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**HOUSE OF REPRESENTATIVES
COMMITTEE ON
GOVERNMENTAL OPERATIONS
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: HB 1
RELATING TO: State Agency Strategic Plan
SPONSOR(S): Representative Posey
COMPANION BILL(S): SB 228 (i)

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

- (1) GOVERNMENTAL OPERATIONS
 - (2) FINANCIAL SERVICES
 - (3) GENERAL APPROPRIATIONS
 - (4)
 - (5)
-

I. SUMMARY:

This bill provides policy makers with a supplemental tool, **Outcome-based Unit Cost**, which is 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 to supplement PB2.

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 a line item summary of major service or product categories, and other monies spent or passed through agencies, as part of their agency strategic plans.

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.

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**. 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.

B. EFFECT OF PROPOSED CHANGES:

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 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.

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 and wisely utilized.

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

One concern relates to the very definition of "unit cost". The definition, they point out, would, for example, affect the methodology used to allocate overhead and administrative costs to specific programs, products or services.

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.

Still 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.

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 requires each state agency to submit, with its agency strategic plan, a summary of all monies that were spent by, or otherwise passed through the agency during the preceding fiscal year, along with an estimate of such monies projected to be spent, or otherwise passed through the agency during the current fiscal year. Such summaries would be divided into major product or service line items, as well as line items for total revenues, budget amounts, pass-through amounts, reversion amounts, and other non-unit cost elements.

The summary would indicate the total cost of each major product and service including allocated overhead and administrative costs. Those products or services would also indicate the cost per unit of each product or service provided. For example, the Department of Transportation summary would have a line item for highway repairs. The

total cost, including overhead and administrative costs to repair highways could be listed, and that figure would be further divided to indicate the cost to repair each lane-mile of highway.

The totals of the amounts presented in the unit cost summary would have to equal the total amount of moneys spent, or otherwise passed through the agency.

The summaries will be submitted in the form and manner prescribed in written instructions prepared by the Executive Office of the Governor, after consultation with the President of the Senate, and the Speaker of the House of Representatives.

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 of the year in which enacted.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

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, and an estimate of the same projected for the current fiscal year, in unit cost terms, in conjunction with their Agency Strategic Plans. 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 s. 186.021, F.S.

E. SECTION-BY-SECTION RESEARCH:

See EFFECT OF PROPOSED CHANGES section.

III. FISCAL RESEARCH & 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:

None.

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:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

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