

Department of Planning and Budget 2004 Fiscal Impact Statement

1. Bill Number HB973

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron Reese

3. Committee General Laws/ Appropriations

4. Title Budget Reform and State Inspector General Act of 2004; created.

5. Summary/Purpose:

Provides for the Budget Bill to set forth each agency's mission, goals and objectives, objective performance measures and descriptions of (i) how the goals and objectives are directly related to furthering the agency's mission, and (ii) how the agency is operating to achieve its mission, goals and objectives. The bill also requires the Budget Bill to include certain information regarding the budget requests of state agencies and nonstate entities.

In addition, the bill establishes the Office of the State Inspector General to examine the management and operation of state agencies and nonstate agencies that receive state funds, conduct independent evaluations of the programs and activities of such agencies, and investigate complaints alleging fraud, waste, abuse, or corruption by state officers and state employees. A record exemption from the Freedom of Information Act is also provided for investigative notes, correspondence, and information furnished in confidence to the State Inspector General during the investigation of a complaint.

Under the bill, the provisions relating to budget reform shall apply to all biennial budgets beginning on and after July 1, 2006, while those provisions establishing the Office of the State Inspector General become effective July 1, 2005.

6. Fiscal Impact Estimates are tentative. See Number 8 below.

7. Budget amendment necessary: Yes

8. Fiscal implications: Exact quantification of the fiscal impact of this bill is not possible, but the cost could be significant. The fiscal implications of this bill are two-fold:

Office of the State Inspector General. The total cost of a new agency to perform the independent program evaluations and investigations required by this bill could be in the range of \$450,000 to \$500,000 annually, assuming an initial staffing level of seven (an Inspector General, five analysts, and one clerical support staff). Additional staff maybe necessary to conduct the research, analysis, and investigations required by this bill.

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2003-04	0	0	0
2004-05	0	0	--
2005-06	\$465,266	7	GF
2006-07	\$483,378	7	GF

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2007-08	\$483,378	7	GF
2008-09	\$483,378	7	GF
2009-10	\$483,378	7	GF

Salary and fringe benefits. The bill calls for an Inspector General who would manage the office. Salary for the Inspector General could range from \$90,000 to \$150,000, given salaries for comparable agencies such as the Department of Planning and Budget (DPB), the Joint Legislative Audit and Review Commission (JLARC), and the Auditor of Public Accounts (APA). Assuming the lowest salary in that range, cost for the Inspector General would be \$104,004 in FY 2006 and \$113,273 in FY 2007, including fringe benefits.

In order to accomplish the research, auditing, review and investigative functions and required by this bill, it is estimated that a minimum of five to 10 analysts would be required. Salaries could range from \$45,000 to \$75,000, given salaries for analysts doing similar work in other agencies such as JLARC and DPB. Assuming the lowest salary in that range and the fewest number of analysts (five), the cost for professional staff would be \$272,585 in FY 2006 and \$297,370 in FY 2007, including fringe benefits.

For purposes of this fiscal impact statement, it is also assumed that the new will hire a person to handle clerical work at a salary of \$25,000. The support staff person would cost \$32,522 in FY 2006 and \$35,480 in FY 2007.

Total staff costs would be \$409,111 in FY 2006 and \$446,123 in FY 2007.

(These salary and fringe benefit figures are based on FY 2005 and FY 2006 benefits rates, and assume 22 pay periods in FY 2006 and 24 pay periods in FY 2007, the state average health insurance premium, and participation in the deferred comp program)

Nonpersonal services costs. About \$56,155 would be needed in the first year for nonpersonal services costs (including purchase of office furniture and supplies; leasing of computers, printers, a copier, and other office equipment; and purchase and installation of telephones, etc.) Thereafter, at least \$37,255 annually would be required for supplies, lease for the equipment, and printing costs for the required annual report. Rental of office space is estimated at \$20,000 annually for seven offices, a small storage room, and a small meeting room.

New requirements for the Budget Bill. While some of the requirements of the bill for additional information in the Budget Bill may be accomplished without cost impact, others would require significant time and cost to implement. The estimate below includes development costs for a new state budget system and additional staffing for the Department of Planning and Budget (DPB):

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2003-04		0	0
2004-05	\$2,400,000 to \$5,400,000	5	--
2005-06	\$400,000	5	GF
2006-07	\$400,000	7	GF
2007-08	\$400,000	7	GF
2008-09	\$400,000	7	GF
2009-10	\$400,000	7	GF

Development costs are assumed to be in FY 2005, and staffing costs are ongoing

Revised budgetary systems. The state's budget is currently based on a structure involving programs and subprograms. This bill would require the development of a new taxonomy and

structure, as well as the revision of the state's automated budget system to accommodate the new structure. It is estimated that the new structure and system would take between two and four years to develop and implement, allowing for a period of duplicative systems to transition state agencies to the new system and to crosswalk the new structure to the old so that historical data is not lost. "Virginia Financial Systems: Report of Feasible Solutions," a report conducted in 1999 by Metro Information Systems under contract to the Secretary of Finance, conservatively estimated that revising the state's budget system could cost between \$250,000 and \$2.0 million. However, the current budget system cost more than \$5.0 million in the late 1970s, so costs could be significantly greater than the Metro Information Systems study estimated.

In order to execute a budget based on a new structure, it may also be necessary to overhaul the state's accounting system (CARS). If the intended changes are substantial enough to require structural changes to CARS or a new accounting system, the costs could be in the tens of millions.

Revision to the state's budget and accounting systems could also require individual agencies to change their internal procedures and overhaul the individual systems they use to feed the statewide systems. Costs for these changes are indeterminate but could be significant.

Other costs. The development of specific goals, objectives, and performance measures for each activity conducted by each state agency would also require considerable effort on the part of the Department of Planning and Budget (DPB) and the individual agencies, and some costs could be associated with this effort. Each Executive Branch state agency currently has a mission statement and performance measures that are tracked by DPB and made public on the *Virginia Results* website. However, the performance measures are agency-wide, not at the activity level, and no performance measures are currently tracked for agencies in the Legislative and Judicial Branches. Currently underway is the development of a process to implement the requirements of Chapter 900, 2003 Acts of the Assembly (HB 2097), which requires additional strategic planning and performance measurement efforts by state agencies.

The required display of additional performance measure and budgetary data in the Budget Bill would increase the size of the publication and, therefore, the printing costs.

In addition, it is anticipated that DPB would need to enhance its budget staffing to adequately address the requirements of this legislation. One additional analyst per budget section would be needed to handle the increased workload. Costs for these five analysts are estimated at \$400,000 annually. (This estimate is based on similar assumptions to those used for calculation of staff costs for the new Office of Inspector General.)

9. Specific agency or political subdivisions affected: Department of Planning and Budget, Department of Accounts, all state agencies

10. Technical amendment necessary: No

11. Other comments: No

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cc: Secretary of Finance