

Commonwealth of Virginia
Budget Development and Budget Reform
2006-2008 Biennium

A Briefing for the House Appropriations Committee



Office of the Secretary of Finance
Department of Planning and Budget

Overview of Presentation

- **Budget Development for 2006-2008 biennium**
 - Milestones (calendar)
 - Base budget submissions
 - Decision packages
- **Budget Reform**
 - Background and issues
 - Service area structure and strategic plans
 - Results-oriented data

Milestones for Budget Development 2006-2008 Biennium

<u>Event</u>	<u>Timeframe (2005)</u>
1. Agencies develop their initial strategic plans including specific plans for service areas	April - August
2. Agencies submit 2006-2008 base budget data for service areas	August
3. Agencies submit budget decision packages (narrative and data) to make changes to base budget	Mid-September
4. Agencies align strategic plans with budget submissions	Ongoing (Sept.-Oct.)
5. Governor's Advisory Board of Economists begin to put together "economic" forecast for Virginia	Late October
6. Governor's Advisory Council on Revenue Estimates develops alternative and consensus revenue forecast	Late November
7. Governor presents budget recommendation for 2006-2008 Biennium	December 16

Base Budget Development

- Definition:** The base budget is the equivalent of the current legislative appropriation carried forward into the next biennium. It consists of the 2006 legislative appropriation with certain additions or subtractions to account for one-time spending and savings that do not continue into the future, items partially funded in the current year which must be annualized in the future (such as pay increases), and various technical adjustments associated with current law or funding policies.
- Purpose:** The base budget is a starting point for analysis in the budget decision-making process.
- Timeframe** An agency must distribute its base budget amount among its various service areas and array the data by object of expenditure (personnel vs. nonpersonnel). This “Base Budget Submission” was due in August, 2005.

Base Budget Calculation for 2006-2008 Biennium

(General Fund)

		\$Millions
1. FY2006 legislative appropriation x 2 years		\$29,264.3
2. Remove one-time funding items in current year		
- One-time spending	(1,011.3)	
- One-time savings	31.7	(979.6)
3. Annualize items partially funded in current year		552.2
4. Technical adjustments		1.4
5. Base Budget for 2006-2008 biennium		\$28,838.3

What's in the Numbers

		<u>\$Millions</u>
1. One-time spending		
- FY2006 Revenue Stabilization Fund deposit	\$(363.9)	
- Transportation funding (move to decision package)	(290.0)	
- Water Quality Fund deposit	(194.7)	
- Nonstate agencies	(68.2)	
- Other one-time spending	<u>(94.5)</u>	(1,011.3)
2. One-time savings		
- FY2006 group life insurance holiday	27.4	
- Other one-time savings	4.0	31.7
3. Annualize partially funded costs		
- Car tax relief to \$950 million cap	415.2	
- Annualize FY2006 salary increases	122.6	
- Other partially funded costs	<u>14.4</u>	<u>552.2</u>
4. Technical Adjustments		1.4

Budget Decision Packages

- Definition:** A decision package is a narrative and data submission that indicates the amount of change to an agency's base budget for a specific funding action involving: costs, inflation or workload changes; organizational changes; statutory or funding policy changes; changes in service delivery; new initiatives, other spending increases; and efficiencies or spending reductions.
- Purpose:** A decision package adjusts the base budget (up or down) for the funding decision it addresses.
- Timeframe** Agencies are currently (Mid-Sept.) submitting budget decision packages for consideration.

Preliminary Estimates for Known Requirements

(Decision Packages)

	<u>\$Millions</u>
- Re-benchmarking of the Standards of Quality for public schools	\$1,200.0
- Continuing cost of Medicaid (without federal cuts or or policy changes)	500.0
- Health insurance, higher VRS and group life insurance rates	200.0
- Additional debt service costs for bonds already authorized but not yet issued	125.0
- Cost overruns (concrete and steel prices) on capital projects already authorized and equipment for buildings carry on-line	250.0
Total	<u>\$2,275.0</u>

Other Potential Decision Packages

- Funding for higher education to meet our commitment to fund enrollment growth and core operations;
- Funding for the Chesapeake Bay clean-up to meet a 2010 federal deadline for action;
- Salary increases for employee groups;
- Comprehensive Services Act requirements;
- Mental Health and Mental Retardation Services;
- Deferred maintenance of state facilities;
- Ending the transfer of all Literary Fund revenue for teacher retirement;
- Jail per diems; Additional sheriff's deputies;
- Aid to localities with police departments (HB 599 funding);
- Funding for new capital projects;
- Additional funding to deal with the BRAC recommendations;
- Transportation; and
- **MANY OTHERS**

Budget Reform

New Statutory Requirements

HB2097(03) (*affecting §2.2-2681 - 2.2-2687*)

“...each agency shall develop and maintain a strategic plan for its operations” defined in the legislation as “the systematic clarification and documentation of what a state agency wishes to achieve and how to achieve it. The objective of strategic planning is a set of goals, actions steps, and measurements constructed to guide performance.”

HB1838(03) (*affecting §2.2-1508*)

The Executive Budget Document is to include a statement of “major goals, objectives, and specific outcomes related to expenditures for programs” in each agency.

Virginia's budgeting system is changing



STRATEGIC PLANNING & PERFORMANCE-BASED BUDGETING SYSTEM

OLD SYSTEM

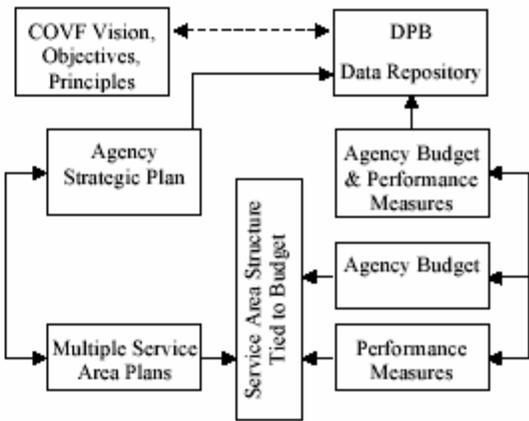
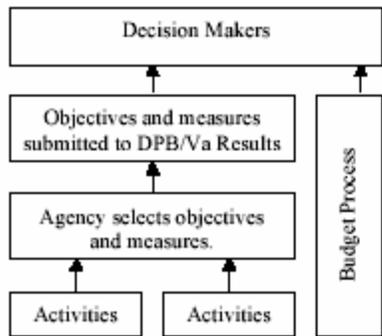
- Planning and budgeting systems use two taxonomies.
- Programs and subprograms are used in the budget and accounting systems.
- Activities are used for strategic planning and Virginia Results for performance measurement.
- Programs/subprograms and activities are not logically linked.
- It is not easy to connect budgets to specific agency performance management activities, measures and targets.
- There is variation in planning language, metrics and expectations, as well as multiple planning requirements. There is little or no training for agencies.

TRANSITION

- Received input from Council on Virginia's Future.
- Developed a new service area structure designed to link strategic plans with budgets.
- Convened an advisory group of state employees to shape the planning/budgeting process.
- Developed a prototype model for strategic plans and service area plans that ties service areas to the budget.
- Agency heads from every secretariat advised, modified and approved the model.
- Chief of Staff Bill Leighty convened Cabinet and agency heads to initiate the effort.
- A planning resource manual was developed for agency personnel involved in developing plans.
- Training for various levels of state personnel was developed and is underway.

NEW SYSTEM

- All agencies have strategic plans.
- Plans link to budgets.
- Plans and budgets are based on a common service structure - one taxonomy.
- DPB partners with agencies to develop their base budgets.
- Separate plans (Information Technology, Capital, Workforce) are consolidated within the strategic plan and are on the same schedule.
- Training and ongoing assistance is provided for agency personnel involved in planning.



Current Structure

❖ Programs/Subprograms =

Budgeting

Accounting System

❖ Activities =

Strategic Planning

Virginia Results

Future Structure

❖ Service Areas =

Budgeting

Accounting

Strategic Planning

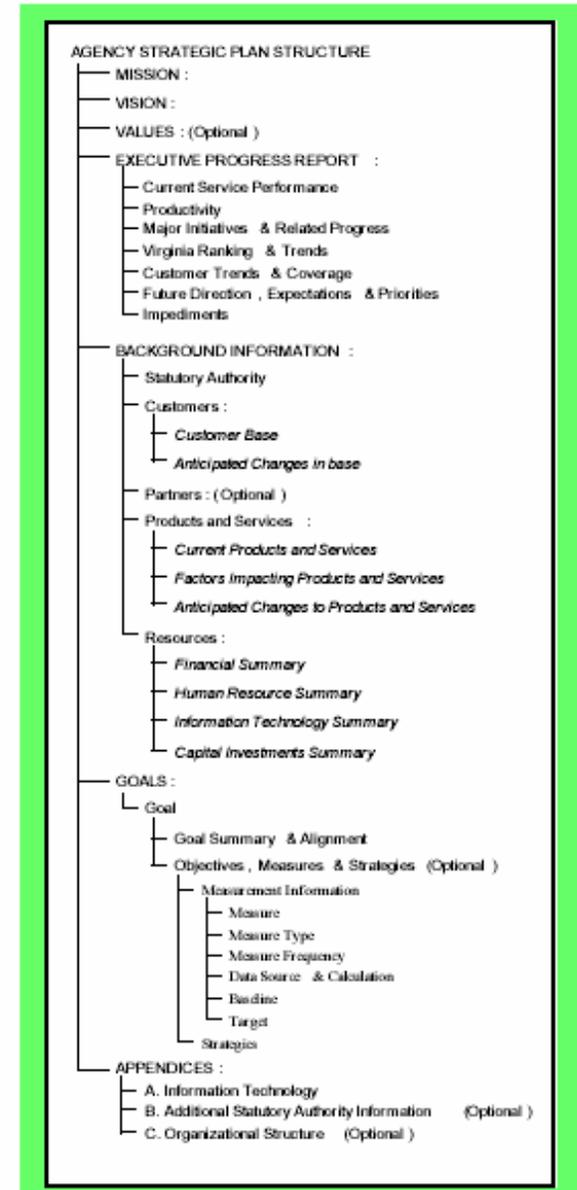
Performance Measurement

PROCESS DESIGN – AGENCY STRATEGIC PLAN

Each agency will develop an overall strategic plan comprising the elements shown in the diagram to the right.

PRINCIPAL OBJECTIVES OF THE PLAN

- To establish a strategic direction for the agency (mission and goals)
- To provide a current progress report on performance and productivity
- To identify services and customer base and anticipated change in that base
- To tie together financial, human resource, capital and information technology needs to reflect the strategic direction



PROCESS DESIGN – SERVICE AREA PLAN

Once the agency head and the executive team establish the strategic direction, each service area within the agency starts the process of developing a service area plan.

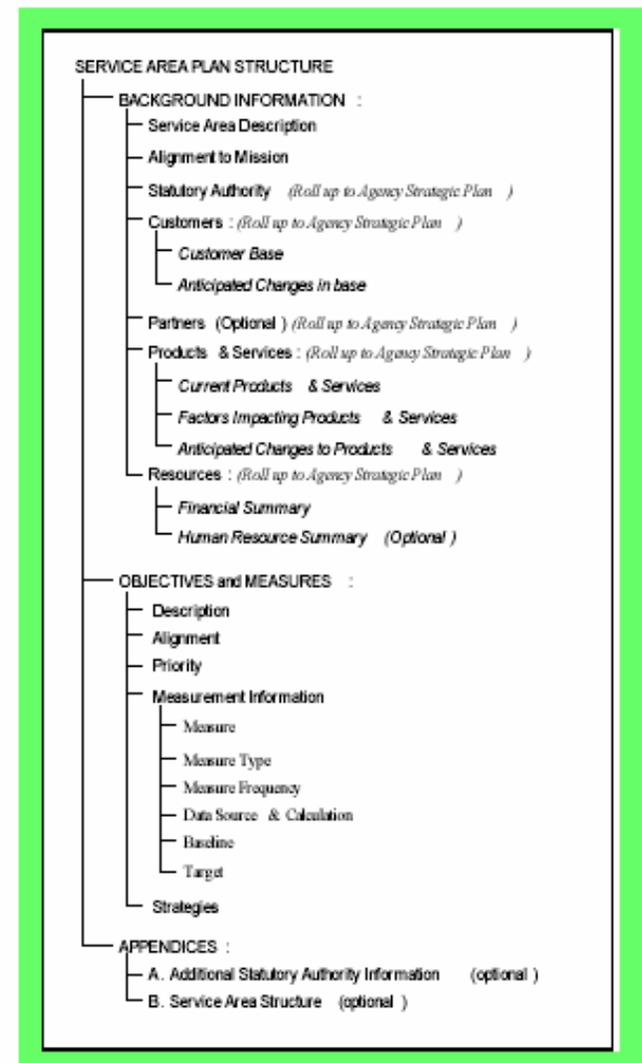
SERVICE AREA STRUCTURE IS KEY

- Generally, 'service areas' are what agencies do for the citizen or for other agencies.
- They consist of allocations of resources toward a specific objective.
- Each service area forms the basic unit of both budgeting and planning.

SERVICE AREA PLAN

- Is a tool to assist directors, managers and supervisors in planning and resource allocation
- Is specific - covers strategic issues as well as mandated and operational issues (as opposed to the agency's strategic plan which gives general guidance)
- Consists of objectives that describe the activities (strategic or mandated) in which the service will be engaged - objectives are accompanied by the following:
 - Information about how the objective aligns with the strategic plan or mandates
 - Measures to allow management to monitor progress
 - Strategies to be implemented to achieve the objective
 - Financial resources to be invested

Every Service Area Plan will have at least one objective. Every objective will have at least one performance measure.



The Revised Budget System Will Foster Transparency By Linking Together Expected Results, Funding, and Actual Performance For State Government Service

<u>Product</u>	<u>Contents</u>
Agency Strategic Plan	Establishes strategic and operational plan for the agency and its service areas
Service Area Plan	Articulates expected results (objectives) for each service area and defines performance criteria to measure progress toward expected results (sets baseline and target data for results).
Budget Bill	Allocates funding among the various service areas of state agencies
Budget Document	Brings together and begins to explain relationships between expected results and proposed funding in the budget for service areas and state agencies
Budget Execution	Accounts for actual spending by service area and monitors accomplishments and results through reporting system for performance measured data.

- The Service Area is the link between all of the above.
- It is the common unit at which strategic planning, funding (budget), and performance information (results) is presented.



Agency Mission

To promote and protect the health of Virginians



Service Area Profile: Immunization Services

Service Area Description for Immunizations Services: Immunizations provides vaccines to public and private health care providers, performs quality assurance reviews in public and private provider sites, assesses immunization status, reports on vaccine adverse events, investigates suspected cases of vaccine preventable disease, develops and implements statewide immunization registry, surveys for prenatal hepatitis B, and educates public and private providers. Budgetary breakdown of service area: the majority of funding (62%) are budgeted for personnel; 20% equipment and supplies; 16% contracts (IT, Bulk Mailing Services, and Professional Management); and 2% for travel. The federal government establishes national goals and programmatic guidelines for their funding participation; however, the State has full responsibility for operations within the service area.

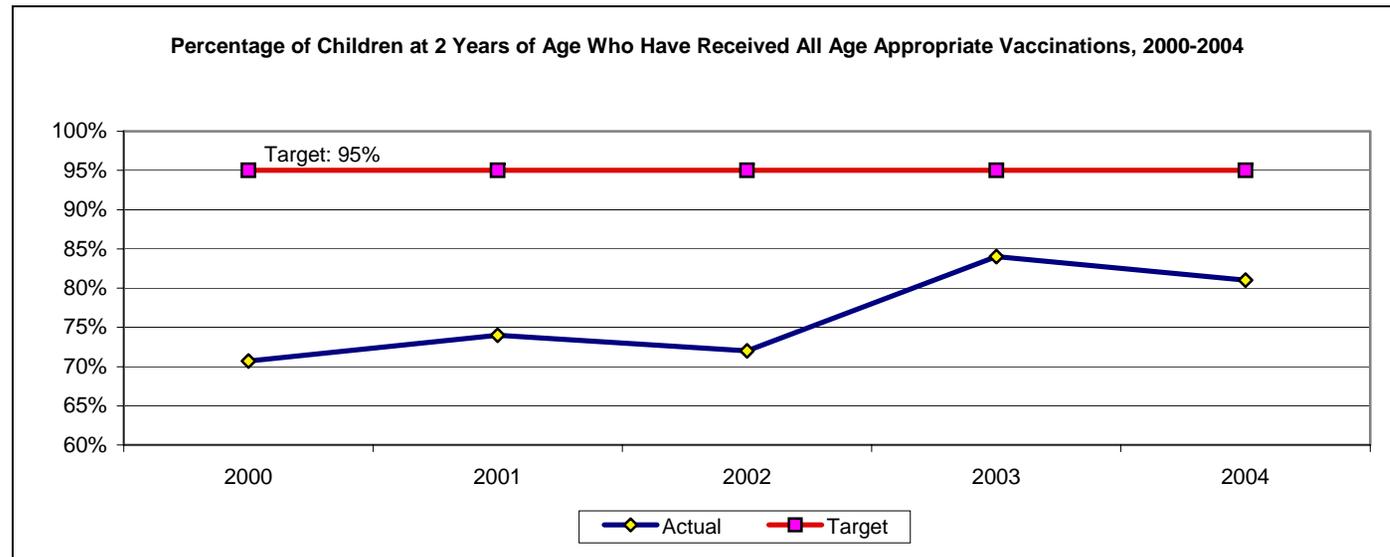
	FY 2006 Appropriations			
	Number	General Fund	Nongeneral Fund	Total
Total Service Areas	41	\$140,094,658	\$340,005,783	\$480,100,441
Immunization Services	1	\$2,456,372	\$4,472,110	\$6,928,482
Percent of Total	2.4%	1.8%	1.3%	1.4%

Immunizations Services Objective #1:

To achieve and maintain maximum immunization coverage rates in Virginia children

Measure	Baseline	Baseline Year	Target	Target Year	Reporting Frequency	Virginia's Ranking
1.1- Immunization coverage rates in children at 2 years of age						
▪ 1.1a - Number of children vaccinated by VDH (input measure)	25,000	2004	-	-	-	N/A
▪ 1.1b - Percentage of children at 2 years of age who have received all age appropriate vaccinations (output measure)	81%	2004	95%	2010	Biannual	9 th in the nation in meeting targets (2003)
1.2 - Immunization coverage rates in children at school entry						
▪ 1.2a - Number of children vaccinated by VDH (input measure)	25,000	2004	-	-	-	N/A
▪ 1.2b - Percentage of children who have received all age appropriate vaccinations (output measure)	94%	2004	95%	2010 National Target	Annual	9 th in the nation in meeting targets (2003)

Measure 1.1b



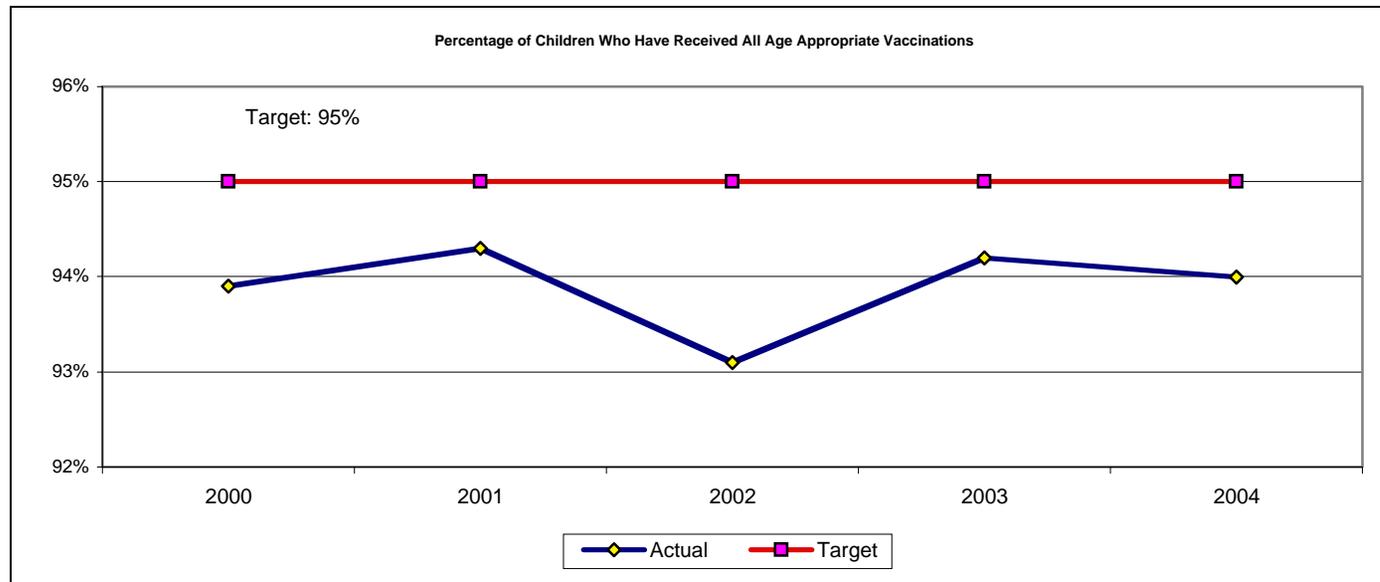
Measure 1.1b Data Table

	2000	2001	2002	2003	2004
1.1b - % of children at age 2 with all age appropriate vaccinations	71%	74%	72%	84%	81%

Measure 1.1b Data Sources and Calculation Methods:

The data are from the Center for Disease Control (CDC) National Immunization survey. This measure was chosen because the immunization coverage rates of two-year-old children are considered one of the best methods of evaluating effectiveness/timeliness of immunization delivery efforts. A child by the age of two should have received all of the immunizations recommended until the school boosters are due (4-6 years of age). The CDC also monitors each State's progress towards reaching the Year 2010 objective of 90% coverage of children by age two.

Measure 1.2b



Measure 1.2b Data Table

	2000	2001	2002	2003	2004
1.2b- % of all children with all age appropriate vaccinations	93.9%	94.3%	93.1%	94.2%	94.0%

Measure 1.1b Data Sources and Calculation Methods: Data are provided by the Division of Immunization. This measure was chosen because immunization coverage rates at school entry provide information on individual school compliance with the School Immunization Regulations and assists immunization staff with identifying schools in need of follow-up site visits. The school coverage assessment is also a requirement of the CDC for receipt of grant funding.

Service Area Cost per Unit of Output: TBD

REMOVE THIS PAGE
Replace with Health insert



Council on Virginia's Future Objective #5

Inspire and support Virginians toward healthy lives and strong and resilient families.



Agency: Virginia Department of Health
Service Area: Immunization Services

FY 2006 Appropriation: \$6,928,482

Objective #1:

To achieve and maintain maximum immunization coverage rates in Virginia children



Measure 1.1 – Immunization coverage rates in children at 2 years of age

1.1a - Number of children vaccinated by VDH (input measure)

1.1b - Percentage of children at 2 years of age who have received all age appropriate vaccinations
(output measure)

Measure 1.2 – Immunization coverage rates in children at school entry

1.2a - Number of children vaccinated by VDH (input measure)

1.2b - Percentage of children who have received all age appropriate vaccinations (output measure)