



## Department of Audits and Accounts

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March 7, 2011

Honorable Jack Hill, Chairman  
Senate Appropriations Committee  
State Capitol, Room 234  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
Senate Bill 33 (LC 36 1754S)

Dear Chairman Hill:

This bill, the Waste Reduction Act of 2011, also known as the Zero-Base Budgeting Act, would require that, beginning with the Governor's Budget Report presented to the General Assembly in January 2013, between one quarter and one third of all programs included in the most recently passed General Appropriations Act include zero-base budgeting (ZBB) data. No program is required to use ZBB more often than once every four years. The bill specifically identifies the Board of Regents of the University System as a budget unit subject to the provisions of the bill. The determination of which programs submit ZBB recommendations in any given year is made by the Office of Planning and Budget (OPB). The ZBB recommendations would be incorporated into the budget preparation cycle for both agencies and OPB.

This bill specifies that, in the years in which zero-base budgeting applies, the budget unit is required to include the following data in their budget estimate:

- An analysis summarizing past and proposed spending plans organized by program and revenue source;

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- A statement of the budget unit's departmental and program purposes; effectiveness, efficiency, and equity measures; and program size indicators;
- At least three alternative funding levels for each program and revenue source with effectiveness, efficiency, and equity measures and program size indicators detailed for each alternative funding level; and
- A priority listing encompassing all alternative funding levels for all programs.

In order to estimate the fiscal impact of this legislation on state government, it would be necessary to identify how many agencies already employ ZBB practices when they prepare their annual budget requests, the extent to which those practices include compiling the information specified in the bill, and the complexity of the organizational structure from a programmatic perspective where such ZBB practices are not currently utilized. To the extent that additional human capital would be needed to compile the information required by the bill, it appears that the Office of Planning and Budget would have the latitude to stagger a particular agency's requirements such that all of that agency's programs would not be subject to ZBB in a particular year. It is assumed that the requirement to employ ZBB practices on between one fourth and one third of all programs in the General Appropriations Act refers to the number of programs and is not based on the dollar value of appropriations. An additional assumption is that the Office of Planning and Budget will be responsible for establishing guidance in annual agency budget instructions defining the types of effectiveness, efficiency and equity measures to be reported as well as establishing parameters for alternative funding levels and program prioritization.

According to the Office of Planning and Budget, there are roughly 800 programs and subprograms in the budget that would be subject to this provision. In order to meet the requirements of the bill, OPB would have to add 8 additional staff. Additionally, OPB will have to make modifications to the State's budget development tool used by all agencies. Not all of the information presented for ZBB would be in the publishing document currently used for the budget book, thereby impacting the electronic publishing of the budget report. OPB estimates the FY 2012 cost to be about \$1.6 million, which includes staff salaries and IT modifications.

Due to the time constraints on issuing this fiscal note, a sample of state agencies were consulted to solicit feedback on the fiscal impact of the provisions of the bill. Agencies indicated that the cost to implement this bill will vary depending on how it is interpreted and how much information can be leveraged using existing systems (Peoplesoft and/or Budgetnet/Budgettool). If the reporting requirements were structured such that fewer of an agency's programs were subject to ZBB in a particular year, this could lead to more consistent year-to-year staffing needs and lesser costs.

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Assuming that the starting point for a particular program's ZBB is the total expenditures for the most recent fiscal year, a significant amount of the work involved in finalizing the ZBB will occur subsequent to that most recent fiscal year end. Staffing patterns must be established such that the required information is provided to OPB in time to allow OPB to evaluate the data and prepare the budget report as currently specified in state law. Until such time as the scope of the reporting parameters are defined in detail by OPB and communicated to agency budget staff, it is not possible for agencies to provide more than a rough estimate of their staffing needs. Accordingly, we present the estimates below with this accompanying caveat.

<u>Agency</u>	<u>Anticipated Additional Staff</u>	<u>Anticipated Agency Cost (millions)</u>
Department of Behavioral Health and Developmental Disabilities	5	\$0.35
Department of Community Health	1	\$0.2
Department of Corrections	8	\$0.65
Department of Education	1	\$0.2
Department of Human Services	20	\$1.43
Department of Juvenile Justice	2	\$0.2
Department of Transportation	low estimate* high estimate*	\$0.35 \$2.5 to \$2.7
Board of Regents of the University System	40	\$2.4

\* DOT provided two estimated ranges based on how the provisions of the bill are implemented.

Sincerely,

/s/ Russell W. Hinton  
State Auditor

/s/ Debbie Dlugolenski, Director  
Office of Planning and Budget

RWH/DD/eb/bb