

## Department of Planning and Budget 2006 Fiscal Impact Statement

**1. Bill Number** HB 16

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron** Lingamfelter

**3. Committee** General Laws

**4. Title** Performance Review of State Agencies

**5. Summary/Purpose:** Directs the Governor to initiate, within 120 days of taking office, an operational and programmatic review of all executive branch state agencies, except public institutions of higher education, with total agency appropriations of two percent or more of the total state-appropriated funds. The review shall be conducted by a private management consulting firm. The review shall explicitly include analysis of the following:

- 1) Statewide information technology
- 2) Performance-based budgeting and revenue maximization
- 3) Personnel Management
- 4) Acquisition and procurement
- 5) Health and Human Services
- 6) Public Safety
- 7) Resource and environmental protection
- 8) Economic Development and business assistance
- 9) Agency Reorganization and consolidation
- 10) The activities of agencies and programs that are not meeting their specific goals and objectives in a cost-effective manner.

In the course of this review, the results of any prior studies, audits, or reviews by the General Assembly, the Joint Legislative Audit and Review Commission, the Auditor of Public Accounts, Governor-appointed commissions or task forces, and any other independent studies that address the structure and operation of state government shall be considered. Additionally, similar audits conducted in other states should be used to determine how efficient Virginia operations compare, as well as how agencies and state functions are achieving their intended goals as stated in their mission statements, strategic plans, or performance goals and objectives.

Finally, the Governor shall ensure the review is completed and reported to the General Assembly and Council on Virginia's Future within 18 months of the completion of the review.

**6. Fiscal Impact:** A private firm would be hired by the Governor to conduct reviews on all agencies that have a two percent or higher share of the Commonwealth's yearly appropriation.

### *Potential Agencies Impacted*

Using the introduced budget (HB/SB30), only eight agencies would be reviewed according to the requirements of the bill. Of these, two provide direct financial aid to localities, five are line agencies, and one is a central appropriations account:

<u>Agency Name</u>	<u>FY2008 Budget</u>	<u>Percentage of Total</u>
Compensation Board	\$597,533,085	2%
Virginia Employment Commission	\$624,804,768	2%
Department Of Corrections	\$1,008,993,023	3%
Central Appropriations	\$1,226,055,245	3%
Department of Social Services	\$1,789,524,927	5%
Department of Transportation	\$3,736,595,599	11%
Department Of Medical Assistance Services	\$5,626,917,736	16%
Direct Aid to Public Education	\$6,736,854,219	19%
<b>Total</b>	<b>\$21,347,278,602</b>	<b>60.64%</b>
<b>Total Statewide Budget</b>	<b>\$35,127,454,642</b>	

Given that private consultant rates are often either unpublished, or limited in publication due to contract agreements, it is difficult to determine an exact cost for the management reviews prescribed by this bill. Additionally, the specialty nature of the reviews may affect rates – information technology and government reviews may demand a higher rate than the more typical financial audit. The rates below are estimated what private firms may charge:

### **Potential Hourly Rates**

<u>Position</u>	<u>Rate</u>
Partner	\$187
Project Director	\$170
Consultants	\$150
Analysts	\$130
Clerical	\$111

Even if rates were available, it would be difficult to determine the amount of time and expense needed to conduct the review. For example, a geographically large agency like the Department of Transportation with central office functions as well as district and local operations would certainly require significant time and expense outside of the normal review and audit function. However, assuming that each of the eight agencies mentioned above have teams of 26

consultants with varying degrees of participation, it is assume it will take nine months to complete the review:

### **Estimated Management Review Costs**

<b><u>Position</u></b>	<b><u>Number</u></b>	<b><u>Estimated Amount</u></b>
Partner*	2	\$233,220
Project Director	1	\$264,615
Consultants	10	\$2,332,200
Analysts	10	\$2,033,200
Clerical	3	\$520,260

*Estimated Total Per Agency* **\$5,383,495**

*Estimated Total For 8  
Agencies* **\$43,067,960**

\*two partners working 40% of nine months

**7. Budget amendment necessary:** If this bill applies to the Governor taking office in January 2006, an amendment to the 2006-2008 biennial budget is necessary to support the operations of the bill. Since the bill does not have an emergency clause, the assumption is that the bill would apply to the Governor elected in 2009, not impacting funding until the 2010-2012 biennium. Given this, the cost estimates shown above would likely require significant upward revision.

**8. Fiscal implications:** There are potential significant fiscal implications if this bill were to pass. First, it would result in the duplication of existing initiatives for re-structuring at the effected state agencies listed above. These include ongoing efforts at Transportation, Social Services, and Medical Assistance Services. Also, it may affect larger statewide efforts for re-engineering. These include the two information technology initiatives of the past year, as well the efforts of all state agencies with the Council on Virginia's Future challenging the way they conduct activities.

Thirdly, the prescribed methodology of bill for choosing agencies ignores the fact smaller agencies within a secretariat, or with similar missions may have efficiencies that may be realized if studied together. Also, the bill is silent to the fact there are agencies like Social Services and Direct Aid to Public Education that provide central office support, but where most expense is made at the local level.

**9. Specific agency or political subdivisions affected:** All state agencies

**10. Technical amendment necessary:** No

**11. Other comments:** The Auditor of Public Accounts, Joint Legislative Audit and Review Commission, and Department of Planning and Budget conduct reviews of this nature.

**Date:** 01/24/06 jih

**Document:** g:\General Assembly\06FIS\HB16\HB16.doc jih

cc: Secretary of Finance

Secretary of Administration