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Montana's Experiment with Zero-Base Budgeting

by John S. Fitzpatrick*

IN 1975, Montana began a four-year experiment with zero-base budgeting (ZBB) by the enactment of House Bill 643 (Chapter 460, Montana Session Laws of 1975). The act required that the "budget director shall implement a program planning and budgeting system . . . for at least one program in representative agencies of state government service such as planning, human service delivery, licensing and regulation, and other programs as determined by the budget director."

Notwithstanding the use of the term "program planning and budgeting system," H.B. 643 introduced ZBB to Montana. The third section of the act revised the statutory content of the Executive Budget by requiring that budget information be submitted in a form consistent with the basic elements of ZBB. H.B. 643 specified:

The biennial budget under this act shall include a departmental analysis summarizing past and proposed spending plans by program and the means of financing the proposed plan. Information presented shall include the following:

- (1) A statement of departmental and program objectives, effectiveness measures and program size indicators;
- (2) At least three alternative funding levels for each program with effectiveness measures and program size indicators detailed for each alternative funding level; and
- (3) A departmental priority listing encompassing all alternative funding levels.

ZBB caught legislative attention because it appeared to offer an alternative to line-item budgeting, which was used to prepare the state budget. An agency budget was built by projecting future expenses in a number of categories

such as wages, employee benefits, travel, utilities, rent, etc., totaling the estimates, and submitting them to the legislature for funding. This process tended to be incremental with each agency using the immediately completed or current fiscal year budget as the base for the next biennium's request. As a result of workload increases, inflation, and proposed program expansions, budget requests and appropriations tended to increase with each succeeding legislative session. Budget justification and review focused primarily on limiting the amount of increase over the existing appropriation. Also, the line-item approach was input-oriented; that is, budget documents showed what it cost to operate an agency with relatively little consideration given to the kind and amount of work the agency provided as output for its appropriation, or whether there was a demonstrated need for the services being provided.

Testimony before the legislative committees in support of H.B. 643 indicated dissatisfaction with the line-item approach. Legislators pointed to the need for more program analysis and wanted information that would help them evaluate agency performance and set budget levels. Finally, there was considerable interest in directing the content of the Executive Budget away from an accounting of state expenditures to an instrument of policy and performance analysis. House Appropriations Committee Chairman Francis Bardanouve looked to H.B. 643 as a means "to orient the budget book to the legislator and not [just] to the Governor's Office."¹

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ZBB: IN PRACTICE

ZBB is a budget technique whereby each program, regardless of whether it is a new or existing program, must be justified in its entirety each time a new budget is formulated.² Contained within the ZBB approach is the assumption that all activities have some sort of effective life span and that activities should be constantly reviewed with an eye toward changing or deleting those which have become unnecessary or ineffective.

Montana implemented ZBB on a pilot basis with seven program areas submitting budgets using ZBB procedures. The remaining state agencies used the standard line-item format. In Montana, ZBB was termed the Priority Budgeting System.³ The pilot agencies included the Department of Fish, Wildlife and Parks; Department of Business Regulation; Highway Maintenance Division; Crime Control Division; Health Services Division; Montana Historical Society; and Youth Services program area consisting of two reform schools, Pine Hills and Mountain View, and the Aftercare Bureau in the Department of Institutions and Youth Development Bureau within the Department of Social and Rehabilitation Services.

The seven program areas preparing their budgets under the Priority Budgeting System used the traditional components of the ZBB system. Each program was separated into discrete "decision units" or "activity packages." An activity package consisted of a function or group of functions used by management for planning and analysis. This level normally constituted the lowest level for which budget decisions were made. For example, the Youth Development Bureau of the Department of Social and Rehabilitation Services divided its program into 10 activity packages. One package reflected the output and costs of central office administration, another package was created for foster parent training, a third package covered the operation of the Big Brothers and Sisters program, etc. For each activity package, three alternative budgets were prepared, each reflecting a different level of funding. One budget level identified the current level of service, a second budget level reflected the impact of a 20 percent reduction in funding,⁴ and the third level of funding, designated as the agency request level, showed what the agency considered to be the optimum budget level.

Following preparation of the alternative budget levels, all activity packages were ranked in order of priority, first by the program manager and then up through the chain of command until an agency ranking was established for the final budget. Since Montana limited the use of ZBB to seven pilot test areas, a statewide ranking of priorities was not practical. The final step in the ZBB process was to present the budget recommendation to the legislature which, in turn, was to review the proposed costs, service levels, and priority ranking to establish the agency appropriation.

Under ZBB, the amount of budget and program information presented the legislature was substantially greater than provided through the standard line-item format. In addition to describing past and projected revenues and expenditures, ZBB included performance measures which identified the programmatic impact of funding each of the three alternative budget levels. A priority ranking of all agency activity packages by funding level provided the legislature with the executive branch's estimation of the relative importance of each agency activity. Figures 1 and 2 contain examples of a typical activity package budget recommendation and a priority ranking table for all agency activity packages.

ZBB: SOME PROBLEMS

The benefits received from ZBB were marginal compared with the problems encountered in implementing the system. ZBB theory was fundamentally incompatible with actual conditions experienced in state government budgeting.⁵

When first implemented, ZBB appeared to offer substantial opportunity to reallocate funds not only within agency budgets but also between agency budgets. ZBB theory suggests that by dividing programs into discrete decision units (activity packages) and developing a priority ranking of such units, it is possible to move funds from low- to high-priority activities. For example, program X in agency 1, which had high costs in relation to the benefits received, could be deleted to fund program Y in agency 2 which had a more favorable ratio of costs to benefits. The opportunity to fund such trade-offs never materialized in Montana's ZBB experience, and it appears that such a situation would be a rare occurrence within state government budgeting. This conclusion is reached for two reasons. First, the ability to trade off funds in the state budget

is closely circumscribed by statutory requirements designating the use of certain funds (earmarking) and by matching requirements for participation in programs funded by the federal government. Funds from hunting and fishing license fees can be used only to support the activities of the Department of Fish, Wildlife and Parks. They cannot be transferred for use by the university system, institutions, or other state departments. Likewise, in order to receive federal Title XX funds for social services, the state must provide a 25 percent match to the federal revenue. A budgetary trade-off moving state funds from a Title XX service to a non-Title XX service would reduce the amount of federal revenue by three dollars for every state dollar traded off. To find a program from which funds can be moved across agency lines, without violating state or federal earmarking restrictions, is the exception rather than the rule.

A second problem with funding trade-offs is that the decisionmaker's abilities to precisely measure and compare cost-benefit ratios are overestimated. Trade-offs, or priority ranking, assume that cost-benefit comparisons are the major, if not the only, criteria in establishing budget levels. Such an assumption largely ignores the reality of budgetmaking by public bodies, where budget decisions are influenced by political, personal, and philosophical criteria as much as by cost-benefit ratios.

Most ZBB systems, including Montana's, require an examination of alternative funding levels and alternative ways of providing an existing service. H.B. 643 mandated the identification of three alternative levels of funding, but this action did not substantially contribute to improved budget decisionmaking in Montana's experience. The minimum budget level established at 80 percent of the current budget was viewed with great trepidation by the agencies. Information generated to support the 80 percent budget request tended to document the need for more funds. Likewise, the agency's analyses of alternative methods of providing service supported retaining the status quo. ZBB does not adequately acknowledge the actual conditions faced by managers who are expected to take the lead in setting agency budget levels. For example, collective bargaining agreements can impose constraints which limit potential cost savings, as can pressure from groups opposing reductions in service levels. As a result, the

manager's support of ZBB was relatively restrained.

House Bill 643, which added performance measurements to the ZBB portion of Montana's budget process, contributed little to the Executive Budget recommendations. It was difficult to identify performance measures which truly reflected a relationship between budgeted resources and the amount and kind of services delivered. Indicators that were developed tended to be either measurements of workload (e.g., banks to examine, miles of highway to maintain, children to educate), or resources used in the conduct of the program (e.g., tons of chemical de-icer applied, man-hours of work). Some programs, particularly those in human service agencies, possess an ambiguous mission, and it is difficult to describe their program goals and performance in quantitative terms.

For other measures, the data base was inadequate and rendered the measurement meaningless. For example, the state reform schools used recidivism as a performance measure, but the indicator showed only the number of individuals returned to the institution who had been incarcerated there. It did not measure how many children became law-abiding citizens once having resided in that institution.

Much, if not most, of the performance measurement exercise was make-work generated solely for the budget process. Agency managers consistently indicated they did not use the collected information in the day-to-day management of their program. Their reasons for not doing so varied, but contained a common theme paraphrased below:

Performance measurement is a good idea; more of it should be done. But, and even though some measures look good on paper, they really don't describe what this program does.

Implementing ZBB in Montana on a pilot basis required the state to operate two budget systems. More important, after reviewing the ZBB experience, it did not appear that the state could divorce itself easily from the traditional line-item budget system, even if full conversion to ZBB was desirable. The statewide budgeting and accounting system, auditing procedures, and reporting requirements for federally funded programs are geared to a line-item budget. Although it is possible to adapt most of these structures to fit ZBB, the conversion would be costly and time consuming. Until such a conversion was made, any agency using ZBB would have had to follow a course similar to that of the

FIGURE I PRIORITY BUDGETING SYSTEM BUDGET RECOMMENDATION

DEPARTMENT OF BUSINESS REGULATION Consumer Protection													
<p>Statutory Authority: Title 18, Chapter 5/Title 51, Chapter 1, Title 75, Chapter 92/Title 85, Chapter 4</p> <p>SubProgram Description: It is the responsibility of the Consumer Protection SubProgram to protect the citizens of the state from unfair, illegal or deceptive business practices and transactions. The SubProgram performs supervision of investigation, licensing, enforcement and educational activities in accomplishing the administration of consumer protection laws. The overall goal is to continue to maintain close supervision and to exercise efficient control over Consumer Protection functions of present and newly created legislative programs. It is estimated this SubProgram will generate approximately \$124,000 to the General Fund in the next biennium.</p> <p>External Trends: The trend toward consumer awareness and the associated legislative recognition of the desirability of consumer assistance by state government will place increasing burdens on the SubProgram. This demand is reflected in the substantial increase in consumer utilization of the services</p>			<p>provided by the program in each year of its existence.</p> <p>Past Effectiveness: A measure of success can be attributable to increasingly effective communication and cooperation between this SubProgram and related agencies in this and other states against transient violators and the increasing monetary recovery for the consumer in each fiscal year since the SubProgram's inception. (\$157,966 for FY 76).</p> <p>Future Trends: Proposed changes in the Unfair Practices Act will, if adopted, put increased demands on the administrative support, investigation and enforcement aspects of the SubProgram.</p> <p>Recommended Funding Level: It is recommended the Consumer Protection SubProgram be funded at the current level.</p>			<p>FY 76 \$143,157</p>		<p>FY 79 \$147,019</p>					
Alternative Funding Levels	Current Biennium		Alternative A (80% or less)		Alternative B (current level inflated)		Alternative C (Agency Request)		Governor's Recommended				
Program Costs	FY 76 Actual	FY 77 Est.	FY 1976	FY 1979	FY 1976	FY 1979	FY 1976	FY 1979	FY 1976	FY 1979			
Full Time Equivalent	7.00	7.00	4.80	4.80	7.00	7.00	9.00	9.00	7.00	7.00			
Personal Services	95,337	104,345	76,206	77,949	107,103	109,590	134,183	138,080	107,103	109,590			
Operating Expenses	15,517	23,528	27,761	26,438	34,883	36,058	42,880	44,437	34,883	36,058			
Equipment & Livestock	2,149	1,371	1,211	1,211	1,371	1,371	3,061	1,871	1,371	1,371			
TOTAL OPERATING COSTS	113,003	139,244	105,167	107,598	143,157	147,019	180,124	184,388	143,517	147,019			
Transfers	0	0	0	0	0	0	0	0	0	0			
Grants	0	0	0	0	0	0	0	0	0	0			
TOTAL PROGRAM FUNDING DETAIL:	113,003	139,244	105,167	107,598	143,157	147,019	180,124	184,388	143,517	147,019			
General Fund	80,447	94,692	65,804	67,321	97,583	100,465	134,550	137,834	97,583	100,465			
Examined Revenue Fund	32,558	44,552	39,363	40,277	45,574	46,554	45,574	46,554	45,574	46,554			
Federal & Private Revenue Fund	0	0	0	0	0	0	0	0	0	0			
Revolving Fund	0	0	0	0	0	0	0	0	0	0			
TOTAL FUNDING	113,003	139,244	105,167	107,598	143,157	147,019	180,124	184,388	143,517	147,019			

DEPARTMENT OF BUSINESS REGULATION Consumer Protection SubProgram										
Alternative Funding Levels	Current Biennium		Alternative A (80% or less)		Alternative B (current level inflated)		Alternative C (Agency Request)		Governor's Recommended	
Program Measures	FY 76 Actual	FY 1977 Est.	FY 1976	FY 1979	FY 1976	FY 1979	FY 1976	FY 1979	FY 1976	FY 1979
Workload and/or Demand Estimators										
Estimated investigations	1,145	1,525	1,890	2,318	1,890	2,318	1,890	2,318	1,890	2,318
Legal Actions Required	26	35	52	70	52	70	52	70	52	70
Requests for appearance	27	40	60	80	60	80	60	80	60	80
Estimated licenses issued	61	80	90	100	90	100	90	100	90	100
Output Measures										
Investigations conducted	1,145	1,525	1,550	1,550	1,890	2,318	2,100	2,600	1,890	2,318
Lawsuits initiated	9	13	17	20	18	21	18	21	18	21
Workshops conducted	16	23	0	0	35	60	70	115	35	50
Seminars attended	4	6	0	0	8	10	16	20	8	10
Consum. alerts	23	30	0	0	40	50	40	50	40	50
Licenses issued	60	70	75	80	75	80	75	80	75	80
Enforcement proceedings	24	35	52	70	52	70	55	75	52	70
Effectiveness Indicators										
Est. Rev. generated to General Fund (\$)	63,000	69,000	62,000	62,000	62,000	62,000	62,000	62,000	62,000	62,000
Licenses denied	1	1	2	2	2	2	2	2	2	2
Permanent injunctions	7	10	13	17	14	18	16	19	14	18
Complaint cases closed	1,115	1,485	1,460	1,450	1,840	2,258	2,050	2,525	1,840	2,258
Assurance of compliance	3	5	7	11	8	12	10	15	8	12
Monetary recovery (\$)	157,966	204,000	210,000	275,000	265,000	344,000	300,000	400,000	265,000	344,000
Hours of consumer education				Data Not Currently Available						

pilot agencies—first building a line-item budget to reconcile actual and proposed expenditures, and then converting the line-item budget to the ZBB format.

The increase in paperwork generated by ZBB was substantial. The line-item budget used the program as a basic budget entity. In 1977, a program budget request required completion of nine forms plus five forms for each requested budget modification. Under ZBB, an agency divided its programs into activity packages and submitted six forms for each activity package (two forms per budget level) plus an agency ranking table. An activity package could be the equivalent of a program but, following ZBB theory, each activity package should only include one basic activity or group of closely affiliated functions. When Montana implemented ZBB, the agencies followed the system's theory and subdivided the programs into activity packages, creating a large number of entities with each requiring budget documentation. For example, the Youth Development Bureau, which formerly constituted one program in the line-item system, was divided into 10 activity packages under ZBB. The bureau's budget request under ZBB totaled 62 pages, compared with approximately 15 pages under line-item budgeting. In addition, because ZBB was only being used on an experimental basis, the bureau had to submit the standard line-item materials as

well. It was estimated that ZBB required four times as much paperwork as the traditional system.

Perhaps the most disheartening aspect of ZBB was legislative disinterest in the system even though it was legislative initiative which led to development of the system. A survey of the pilot agencies found only two respondents who felt the ZBB analysis was used to determine the agency appropriation.

An instrumental factor in the neglect of ZBB by legislative committees was the action of the Legislative Fiscal Analyst toward ZBB. When the Montana legislature convenes in session, it receives two different budget recommendations—the Executive Budget from the governor and an alternative budget from the Legislative Fiscal Analyst. The final appropriation is drawn by using recommendations from both budgets as well as determinations made by the legislature itself. When the Executive Budget presented ZBB to the 1977 legislature, the fiscal analyst followed with recommendations in the line-item format. For most legislators, ZBB was new and more complicated than the traditional system. As a consequence, legislators worked from the familiar line-item presentation and shunted ZBB to the background.

ZBB cannot be used productively by the state unless the legislature will work with it. In turn, it is unlikely the legislature will use ZBB unless its

**FIGURE II
PRIORITY TABLE**

DEPARTMENT OF BUSINESS REGULATION													
A B C	SUBPROGRAM NAME AND LEVEL	1976 ACTUAL		1977 ESTIMATED		1978 REQUESTED				1979 REQUESTED			
		DOLLARS	FTE	DOLLARS	FTE	DOLLARS	FTE	CUMULATIVE	% '77	DOLLARS	FTE	CUMULATIVE	% '77
1	Weights & measures (A)	180,817	11.00	209,937	13.00	1,12,267	8.00	172,261	18	1,25,264	8.70	175,264	17
2	Financial (A)	372,417	19.00	603,960	19.00	250,417	11.75	512,794	45	360,801	23.75	879,895	37
3	Consolidated services (A)	197,343	8.00	128,520	7.00	102,216	5.00	618,110	59	107,838	5.00	641,772	82
4	Mail control (A)	152,939	8.25	146,899	8.25	125,651	6.25	754,761	77	140,095	6.25	767,768	79
5	Consumer protection (A)	113,080	7.00	130,264	7.00	108,167	4.00	859,854	87	107,568	4.00	895,366	86
6	Weights & measures (B)					58,842	3.00	918,710	86	87,370	3.00	957,686	91
7	Consolidated Services (B)					26,379	2.00	545,028	60.7	26,986	2.00	984,646	92.8
8	Mail control (B)					25,814	2.00	980,897	92.6	26,015	2.00	1,019,666	97.3
9	Consumer protection (B)					37,980	2.00	1,018,843	97.2	38,471	2.00	1,058,877	101.1
10a	Finest of (B)					21,048	2.25	1,029,899	99.2	5,968	2.25	1,086,896	101.7
								49.25	1,029,899	99.2	49.25	1,086,896	101.7
10b	Finest of - command (B)					62,212	3.00	1,101,801	100	76,887	3.00	1,142,572	100
11	W & M/LPG & more (C)					24,188	2.00	1,128,010	100	24,324	2.00	1,176,886	112
12	W & M/LPG & more (D)					8,827		1,146,837	100	8,823		1,186,888	112
13	Financial (D)					69,768	3.00	1,212,247	115	30,756	3.00	1,262,444	120
14	Financial (E)					24,876	2.00	1,247,970	118	46,414	2.00	1,342,884	124
15	Consolidated services (E)					24,010	2.00	1,281,820	122	24,760	2.00	1,337,620	126
16	Mail control (E)					40,688	2.00	1,327,928	126	40,816	2.00	1,378,822	129
17	Consumer protection (E)					28,987	2.00	1,386,486	130	27,280	2.00	1,415,881	136
18	W & M/LPG & more (E)					24,350	1.00	1,382,796	127	18,026	1.00	1,422,817	127
19	Weights & measures (E)					82,077	3.00	1,466,872	140	81,214	3.00	1,518,221	146
	TOTALS	937,616	51.25	1,647,989	92.25	1,466,872	49.25	1,466,872	140	1,919,221	88.25	1,518,221	146

own staff is fully committed to implementation. The budget process is complex, and when the executive and legislative branches use different methods of analysis and presentation, the end product is confusion.

ZBB: THE FUTURE

In March 1979, at the request of the executive budget office, the legislature enacted House Bill 179 (Chapter 432, Montana Session Laws of 1979)—An Act to Repeal the Program Planning and Budgeting System. With that act, Montana concluded its experiment with ZBB.

ZBB did not prove to be an effective budgeting tool despite a reasonably conscientious implementation effort spanning four years and two legislative sessions. The functional problems of simply sorting through the massive amount of paperwork generated by the ZBB format and attempting to utilize the "performance measurement" requirement of H.B. 643 inhibited rather than stimulated budget analysis. Furthermore, ZBB could not be identified as either the sole or primary factor limiting the size of a program budget increase or causing an actual

budget reduction. Neither its presence nor use appeared to affect the final outcome of the budget appropriation process in one way or the other.

With the demise of ZBB, all Montana agency budgets will be developed using the standard line-item format. Despite the criticism of this approach, it is a system which is sufficient to ensure financial accountability and one which fits within the administrative decisionmaking reality of Montana state government.

Footnotes

1. Testimony before the Montana Senate Finance and Claims Committee, Helena, Montana, March 12, 1979.
2. Michael H. Cranof and Dale A. Kinzel, "Zero Based Budgeting: Modest Proposal for Reform," *The Federal Accountant*, vol. 23, December 1974, p. 51.
3. See, *A Review of the Priority Budgeting System*, Office of Budget and Program Planning, Helena, Montana, 1980.
4. A zero-base budget does not normally start from zero. Some minimum level, usually on the order of 70 percent to 80 percent of the existing appropriation, is designated as the initial budget level for each activity package.
5. See, *An Evaluation of the Priority Budgeting System*, Office of Budget and Program Planning, Helena, Montana, 1979.

ATTACHMENT B



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SHARED POLICY GOALS AND ACCOUNTABILITY MEASURES FOR THE K-12 PUBLIC EDUCATION SYSTEM 2013 BIENNIUM

This document on shared policy goals and accountability measures represents a merging of the following efforts that have involved leaders from the legislature, the executive and the K-12 public education system during the 2011 interim:

- Board of Public Education strategic goals and objectives
- Superintendent of Public Instruction strategic goals and objectives
- Shared policy goals and accountability measures development by the Education and Local Government Interim Committee (ELG) Subcommittee on Shared Policy Goals

The documentation for these efforts provides important background, history and context for these shared policy goals and accountability measures, in particular the shared commitments to prepare students for success in the 21st century, to improve teaching and student learning, to improve student achievement in struggling schools, and to increase public awareness and engagement in the K-12 educational system.

This document is nonbinding. The ELG shall review, update, approve, and renew this understanding each biennium with the Board of Public Education and Superintendent of Public Instruction so that it may become the basis of state public policy in regard to the K-12 education system.

As a statement of public policy goals for public education in Montana, this document reflects the ELG's commitment to a basic system of free quality public elementary and secondary schools such that funding high quality education is a critical goal of the State of Montana. This document, in conjunction with the definition of a basic system of free quality public elementary and secondary schools established in section 20-9-309, MCA, will provide the policy direction needed to maintain a free quality elementary and secondary education system in Montana.

The authors of this document urge that it, along with 20-9-309, MCA, be used by the legislature in the 2011 legislative session to frame education budget initiatives and other policy recommendations for the 2013 biennium.

K-12 Shared Policy Goals, Objectives, and Accountability Measures

2013 Biennium

Shared Policy Goal	Objectives	Accountability Measures
1. Prepare students with the knowledge and skills necessary for success in the 21st century global society.	1.1. Increase Montana's high school graduation rate.	By June 30, 2013, increase by 2 percent the number of students who graduate in 4 years with a regular high school diploma.
	1.2. Review the ARM rules that govern accreditation, certification, and professional educator preparation programs on a regular cycle.	By June 30, 2013, increase by 2 percent the number of schools meeting regular accreditation standards using 2011/2012 school year as a baseline.
2. Improve teaching and student learning by promoting data-driven policy decisions and increasing access to educational information.	2.1. Develop a statewide longitudinal data system to collect and report reliable and timely data on Montana K-12 students.	By June 30, 2013, the K-12 education data warehouse will be established as the single source of information for reporting and analysis of K-12 student level data collected by the OPI as measured by the number of reports produced from the data warehouse.
	2.2. Improve access to K-12 education data by educators, policymakers, and the public.	By June 30, 2013, educators, policymakers, and the public will have access to data in the data warehouse through standardized reports and ad hoc query tools in accordance with the access rights established for the individual accessing the data as measured by the number of categories of users.
3. Improve student achievement in struggling schools.	3.1. Provide learning supports and promote greater community engagement to increase greater student achievement in schools identified as struggling.	The number of schools served by the Statewide System of Support that show an increase in student achievement as measured by the statewide student assessment (criterion-referenced test) using the 2009-10 school year as a baseline.
4. Increase public awareness of and engagement in the K-12 educational system recognizing the roles and responsibilities of the state and local educational agencies and the legislature.	4.1. Promote coordination and collaboration among the legislature and K-12 education agencies recognizing the constitutional roles of the Board of Public Education, Montana Legislature and local school districts.	Progress shall be measured by continuous improvement in attaining the identified accountability measures in the K-12 education shared policy goal agreement.

K-12 SHARED POLICY GOALS

WHEREAS, Article VIII, section 12, of the Montana Constitution vests in the Legislature the responsibility to ensure strict accountability of all revenue received and spent by the state, counties, cities, and towns and all other local governmental entities, and Article X, section 1, requires the Legislature to fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system; and

WHEREAS, Article X, section 9, of the Montana Constitution vests in the Board of Public Education the general supervision of the public school system; and

WHEREAS, section 20-3-106, MCA, grants supervision over certain aspects of the public schools and districts of the state to the Superintendent of Public Instruction; and

WHEREAS, Article X, section 8, of the Montana Constitution states that the elected board of trustees in each school district shall exercise supervision and control of schools in the district; and

WHEREAS, agencies of the education community have increasingly, and to positive effect, shared leadership between themselves and with the Education and Local Government Interim Committee; and

WHEREAS, an understanding of shared policy goals and accountability measures for the K-12 public education system, shared by the Superintendent of Public Instruction, the Board of Public Education, and Education and Local Government Interim Committee, represents an important advance in interagency cooperation and the quality of education policymaking; and

WHEREAS, shared policy goals must be systematically tied to accountability measures in order to ensure timely and effective implementation of policies; and

WHEREAS, the Education and Local Government Interim Committee Subcommittee on Shared Policy Goals and Accountability Measures, comprised of four legislators and education agency partners, with representatives from the Board of Public Education and the Office of Public Instruction, has identified statewide public elementary and secondary education policy goals and accountability measures for the K-12 public education system, in collaboration with the education agency partners;

This UNDERSTANDING crafted by the Education and Local Government Interim Committee, the Office of Public Instruction, and the Board of Public Education, identifies the statewide public elementary and secondary education policy goals and related accountability measures (see pages 1-2 above) that will be used as a policy goal setting and assessment tool for policymakers, the K-12 education system, and the public in evaluating the achievement of the policy goals; and that will be used, in conjunction with 20-9-309, MCA, as a guide to drive

decision packages and funding mechanisms for the state funding that is appropriated to the K-12 education system by the Montana State Legislature.

Furthermore:

1. The K-12 education system shall prepare a Shared Policy Goals and Accountability Measures Report presenting appropriate and current data for these goals and accountability measure in an easy-to-read format.
2. This report shall be presented to the House and Senate Education Committees and the Joint Appropriations Subcommittee on Education by the 10th legislative day of the 62st Legislature (2011 legislative session).
3. This report shall be posted to the Board of Public Education, Office of Public Instruction, and Education and Local Government Interim Committee websites by January 1 each odd numbered year.

The signatures below denote that the signatories fully participated in and support the shared policy goals and accountability measures cited herein.

This document expires June 30, 2013.

Dated this 17th day of August 2010.

X Wanda Grinde

Representative Wanda Grinde, Chair
Education and Local Government Committee

X Patty Myers

Patty Myers, Chair
Board of Public Education

X Kelby Gebhardt

Senator Kelly Gebhardt, Vice Chair
Education and Local Government Committee

X Denise Juneau

Denise Juneau, Superintendent
Office of Public Education

X Bob Lake

Representative Bob Lake, Chair
ELG Subcommittee on Shared Policy Goals

REPORT ON ANALYSIS OF STATE PROGRAM PRIORITIES - STATUS

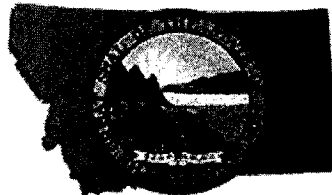
A Report Prepared for the

Legislative Finance Committee

By
Taryn Purdy

March 12, 2004

Legislative Fiscal Division



www.leg.state.mt.us/css/fiscal/

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: