

APPLYING THE LFD INTERIM PROJECTS

A Report Prepared for the

Legislative Finance Committee

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At previous meetings, the Legislative Finance Committee (LFC) heard reports on five subjects: 1) a comparison of ongoing revenues to ongoing expenditures; 2) an inventory project; 3) an agency profiles project; 4) an examination of various budgeting methodologies; and 4) business process reviews. The purpose of this brief report is to discuss how interim work may proceed using this information to aid in legislative decision making. The report is written primarily for discussion purposes. No decision points or options are presented at this time.

CURRENT PROJECTS

The following briefly highlights each of the projects.

GROWTH PROJECT

The purpose of the growth project is to determine whether ongoing revenues are sufficient to fund anticipated ongoing expenditures. Among the questions this project attempts to address are:

- Are revenues and expenditures structurally balanced?
- What factors drive revenues? Expenditures? Which of these driving factors can be controlled? How?
- What options does the legislature have for changing revenues and/or expenditures, particularly if a structural imbalance exists?

This project is currently in process and will be continued in the 2007 biennium interim.

AGENCY PROFILES/INVENTORY

In March and June, the committee heard informational reports on the agency profile/inventory projects underway by Legislative Fiscal Division (LFD) staff. The reports were both informational, and given to update the committee on project progress and to discuss the purpose and potential uses of the reports. At that time, staff indicated that the goal was to complete all agency profiles in time for caucuses in mid-November. (Currently, due to delays in information availability, the timeline for completion has been put off until the start of the legislative session.)

Inventory

In determining how to best provide information to facilitate legislative policy-oriented decision-making, LFD staff began with the following:

- State government is large and does many diverse things
- The Montana legislature is the “board of directors” for this large and complex enterprise
- In order to define what state government should do through prioritization of expenditures, the legislature must know what state agencies do, what overall purposes they further, and how much they spend in doing so

With this and other information, the legislature can more efficiently identify current priorities, and change those priorities to reflect legislative desires and intended outcomes.

This perspective was addressed through compilation of a state inventory, which answers the following questions:

- What functions do state agencies perform?
- In pursuit of what general purposes do agencies perform these functions?
- How do these purposes define state government priorities?
- Which programs pursue those purposes and how much do they spend?

The inventory was not designed as an end in and of itself, but rather primarily as an analysis tool.

Agency Profiles

By the same token, in order to understand how state government actually provides the services catalogued in the inventory, and to put it in the perspectives of the units of government that provide the services, a more micro look at each agency must be taken. To this and other ends, the agency profiles are being compiled. The purpose of the profiles is to provide a summary view of each agency of state government, and provide certain pertinent information, including:

- What does the agency do?
- How do they do it?
- What are the sources of funding?
- How and why are expenditures changing?
- What general purposes does the agency further?
- How can the legislature effect change?

A chief goal of the project is to contribute tools that aid the legislature in exploring the question of, given what the state does and for whom, what do we want to do and for whom, and what are we trying to accomplish?

BUDGETING METHODOLOGIES

Budgeting for expenditures of state government is one of the most potent and powerful tools of public policy setting that the legislature has. The actual process of budgeting used has an enormous impact on how decisions are made and can have a major impact on what those decisions are. In October 2003, LFD staff presented a report on budgeting methodologies that asked two questions:

- Does [Montana's budgeting process] provide the best product for the legislature in its deliberations and the citizens in terms of funding programs and services?
- Does [Montana's] approach foster the types of program review and budget debate that would result in the best budget?

Budgeting can be accomplished in a number of ways, including incremental, program-based, performance-based, and zero-based. All states, including Montana, use some combination of all types of budgeting. The purpose of the budgeting methodology project is to determine the "best practice" budget process model for Montana. This project is ongoing. In addition, in October 2004 the committee voted to request more detailed explanations of certain budget requests, and prepare a committee bill to require that the agencies include a decision package with a 5 percent reduction to the base budget as part of its budget submission.

BUSINESS PROCESS REVIEWS

At its June meeting, the committee heard a report by Greg DeWitt on business process reviews. Business process reviews were defined in the report as: "...a collection of related, structured activities – chain of events – that produce a specific service or product for a particular customer or customers..."

The impetus of the report was in the information technology realm, but it also pointed out that the concept could be used in any area of state government to help the legislature monitor and understand functions of state government, and better impact state policy and services. One of the primary goals of business process reviews is to ensure that those processes are "the most optimal for current laws, requirements, and business climate"¹ to ensure the efficient use of state funds. The report identified the issue that there is "no all-encompassing formalized policy for all state business processes to be reviewed

¹ "Business Process Reviews" by Greg DeWitt. A report prepared for the Legislative Finance Committee, June 3, 2004.

in a systematic and recurring manner...As such, the state may be missing opportunities to enhance efficiency and rid itself of obsolete business processes.”

The committee, due primarily to the timeframe and the approaching budget analysis, chose to defer action, and voted to direct the Legislative Fiscal Analyst to include this project in the LFD work plan for the 2007 biennium. The project will likely be identification of scope of the reviews, information, and timing that will be required of the business process reviews conducted by the agencies, as well as which agencies and/or functions for which the requirement will apply. The study may also entail certain pilot projects where the concept can be explored and potential legislative action (including changes in the law) can be identified and brought to the 2007 Legislature.

APPLICATION

Each of the projects described above can all be looked at independently, but are also all part of a much larger piece. To reiterate:

- 1) The “growth” project is designed to determine whether ongoing revenues are sufficient to fund ongoing costs;
- 2) The “inventory” project is designed to determine what the priorities of government currently appear to be based upon what the state currently does;
- 3) The “agency profiles” are designed to provide information on the services provided, methods of delivery, and cost of each state agency;
- 4) The “budget methodology” project examines various methods of budgeting; and
- 5) Business process reviews was proposed to determine how the legislature might more systematically require regular reviews of processes to determine appropriateness and promote efficiency.

Each of the projects has an inherent benefit, beginning with a better-informed legislature and public, and a staff better able to materially assist in the legislative process. However, all can also be the staging area for a more systematic approach to answering the following questions:

- What do we want government to do?
- How much are citizens able and willing to spend?
- How do we prioritize based upon our answers to the first two questions?
- What are our expectations for performance?
- How can we ensure the most efficient use of the resources?

2007 BIENNIUM INTERIM

While all projects are designed with an eye on state government as a whole, in determining how these projects might all be applied in the most effective way, the committee might examine pilot programs in the 2007 biennium. Therefore, in addition to the business process review interim project already approved, the committee may want to also request that a preliminary plan for application of other aspects of the projects on a pilot basis in the 2007 biennium be prepared for committee discussion at its June, 2005 meeting. It should be noted that to gain maximum advantage from the global information, in particular the growth and inventory projects, a more global examination is required.

DEPARTMENT OF FISH, WILDLIFE, AND PARKS

The following discusses how the information in the profile can be a springboard for review in a major component of one agency.

The attached agency profile (still under construction) shows the information common to all agency profiles compiled for the Department of Fish, Wildlife, and Parks (FWP). Among other information, the profile outlines:

- The primary purposes of the agency and the resources expended in pursuing those purposes
- The sources of the resources expended
- Who is served by the agency (who are the customers)
- How the agency is organizationally (functionally) structured
- Through what mechanisms (FTE, contracts, etc.) the agency performs the functions

This information can be an important piece of the information used by the legislature to determine which aspects of the department could be further scrutinized to determine if the state is getting:

- The services it determines are most important
- To the targeted customers
- At the most efficient cost
- With the optimal outcomes

For example, the profile shows that the department derives a significant portion of its operating funds from fees on users of Montana's natural resources, which are deposited to the general license account. These funds are also used to match significant federal funds. The question of when, by how much, and upon whom fees should be adjusted is an issue faced by the legislature on a regular basis. The last general increase in resident fees occurred in 1991. However, in the last several years the department has:

- Increased non-resident license fees
- Added a \$0.25 search and rescue fee and a \$2 recreational use of state lands fee onto the conservation license fees
- Established a fee to support block management of \$2 for residents and \$10 for non-residents

The Fish, Wildlife, and Parks Commission, which sets a broad range of policies and rules of the department, and the department itself have generally adopted the philosophy that:

- General increases in broadly applied fees are requested on a fairly regular, but widely spaced, basis
- Broadly applied fees are established to collect more revenues in the first years than are necessary to fund all appropriated expenditures, with the accumulated fund balance then spent down in later years when expenditures exceed yearly revenues, until a further increase is sought

The commission has approved for submission to the 2005 legislature an increase in resident fees. While the Governor did not add funds to the executive budget recommendation on the assumption that additional revenues from an increased fee would be available, the Governor has authorized submission of the legislation.

While the legislature has always shown a keen interest in the level of various fees, and legislative appropriations in any legislative session largely determine when the general license account would require some enhancement in revenues, the issue takes on a more urgent character as the fund balance is depleted and potential increases in broadly applied fees are contemplated.

Depending upon the priorities of the legislature, the desired outcomes, and the targeted customers, an examination could include the following. For example, will increased fees result in:

- Access to a greater number of acres of privately held land for hunting and fishing?
- Better management of wildlife? Under what criteria? For what purpose?
- Better fishing access in Montana parks?
- Enhancement of the fish population?

From an overall department management basis:

- Did the increased fees go to sportsman related activities? What did the fees purchase?
- How were the fees allocated among the various types of activities (hunting vs. fishing, etc.)?

The LFC may also have additional or alternate areas of particular interest for further exploration in the 2007 biennium.

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