



Ohio Legislative Service Commission

Jason Phillips

Fiscal Note & Local Impact Statement

Bill: [H.B. 81 of the 129th G.A.](#)

Date: February 18, 2011

Status: As Introduced

Sponsor: Reps. Snitchler and Rosenberger

Local Impact Statement Procedure Required: No

Contents: Requires performance budgeting by most state agencies

State Fiscal Highlights

- The bill requires the state to implement a performance-based budgeting regimen for most state agencies. These changes would be phased in, beginning with certain agency budget requests prepared for the FY 2014-FY 2015 biennium.
- A new method of budget development could require significant modifications to the existing statewide budget and planning process overseen by the Office of Budget and Management (OBM), particularly the Budget and Planning Module component of the Ohio Administrative Knowledge System. OBM's statewide budget and planning functions are supported by the GRF and fees charged to state agencies that are deposited into the Accounting and Budgeting Fund (Fund 1050).

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

The bill requires each state agency, except those of statewide elected officials and agencies of the legislative and judicial branches, to include program performance data in their biennial budget requests. The bill requires that state agencies use indicators of output, efficiency, outcomes, and historical data that identify major trends affecting agency operations in developing their budget requests. The bill staggers the implementation of these requirements over three biennia, beginning with budget requests submitted by the Department of Education and the Department of Job and Family Services and other agencies selected by the Director of Office of Budget and Management (OBM) for the FY 2014-FY 2015 biennium. The remaining agencies would be required to develop their budget requests based on the specified performance criteria over the FY 2016-FY 2017 and FY 2018-FY 2019 biennia.

Overall, the costs and the potential savings related to the performance budgeting process established by the bill are difficult to quantify. Nevertheless, the bill will significantly alter the statewide budget planning and development operations overseen by OBM, as well as the budgeting process and program oversight functions among other state agencies. Although LSC cannot be definitive about the costs or savings attributable to the bill, for comparative purposes the second part of this analysis discusses the performance budgeting system recently instituted in the Commonwealth of Virginia.

State fiscal effects

Changes to the state's budget and planning process

The performance budgeting requirements in the bill will require significant modifications to existing budget and planning routines. OBM and other state agencies will need to develop, update, and evaluate useful strategic plans and performance measures on a program-by-program basis. A significant aspect will be the training necessary for OBM employees and budget staff within other agencies to adapt to new budget processes. Overall, OBM spent approximately \$2.4 million on state agency budget services in FY 2010. In FY 2011, funding for these purposes is \$2.8 million. This funding is provided by the GRF and a portion of the accounting and budgeting services payroll check-off, a fee that OBM charges state agencies based on a percentage of gross pay per employee.¹

¹ The specific line items funding the budget development and implementation program are GRF line item 042321, Budget Development and Implementation, and GSF Fund 1050 line item 042603, State Accounting and Budgeting. Note that both of these line items fund other programs.

Performance-based budgeting is not an entirely new concept to Ohio's budgeting and reporting process. Current OBM guidelines require agencies to answer certain performance-related questions about program activities and operating efficiency in their budget requests, including data about the services and activities supported by a program, service benchmarks, how the effectiveness and efficiency of a program is gauged, and cost-savings measures and operational efficiencies that have been implemented to contain or reduce costs. Over the years there have also been various pilot programs and initiatives incorporating aspects of performance budgeting, the most recent example being the Ohio Government Accountability Plan during the Strickland administration, under which most cabinet agencies committed to agreements to meet certain performance goals.

Budgeting system updates

Under the current budgeting process, state agencies develop their budget proposals and OBM reviews them using the Budget and Planning Module (BPM) component of the Ohio Administrative Knowledge System (OAKS), the state's centralized accounting system. In order to transition to a performance-based budgeting approach, OBM would be required to make a considerable number of software changes to the BPM, which at present is not equipped to handle the needs of a performance-based budgeting system. One possible software solution to achieve the needed changes is Microsoft Office SharePoint, a software suite that includes online collaboration tools, as well as process and document management functions. The advantage of this approach is that the state already owns an enterprise license, allowing unlimited use of the program. If the transition to performance-based budgeting required more significant programming or systems modifications, there could be additional, potentially significant costs involved.

Case study – Virginia

We can turn to the experiences of other states that have recently made the transition to performance-based budgeting to anticipate what changes would need to be made to Ohio's budget process. One such state is the Commonwealth of Virginia, which began the conversion to a performance-based budgeting system in the mid-2000s. That state's experience with its transition to a new budget system is summarized below.

Initial steps

The Commonwealth of Virginia catalogued the services performed by state agencies over calendar years 2004 and 2005 and implemented a new budgeting structure in 2006. During this time, officials prepared strategic plans in a uniform format for each agency, including plans for individual programs. The strategic plans were ultimately linked to the state budget by tying those plans to service areas. A service area is an area of expenditure that supports one or more products or services and is a basic unit of budgeting and planning. The strategic plans also contained key

objectives and performance measures to focus on and improve performance management. State agencies received training and technical assistance on the new budgeting model throughout the implementation process.

In the initial years of development, Virginia allocated approximately \$300,000 per year for FY 2005 and FY 2006 for external and internal expertise related to performance-based budgeting. This included the cost of (1) developing a comprehensive performance-based planning approach, (2) providing training and technical assistance to agencies, (3) developing and implementing a service structure for the budget, (4) restructuring a web site for reporting operating results, and (5) developing user-friendly performance reports for the Governor and the cabinet.

Following these procedures, Virginia presented its FY 2007-FY 2008 budget in legislative form using a new format that identified resources by state agency and service area. The executive budget document explained budget recommendations by state agency and service area and identified performance measures for those service areas. State agencies began using a web-based system to report progress in meeting performance targets, submit revised strategic plans based on the final state budget, and enter historical and current data on the performance measures developed.

Current status

To implement a performance-based budgeting approach, the Commonwealth needed to replace strategic planning and budget development processes that used a number of different outdated systems that had limited integration capabilities. In July 2009, Virginia awarded a contract to develop and implement a new, fully-integrated budgeting system. Phase 1 of the project replaced the old system's handling operating and capital budget development. The new system became operational in September 2010. Phase 2 of the project, which is expected to be complete in April 2011, will permit agencies to develop their budget and spending plans in a more detailed, agency-specific way and will integrate agency strategic plans and performance measure tracking into the new budgeting system. The total cost for software and implementation services of the new system is estimated to be between \$7 million and \$9 million.

Further budget development and ongoing review

Under the current budget development process, the Virginia Department of Planning and Budget (VDPB), Virginia's equivalent to Ohio's Office of Budget and Management, provides guidance to agencies concerning statewide goals and issues for use in strategic planning efforts, including long-term statewide goals (including societal results), the Governor's stated objectives, and functional initiatives and issues. The Department subsequently meets and collaborates with agencies to discuss key objectives, major issues, funding, and current performance trends. This process includes (1) examination of the quality and appropriateness of agency objectives, performance measures, and performance targets, (2) the assessment of current

performance against agency and service area objectives and performance measures, (3) mapping of relationships between agency objectives and service area efforts to statewide goals and desired societal results, and (4) review of each agency's budget to assess flexibility in terms of mandated and discretionary spending. To further support performance-based budgeting, VDPB provides agencies with performance reviews on select programs and services, as well as best practice reviews concerning government operations.

Additional information regarding Virginia's performance-based budgeting can be found on VDPB's performance-based budget page at www.dpb.virginia.gov and on the Council on Virginia's Future web site at www.future.virginia.gov.

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