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HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FISCAL POLICY & RESOURCES
ANALYSIS

BILL #: HB 529

RELATING TO: Outcome-Based Total Accountability

SPONSOR(S): Representative(s) Wallace

TIED BILL(S): None

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

(1) STATE ADMINISTRATION YEAS 5 NAYS 0
(2) FISCAL POLICY & RESOURCES
(3) FISCAL RESPONSIBILITY COUNCIL
(4)
(5)

I. SUMMARY:

This bill creates the "Outcome-Based Total Accountability Act." It amends s. 216.023, F.S., expanding the current requirement that a budget entity report unit costs for output measures, to include reporting costs of all subordinate and contracting entities.

More particularly, this bill requires that each budget entity submit a one-page summary of information related to itself, subordinate entities, and contracting entities which includes the budget for each entity; the total amount of revenue received or otherwise passed through each entity; the line-item listings of major activities along with total amounts spent for each major activity and unit costs for each activity; and the total amount of reverting funds or actual pass-through funds without unit-cost data.

This bill does not appear to have a fiscal impact on state or local governments.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1.	Less Government	Yes []	No []	N/A [X]
2.	Lower Taxes	Yes []	No []	N/A [X]
3.	Individual Freedom	Yes []	No []	N/A [X]
4.	Personal Responsibility	Yes []	No []	N/A [X]
5.	Family Empowerment	Yes []	No []	N/A [X]

For any principle that received a “no” above, please explain:

B. PRESENT SITUATION:

In 1994, the Government Performance and Accountability Act was amended to include the concept of performance-based program budgeting (PB^2). PB^2 is defined as “a budget that incorporates approved programs and performance measures.”[1] Additional terms important for the understanding of this budgeting approach are defined in s. 216.011, F.S.:

- Baseline Data – indicators of a state agency’s current performance level, pursuant to guidelines established by the Executive Office of the Governor in consultation with legislative appropriations and appropriate substantive committees.
- Outcome – an indicator of the actual impact or public benefit of a program.
- Output – the actual service or product delivered by a state agency.
- Performance measure – a quantitative or qualitative indicator used to assess state agency performance.
- Program – a set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives based on legislative authorization.
- Standard – the level of performance of an outcome or output.

Section 216.013, F.S., requires a state agency to develop a long-range program plan. This long-range program plan provides a framework for the development of an agency budget request. The long-range program plan identifies agency programs and addresses how these agency programs will be used to implement state policy and achieve state goals; identifies and describes agency functions and how they will be used to achieve designated outcomes; identifies demand, output, total costs, and unit costs for each function; provides information regarding performance measurement, including but not limited to, how data is collected; the methodology used to measure a performance indicator; the validity and reliability of a measure, the appropriateness of a measure; and whether the agency inspector general has assessed the reliability and validity of agency

[1] s. 216.011(1)(hh), F.S.

performance measures.[2] This long-range program plan is submitted to the Executive Office of the Governor for review. Any differences between the agency's plan and the review of the Executive Office of the Governor are addressed.

Section 216.023, F.S., further requires the Executive Office of the Governor and the appropriations committees to develop legislative budget instructions from which each agency is to prepare its legislative budget request. The legislative budget request includes for each program under the agency's jurisdiction: the constitutional or statutory authority for a program, a brief purpose statement, and approved program components; information on expenditures for 3 fiscal years (actual prior-year expenditures, current-year estimated expenditures, and agency budget requested expenditures for the next fiscal year) by appropriation category; details on trust funds and fees; the total number of positions (authorized, fixed, or requested); an issue narrative describing and justifying changes in amounts and positions requested for current and proposed programs for the next fiscal year; information resource requests; legislatively approved output and outcome performance measures and any proposed revisions to measures; proposed performance standards for each performance measure and justification for the standards and the sources of data to be used for measurement; prior-year performance data on approved performance measures and an explanation of deviation from expected performance; and *unit costs* for approved output measures.[3] The legislative budget request is reviewed by the Executive Office of the Governor and is eventually submitted for review to the Legislature.

In addition to amending s. 216, F.S., the Government Performance and Accountability Act defined the role of the Office of Program Policy Analysis and Government Accountability (OPPAGA) in PB². Section 11.513, F.S., states that each state agency is subject to a program evaluation and justification review by OPPAGA. The state agency is expected to fully cooperate with the evaluation. The program evaluation must be conducted on all major programs within the state agency, and other programs can be reviewed as deemed appropriate. OPPAGA's review must address the following components: the identifiable costs of each program; the specific purposes of each program, as well as the specific public benefit it produces; the progress toward achieving the outputs and outcomes associated with each program; an explanation or circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes; any alternative course of action that would result in the a more efficient or effective program.[4] The justification review is submitted to the President of the Senate, the Speaker of the House, the chairpersons of the appropriate substantive committees, the chairpersons of the appropriations committees, the Legislative Auditing Committee, the Governor, the head of the reviewed state agency, and the head of any other state agency that is affected by the findings.

OPPAGA releases "PB² Commentary" reports as part of its role in PB². OPPAGA issued Report No. 98-45 in Fiscal Year 1998-99, titled "Performance-Based Budgeting Has Produced Benefits But Its Usefulness Can Be Improved." The report discusses additional ways for the Legislature to enhance the usefulness of PB². This report recommends for agencies to "develop unit cost information for key outcomes."[5] According to OPPAGA's report, unit costs identify the resources needed to produce outputs. By utilizing unit costs the Legislature can better assess the relative efficiency of program operations and better determine the relationship between changes in the costs of program services and the specific outcomes of the services.

The report discusses how unit costs can be calculated. Unit costs can be calculated as direct costs, which are costs directly related to the provision of program services; and, as full costs, which

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[2] s. 216.013(1), F.S.
[3] s. 216.023(4), F.S.
[4] s. 11.513, F.S.
[5] OPPAGA, PB² Commentary Report, Fiscal Year 1998-1999, Report No. 98-45.

take into account both the direct costs and well as the indirect costs of particular services. According to OPPAGA, it is important that agencies monitor both direct and indirect costs, for such knowledge is necessary for management and policy decisions.

The concept of unit costs was introduced during the 1999 legislative session. Chapter 99-377, L.O.F., amended certain portions of the Act, and defined new expectations under PB². This chapter law amended s. 186.022(8), F.S., requiring state agencies to include a one-page summary along with the required annual performance report.

> All such expenditures and estimates of such expenditures must be divided by program and expressed in line items by unit costs for each output measure approved pursuant to s. 216.0166(3), for those agencies and programs operating under performance-based program budgeting and for major services and products for those agencies and programs operating under traditional line-item budgeting. Unit-cost totals must equal the total amount of moneys that were expended or projected to be expended by each agency and must include expenditures or projected expenditures of state funds by subordinate governmental entities and contractors, as applicable.[6]

Chapter 99-377, L.O.F. also amended s. 216.0235(3), F.S., regarding the budget instructions for program measures that the Executive Office of the Governor is required to submit. It states, "the budget instructions must also include instructions for agencies in submitting the assessment of performance measures and the unit cost information required to be included in the agency annual performance report under s. 186.022(8), F.S."[7] Additionally, the Executive Office of the Governor, in cooperation with OPPAGA, the Auditor General, the Department of Banking and Finance, and the legislative appropriations committees are required to develop instructions for the agencies as to the calculation of the unit-cost information and the format and presentation of information included in s. 186.022(8), F.S.

There was a significant restructuring of Ch. 216, F.S., during the 2000 legislative session. Chapter 2000-371, L.O.F., created three new procedures within the state budgeting process: the Legislative Budgeting Commission; establishment of zero-based budgeting principles for reviewing agency budgets; and establishment of a community budget request process that allows local governments and non-profit organizations the opportunity to submit requests for state funding. Section 216.023(4)(j), F.S., was also amended to require unit costs for approved output measures pursuant to s. 186.022, F.S. There was no expansion on the requirement of reporting unit costs for approved output measures in the 2000 legislation.

In January 2001, OPPAGA released a report titled "Florida's Unit Cost Initiative Shows Promise, But Needs Development" in its "PB² Commentary" series. This report discusses the necessity of unit costs. "Unit costs facilitate reasoning because it is often easier to gauge appropriateness of the cost of one item than it is for the lot."[8] The report suggests that the methods by which agencies report their unit costs must improve due to three reasons: not all agencies are reporting similar costs in a similar manner; in some programs, problems with the manner in which the outputs have been defined is limiting the accuracy and usefulness of the unit costs; agencies cannot easily use existing information from the accounting system or personnel system to develop good unit costs.

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[6] Ch. 99-377(1), L.O.F.
[7] *Id*. at 3.
[8] OPPAGA, PB² Commentary, January 2001, Report No. 01-05.

C. EFFECT OF PROPOSED CHANGES:

HB 529 amends s. 216.023, F.S., regarding the submission of a legislative budget request by a state agency. It would expand the current requirement that a budget entity report unit costs for output measures to include reporting costs of all subordinate and contracting entities.

More particularly, each budget entity is required to submit a one-page summary of information on itself and its subordinate and contracting entities. This summary must include:

- The budget for each entity;
- The total amount of revenue received or otherwise passed through each entity;
- The line-item listings of major activities along with total amounts spent for each major activity and unit costs for each activity; and
- The total amount of reverting funds or actual pass-through funds without unit-cost data.

The bill provides a statement of legislative intent for expanding the reporting requirements: "It is the intent of the Legislature to use unit-cost data not only as a budgeting tool but also as a policymaking and accountability tool."

D. SECTION-BY-SECTION ANALYSIS:

See "Effect of Proposed Changes."

III. <u>FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT</u>:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. <u>Revenues</u>:

None.

2. <u>Expenditures</u>:

This bill increases reporting requirements for state agencies when submitting their legislative budget requests. There may be some indeterminate but minimal costs associated with doing that.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. <u>Revenues</u>:

None.

2. <u>Expenditures</u>:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

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 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:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

Florida TaxWatch (TaxWatch) has long supported and promoted the concept of unit-cost data. TaxWatch believes that utilizing unit-cost data increases the accountability of state agencies and improves the cost-effectiveness of public policy decisions; the inclusion of unit-cost data balances public benefits and public costs with other alternatives toward achieving the greatest public good.[9]

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

[9] Telephone conversation with Dominic M. Calabro, President and Chief Executive Officer of Florida TaxWatch (February 28, 2001).

VII. SIGNATURES:

COMMITTEE ON STATE ADMINISTRATION:

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