

REPORT ON ANALYSIS OF STATE PROGRAM PRIORITIES - STATUS

A Report Prepared for the

Legislative Finance Committee

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INTRODUCTION

In June 2003, the Legislative Finance Committee (LFC) approved a work plan item to provide program review and a means to evaluate program priorities (Appendix A). The following report provides an update on efforts by Legislative Fiscal Division (LFD) staff to provide the means for this review and prioritization. This project is currently ongoing, and the primary report on this topic is scheduled for presentation at the June 2004 LFC meeting.

PURPOSE OF PROJECT

The legislature is essentially the board of directors of the State of Montana. As such, it is the legislature's responsibility to determine what the purpose and scope of state government will be. In order to do this, the legislature must understand what state government currently does, and determine priorities. However, budgeting generally takes place at the "margin", with the implicit assumption that ongoing programs within the base should be continued. Consequently, the larger issues of ongoing public policy can be either overlooked or diminished. Therefore, the primary purpose of this project is to provide the legislature with the information it needs to:

- 1) Put the budget into a more comprehensive, public policy oriented context.
- 2) Prioritize a greater range of services based upon desired public policy.
- 3) Understand more fully how the legislature can influence and control more areas of the budget.
- 4) Make informed decisions within the context of this knowledge.

At the same time, this exercise provides staff with a greater opportunity to regularly provide issues and options related to the base that can be put into overall context (agency as well as statewide).

There are essentially three distinct audiences for this information, and the form and use of the analysis is designed to serve the distinct needs of all three:

- 1) New and non-fiscal legislators, who need information on a fairly macro level.
- 2) Fiscal-oriented legislators, who need specific, decision-based information that allows for broad, statewide priority setting.
- 3) Subcommittee members, who need specific, decision-based information in a more narrowly defined context.

MAJOR COMPONENTS

The report addresses these needs through three main components:

- 1) What government is.
- 2) How the legislature can influence and determine costs and functions.
- 3) Issues and options.

WHAT IS GOVERNMENT

If the legislature is to prioritize programs on statewide basis, it must understand the universe in which it is dealing. Therefore, the first question to be addressed is: What is government? Within the context of budgeting, this question is often answered in terms of changes made or contemplated in the five major areas of expenditures: 1) K-12 education; 2) higher education; 3) human services (defined as the Department of Public Health and Human Services); 4) corrections; and 5) all other. This categorization can be very instructive for the first audience for this information – new and non-fiscal members of the legislature. However, this type of categorization is less helpful when dealing with the practical realities of overall state priority setting on a fiscal committee/ HB 2 subcommittee level.

Our goal to address the question of what government is consists of two parts:

- 1) Of what functions is government composed; and
- 2) What is the purpose and role of government inherent in this composition?

Of What Functions is Government Composed

The first step to provide a systematic answer to this question is to compile a listing of functions. This compilation is primarily for internal staff issues and option development, reference, and answering of legislative questions. Consequently, it is not meant as an end in and of itself for three primary reasons:

- 1) The information is voluminous and could be unmanageable in most contexts.
- 2) There is a danger of “cherry-picking” programs without analysis of impacts and context.
- 3) The primary purpose is to provide a platform for policy setting options.

What is the Purpose and Role of Government Inherent in this Composition

Where the legislature chooses to expend funds obviously states the overall priorities of the government. Because simply listing all functions would result in the difficulties discussed above, the report will instead concentrate on major functions that appear to promote a common, generally agreed-upon overall purpose. However, as stated earlier, these priorities are most often stated in very macro terms, such as “education” and “human services”. In order to infuse more meaning for priority setting through more specificity, the goal is to present “categories” of expenditures that equate to the question of what government is. There are several ways to approach what and why government does what it does, including constitutional imperatives. As of this writing, the following general categories have been identified.

- Provision of justice and protection of life and property - Operation of the means of citizens to seek justice and remediation (all courts); operations to protect the citizenry from violent/fraudulent/etc. behavior and pursue justice against those who perpetrate such acts.
- Reduction of incidence and impact of poverty and disability - Services that enhance the productivity and productive capacity of economically disadvantaged or disabled (mentally or physically) citizens, and/or enhance their quality of life through provision of food, housing, medical services, etc.
- Enhancement and promotion of the public health - Services designed to improve the quality of life and health of either all citizens, or those pertaining to targeted behaviors or conditions. Reducing the costs to the state of the previous category is a corollary purpose.
- Provision of workforce support - All services provided that support a trained and productive workforce, including those specifically designed to protect health and economic status. Would not include services designed specifically for the economically or developmentally challenged.
- Development of full educational potential of state’s citizens – Services designed to enable citizenry to have the mental capacity to be productive, creative, innovative, and self-sufficient.
- Consumer/citizen protection - Services designed to protect the health and safety of citizens from sources related to activities and/or consumption of products.
- Economic/business development - Services directly related to improving business climate and/or creation of jobs, or designed to aid specific businesses or types of businesses.
- Protection/enhancement/remediation of natural resources - Services conducted to protect, or eliminate or alleviate past or current harmful impacts to the state’s natural resources; and/or restore productive capacity of those resources.
- Preservation/enhancement of recreational/cultural resources - Those services not related directly to the health and safety of citizens or the environment, but that enhance people’s experience of living in Montana.

- General operation of state government - Those functions designed specifically for the operation of state government in support of other governmental programs and/or activities.
- Governmental and physical infrastructure - Those operations that either provide for the state's physical infrastructure, such as roads, or without which government would not function, such as the legislature, the Governor, and revenue collection.

The purpose is to give a broad-brushed view to provide an understanding of the composition of the major types of activities in which state government is engaged and the relative sizes, sources of funding, and leading programs of each to aid in establishing policy priorities. As is no doubt obvious from the category listing, those programs with clear dual purposes, or that do not easily fit within any of the categories, will exist. Also, many functions, while having a primary purpose, will also have one or more clear secondary purposes. For example, while many functions of the Department of Environmental Quality specifically target protection of the environment, protection of citizens and economic development are also considerations in the provision of these functions. For this reason, any secondary functions are also being identified and noted, as appropriate. The form in which this information will be collected is still in production.

At this stage in the process, whether this categorization will be used either foundationally or extensively is not certain, as there are also challenges to this approach:

- Use in budgeting – If this approach is to have meaning, both now and over time, it must be applied to the budgeting process. However, certain realities of the budgeting process make application during budget development, analysis, and creation difficult. A partnership with the executive branch would be imperative to both build the budget using this methodology and appropriately categorize changes requested. This requirement would also be a part of legislative budget creation. At the same time, certain costs, such as statewide personal services changes, are funded at a much higher level and would have to be allocated.
- Value to the legislature and legislative process – Careful consideration of form, content, and use needs to be explored further to determine if the effort required at both establishment and maintenance of this type of approach is of high enough value to the legislature. If decision-making and understanding are improved, the value is higher than if the end result is simply a different categorization that is used more for informational purposes than as a tool in budget building.
- Maintenance over time - As stated above, this approach requires maintenance over time. Consequently, it requires an ongoing effort not only by legislative staff but also by executive and judicial staff. This requirement must be weighed against any projected benefits.
- Use of the information – In any project that involves a certain level of judgment, and particularly when the information is used to help establish priorities, disagreements can arise over the categories to which certain functions belong. Therefore, there is a danger that discussion would fall around category determination for certain functions, rather than what the information is generally saying about state priorities.

HOW CAN THE LEGISLATURE INFLUENCE AND DETERMINE COSTS AND FUNCTIONS?

In order to use the information contained in the inventory, the legislature must know how it can influence and control costs of and among those functions, and the impacts of changes on the provision of services. In addressing this question, the functions and interrelationships of government can be broken down into two questions:

- 1) What “drives” the cost of state government, either within individual functions, agencies, or categories? Drivers are essentially those points that result in a level of expenditure. For example, in the foster care system, costs are driven by the number of youth in the system, the level of care they require (family foster care, therapeutic group home, etc.), and the cost of that care. Therefore, the drivers represent what the legislature must change if they are to influence or change costs. For many functions, personal services represent the great majority of costs, and the main drivers are the number of FTE employees and the level of compensation.
 - What can the legislature do (or not do) if it wishes to change the number of youth in the foster care system, or the level of care those youth need? How can the legislature influence the number of FTE a given function “requires”?
- 2) What are the factors that influence those drivers? For each of these drivers, there are a number of factors that determine their level. Therefore, these are the factors that the legislature must examine and influence if it is to influence the drivers, and consequently the level of expenditure and/or service level.

Using the example of the foster care system, there are a number of factors that determine the number of youth in the system, including but not limited to:

- Underlying state legal definitions of what constitutes abuse and neglect
- Federal requirements and definitions
- Poverty levels
- Community standards

In identifying these factors, the questions that arise are:

- Can the legislature influence, either directly or indirectly, those factors?
- If so, how, and what will be the impact on services and/or state priorities?

ISSUES AND OPTIONS

The heart and purpose of the entire project is encapsulated in issues and options for consideration by the legislature. A listing of major functions of state government and factors that influence expenditures cannot stand on its own. Issue development is necessary to aid the legislature in understanding the macro and legislative policy factors at work, and how and whether they can be influenced, the mechanisms of influence, and other consequences.

In the above example, a listing of factors begins to identify the types of options the state does or does not have. As shown, factors may or may not be under the legislature’s direct or indirect influence or control. Therefore, the legislature must be able to identify that influence it can have, and the range of public policy choices inherent in it. In this example and only using those factors listed, if the legislature wished to influence the number of youth in the foster care system it must either change the statutory definitions or pursue anti-poverty measures. However, it could not change federal requirements and definitions and must allow for any impacts of that factor.

ANTICIPATED END PRODUCTS

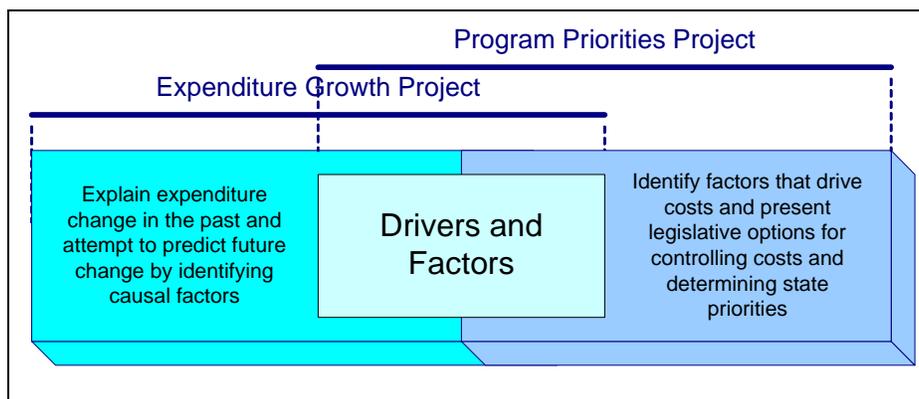
There are three primary end products anticipated from the project:

- Published document - While still under consideration as to particular form, the goal is to present the legislature with a document that includes, at a level of government to be determined (agency/program/function/subcommittee/category, etc.):

- Major drivers of expenditures
- Factors that influence those expenditures and whether the legislature can or cannot directly or indirectly influence those factors
- Various public policy issues and options, both from the categorization process and other sources
- Budget analysis issues - Most issues and options derived from this process will no doubt be included in the budget analysis, due to the ongoing nature of the effort and pertinence to the legislative session.
- Ongoing issue analysis, including interim work - Many issues and policy areas will require longer consideration and effort, and will be most conducive to interim projects.

RELATIONSHIP TO EXPENDITURE GROWTH PROJECT

This report is followed by a report by Terry Johnson and Jon Moe discussing the revenue and expenditure growth project. The expenditure growth portion of this project and the program priorities project are significantly intertwined, as illustrated in the following graph, through the identification of those drivers and factors that cause changes in expenditures. For the growth project, the factors and drivers identify what has caused expenditure change and where expenditures may be heading in the future. For this project, they identify how the legislature can control and/or influence those changes. In addition, analysis of past expenditures and how they might continue into the future is fertile ground for public policy issues concerning future priorities. As a consequence, the expenditure growth project can be a fairly seamless continuation into the program priorities project.



Another way in which the projects intertwine, and where information gleaned in the growth project can be used in the program priorities project, is in the types of choices and policy decisions faced by the legislature based upon whether long-term revenues and expenditures are in balance. If the expenditure and revenue growth project shows a systemic problem with long-term expenditure growth versus long-term revenue growth, the legislature has a different set of spending policy choices than if revenues and expenditures are either in general balance or imbalance is a short-term phenomenon. Short-term imbalances can be addressed through short-term measures, such as finding program efficiencies, use of fund balances, or even across the board reductions. However, systemic imbalance requires long-term choices that involve the setting of program priorities and determination of what state government is and shall be in the future.