

July 1997

BUDGET PROCESS - BACKGROUND MEMORANDUM

House Concurrent Resolution No. 3045 (attached as Appendix "A") directs the Legislative Council to study the current budget process, the results of the program-based performance budgeting pilot projects, and budget reforms in other states. The resolution states that the citizens of North Dakota would benefit from implementation of a budgeting method that encourages and results in focusing agency direction while allowing financial flexibility in order to meet agency objectives. Budgeting aspects identified in the resolution for the study to address include:

1. Review the results of the program-based performance budgeting pilot project.
2. Review budgeting reforms in other states.
3. Review how agency and institution appropriation balances at the end of a biennium should be handled.
4. Determine the benefits that new information technology could provide in budget development and budget presentation.
5. Consider the effect of budget recommendations on future biennial budgets.
6. Review the detailed information supporting agency budget requests and the executive recommendation.
7. Review alternative budgeting methods that use performance reviews to evaluate proposed agency budgets.

In addition, the Legislative Council expanded the study to include the feasibility of developing a legislative budget.

PREVIOUS STUDIES

The 1993-94 interim Budget Section, pursuant to Senate Concurrent Resolution No. 4027, studied methods to improve the development of biennial revenue estimates. The Budget Section recommended that the chairmen of the House and Senate Appropriations Committees, with the assistance of the Legislative Council staff, arrange for joint Senate and House Appropriations Committee hearings to be held during the legislative session to obtain information to assist the Legislative Assembly in determining whether adjustments are necessary to the executive budget revenue projections. The Budget Section also recommended that these meetings include members of the Finance and Taxation Committees. During the 1995 and 1997 legislative sessions, the House and Senate Appropriations Committees, House and Senate leadership, and Finance and Taxation Committee members heard presentations from

Norwest Bank economists regarding regional and national economic indicators. In addition, the legislative budget analyst and auditor is a member of a Revenue Estimating Committee that provides input to the Office of Management and Budget as it develops the biennial revenue forecasts.

The 1989-90 interim Budget Section, pursuant to Senate Bill No. 2538, studied the appropriation process, including consideration of recommendations for appropriate reference in appropriation bills to programs, departments, agencies, institutions, and activities. The Budget Section recommended that the Office of Management and Budget, when preparing the executive budget recommendations and appropriation bills for major consolidated departments, include in separate subdivisions appropriations to each institution and major program under the consolidated department's control and that legislative intent be written into appropriation bills providing guidance for expenditures relating to salaries and wages, program changes, etc.

CURRENT LAW

North Dakota Century Code Chapter 54-44.1 establishes the Office of the Budget that is responsible for developing financial policies and plans as the basis for budget recommendations to the Legislative Assembly and preparing detailed documents in accordance with the financial policies and plans for presentation to the Legislative Assembly. The chapter provides that each agency, no later than July 15 of each year preceding the next Legislative Assembly, submit to the Office of the Budget estimates of financial requirements of the agency for the next two fiscal years on forms and in the manner prescribed by the Office of the Budget, with such explanatory data as is required by the Office of the Budget and such additional data as the agency wishes to submit.

The budget data prepared by the Office of the Budget must include:

1. Summary statements of the financial condition of the state.
2. Statements of actual revenue for the previous biennium, the first year of the present biennium, and the estimated revenue of the current fiscal year and of the next biennium, and a statement of unappropriated surplus expected to have accrued in the State Treasury at the beginning of the next fiscal year. The statements of actual and estimated revenue must be classified by sources and by

budget unit collecting them. Existing sources of revenue must be analyzed as to their equity, productivity, and need for revision, and any proposed new sources of revenue must be explained.

3. Summary statements of expenditures of the previous biennium and first year of the present biennium, itemized by budget units and classified as prescribed by the director of the budget.
4. Detailed comparative statements of expenditures and requests for appropriations by funds, budget units, and classification of expenditures, showing the expenditures for the previous biennium, the first fiscal year of the present biennium, the budget of the current biennium, and the Governor's recommendation for appropriations for each budget unit for the next biennium, all distributed according to the prescribed classification of expenditures.
5. A brief explanation of the functions of the unit and comments on its policies and plans and on any considerable differences among the amounts recommended, with such descriptive, quantitative, comparative, and other data as to work done, unit costs, and like information as may be considered necessary.
6. For capital outlay expenditures involving construction projects to be completed in two or more fiscal years, there must be shown the total estimated cost of each project and the amount recommended to be appropriated and expended in each ensuing fiscal year until completion of the project. Capital outlay needs may be projected for at least two years beyond the period covered by the budget.
7. A detailed statement showing the estimate of all moneys required to be raised or appropriated for the payment of interest upon funded debt of the state and its other obligations bearing interest and the amount of money required to be contributed in the next two ensuing fiscal years to the general sinking funds maintained for redemption and payment of the debts of the state.
8. A summary statement of the unappropriated fund balance estimated to be available at the beginning of the next biennium and the estimated revenue of the next biennium as compared with the total recommended amounts of appropriation for all classes of expenditures for the next biennium, and if the total of the recommended expenditures exceeds the total of the estimated resources, recommendations as to how the deficiency is

to be met and estimates of any proposed additional revenue.

9. Drafts of a proposed general appropriations act and special appropriations acts comprising the budget data and recommendations of the Governor for appropriations for the next biennium and drafts of such revenue and other acts recommended by the Governor for putting into effect the proposed financial plan. The recommended general appropriation for each budget unit must be specified in a separate section of the general appropriations act.
10. A list of every individual leased asset, excluding real estate, with a value of at least \$50,000 and every group of leased assets comprising a single system with a combined value of at least \$50,000 acquired through a capital or operating lease arrangement by a state agency or institution. The list must include leased assets acquired in the current biennium and anticipated leased assets in the next biennium.
11. Other information as the director of the budget deems desirable to include.

The chapter also provides that:

1. The director of the budget present the budget data information, including the budget and revenue proposals recommended by the Governor, and make available sufficient copies to the Legislative Assembly at the organizational session. The budget data must be completed and made available to the Legislative Assembly in such form as may be prescribed by the Legislative Council. The Legislative Council shall set the time and place at which the budget data is to be presented.
2. The official budget report must be submitted by the Governor to the Legislative Assembly no later than three days after the commencement of the session of the Legislative Assembly. The report must contain the budget and revenue proposals recommended by the Governor and the information required by law and all other data and information as the Governor may wish to provide.
3. All expenditures of an agency must be made under authority of biennial appropriation acts which must be based upon a budget as prescribed by law and no money may be drawn from the treasury except by appropriations made by law as required by Section 12 of Article X of the constitution.
4. The Office of the Budget prepare a capital construction budget and capital construction bill containing projects involving bonding. All

other capital projects proposed for funding with general fund moneys or special funds must be included in the appropriate agency's appropriation bill.

5. The Office of Management and Budget cancel, 30 days after the close of each biennial period, all unexpended appropriations or balances of appropriations. The chairman of the Appropriations Committees, with the Office of the Budget, may continue appropriations or balances in force for not more than two years after the expiration of the biennial period for:
 - a. New construction projects.
 - b. Major repair or improvement projects.
 - c. Purchases of new equipment costing more than \$10,000 per unit if it was ordered during the first 12 months of the biennium.
 - d. The purchase of land by the state on a contract for deed purchase where the total purchase price is within the authorized appropriation.

NORTH DAKOTA'S CURRENT BUDGETING METHOD

Under North Dakota's current budgeting method, agencies prepare their budget requests based on the previous biennium's authorized budget levels. Changes to the previous level are identified and explained.

Agencies' budget requests are prepared by program (administration, legal services, etc.) and by object codes (salaries and wages, operating expenses, etc.). See Appendix "B" for examples. Except for the program-based performance budgeting pilot projects, agencies combine their detailed object code requests into salaries and wages, operating expenses, equipment, capital improvements, grants, or special line items). Under the program-based performance budgeting pilot projects, the object code requests are combined into the program line items such as administration, motor vehicle, highways, etc.

Agencies' budget requests include the following types of information:

1. Statutory authority.
2. Mission statement.
3. Vision.
4. Philosophy.
5. Future critical issues.
6. A summary of funding requested and historic and current funding levels of the agency.
7. Information on lease purchase agreements.
8. Information on federal funding.
9. Special fund information.

10. Information on each program of the agency, including program objectives, services, statistical data, material program costs, special fund sources, federal fund sources, historic, current, and requested funding levels, changes to the previous biennium's funding levels, and explanations of the changes.
11. Information on general fund collections.
12. Fees charged by the agencies.

After agencies have submitted their completed budget requests to the Office of Management and Budget in July of the year preceding the legislative session, the Office of Management and Budget holds budget hearings for selected agencies.

Using agency budget requests and the revenue forecast prepared by the Office of Management and Budget, WEFA, and the Tax Department, the Office of Management and Budget develops its executive budget recommendations which are presented to the Legislative Assembly at the organizational session in December.

The Office of Management and Budget prepares the bills for introduction to the Legislative Assembly necessary to implement the executive budget recommendations, including agency appropriation bills, bills containing revenue changes supporting the executive recommendation, and bills making organizational or other changes in support of the executive budget recommendation.

The Legislative Assembly holds hearings on these bills and makes changes to the bills in the development of the budget for the state.

PROGRAM-BASED PERFORMANCE BUDGETING PILOT PROJECT

The 1993-94 interim Budget Section requested the Office of Management and Budget to ask all state agencies and institutions to include, to the extent possible, service efforts and accomplishments in the 1995-97 budget request forms and to use this information to support the executive budget. The Office of Management and Budget developed a program-based performance budgeting pilot project to incorporate service efforts and accomplishments into the budgeting process. The Office of Management and Budget chose the 14 agencies listed below to be involved in the program-based performance budgeting pilot project for the 1995-97 biennium.

1. The Office of Management and Budget.
2. Information Services Division.
3. State Auditor.
4. Central Services.
5. Board of University and School Lands.
6. Department of Human Services Aging Services and Vocational Rehabilitation.
7. Insurance Department.

8. Securities Commissioner.
9. Highway Patrol.
10. Department of Corrections and Rehabilitation Parole and Probation.
11. Department of Economic Development and Finance.
12. Department of Tourism.
13. Parks and Recreation Department.
14. Department of Transportation.

The program-based performance budgeting pilot agencies' budget requests included information on each agency's statutory authority; its mission and philosophy; future critical issues affecting the agency; and its strategic plan, including statewide and agency goals, objectives, and strategies to meet the goals.

Under each major program, the agency goal, objective, and strategy are listed as well as the description and justification for the strategy and performance measures, including outcome, output, efficiency, effectiveness, and explanatory measures.

The appropriation bills introduced at the request of the Office of Management and Budget for the pilot agencies included program line items rather than object code line items. The 1995 Legislative Assembly chose to appropriate funds on a program basis for:

1. The Office of Management and Budget.
2. Information Services Division.
3. State Auditor.
4. Central Services.
5. Board of University and School Lands.
6. Highway Patrol.
7. Department of Corrections and Rehabilitation Parole and Probation.
8. Parks and Recreation Department.
9. Department of Transportation.

The 1995 Legislative Assembly chose to appropriate funds for the remaining pilot agencies on an object code line item basis similar to other agencies but directed these agencies to continue to monitor and strive to achieve their performance measure goals and objectives. These agencies include:

1. Department of Human Services Aging Services and Vocational Rehabilitation.
2. Insurance Department.
3. Securities Commissioner.
4. Department of Economic Development and Finance.
5. Department of Tourism.

The 1995-96 interim Budget Section received reports on the program-based performance budgeting pilot project pursuant to provisions of 1995 Senate Bill No. 2015. The Budget Section requested that the Office of Management and Budget continue to work with only the nine agencies that received program appropriations for the 1995-97 biennium to develop agency budget requests and executive

recommendations for the 1997-99 biennium on a program basis and that those agencies be subject to program reviews. In addition, the Budget Section requested that the appropriation bills for the 1997 Legislative Assembly for the agencies with program line items include a separate section identifying the amounts for salaries and wages, equipment, and grants for each agency.

The Budget Section recommended that the 1997 Legislative Assembly review the program-based performance budgeting pilot project and determine if the project should continue.

During the 1997 Legislative Assembly, the nine pilot agencies received their appropriations by program line item and the remaining agencies (Department of Human Services Aging Services Division and Vocational Rehabilitation Division, Insurance Department, Securities Commission, Department of Economic Development and Finance, and the Department of Tourism) continue to monitor their performance measures but appropriations were made by object code line item.

Appendix "B" includes examples of the types of information included in object code based agency budget requests and appropriation bills and Appendix "C" includes examples of the types of information included in the program-based performance budgeting pilot agency budget requests and appropriation bills.

PROPOSED STUDY PLAN

The committee may wish to proceed with this study as follows:

1. Review current budgeting procedures, reports, budget requests, and supporting information.
2. Review budgeting methods and performance review evaluations used in other states.
3. Consider the feasibility of developing a legislative budget.
4. Review results of the program-based performance budgeting pilot project.
5. Consider alternative methods of addressing agencies' end of biennium unspent general fund appropriation authority.
6. Consider the possibility of using new information technology in the budget development process and budget presentations.
7. Review ways to analyze the effect budget recommendations may have on future biennial budgets, including information provided on fiscal notes.
8. Receive testimony from representatives of the Office of Management and Budget, the State Auditor's office, program-based performance

budgeting pilot agencies, and other state agencies regarding the budgeting process.

9. Receive testimony from other interested persons.
10. Develop recommendations and proposed legislation necessary to implement the

recommendations regarding North Dakota's budgeting process.

11. Prepare the committee's final report for presentation to the Legislative Council.

ATTACH:3