

Zero Based-Budgeting Description and House Bill 627 ZBB Approach

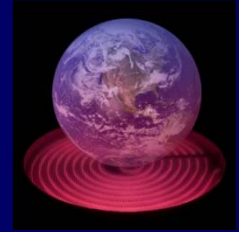
**A Presentation to the LRC Committee on
Efficiencies in State Government**

November 10, 2011

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Program Evaluation Division



Presentation Overview



- Mechanics of Zero-Based Budgeting (ZBB)
- New information available from ZBB
- House Bill 627 (Blackwell and Crawford) approach to piloting ZBB
- Slide handout with H627 and fiscal note attached

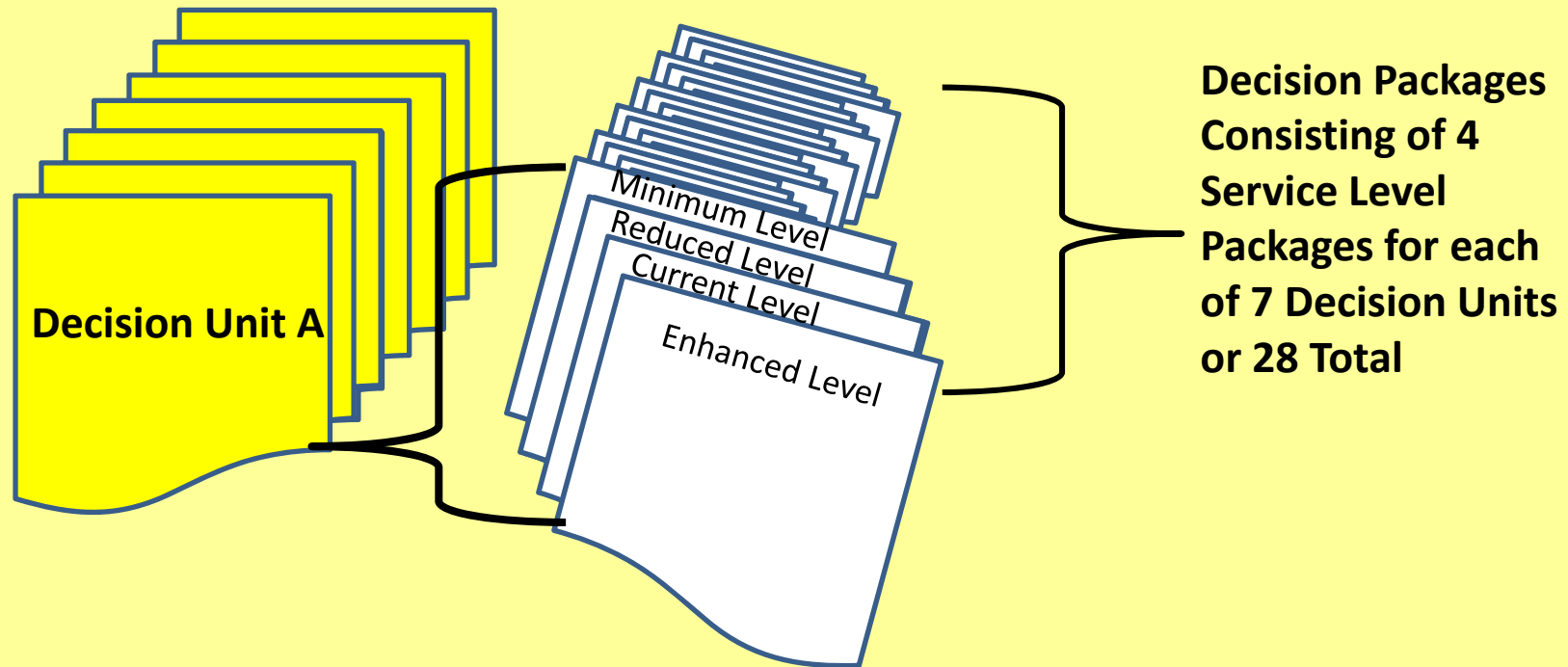


Zero-Based Budgeting Mechanics



Step 1.
**Agency Proposes and
Legislature Approves
Decision Units**

Step 2.
**Each Decision Unit Prepares 4 Service Level
Packages and Uniform Narratives About
Each Package.**



Hypothetical Format of Decision Packages (Greatly Abbreviated)

Department of General Services

Decision Unit: Traffic and Parking Control

Decision Package: REDUCED LEVEL

Package Summary

- Funding level of \$1.3 Million, 18.5% reduction from \$1.6 Million Continuation Decision Package
- Decreases “secure area” coverage from 7.5 to 4.0 acres
- Increases (delays) patrol response from 5 to 8 minutes
- Eliminates 2 FTE night shift patrol officers
- Replaces 2 police equipped cars with one 250 cc motorscooter
- Adds 2 remotely operated night vision cameras
- Defers painting of striping of 100% of spaces, but provides for painting only spaces with excessive wear

Department of General Services

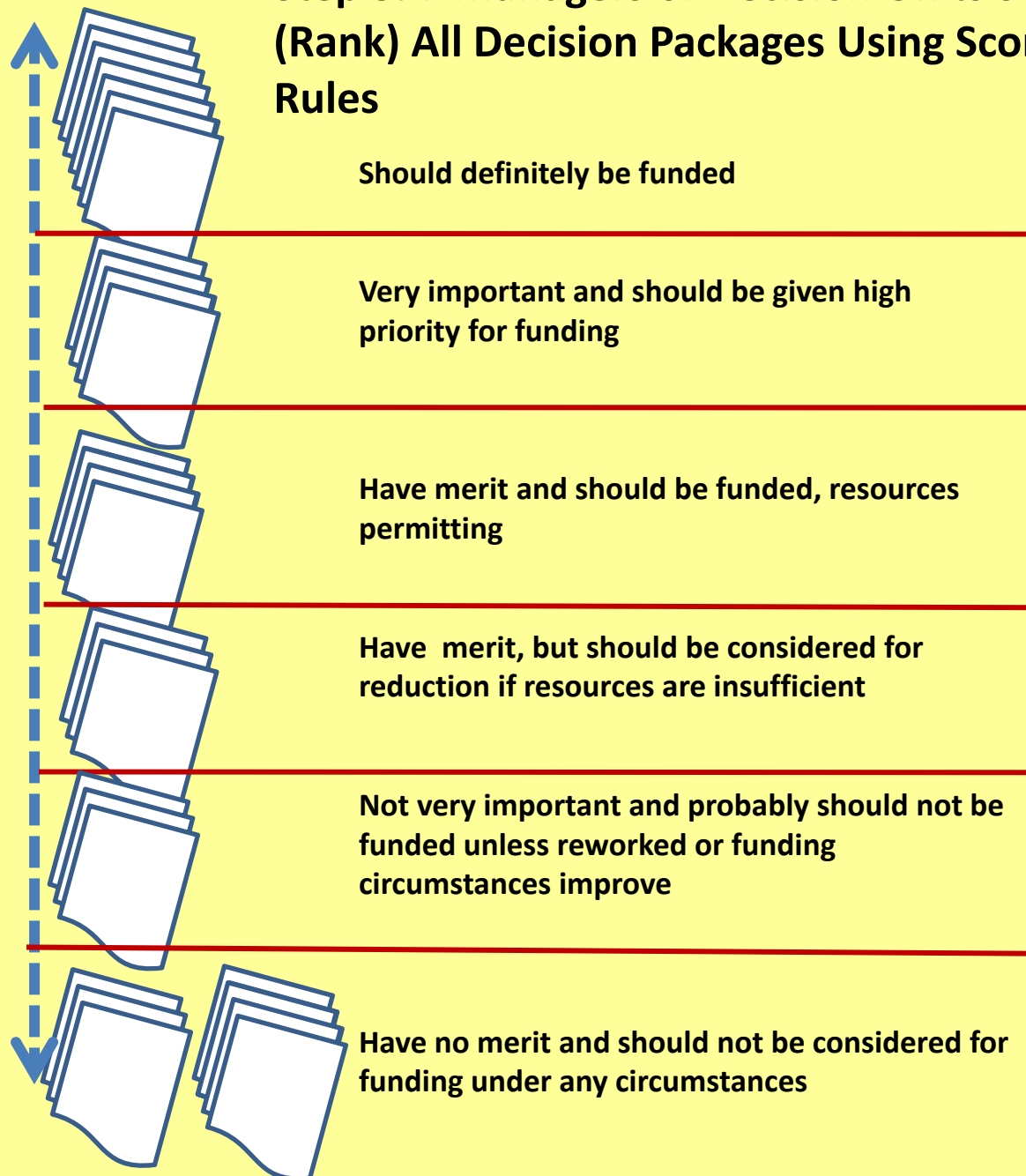
Decision Unit: Traffic and Parking Control

Decision Package: MINIMUM LEVEL

Package Summary

- Funding level of \$800,000, 50% reduction from \$1.6 Million Continuation Decision Package
- Decreases “secure area” coverage from 7.5 to 1.0 acre surrounding Capitol
- Eliminates 5 FTE security officers
- Eliminates all vehicles, uniforms, weapons, for 5 eliminated FTE
- Maintains 1 Security Coordinator FTE
- Provides for \$650,000 annual contract with Acme County Sheriff’s Office for patrol and priority response
- Defers painting of striping of 100% of spaces, but provides for painting only spaces with excessive wear

Step 3. 7 Managers of Decision Units Score (Rank) All Decision Packages Using Scoring Rules



Step 4. Decision Focus

Area of final focus by Department Head, Governor, and Ultimately the General Assembly

ZBB Process Proposed by House Bill 627 Representatives Blackwell and Crawford

1. Creates Joint Legislative Efficiency and Cost-Savings in State Government Study Commission (5 Senators, 5 Representatives)
2. Staff support by Fiscal Research Division with Director of Program Evaluation Division serving as a Commission adviser
3. Commission charged with using ZBB review process on an agency or agencies selected by the Commission
4. Commission may require submission of information in form specified by Commission
5. Commission may reject and require revision or resubmission
6. Agencies under ZBB will identify decision units—i.e. group of services with a common set of objectives comprising a program or administrative support unit
7. Agencies under ZBB would be required to provide a quantitative estimate of adverse impacts of eliminating a decision unit

(Continued)

ZBB Process Proposed by House Bill 627 Representatives Blackwell and Crawford

8. Requires minimum, reduced, current and enhanced decision packages for each decision unit and specifies criteria for each level
9. Requires agencies to identify alternative methods for delivering services such as privatization or allowing State employees to form non-State organizations to compete to provide services
10. Authorizes Legislative Commission to issue instructions for agencies to rank decision packages (no ties allowed)
11. Required Commission to make an interim report to 2012 session and final report to the 2013 session

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

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HOUSE BILL 627
Second Edition Engrossed 6/2/11

Short Title: Study Efficiency and Cost Savings/State Govt. (Public)

Sponsors: Representatives Blackwell and Crawford (Primary Sponsors).
For a complete list of Sponsors, see Bill Information on the NCGA Web Site.

Referred to: Rules, Calendar, and Operations of the House.

April 6, 2011

A BILL TO BE ENTITLED
AN ACT TO ESTABLISH THE JOINT LEGISLATIVE EFFICIENCY AND
COST-SAVINGS IN STATE GOVERNMENT STUDY COMMISSION.

The General Assembly of North Carolina enacts:

SECTION 1. There is established the Joint Legislative Efficiency and
Cost-Savings in State Government Study Commission.

SECTION 2. The Commission shall be composed of 10 members appointed as
follows:

(1) Five Senators appointed by the President Pro Tempore of the Senate.

(2) Five Representatives appointed by the Speaker of the House of
Representatives.

Vacancies on the Commission shall be filled by the appointing authority. The
President Pro Tempore of the Senate and the Speaker of the House of Representatives shall
each designate a cochair. A quorum of the Commission shall be a majority of its members.

The Commission may meet at any time upon call of the chairs. The Commission
may meet in the Legislative Building or the Legislative Office Building. The Commission may
contract for professional, clerical, or consultant services as provided by G.S. 120-32.02.

The Commission, while in the discharge of its official duties, may exercise all
powers provided for under G.S. 120-19 and G.S. 120-19.1 through G.S. 120-19.4, including the
power to request all officers, agents, agencies, and departments of the State to provide any
information, data, or documents within their possession, ascertainable from their records, or
otherwise available to them, and the power to subpoena witnesses and documents.

The Director of the Fiscal Research Division shall provide staff support to assist the
Commission in its work. The Director of the Program Evaluation Division shall advise the
Commission. The Legislative Services Commission, through the Legislative Services Officer,
shall assign other professional staff to assist the Commission in its work. The House of
Representatives' and Senate's Directors of Legislative Assistants shall assign clerical staff to the
Commission, and the expenses relating to the clerical employees shall be borne by the
Commission. Members of the Commission shall receive subsistence and travel expenses at the
rates set forth in G.S. 120-3.1, 138-5, or 138-6, as appropriate.

SECTION 3. The Commission shall use a zero-based budgeting review process to
study whether there are obsolete programs, cost-reduction opportunities in State government,
and any cases where existing funds can be redirected to meet new and changing demands for
public services. At its first meeting, the Commission shall determine which agency or agencies
to review. The Commission may require any agency under review to submit written



information in a form specified by the Commission by a specified time. The Commission may accept or reject any or part of any information submitted and require revision or resubmission. The Commission may require information as follows:

- (1) Identification of decision units. – The agency shall identify decision units representing any group of services with a common set of objectives or comprising an agency program or administrative support unit.
- (2) Impact of discontinuing each decision unit. – The agency shall provide a quantitative estimate of any adverse impacts that could reasonably be expected should the State discontinue a decision unit, together with a full description of the methods by which the adverse impact is estimated.
- (3) Division of decision units into decision packages. – The agency shall divide each decision unit into the following four discrete decision packages:
 - a. Minimum. – A quantitative estimate of any adverse impacts that could reasonably be expected and an itemized account of expenditures that would be required to maintain the activity at the minimum level of service required by any statutory authorization and below which would effectively eliminate all services, together with a concise statement of the resulting quantity and quality of services. This service level shall be below the level described by sub-subdivision b. of this subdivision.
 - b. Reduced. – A quantitative estimate of any adverse impacts that could reasonably be expected and an itemized account of expenditures that would be required if funding were reduced by the percentage or amount specified by the Commission below the current level as defined by sub-subdivision c. of this subdivision and a concise statement of the resulting quantity and quality of services.
 - c. Current. – A quantitative description of benefits from and an itemized account of expenditures that would be required to maintain the activity at the current level of service, together with a full description of the methods by which the current level is determined and a concise statement of the resulting quantity and quality of services.
 - d. Enhanced. – A quantitative estimate of benefits that could reasonably be expected and an itemized account of expenditures that would be required to increase the current level of service, together with a full description of the methods by which the enhanced level is estimated and a concise statement of the resulting quantity and quality of services.
- (4) Service delivery alternatives. – For each decision package, a description of alternative methods for delivering services which may include, but not be limited to, shedding one or more services and relying upon the free market for delivery, delegation to another level of government, using Requests for Information or competitive selection to outsource to private for-profit or nonprofit organizations, in whole or in part, including franchising, assisting or providing incubator arrangements for current State employees to form non-State organizations to compete for outsourcing opportunities, or through methods used by other states or nations.
- (5) Ranking. – As instructed by the Commission, a ranking of all decision packages compared with each other without ties.

SECTION 4. The Commission shall make an interim report to the 2012 Regular Session of the 2011 General Assembly and shall make a final report to the 2013 General

1 Assembly. The report shall include any proposed legislation. The Commission shall terminate
2 upon filing its final report or upon the convening of the 2013 General Assembly, whichever is
3 earlier.

4 **SECTION 5.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Fiscal Note

BILL NUMBER: House Bill 627 (First Edition)

SHORT TITLE: Study Efficiency and Cost Savings/State Govt.

SPONSOR(S): Representatives Crawford and Blackwell

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
REVENUES					
EXPENDITURES	\$12,312	\$24,624	\$0	\$0	\$0
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	North Carolina General Assembly				
EFFECTIVE DATE:	Effective when the bill becomes law				

BILL SUMMARY:

House Bill 627 would establish a the Joint Legislative Efficiency and Cost-Savings in State Government Study Commission (Commission) composed of 5 members of the Senate appointed by the President Pro Tempore, and 5 members of the House appointed by the Speaker. The Commission would be tasked to use a zero-based budgeting review process to study whether there are obsolete programs, cost-reduction opportunities, and cases where funds can be redirected to meet new and changing demands for public services. This bill would require any agency under review to identify decision units and divide each unit into specified minimum, reduced, current, and enhanced decision packages, and requires an interim report to the 2012 Regular Session of the 2011 General Assembly and a final report to the 2013 General Assembly.

SOURCE: Bill Digest (04/05/0201)

ASSUMPTIONS AND METHODOLOGY:

House Bill 627 authorizes the Commission to meet at any time upon the call of the Chairs until the Commission files its final report or upon the convening of the 2013 General Assembly. The bill directs the Commission to issue an interim report to the 2012 Regular Session of the 2012 General Assembly and a final report to the 2013 General Assembly.

Fiscal Research assumes that the Commission would begin meeting in the 2011 Interim as early as September 2011. This assumption provides the potential for at least 8 monthly meetings with the last meeting scheduled by April 2012 to meet the interim report requirement. Fiscal Research also assumes that the Commission would resume its meetings in September 2012. This assumption provides the potential for at least 4 additional monthly meetings with the last meeting scheduled by December 2012 to meet the final report requirement. In total, Fiscal Research assumes that the Commission would hold at least 12 meetings.

HB 627 provides that 10 legislative members serve on the Commission. If 10 legislative members were to conduct business in 12 meetings, the estimated cost for subsistence, travel expenses, and in-house clerical support would be \$36,936 (see Table 1 below). This cost is apportioned between four meetings in FY 2011-12 at a cost of \$12,312 and 8 meetings in FY 2012-13 with a cost of \$24,624. Section 2 of the bill allows the Commission to contract for professional, clerical, or consultant services. However, this estimate does not include an allowance for special travel and expenses or other ancillary costs.

TABLE 1: The Cost to the General Assembly to Administer House Bill 627	
Description	Cost
Legislative Members' Subsistence	\$18,720
Travel	\$8,400
In-House Clerical Support	\$9,816
TOTAL	\$36,936

SOURCES OF DATA: Fiscal Research

TECHNICAL CONSIDERATIONS: None

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Fiscal Research Division

DATE: May 23, 2011



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