

SB

76

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 26, 1998

FURTHER REFERRALS:

Date of Committee Action: 3 4/3/98

The FINANCE Committee considered:

CSSB 76(RLS)

CS FOR SENATE BILL NO. 76(RLS)

STATE LONG-TERM PLANNING

"An Act relating to results-based government and the state budget; relating to state agency program and financial plans; relating to the withholding or reduction of appropriations to a state agency; and relating to state agency performance and other reports."

recommends it be replaced with the following committee substitute HCS CSSB 76 (Fin) ^{At the same title}] a new title

[] additional referral to _____ Committee
 [] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

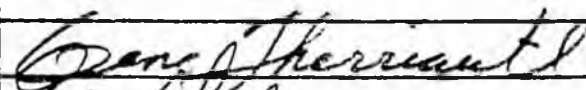
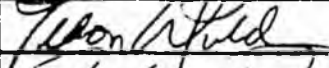
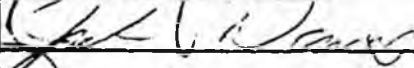
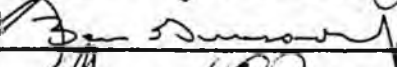
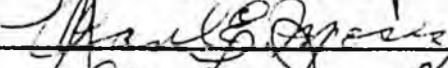
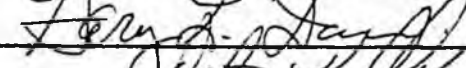
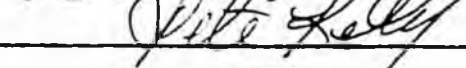

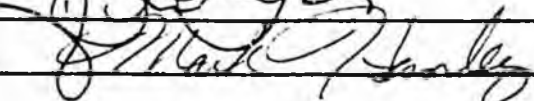
APPROVES PREVIOUS: _____ (Dept/Date)

[] fiscal note(s) _____

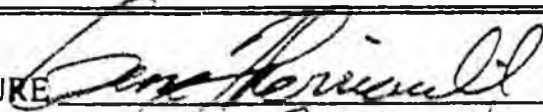
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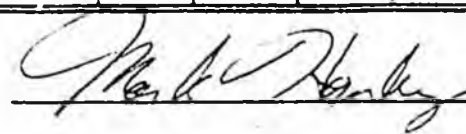
[] zero fiscal note(s) _____

[x] zero fiscal note(s) SFC for All
3/20/98 dept

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Thernault	X			
	MUDER	X			
	J. DAVIES				X
	Grossindert				X
	MOSES			X	
	G. DAVIS			X	
	Kelly	✓			
	FOSTER	X			
	Hanley			X	

CO-CHAIR'S SIGNATURE


 Thernault


 Hanley

FISCAL NOTE

No. 4

STATE OF ALASKA
1998 LEGISLATIVE SESSION

Bill Version: CSSB 76(FIN)

(S) Publish Date: 3-20-98

Revision Date: _____
Title: An Act relating to results-based government
and the State budget.
Sponsor: Sens. Parnell, Wilken and Donley
Requester: Senate Finance Committee

Dept. Affected All Departments
BRU AI
Component All Components
Component Serial No. AI

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

FUND SOURCE	FY 98	FY 00	FY 01	FY 02	FY 03	FY 04
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

CSSB 76(FIN) will not add any additional budget demands, instead it supplants a portion of the current budget process with results based budgeting and codifies existing results based budgeting performed by the Legislature and Executive. Additionally, the deletion of five year operating budget fiscal plans from SB 76 removed the Department of Health and Social Services' primary fiscal concern.

Prepared By: SENATE FINANCE COMMITTEE


SENATOR DRUE PEARCE, CO-CHAIR

Date: 3/20/98
Phone: 465-4993


SENATOR BERT SHARP, CO-CHAIR

Date: 3/20/98
Phone: 465-3004

: Adopted Amendments 3 + 4
: iAdopted Amendments 6 + 7

- Pg 2
Pg 1
DRAFT: 4/3/98

SB 76

"An Act relating to results-based government..."

DRAFT AMENDMENTS

~~Page 1, Line 9:~~

~~Change: "issue"~~

~~To: "adopt"~~

~~Page 1, Line 11:~~

~~Change: "issue"~~

~~To: "adopt"~~

Am 6

Adopted noloby

Page 1, Line 12:

Delete: "should represent the priorities of the majority of state residents and"

~~Page 3, Line 12:~~

~~Change: "issued"~~

~~To: "adopted"~~

Page 3, Line 12:

Change: "the guide"

To: "a guide"

Am 7

Adopted noloby

Page 3, Line 13:

After the word "law", insert:

"unless contrary to law "

Page 3, Lines 13 - 14:

Am 5 failed

Delete:

"The governor shall assure that each agency complies with the mission statement and achieves the desired results identified by the legislature."

Page 4, Line 14:

Amendment 3 adopted as amended

Replace: "each agency shall, on a quarterly basis, identify"

With: "each agency shall report periodically on"

↑
Semi Annually

Page 4, Line 16:

Change: "issued"

To: "adopted"

Page 4, Line 19:

Amendment 4 Adopted

Replace: "...legislative finance division. The information must"

With: "...legislative finance division; this information must"

Page 4, Line 29:

Change: "issued"

To: "adopted"

Page 5, Line 3:

Change: "issued"

To: "adopted"

Page 5, Lines 23 - 25:

Delete: All of subsection (12); i.e., lines 23 - 25, inclusive.

Page 6, Line 16:

Change: "issued"

To: "adopted"

Page 6, Line 24:

Change: "issued"

To: "adopted"

Page 6:

Insert new section, to read as follows:

* Sec. 10

Transition. (a) To provide for an orderly implementation of the process envisioned in sections 1-9, sections 1-9 shall apply to:

(1) two departments of the executive branch, to be selected jointly by the legislature and the governor, in the preparation of their fiscal year 2000 operating budgets, and

failed Amendment
1A

(2) all departments and agencies of the executive branch in the preparation of their operating budgets for fiscal year 2001 and afterwards.

(b) Mission statements, desired results, performance measures, and the frequency of performance reporting for departments under (a)(1) shall be issued by the legislature through a concurrent resolution.

(c) The finance committees of the legislature and the office of management and budget shall jointly formulate procedures and timetables for applying the provisions of sections 1-9 under (a)(1) and under (a)(2). Procedures shall address, at a minimum, how agency missions may be issued or established, and modified; how aspects of agency performance should be selected for measurement; how performance-related information should be collected and reported, including the frequency of reporting; how performance assessment activity should be incorporated into the executive branch and legislative branch budget processes; and how costs associated with the adoption of performance assessment should be identified.

(d) The finance committees of the legislature and the office of management and budget shall publish the results of their efforts and their recommendations under (c) no later than October 1, 1998. Recommendations shall include the identification of issues or problems which have not been resolved and options for resolving them.

(e) In its fiscal year 2000 operating budget instructions to departments, after consultation with the legislature, the office of management and budget shall include as much or as many of the procedures and timetables published under (d) as it deems practicable. Upon issuance of the instructions, the office of management and budget shall identify in writing to the finance committees the procedures or timetables published under (d) which it has chosen not to include, and its reasons for not including them.

(f) No later than January 15, 1999, the office of management and budget shall submit to the finance committees in writing:

(1) its findings regarding the adequacy of the procedures and timetables adopted under (e),

(2) its findings regarding cost impacts experienced by departments under (a)(1),

(3) its recommendations regarding application of the provisions of sections 1-9 under (a)(2), and

(4) any proposals for clarifying amendments or legislation which it may consider appropriate.

Alaska State Legislature

SENATE DISTRICT 1

Bayshore	Abbott Loop
Campbell	Bear Valley
Dimond	Girdwood
Independence Park	Glen Alps
Klatt	Hillside
Old Seward	Huffman O'Malley
Southport	Indian
Taku	Portage
	Rabbit Creek



716 WEST 4TH AVENUE, SUITE 530
ANCHORAGE, ALASKA 99501
(907) 258-8194

While in Session:
STATE CAPITOL
JUNEAU, ALASKA 99801-1182
(907) 465-2995 1-800-365-2995

SENATOR SEAN PARNELL

SPONSOR STATEMENT

SENATE BILL 76

"An Act relating to results-based government and the state budget"

SB 76 will enact results based government, to better serve Alaskans. SB 76 revises the Executive Budget Act to require the Legislative and Executive Branches to more clearly focus on results for Alaskans through policies established by the legislature and executed by the governor.

Specifically, the legislature will establish policy by issuing mission statements and desired results for each state agency to achieve. To accomplish this, the legislature will identify desired results, set priorities for each agency, assign accountability, and require methods for measuring, reporting and evaluating results. These results will be reported quarterly to the legislature for continuity and effective oversight.

The governor, through the Office of Management and Budget, executes, coordinates and manages each agency's efforts to achieve the legislature's mission and desired results. The governor shall also through discussion with the public, its employees and management teams make recommendations for future mission statements and desired results for consideration by the legislature.

If passed, SB 76 will enable government to be more responsive to the needs and priorities of Alaskans. I respectfully request your support for SB 76 which will begin "Results Based Government" in Alaska.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

April 2, 1998

Honorable Gene Therriault, Co-Chair
House Finance Committee
State Capitol
Juneau, Alaska 99811-1182

Re: CSSB 76 (RLS) - Result-based
Budget

Dear Representative Therriault:

In support of my testimony concerning CSSB 76 (RLS) currently pending before the House Finance Committee, I offer the following comments for the record:

1. Proposed section 37.07.014(a), set out in section 1 of the bill, provides that it is the responsibility of the legislature to "issue" a mission statement for each agency. This description of legislative activity is ambiguous and needs further clarification. The power of the legislature is to set policy through exercise of its law-making power. This power is exercised by enacting bills into law. It is not clear from the bill how the legislature will establish a mission statement for an agency. I foresee disputes arising between the executive and legislative branches of state government if the legislature attempts to establish mission statements as a rider to a general appropriation bill. According to the Alaska Constitution, "[b]ills for appropriations shall be confined to appropriations." Alaska Const. art. II, sec. 13. Provisions inserted in appropriation bills to establish mission statements would violate the confinement provision.

To a certain extent, the enabling act for each agency determines its mission. The legislature has plenary power to change enabling acts to direct the activity of agencies. This is the manner in which the legislature sets policy. However, the legislature departs from its law-making role when it attempts to execute the law. The establishment of a mission statement represents an executive responsibility. To the extent that the legislature does not agree with a mission statement the legislature would amend the enabling act to either authorize or prohibit the conduct associated with the performance of a mission. If general law does not authorize a mission, the agency's enabling act cannot be supplemented by something included in an appropriation bill. To the extent that the legislature is directing the manner in which an agency

4/2/98 reference

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO:

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 269-5100
FAX: (907) 276-3697

KEY BANK BUILDING
100 CUSHMAN ST., SUITE 400
FAIRBANKS, ALASKA 99701-4679
PHONE: (907) 451-2811
FAX: (907) 451-2846

P.O. BOX 110300-DIMOND COURT HOUSE
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600
FAX: (907) 465-6735

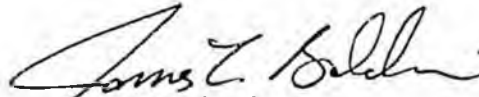
will carry out existing law, it is left open to a claim that it is attempting to execute existing law which would be a breach of the doctrine of separation of powers between the branches of state government.

2. Proposed section 37.07.016 implies that the mission statement will "guide" the governor in his execution of law. As mentioned above, the binding nature of this guidance would be questionable if the mission statements are not enacted in general law. The governor is guided first by the Alaska Constitution and second by statute in the exercise of his executive powers.

3. The repeal of AS 37.07.080(g)(2) set out in section 9 of the bill appears consistent with State v. Fairbanks N. Star Borough, 736 P.2d 1140 (Alaska 1987).

Sincerely,

BRUCE M. BOTELHO
ATTORNEY GENERAL



By: James L. Baldwin
Assistant Attorney General

JLB:jn

cc: Senator Sean Parnell
Sponsor

Pat Pourchot, Legislative Director
Office of the Governor

Chrystal Smith, Legal Administrator
Deborah Behr, Assistant Attorney General
Department of Law

MAR 12 1998



Anchorage - Star of the North
Chamber of Commerce

**Anchorage Chamber of Commerce Resolution 97/98-11
In Support of Results-Based Government**

WHEREAS, the Anchorage Chamber of Commerce Board of Directors supports the Legislature's efforts to close the gap between annual expenditures and recurring revenues; and

WHEREAS, a basic tool being used to close this gap is to reduce the level of annual spending; and

WHEREAS, the Legislature is implementing year three of its long range strategy to close the fiscal gap by further reducing state spending by \$50 million, bringing total reductions to \$130 million; and

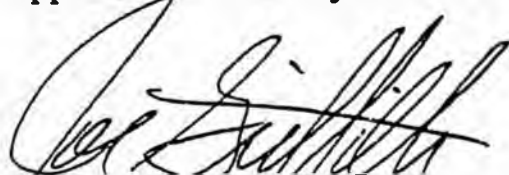
WHEREAS, the current budget decision-making process primarily focuses on "inputs," or how much money a program gets and does not evaluate what a program is accomplishing with the money it receives; and

WHEREAS, the budget decisions facing the Legislature as it works to further reduce spending will get more difficult, thereby necessitating a new framework by which to evaluate the state's "return on investment" in programs and services; and


WHEREAS, a results-based framework for decision-making can ensure a program's activities are aligned with its mission and provide information by which all Alaskans can better evaluate whether a program is an appropriate "business" for the state, whether a program is achieving its intended results, and information by which a program's costs can be compared with its benefits;

NOW THEREFORE BE IT RESOLVED that the Anchorage Chamber of Commerce Board of Directors supports the Legislature's work to implement a "results-based government" framework which will provide a policy basis within which future budget decisions can be made.

Approved this 6th day of March 1998.



Joe Griffith, 1997-98 Chairman

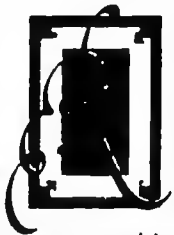


April Jensen, President

Reinventing Government—Not Easy, But Possible

Changing the process of government is a slow, painful chore.

By Ronald K. Snell



Reinventing Government is a book that has become a cause since David Osborne and Ted Gaebler published their bestseller in 1992. The book tries to show ways to make government responsive, effective and credible. *Reinventing Government* preaches a gospel of strategic planning, entrepreneurship, and results-oriented and customer-driven government.

State governments have responded enthusiastically, some with sweeping initiatives that have won national attention like Minnesota Milestones or Oregon Benchmarks. Almost every state has set new requirements for strategic planning, performance measurement and performance budgeting. It's too early to decide whether reinventing government can be called a success—not for lack of signs of success but because of the enormous size of the task. Senator Tom Rossin of Florida, a strategic planning consultant in private life and a leading advocate of strategic budgeting for the state, says: "When we do this in the private sector, we ask for a commitment to change corporate culture over five to 10 years." But if it's too soon to expect revolution in state government, there is a lot happening. And not least in state legislatures.



Senator
Tom Rossin
Florida

Some state legislatures are recreating their budget process as the foundation of the reinvention of government. Budgeting is the foundation because the budget document is state government's overall plan of activities, and budget administration guides the day-to-day, everyday work of every government employee. States that have embarked on budget reform hope to refocus state government on service, effectiveness and accountability through the adoption of a kind of budget called a performance budget.

Performance budgeting requires radical changes in how state budgets look and how they operate. Why it's desirable to do that, and what's being done, requires a brief excursion into the dismal science of public budgeting.

Budgets are both a document and a process. There's the documen-

tation that shows what agencies are directed to do and how much money they can spend to do it. The process has two parts—legislative enactment and executive administration. The operative theory here is that if you change the document, you change the processes. As *Reinventing Government* says, "What gets measured gets done." If you measure the number of hours nurses spend at maternal and child health clinics, you get the maximum number of hours for your money. If you want to make sure those hours are well used, you measure their outcome—something like the state rate of infant mortality. That's the theory of performance budgeting—changing the structure of activities changes the nature of activities.

State budgets traditionally have listed amounts of money for objects of expenditure. Some specific amount was to be spent for a children's program or providing guards at a penitentiary or staffing a historical monument. The purpose of such budgets is to prevent the diversion of public money from designated purposes. They are one element in an accounting process. That's important, but it doesn't emphasize results. Legislators might well ask: Is the children's program run well? Is it meeting its objectives? But they equally well might not ask, and the form of the traditional state budget did not force questions of satisfactory performance or outcomes on agencies or on legislators.

Performance-based budgeting is intended to put performance and outcomes at the center of the budget process. The legislatures that are moving toward PBB usually have focused on agency performance reporting, which means that the budget itself sets performance goals for an agency and stresses accountability and reporting.

A performance budget has these characteristics:

- ◆ It sets an agency mission, goals (ways to put the mission in effect) and specific, measurable objectives.
- ◆ It reports on past performance in specific ways with the goal of providing comparable data over a period of years.
- ◆ It provides managers with the flexibility to allocate resources in ways that will meet objectives.
- ◆ It provides incentives for good performance and penalties for failing to meet objectives.

The written budget takes a new form, emphasizing the outcomes

Ronald K. Snell is a fiscal expert at NCSL.



Representative
Henry Cuellar
Texas

that agencies are expected to produce, not just their activities. Performance budgets make specific demands on state agencies. They provide administrators more discretion to spend lump-sum appropriations to meet the performance standards. A performance budget may even offer rewards for success and penalties for failure.

NOT AN EASY TASK

It's not easy to reinvent government. "It feels like moving a battleship uphill on dry land," says Senator Rossin. For performance budgeting to work, legislators have to be willing to look at budgets in a different way. They have less control. They have to focus on agency activities and outcomes, not on categories of expenditure or, as Representative Henry Cuellar of Texas says, "whether or not they like an agency." It can be a difficult adjustment.



Representative
Jerry LeBlanc
Louisiana

It's difficult for agencies, as well, says Louisiana Representative Jerry LeBlanc who chairs the House Appropriations Committee. "We force agencies to ask: Why does this program exist? Who are we trying to

serve?" Legislators have to be involved in setting these performance standards.

"We had 12 agencies start with performance budgeting four years ago," says Representative Rick Berg of North Dakota. "They set priorities and measures. But the process is at a standstill because agencies, not legislators, set the measures, and legislators don't have confidence in them."



Representative
Rick Berg
North Dakota

In Texas, Representative Cuellar says, "If agencies say: 'These measures are crude,' we demand they set better ones." As all this implies, legislators' sustained interaction with agencies on the design of performance measures is key to performance budgeting.

Adopting performance budgeting can be a gigantic task. But as LeBlanc says, "There are elements and elements. You don't need everything. Choose what works for you. Figure out what's broken, and fix it."

ASKING HARD QUESTIONS

LeBlanc became a convert to performance budgeting to solve a problem. "Legislators would get together every year," he says, "to try to hammer out a consensus on policy priorities on behalf of their constituents, and then hand over money to state agencies to carry out the priorities the Legislature had set. The bureaucrats would go to work and set their own priorities, and what came out of the process was not what legislators expected."

The solution he saw was to require agencies to create strategic plans, and to ask themselves: Why does this agency exist? Who are we trying to serve and how? And simultaneously, the Legislature had to tie performance indicators to every appropriation and require agencies to provide data to gauge how well they complied. "This is common sense," says Representative LeBlanc. "It lets legislators set priorities. Agencies know what's expected. You can measure whether outcomes are real."

North Dakota's Representative Berg also shares this view of the uses of performance budgeting. Berg was a member of the legislature's 1997 Interim Budget Committee on Government Finance, which reviewed

the state's performance budgeting process. "The legislative budget ought to be the bridge between public priorities and agency actions," he says. "We give agencies direction. But the problem is, we don't give overall direction. The burden is on us to say to agencies, these are the priorities, and then work with them to set performance measures."

While LeBlanc and Berg focus on communicating policy to and working with agencies to ensure that state government carries out the policies the voters want, Representative Cuellar of Texas emphasizes a slightly different role for performance reporting—the quality of information that goes into the legislative policymaking process. "The information we get is important in setting policies," he says. "We can act on the strengths and deficiencies we spot in state agency outcomes."

Representative Phyllis Kahn of Minnesota agrees that the information performance budgets can produce should have a direct effect on legislative policymaking. "It should help legislators ask better questions," she says. "The questions get away from asking why did you buy this to thinking about agency performance. Did we get better tax compliance? Better environmental compliance? Did the river get any cleaner?"



Representative
Phyllis Kahn
Minnesota



Lawmakers identify three big issues in making performance budgeting work:

- ◆ Involvement by legislators
- ◆ The choice of performance indicators.
- ◆ Incentives and disincentives.

Without legislative involvement in setting performance objectives, for example, lawmakers are likely to find the objectives irrelevant to their concerns. It takes a will to get it done, says Senator Rossin—which is a lot more than wishing it was done. It takes intimate involvement in a whole department—hard, demanding, unpublicized work. Rossin is concerned whether legislatures are structurally able to maintain the necessary commitment. The commitment it requires is a lot to ask from legislators, what with increasing rates of turnover, the arrival of term limits and the demands of other responsibilities. "But it's not a partisan issue," Rossin points out. "In Florida the legislation was passed when the Legislature was Democratic. Republicans favor it. Everybody wants this information."

How do you build legislative involvement?

Some legislators point out that their colleagues will be drawn into the process as it proves itself. "It's an iterative process, both to build the performance reporting process and to convince legislators of its value," says Kahn, who chairs the Minnesota House Committee on Governmental Operations. She thinks that as the process demonstrates it can provide a better legislative and agency focus on performance, trust will grow, and that will in turn improve the procedure.

"It's an educational process," says Representative Cuellar who serves on the House Appropriations Committee and is working on a Ph.D. dissertation on how performance budgeting has worked in Texas. "You start over every session. We have meetings at the beginning of the session that policy committee members are invited to. Last session we had policy committee chairs and vice chairs sit in with the corresponding fiscal subcommittees when agency budgets were being reviewed. We're planning to do a video on how it works."

There are institutional changes that can encourage legislators to take note of and participate in the performance budgeting process. Governors in a number of states have submitted their proposed budgets in a program (or performance budget) format, one of the most work-intensive recent examples being the budget submitted to the North Carolina General Assembly in 1997 for the 1997-1999 biennium. The governor proposed a program budget presenting mission statements, primary goals, program and subprogram statements, and measurable performance objectives for each agency in addition to a full budget in the traditional line-item format (which legislators preferred). In Texas the past three biennial budgets from the Legislative Budget Board have included detailed performance expectations and reporting for all state agencies. Florida is phasing in a similar process.

GETTING EVERYONE INVOLVED

Some legislatures have developed stronger institutional means to encourage more legislators to get involved in program budgeting. Utah's long-term Utah Tomorrow Strategic Planning Committee is a joint legislative-executive body with participation from local governments and state agencies. Its purpose has been to develop a state strategic plan and to work from that level down to performance measures for state agencies. Its next step will be to divide the committee's report into sections to be reviewed by the appropriate standing committees. All lawmakers will have the opportunity through their com-

mittees to comment on agency mission statements and performance measures early this session. Representative Afton Bradshaw, co-chair of the strategic planning committee, says, "We hope to make the Legislature more concerned with strategic planning. We want the Legislature to be anticipatory rather than reactive."

The Louisiana House has made other institutional changes to facilitate legislators' involvement in performance budgeting. "We opened up the appropriations committee process," says Representative LeBlanc, the committee's chair. "I did away with the chairman's control of budget amendments—every committee member can get amendments heard. So they can directly express their concerns about agency performance. Plus we opened the budget bill to amendment on the House floor to do the same thing. This has built trust in the process. We also built links between policy committees and Appropriations. We let policy committee chairs and vice chairs vote in the pre-session budget subcommittees. And we'll have fiscal staff present at policy committee sessions from 1998 on." The Louisiana Legislature also has required the governor's budget submission to be 45 days (instead of 30 days) before session and allows full hearings to begin when the budget is received rather than when the legislative session formally begins.

PESKY MEASUREMENTS

The toughest part of performance budgeting is setting agency performance indicators. They have to correspond to what's important in the agency mission; they have to be measurable; and they have to propose outcomes (success in meeting policy goals), not outputs (how many hours the agency staff worked). The Florida Legislature's Office of Program Policy Analysis made the point succinctly in its review of executive efforts: "Agencies have struggled to develop adequate measurement systems. Many agencies generally lack historical data and measurement expertise to assess program outcomes and instead maintain data on outputs."

Florida Senator Rossin puts it even more strongly: "Measures and measurement ability don't exist. Ability to do measurements is rare. And without good measurement, you're always open to the argument that there's something wrong with the measurement technique. It's especially difficult in the social services area."

LeBlanc says, "We force the agencies to ask, 'Why does this program exist?' We force them to see the importance of the data. We look at the indicators as well as the results, and we say, 'Are these reliable? Are they the right choices?'"

State agencies' responses to these questions are critical. When governors support performance budgeting, agencies tend to follow. But there can be unexpected reactions. In Florida, agency response to the state law calling for establishment of performance indicators has varied, Senator Rossin reports, depending on the agency's traditional reputation among legislators. Well-funded and highly regarded agencies have been reluctant to adopt performance standards on the if-it-ain't-broke principle.

In Minnesota, state agency personnel saw a threat in the requirement for performance reporting—staff feared that if their particular jobs weren't mentioned in the performance reporting standards, they'd be dispensable. So performance measures came in great detail and accounted for individuals' activities, not program outputs.

"There was too much detail for legislators to absorb," says Bill Marx of the House Ways and Means Committee staff. "It was a roadblock to

getting to outcomes. And there was no way to link the information to the budget." State Department of Finance staff have been directed to work with legislative fiscal staff to improve performance measures.

Another difficult area has been putting the idea of agency rewards and penalties into practice. The underlying notion is simple and promising: rewards (called "incentives") to encourage agency personnel to meet or exceed their performance goals, and penalties (called "disincentives") for those who fail to. The idea is to bring market forces to bear on public bureaucracies in order to encourage creativity, responsiveness and less rote behavior. Workable incentives and penalties are hard to design. The business world has more flexibility in compensation and structural issues than the government, where it may not be feasible to increase an official's salary for good performance or to close down a division where work is not up to snuff. In state government, as a recent Florida report summarizes, "understanding how to apply incentives and disincentives to change performance in desired ways has been difficult."

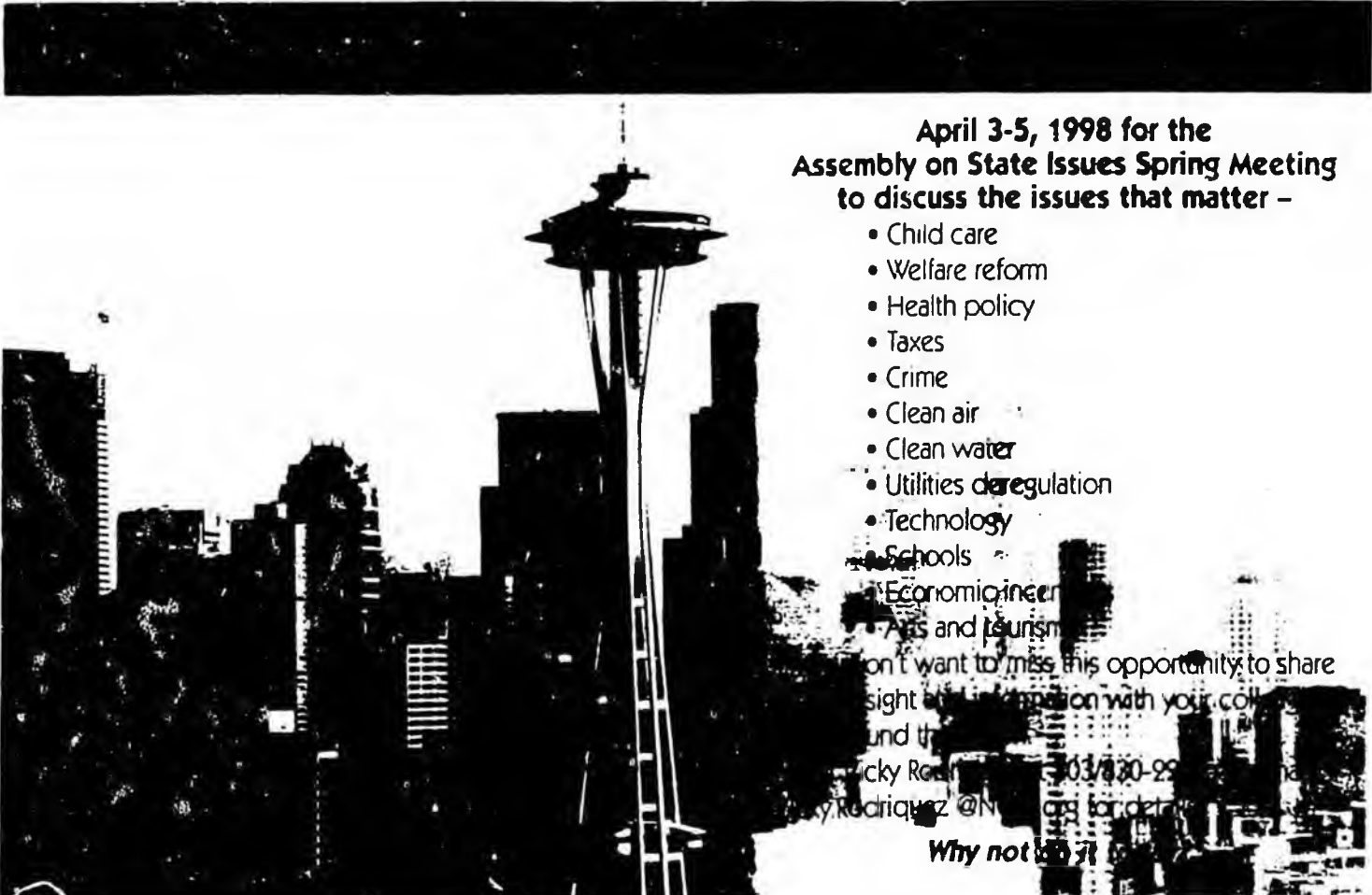
What legislatures have come up with is not that far from traditional practice. In Louisiana, the Legislative Fiscal Office has the job of reporting quarterly on agency performance to the Joint Legislative Committee on the Budget. The joint committee can reward or "scrutinize" the agency as its performance indicates is merited. Success in meeting performance standards can mean greater agency flexibility. Inability to meet standards can bring more legislative oversight, and if it's bad enough, can mean greater scrutiny in the following session's appropriations process.

In Texas, successful performance may mean that an agency keeps

funds left at the end of the fiscal year or may mean more funding in the future. Failure to meet goals, as in Louisiana, may mean more restrictions on the agency. Florida's potential incentives are greater agency flexibility in budget and personnel management and retention of up to 50 percent of unencumbered balances; disincentives, including greater oversight, more restrictions and reduction of managerial salaries are the other side of the coin.

Although these structures are not much different from traditional mechanisms of legislative oversight, they may be sufficient. As Louisiana Representative LeBlanc points out, state agencies value autonomy; the greatest penalty for them is more legislative control. A structure of penalties and rewards may be superfluous, since in states where performance budgeting is coming into being, legislators see advantages already. "This clears communication links," he says. "It's very positive for the Legislature and for agencies. They know what's expected."

So what's the outlook for performance-based budgeting? Several legislatures' experiences show that it can bring legislators much improved information to strengthen the policymaking process, but at the cost of a lot of commitment and hard work. It requires strong, consistent backing over a long time from legislators and governors. It shouldn't be a system copied from a book, but needs to be adapted to the specific conditions and problems of a given state. It requires legislators and agency personnel to think about their budget responsibilities in new ways. But, with those commitments, this is a budget reform that promises to carry state governments into a new century.



**April 3-5, 1998 for the
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to discuss the issues that matter -**

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Why not do it?

Seventy-fifth Legislature, Regular Session

**Text of Conference Committee Report
House Bill No. 1
(General Appropriations Act)
as modified by House Bill 4, Senate Bill 1898, and House Bill 2272**

and

Governor's Veto Proclamation



**STATE OF TEXAS
1997**

Editor's Note: Notations are provided beside certain items to indicate vetoes or other modifications incorporated into House Bill No. 1, Seventy-fifth Legislature, Regular Session.

ARTICLE VI

NATURAL RESOURCES

Section 1. The several sums of money herein specified, or so much thereby as may be necessary, are appropriated out of any funds in the State Treasury not otherwise appropriated, or out of special funds as indicated, for the support, maintenance, or improvement of the designated natural resources agencies.

DEPARTMENT OF AGRICULTURE

	For the Years Ending	
	August 31, 1998	August 31, 1999
A. Goal: MARKETS & PUBLIC HEALTH		
To enable Texas farmers, ranchers and agribusinesses to expand profitable markets for their agricultural products while protecting public health and our state's natural resources.		
Outcomes:		
Percent Increase from the 1996 Level in the Number of Marketing Opportunities for Texas Farmers, Ranchers and Agribusinesses	15%	22%
Percent Reduction from the 1994 Level in the Number of Pesticide-Related Violations	7%	7%
A.1.1. Strategy: GENERATE MARKETS	\$ 6,775,971	\$ 6,775,971
Generate marketing opportunities for Texas farmers, ranchers and agribusinesses.		
Outputs:		
Number of Companies Enrolled in TDA Marketing Program	1,310	1,310
Number of Acres Inspected	190,000	190,000
A.1.2. Strategy: REGULATE PESTICIDE USE	\$ 4,956,604	\$ 4,956,604
Regulate pesticide use through registration, certification, education and enforcement.		
Outputs:		
Number of Licenses and Certificates Issued to Pesticide Applicators	14,350	14,350
Number of Pesticide Complaint Investigations Conducted	250	250
Efficiencies:		
Average Cost per Pesticide Applicator Licensed	41.1	38.8
A.1.3. Strategy: INTEGRATED PEST MANAGEMENT	\$ 2,012,281	\$ 2,012,281
Assist farmers with integrated pest management practices to reduce pesticide use.		
Outputs:		
Hours Spent Informing Producers and Surveying Cotton for Compliance with Cotton Stalk Destruction Deadlines	14,000	14,000
Number of Inspections to Verify Compliance for Organic or Other Crop Production Certification Programs	839	864
A.1.4. Strategy: CERTIFY PRODUCE	\$ 289,467	\$ 289,467
Certify fruits, vegetables and peanuts to enhance their marketability.		

DEPARTMENT OF AGRICULTURE
(Continued)

Outputs:		
Number of Pounds of Fruits, Vegetables, Peanuts and Nuts Inspected (in billions)	2.3	2.3
Total, Goal A: MARKETS & PUBLIC HEALTH	\$ <u>14,034,323</u>	\$ <u>14,034,323</u>
B. Goal: ENFORCE STANDARDS		
To protect consumers by establishing and enforcing standards for agricultural commodities		
Outcomes:		
Percent of Seed Samples Found to be in Full Compliance With State and Federal Standards	97%	98%
B.1.1. Strategy: NURSERY/FLOREAL REGULATION	\$ 1,971,466	\$ 1,971,466
Inspect and register nursery and floral production and retail outlets.		
Outputs:		
Number of Nursery and Floral Establishment Inspections Conducted	10,000	10,000
Number of Stop Sales and Notices of Noncompliance Issued	350	350
B.1.2. Strategy: VERIFY SEED QUALITY	\$ 1,751,216	\$ 1,751,216
Verify that farmers, ranchers and home gardeners receive the quality and type of seeds desired.		
Outputs:		
Number of Seed Samples Analyzed	23,000	23,000
Number of Enforcement Actions Taken	150	125
B.1.3. Strategy: VERIFY EGG QUALITY	\$ 426,177	\$ 426,175
Inspect chicken egg producer, dealer-wholesaler and retail establishments to verify and enforce compliance with state and federal standards for quality. License egg packers, wholesalers, and distributors.		
Outputs:		
Number of Egg Producer, Dealer, Wholesaler, and Retailer Samples Taken or Inspections Conducted	15,000	15,000
B.1.4. Strategy: COMMODITY WAREHOUSES	\$ 657,519	\$ 657,519
Verify that commodity warehouses are capable of properly storing and handling commodities. Assist producers and sellers of Texas grown citrus and vegetables recover monies owed to them.		
Outputs:		
Number of Agricultural Commodity Warehouse Inspections, Re-Inspections and Audits Conducted	700	700
Number of Licenses, Permits and Registrations Issued to Agricultural Commodity Warehouses	500	500
Efficiencies:		
Average Cost per Inspection/Reinspection of Agricultural Commodity Warehouses	426	426
Total, Goal B: ENFORCE STANDARDS	\$ <u>4,806,378</u>	\$ <u>4,806,376</u>
C. Goal: ENSURE PROPER MEASUREMENT		
To increase the likelihood that goods offered for sale to Texas consumers are properly measured, priced and marketed.		

DEPARTMENT OF AGRICULTURE
(Continued)

Outcomes:		
Percent of Total Weights and Measures Inspections Conducted Resulting in Finding of Full Compliance with State and Federal Standards	98%	98%
C.1.1 Strategy: INSPECT MEASURING SERVICES	\$ 2,652,485	\$ 2,652,485
Inspect weighing and measuring device, remove inaccurately measured, priced or marketed goods from sale.		
Outputs:		
Number of Weights and Measures Inspections Conducted	105,500	105,500
Number of Stop Sales and Notices of Noncompliance Issued	7,700	7,400
Grand Total, DEPARTMENT OF AGRICULTURE	\$ <u>21,493,186</u>	\$ <u>21,493,184</u>
Method of Financing:		
General Revenue Fund	\$ 19,853,548	\$ 19,853,546
Earned Federal Funds	184,147	184,147
General Revenue - Dedicated		
Young Farmer Loan Guarantee Account No. 5002	100,000	100,000
Federal Funds	818,094	818,094
Other Funds		
Farm and Ranch Finance Program Fund Account No. 575	112,221	112,221
Appropriated Receipts	174,399	174,399
Texas Agricultural Fund No. 683	240,777	240,777
Interagency Contracts	<u>10,000</u>	<u>10,000</u>
Subtotal, Other Funds	\$ <u>537,397</u>	\$ <u>537,397</u>
Total, Method of Financing	\$ <u>21,493,186</u>	\$ <u>21,493,184</u>
Number of Full-time Equivalent Positions (FTE)	502.5	502.5
Schedule of Exempt Positions		
Commissioner of Agriculture, Group 4	\$92,217	\$92,217
Deputy Commissioner	78,007	78,007
1. Capital Budget. Funds appropriated above may be expended for capital budget items as listed below. The amounts identified for each item may be adjusted or expended on other capital expenditures, subject to the aggregate dollar restrictions on capital budget expenditures provided in the General Provisions of this Act.		
	<u>1998</u>	<u>1999</u>
Out of the General Revenue Fund:		
a. Acquisition of Information Resource Technologies		
(1) Computer Equipment/Software	\$ 100,000	\$ 100,000

DEPARTMENT OF AGRICULTURE
(Continued)

b. Transportation Items		
(1) Fleet Vehicles	\$ 200,000	\$ 300,000
Total, Capital Budget	\$ 300,000	\$ 400,000

2. **Appropriation of Receipts: Yardage Fees.** Fifty percent of the total amount of yardage fee revenue collected by the Texas Department of Agriculture in each fiscal year pursuant to the Agriculture Code, Sec. 146.021, is hereby appropriated to the department for the biennium beginning September 1, 1997, for the purpose of paying livestock export facility lease and maintenance expenses. The remainder, fifty percent of the total yardage fee revenue collected in each fiscal year shall be transferred to the unobligated portion of the General Revenue Fund and is not subject to appropriation by this provision or by Article IX of this Act. Amounts appropriated pursuant to this provision are included above in Strategy Item A.1.1., General Markets, and are identified above in the method of finance as Appropriated Receipts in an estimated amount of \$97,552 for each fiscal year.

Any unexpended and unobligated balances remaining as of August 31, 1997 in the appropriation made by rider provision 2, House Bill 1, Seventy-fourth Legislature, Regular Session, on page VI-4, are hereby reappropriated for the biennium beginning September 1, 1997 for the identical purposes.

3. **Appropriation: Land Donations.** The Department of Agriculture is hereby authorized to lease, and/or accept the donation of land or the use of land from either governmental agencies, private firms, corporations, or individuals to be used in connection with the performance of its various responsibilities and programs.
4. **Appropriation: Publication Fees.** The department is hereby appropriated any subscription fees, royalties, advertising revenues, or charges collected for publications, services or products produced by the department, subject to any restrictions on publications fee appropriations contained elsewhere in this Act.
5. **Fee Increase Authority and Limitation.** For the purpose of implementing the intent of the Legislature, that the department collect fee amounts which offset, when feasible, the direct and indirect costs of administering its regulatory activities, the department is hereby authorized to and shall increase the fees by a percentage sufficient to offset costs associated with its regulatory activities. It is the intent of the Legislature that the cost offset percentage shall be 100 percent. The following activities are exempt from this requirement: Seed Testing, Quarantine Enforcement/Education; Piece Rate Crop Survey; Pest Management Program; Agriculture Hazard Communication Act; Boll Weevil Control Act; Predatory Management Program.
6. **Pay for Regular Compensatory Time: Livestock Export Pen Operations.** It is expressly provided that the Department of Agriculture, to the extent permitted by law, may pay FLSA nonexempt employees in classified positions who are stationed at Department of Agriculture livestock export pens for compensatory time hours on a straight-time basis when the taking of compensatory time off would be disruptive to normal working activities and other critical functions relating to livestock export pen operations.
7. **Transfer Authority.** Notwithstanding limitations on appropriation transfers contained in the General Provisions of this Act, the Department of Agriculture is hereby authorized to direct agency resources, and transfer such amounts appropriated above between strategy line items.
8. **Appropriation: Young Farmer Loan Guarantee Program.** Out of the Young Farmer Loan Guarantee Fund, the Texas Agriculture Finance Authority is hereby appropriated for the biennium beginning September 1, 1997, all necessary amounts required to cover any defaults on loans provided under Chapter 253, Texas Agriculture Code.

DEPARTMENT OF AGRICULTURE
(Continued)

9. **Appropriation: Fair Park Structure Restoration.** The Texas Department of Agriculture is hereby appropriated \$1,974,600 from the General Revenue Fund for the biennium beginning September 1, 1997 to be used solely for restoration of historically significant structures within the National Historic District at Fair Park.
10. **Appropriation: Earned Federal Funds.** The Department of Agriculture is hereby appropriated all earned federal funds received during the biennium beginning with the effective date of this Act that are in addition to those earned federal funds specified in the method of financing above.
11. **Unexpended Balances.** Any unexpended balances as of August 31, 1998 in the appropriations made herein to the Department of Agriculture are hereby reappropriated for the same purpose for the fiscal year beginning September 1, 1998.
12. **Appropriation: Texas-Israel Exchange Program.** Any unexpended balances remaining as of August 31, 1997 in appropriations made to the Department of Agriculture, are hereby reappropriated to the department for fiscal year 1998 to fund the Texas-Israel Exchange program in an amount not to exceed \$250,000.
13. **Contingency Appropriation for Senate Bill 665.** Contingent upon the enactment of Senate Bill 665 or similar legislation relating to regulation of motor fuels containing ethanol or methanol by the Seventy-fifth Legislature, Regular Session, the Department of Agriculture is hereby appropriated \$412,733 for fiscal year 1998 and \$355,137 for fiscal year 1999 out of additional revenues collected pursuant to Senate Bill 665 for the purpose of implementing that Act. The department is authorized to transfer the appropriation made pursuant to this provision to the appropriate strategy items listed above.
14. **Contingency Appropriation for Senate Bill 1355.** Contingent upon the enactment of Senate Bill 1355 or similar legislation relating to regulation of retail stores by the Seventy-fifth Legislature, Regular Session, the Department of Agriculture is hereby appropriated \$418,333 for fiscal year 1998 and \$227,561 for fiscal year 1999 out of additional revenues collected pursuant to Senate Bill 1355 for the purpose of implementing that Act. The department is authorized to transfer the appropriation made pursuant to this provision to the appropriate strategy items listed above.
15. **Contingency Appropriation Reduction for Senate Bill 1124.** Contingent upon the enactment of Senate Bill 1124 or similar legislation relating to the regulation of aquaculture by the Seventy-fifth Legislature, Regular Session, appropriations out of the General Revenue Fund to the Department of Agriculture in Strategy item A.1.1., General Markets, are hereby reduced \$6,500 for fiscal year 1998 and \$6,500 for fiscal year 1999.

1 See Veto Proclamation



House Finance Committee

DATE April 2, 98

PLACE: Cap 519

SUBJECT OF MEETING:
HB 364
HB 400
SB 76

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
<u>Ken Taylor</u>	<u>ADF&G</u>					<input checked="" type="radio"/> Y <input type="radio"/> N	<u>HB 364</u>
<u>① Jim Baldwin</u>	<u>Dept of Law</u>					<input checked="" type="radio"/> Y <input type="radio"/> N	<u>SB 76</u>
<u>② Jack Fagnoli</u>	<u>Gov. OMB</u>					<input checked="" type="radio"/> Y <input type="radio"/> N	<u>SB 76</u>
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
<u>HB364</u>	<u>Ted K Rieg</u>	<u>DLG</u>				<input type="radio"/> Y <input type="radio"/> N	
<u>HB364</u>	<u>① Virgil Umphenour</u>	<u>FBX</u>				<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	

**TELECONFERENCE
HOUSE FINANCE**

APRIL 2

HB 364: GUIDES FOR NONRESIDENT MOOSE HUNTERS

OFFNETS

②	COL. JOHN GLASS	ANCHORAGE	DIV OF WILDLIFE 269-5584
③	HERMAN MORGAN	ANIAK	CITY MANAGER 675-4481
	GILBERT HUNTINGTON	GALENA	656-1435