentless requests and demands for extended or expanded programs, services and products. Those legislators and other policy makers want to make fair and informed decisions, but often do not have access to all the information they need to evaluate the relative merits of such requests.

It is difficult enough for policy makers to make the hard decisions required by their office, without being deprived of sufficient information to make informed decisions related to competing demands. Unit cost measures are probably the best single tool for policy makers to use when deciding how resources could provide the most desirable results when allocated among activities, particularly if resources are limited, and all laudable and desired activities cannot be funded.

Among remedies offered to improve the ability of the Legislature to implement and use PB2 as a policy making tool, is the addition of **unit cost-based measures** to existing performance measures. As additional base measures, they provide a superior tool to determine if an organization is operating efficiently, and providing the most service per dollar of funding.

The U.S. Department of Defense, the Immigration and Naturalization Service, the U.S. Treasury Department, and other federal agencies have found that similar methodologies can be put into place, and have yielded surprisingly good results. The U. S. Treasury's Financial Management Services (FMS) bureau has run several "field-test" projects using unit cost methodologies under the name Activity-based costing. They discovered, for example, that their most expensive process was the transfer of funds between agencies. They had been under the impression that the funds transfer process was one of their least expensive processes. Other discoveries included an unexpectedly high cost for generating time sheets to producing financial reports.

Subsequently, the bureau has developed a process to determine what activity costs actually are, and have developed software tools to help use activity information. According to Mr. Mitch Levine, Chief Financial Officer of FMS, "...[It] can assist in other kinds of decision-making as well. It can provide a cost-specific rationale for agency franchising, for example, or help cost-justify decisions to close offices or shrink staffs, or be used to support arguments for the funding of specific programs..." The federal government has indicated a willingness to share the fruits of their labors with the Florida Legislature and agencies, if requested.

B. EFFECT OF PROPOSED CHANGES:

Some indicate concerns related to the expression of expenditures in unit cost terms, and whether such measures will be beneficial.

Proponents of the addition of unit cost-based measurements believe measures must be understandable to citizens in order for them to share in the evaluation of the performance of their government. For example, there was an actual federal program a few years ago which trained blue collar workers at a cost of almost $1,000,000 per person (for each who was actually placed into the workforce), and almost everyone remembers the $2,000 cost for each toilet seat in a Department of Defense contract. Citizens, policy makers and those who provide the public with government services generally have a right, and a responsibility, to be aware of such allocations of resources in order to assume their role in ensuring good government.

Proponents believe it is especially important for policy makers to have access to complementary performance measures in order for them to determine not only how well organizations are performing their functions, but if limited resources are being efficiently and wisely utilized.

Another concern relates to the definitions of "unit cost", and "pass-throughs". The definitions would affect the methodology used to allocate overhead and administrative costs to specific programs, products or services, resulting in inconsistent or confusing responses from agencies.

Proponents view unit cost line items as including allocated administrative and overhead costs, but not moneys which merely pass through the agency to another entity over which the pass-through agency has no authority or control as to results.

In order to eliminate possible ambiguities and confusion, however, this bill provides that the instructions for determining the methodology and format of such information is to be developed by the Executive Office of the Governor in consultation with OPPAGA, the Auditor General, the Department of Banking and Finance, and the legislative appropriations committees.

This bill does not require agencies to submit unit cost expressions for moneys which are passed through to other entities over which the agencies have no authority or responsibility, reverted to the comptroller, or other moneys which are not used by, or on behalf of such agencies. Agencies would only report such moneys as separate line item totals.

Another concern is that unit cost data may sometimes paint an inaccurate picture of agency operations, be improperly compared to other apparently similar operations, or be improperly applied as baseline data for use as hard performance measures.

This bill requires agencies to report unit cost data for the agencies themselves, and for subordinate organizations and contractors who receive state funds to perform services on behalf of the agencies. Agencies are submitting only single page summaries of information. It is expected that agencies will retain supplementary “back pages” for explanatory use in responding to any inquiries brought as a result of the summaries.

Still another concern, generally expressed by agency personnel, is that the preparation and submission of unit cost data may require a lot of activity and effort, straining workforce resources without such data actually being considered and incorporated into the decision making process by policy makers.

This bill provides that unit cost data is to be submitted with the annual performance report by September 1st of each year. This delayed submission provides agencies with an additional three months after the initial submission of the Agency Strategic Report to prepare for the required unit cost information submission.

The instructions for determining the methodology and format of such information is to be developed by the Executive Office of the Governor, in consultation with OPPAGA, the Auditor General, the Department of Banking and Finance, and the legislative appropriations committees. Proponents believe that the cooperation of these respected and experienced organizations will ensure the quality of the instructions, and final submissions. Therefore, proponents believe, policy makers will confidently, and readily incorporate such information into their decision-making.

According to proponents, this bill is intended to introduce unit cost measurements into the decision making process at various levels. The format is intended to be useful to policy makers and informative to citizens, yet flexible enough to allow refinements.

This bill provides a negative incentive for agencies failing to comply with the submission of such summaries. If an agency fails to provide the summary along with their Agency Strategic Plans, the Legislature, in the next regular session shall reduce the General Appropriation to non-complying agencies by 10 percent of the allocation which the agency had in the fiscal year preceding the current fiscal year.

This bill provides for submission of a report from the Florida Financial Management Information System Coordinating Council to the Governor, the President of the Senate, and the Speaker of the House of Representatives by October 1, 1999. Such report is to include recommendations on the necessity and feasibility of, and the costs associated with, enhancements to the Florida Accounting Information Resources Subsystem which would be required to support state agencies in providing unit-cost information.

This bill provides for an effective date of July 1, 1999.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

Yes. Each agency would be required to provide a summary of their previous fiscal year's moneys passed through or spent by the agency, its subordinate entities and contractors, and an estimate of the same projected for the current fiscal year, in unit cost terms, in conjunction with their Annual Performance Report. Such data would require additional research, but the extent of that extra research is unknown. In addition, this bill tasks the Florida Financial Management Information System Coordinating Council to submit a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives. The report would have recommendations on the necessity and feasibility of, and the costs associated with, enhancements to the Florida Accounting Information Resources Subsystem required to support state agencies in providing the unit cost information.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

Not applicable.

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A.

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

   a. Does the bill increase anyone's taxes?

      No.

   b. Does the bill require or authorize an increase in any fees?

      No.

   c. Does the bill reduce total taxes, both rates and revenues?

      No.

   d. Does the bill reduce total fees, both rates and revenues?

      No.

   e. Does the bill authorize any fee or tax increase by any local government?

      No.

3. Personal Responsibility:

   a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

      No.

   b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

      No.

4. Individual Freedom:

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      No.

   b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

      No.

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

Not applicable.

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

No.

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

Not applicable.

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Amends ss. 186.022, and 216.0235, F.S.

E. SECTION-BY-SECTION ANALYSIS:

See EFFECT OF PROPOSED CHANGES section.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

An agency's budget in a future year could be negatively impacted by failing to submit the required summary of agency moneys.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None, other than for chronic non-compliance with the requirement to submit the required summary.

4. Total Revenues and Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   Unknown. Private sector entities contracting with the state are already subject to audit and operational review. It is possible that private sector contractors will incur marginal additional expense in order to provide information expressed in unit costs in addition to the formats they may be using.

2. Direct Private Sector Benefits:

   None.

3. Effects on Competition, Private Enterprise and Employment Markets:

   None.

D. FISCAL COMMENTS:

None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds, or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that counties or municipalities have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

This bill requires that each state agency submit with its annual September 1, performance report a one page summary of the previous FY expenditures and encumbrances and the current FY expenditure estimate. The bill requires that the agency divide the expenditures (including contract funds or funds the agency is otherwise responsible for) and expenditure estimates by program and express each line item with a unit-cost for each approved PB2 output, or for each major product or service. The total of the unit-costs must equal the total expenditures. The bill does not specify explicitly whether this formula will generate two sets of figures, one for previous FY expenditures and one for the estimated expenditures for the current FY nor does the bill specify if (or how) the formula is to combine these sets of totals to generate one set of figures.

The current systems used to report state agency financial and budgetary data are not configured to support the reporting of unit-costs. The state budgeting system (LAS/PBS) is reported by program component and fund and SAMAS organizes the information by fund and organization code and, to a limited degree, by performance measures under PB2. The bill does provide that instructions will be developed for calculating and presenting unit-cost information, but is silent on whether the formula will provide the methodology to distribute administrative costs in instances where state agencies utilize one administrative section to provide varying levels of service for a number of diverse output activities which may be spread across a variety of programs.

October 1, 1999, is the date given by the bill for the Florida Financial Management Information System Coordinating Council to submit a report with recommendations on the necessity and feasibility of, and costs associated with converting the state's financial reporting systems to provide unit-cost information. In its current posture, the provisions of the bill would become effective after the June 15 deadline for budget instructions to be transmitted to agencies. This appears to indicate that the first report including unit-cost information will be due September 1, 2000. However, because the bill requires agencies to include the previous year's expenditures in the report, those activities transpiring from July 1, 1999, to whenever the FY 1999/2000's, statewide unit-cost calculation methodology or accounting system is put into place will have to be reported without such a system available.

FISCAL ANALYSIS

Three state agencies were chosen at random and asked to submit an analysis of HB 1. One agency indicated no fiscal impact of the bill, one agency indicated the fiscal impact was indeterminate at this time, and one agency indicated that the non-recurring effects would be $90,000 for FY 99-00, and the recurring effects would begin at $1.7 million for FY 99-00. These costs were based on each state agency having to add one financial analyst position to do the analyses and reports required.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

At its meeting on January 7, 1999, the Committee on Governmental Operations adopted an amendment amending everything after the enacting clause. The amendment language incorporates the following changes:

1) Specifies that the unit cost summary submission is only one page in length;
2) Extends the period of submission by three months by having the unit cost summary submitted with the Annual Performance Report, rather than the initial submission of the Agency Strategic Report;
3) Adds language as to the purpose of the Annual Performance Report, which is a follow-up report used to evaluate the attainment of the agency objectives in the Agency Strategic Plan, and the performance measures approved by the Legislature;
4) Clarifies that while agencies must note all funds over which they had some responsibility during the year, they need express only their expenditures, or expenditures of state moneys made by subordinate governmental entities and contractors on their behalf, in unit cost terms;
5) Specifying that the Executive Office of the Governor, in consultation with OPPAGA, the Auditor General, the Department of Banking and Finance, and the legislative appropriations committees shall develop instructions as to the calculation of the unit cost information, and the format and presentation of the summary.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

Prepared by:	Staff Director:
Russell J. Cyphers, Jr.	Jimmy O. Helms

AS REVISED BY THE COMMITTEE ON FINANCIAL SERVICES:

Prepared by:	Staff Director:
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AS FURTHER REVISED BY THE COMMITTEE ON GENERAL APPROPRIATIONS:

Prepared by:	Staff Director:
Michael F. Peters	David K. Coburn