SB 381

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 381 (Senator Jones, *et al.*)
Budget and Taxation Appropriations

State Agencies - Managing for Results

This bill codifies the current Managing for Results (MFR) process established by the Department of Budget and Management (DBM). The bill continues the current practice of agencies identifying a mission statement, selecting goals, and choosing objectives and performance measures that assist them in measuring progress towards their goals. DBM is required to develop a State Comprehensive Plan for MFR that sets the overarching goals and direction for State government. This plan will be reported to the General Assembly each January and will consist of up to 10 goals and 50 to 100 performance measures from across State government. State agencies are required to develop an MFR Agency Strategic Plan.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund expenditures could increase by $55,000 in FY 2005. Revenues would not be affected. Future year expenditures reflect annualization and inflation.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	55,000	68,600	72,400	76,400	80,700
Net Effect	($55,000)	($68,600)	($72,400)	($76,400)	($80,700)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: DBM must review and update as necessary the goals developed in the MFR State Comprehensive Plan and the plan's objectives and performance measures. State agencies, in conjunction with DBM, must select no more than six goals per agency that are compatible with the MFR State Comprehensive Plan or consistent with the agency's mission if the goals identified in the comprehensive plan do not apply to the agency. State agencies must develop and submit to DBM as part of the budget process, an MFR Agency Strategic Plan. The State agency must maintain documentation of the internal controls established to evaluate performance measures that are subject to review by the State, including the Legislative Auditor. DBM must provide a report to the Senate Budget and Taxation Committee and House Appropriations Committee in January of each year on the contents of the State Comprehensive Plan and the State's progress toward the goals outlined in the plan. The report must include details on each agency's progress. The Senate Budget and Taxation Committee and House Appropriations Committee may hold hearings after receiving the report. The first report must be submitted by January 31, 2005 and must include a presentation of the first MFR State Comprehensive Plan.

The Office of Legislative Audits (OLA) is authorized to audit the performance measures to determine their reliability. DBM must continue its established, internal MFR Steering Committee and must invite the participation of three members to provide insight into the use and purpose of MFR by July 1, 2005. The three members include: one member of the Maryland Senate selected by the President of the Senate; one member of the House of Delegates selected by the Speaker of the House; and one budget analyst with the Office of Policy Analysis in the Department of Legislative Services selected by the Director of the Office of Policy Analysis.

The MFR Steering Committee, in consultation with the Office of Legislative Audits, must submit a report to the Senate Budget and Taxation Committee and House Appropriations Committee by July 1, 2006 on the progress made in implementing, and the effectiveness of, the MFR process. The report must include: (1) a comparative analysis of the State's MFR process with performance budgeting in other states; (2) the extent to which State agencies have implemented internal controls as provided by DBM's operating budget instructions; and (3) the extent to which the MFR process is used by State agencies and DBM in agency management, operations, and the development and adoption of agency budgets.

Current Law: DBM established an MFR program for State agencies effective with the 1998 session. The existing program is not codified in law.

Background: MFR is a future-oriented process that emphasizes deployment of resources to achieve meaningful results. These desired results are based upon identifying the needs of customers and stakeholders and are used to improve the quality and cost-effectiveness of programs and services. If it is well used, MFR facilitates planning, accountability, continuous improvement, and efficiency in agency performance and budgeting.

MFR Structure in Other States

The Council of State Governments, in its *Book of States 2003*, noted that 33 states had legislatively mandated the use of MFR as of 1999. In addition, the federal government, under the Government Performance and Results Act of 1993, implemented performance-based government at the federal level.

Current MFR Structure

Use of MFR began in 1997 as an initiative by the Governor. Implementation was phased-in over a three-year period. At the 1998 session, DBM required that executive agencies incorporate agency vision statements, mission statements, and key goals into their budget requests. By the 2000 session, agencies were to have developed complete MFR submissions, including key goals, objectives, and performance indicators with measurement data and use them to support their budget requests.

MFR is designed to shift the focus of government from processes to outcomes. Currently, a steering committee meets periodically to review policy and implementation issues. Each State agency has developed an agency-wide mission, vision, goals, objectives, and performance measures. Similar information has been established for each program in the budget. State agencies submit MFR data to DBM in August of each year, along with their budget submissions. An employee designated within each agency coordinates the MFR submissions. Agencies may submit unfunded requests to DBM, which must be accompanied by data showing how MFR goals would be reached with the additional funding. The current process, however, does not permit comparative assessment of goals in disparate policy areas such as weighing goals in the health area versus education or the environment.

Problems with Current MFR Implementation

In response to a request from the legislative budget committees, in fiscal 2001 through 2003, OLA audited selected agency performance measures. The results of these audits have shown a general lack of data reliability, with approximately 60% of the measures audited found to have inadequate data accumulation and/or reporting control processes in place, or the reported data were judged to be incorrect. **Exhibit 1** shows audit findings on specific agency MFR data.

Exhibit 1
Summary of Legislative Audit Findings on Specific Agency MFR Data

Fiscal Year	Number of Agencies	Number of Measures	Number/Percent of Measures Deemed Unreliable
2001	8	56	24 (43%)
2002	6	44	34 (77%)
2003	4	20	18 (90%)
Total	**18**	**120**	**76 (63%)**

The *2003 Joint Chairmen's Report* requested OLA to conduct a performance audit of the MFR process. OLA submitted its findings to the budget committees on January 13, 2004. Major findings include:

- MFR is not formally linked to the budget and statewide planning process;
- MFR information is not routinely used in making key budget recommendations;
- comprehensive strategic planning is not incorporated into MFR;
- the success of the MFR initiative has not been evaluated;
- critical MFR elements were not submitted as required and the number of measures was excessive;
- assurance was lacking that annual MFR submissions were reliable; and
- agencies fail to submit MFR information to DBM in a timely manner.

Costs for MFR

As requested by the *2003 Joint Chairmen's Report*, DBM prepared and submitted a report on September 3, 2003 that estimated the total State spending for MFR for fiscal 2002. In the report, DBM estimated that State agencies incurred $1.9 million in costs in fiscal 2002 to implement and maintain MFR. These costs include $397,000 for MFR training, $173,000 for consulting (primarily University of Baltimore), $839,000 for personnel-related costs, and $492,000 for data systems and audits of performance measures. The cost per agency was less than $30,000.

OLA believes that the reported costs may understate the actual cost to implement and maintain MFR since DBM only required agencies to report personnel costs when at least

20% of an employee's time was spent on MFR. OLA noted that 28 agencies indicated no MFR expenditures for fiscal 2002. Agencies that reported no expenditures included both small agencies and large departments, such as the Maryland State Department of Education and the Department of Housing and Community Development. These agencies stated two primary reasons for the lack of reported expenditures: (1) decentralized operations resulted in no employees spending 20% or more of their time on MFR; and (2) there were no training costs incurred during the year.

State Fiscal Effect: General fund expenditures could increase by $55,000 in fiscal 2005 in order to hire an additional legislative auditor to ensure the reliability of agency performance measures. Existing personnel at State agencies could be used to support the MFR process.

OLA Administrative Costs

Under the current MFR initiative, OLA has audited selected agency performance measures in fiscal 2001 through 2003. No agency performance measures have been audited in fiscal 2004. The performance measures audited were selected by the Department of Legislative Services (Office of Policy Analysis) in accordance with a plan approved by the Senate Budget and Taxation Committee, House Appropriations Committee, and Joint Audit Committee. On average, OLA audited approximately 45 performance measures each year. The audits were conducted with three full-time equivalent staff positions at a cost of $200,000. OLA anticipates that two existing staff positions and one additional position would be used to audit the performance measures required under this bill. The cost to hire one additional senior auditor is estimated at $55,000 in fiscal 2005. This includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as illustrated below:

Salaries and Fringe Benefits	$48,792
Operating Expenses	6,187
Total Expenditures in FY 2005	**$54,979**

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: A similar bill was introduced at the 2003 session as SB 511. The bill received a favorable with amendments report from the Senate Budget and Taxation

Committee and was passed by the full Senate. The bill received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Legislative Services (Office of Legislative Audits)

Fiscal Note History:	First Reader - February 17, 2004
ncs/ljm	Revised - Senate Third Reader - April 7, 2004
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