

MEMORANDUM - Kansas Budget Process

The February 2016 Kansas Statewide Efficiency Review from Alvarez and Marsal recommended changes to the Kansas Budget review process. In the review, the firm recommended conducting a program service inventory, developing goals to guide decision making, including evidence of program effectiveness in budget decisions, and implementing performance based budgeting. The total summation of these goals is to determine what activities agencies are engaged in, what those activities seek to accomplish, and whether agencies are successful in conducting those activities. Achieving these goals would require a multi-phase project to be implemented over the next several fiscal years. Some aspects of this type of project are described below.

During the 2015 Legislative Session, the Department of Agriculture was directed to create a sample zero based budget. This budget, with some modifications, incorporates elements of a program service inventory and performance based budgeting.

At the end of this project, the goal will be to have a budget process that accomplishes the following objectives:

- **Program Service Inventory**
 - Identifies agency programs and subprograms by function and purpose;
 - Provides the statutory justification for those programs;
 - Distinguishes between programs that are mandatory versus discretionary;
 - Provides a history of the programs;
 - Prioritize the level of all programs and subprograms; and
 - Priority levels should reflect both the consequence of not funding the program and any laws requiring the program.
- **Performance Based Budgeting**
 - Incorporate various outcome based performance measures, for state programs;
 - Develop and implement evidentiary evaluations of program effectiveness based on models such as the Pew Foundation Results First Initiative; and
 - Enhance the capability to compare program effectiveness across multiple state and political boundaries.
- **Integrate Budget Fiscal Process**
 - Institute a common accounting system from budget development, budget approval, budget submission, and actual expenditures by fund; and
 - Reintegrate the Regents Institutions into the budget process.

Program Service Inventory

The first step in developing a priority or performance based budget is identifying current agency activities. These activities should be related to either federal or state statutory directives or

discretionary agency goals. The federal Government Accountability Office defines a program as, "Generally, an organized set of activities directed toward a common purpose or goal that an agency undertakes or proposes to carry out its responsibilities. Because the term has many uses in practice, it does not have a well-defined, standard meaning in the legislative process. It is used to describe an agency's mission, functions, activities, services, projects, and processes."¹

The Federal Government in OMB Circular No. A-11 has identified several approaches to identifying programs:

- **Outcomes.** Directly attributable to an end result the program is trying to achieve, such as increased exports. Could also be linked to specific functions to accomplish an objective, such as trade enforcement. Could cut across organizational units and/or budget accounts.
- **Customers.** Organized by the focus on providing a service or product to a specific entity or consumer group, such as women-owned small businesses or veterans. Could cut across organizational units and/or budget accounts.
- **Prominent products, services, outputs.** Produces major reports or studies, such as the Consumer Price Index (CPI) and Producer Price Index. May group similar products, services or activities into one program.
- **Organizational structure.** Defined by agency office structure. Offices could focus on specific regions, functions or specialized subject matter such as U.S. Polar Research or Cyberinfrastructure.
- **Budget.** Links closely with the program activity lines in the President's Budget, such as Disaster Recovery or Patents. May align to other budget materials such as the Congressional Budget Justification or internal agency budget/accounting systems. In some instances, a program may be synonymous with its appropriation account title; although it is not presumed that an appropriation is the same as a program.

The least valuable approach above is almost always budget. The budget for a program describes how a program is implemented and not the goal or desired outcome. Budget should only be used for single purpose appropriations. A secondary goal is to develop program identifiers that are applicable across multiple agencies. In some cases a single program can exist in multiple agencies. In these cases, the program should have a common identifier.

After the programs have been identified, it is necessary to determine whether the program is discretionary or mandatory. Many agencies have various discretionary programs such as consumer education which are not required by law but aid significantly in the achievement of the agency mission. For those programs, which are considered mandatory, the agency should be able to provide the federal or state statutory reference, administrative regulations, or Governor's Executive Orders. If there is not a discernible legal requirement for a program the program should be listed as discretionary.

Another step in creating a program inventory is providing the program history. The history should include when the program was established; a record a major changes, including movement of

1 United States Government Accountability Office, "A Glossary of Terms Used in the Federal Budget Process"; September 2005; www.gao.gov/assets/80/76911.pdf

the program responsibilities between agencies, and any suspensions or substantial changes in the program expenditure level.

Priority Based Budgeting

All programs and subprograms should be given a priority level on a graduated scale. Priority levels should reflect both the consequence of not funding the program and any laws requiring the program to be funded.

When determining the level of priority of a program it should reflect back to its core mission goals. The agency should evaluate and describe the consequences of not funding the program. Additionally, the agency should determine how the program interacts with other agency programs and objectives.

Performance Based Budgeting

Kansas currently utilizes activity-based performance measures. These measures record the work load level of an agency but do not indicate whether an agency is achieving its objectives. Activity-based performance measures are important and should continue to be recorded to track changes in how an agency's customers are using its services. In addition, these agencies should develop sets of outcome measures. The Urban Institute recently published a guide to developing performance measures for State Agencies,² the following recommendations borrow heavily from that Guide.

- In determining which performance measures to use, the agency should:
 - Seek input from representatives of key stakeholder groups to ensure identification of appropriate outcomes;
 - Utilize external resources from national programs such as the Pew Foundation's Results First Initiative;
 - Consider indicators for which data already exists. Then, consider indicators needed to measure outcomes for which no data exists;
 - Develop Logic Models that track a program's objectives from start to finish and then choose measures that evaluate whether a program is achieving its objectives at various stages including after the program's termination;
 - Distinguish between activity, outcome and final indicators formally;
 - Include indicators over which the agency has no direct or only limited control; and
 - Track outcome efficiency from performance measures developed above as well as activity.

² <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413197-Transforming-Performance-Measurement-for-the-st-Century.PDF>

Integrate the Budget Fiscal Process

The ultimate goal of an integrated budget process would be to align the budget process from budget development, expenditures, and through budget review. The current budget system is divided between the Kansas Internet Budget and Reporting System (IBARS) for budget creation, the Statewide Management Accounting and Reporting Tool (SMART) for tracking of expenditures and revenues, and the Statewide Human Resource and Payroll System (SHARP). The use of multiple systems results in flawed data, loss of data in transition, and a lack of verifiability for the data which is produced. Furthermore, the Regents Institutions do not utilize either the SMART or SHARP systems. The 2015 annual audit report from Clifton, Larsen, Allen³ identifies the manual upload process from the State University System into the statewide accounting tool as a material weakness resulting in substantial misstatements of finances.

Implementation

The following proposed phases provide objectives and preliminary time frames for implementation of performance and priority based budgeting. Some objectives can run concurrently so an agency could be working on items for phase 3 during phase 1.

Phase 1 (Complete by 1/9/2017)

- Develop the program inventory;
- Identify mandatory versus discretionary programs;
- Identify the statutory basis for programs;
- Attach the current performance measures to these programs; and
- Assign a priority level to each program.

Phase 2 (Complete by July 1, 2017)

- Begin integration of the fiscal processes so that agency submitted budgets match the program inventory structure; and
- Align the IBARS system with SMART so agency submitted budgets more closely match actual expenditures.

Phase 3 (Complete by 10/1/2018)

- Develop a complete set of outcome measures for the agency; and
- Begin matching programs and objectives to external initiatives which assist in evaluating program performance and efficiency.

Governor Submits Fully Revised Budget with Program and Performance Measures to Legislature on 1/14/2019

Following Attachments: Implementation Time frame and sample Budget Narrative Document for Phase 1.

3 <http://www.kslpa.org/assets/files/reports/r-15-018.pdf>

Animal Health Program

History: The Animal Health program was transferred to KDA in FY 2012 as part of Executive Reorganization Order No. 40. The Board of Veterinary Examiners is temporarily part of the Animal Health program as part of a trial merger scheduled to expire at the end of FY 2016 pursuant to K.S.A. 74-5,135.

Program Goals:

Ensure public health, safety and welfare and enhance economic viability of the state's livestock production through livestock identification, animal health planning and preparedness, disease prevention, control and eradication of infectious and contagious livestock and domestic animal diseases.
Eradicate contagious and infectious animal diseases in Kansas.
Bring all hobby breeders, animal breeders, retail breeders, distributors, pounds, animal shelters, pet shops and research facilities into compliance with pet animal rules and regulations.
Provide timely, accurate brand inspection services as requested by counties and livestock markets and maintain the brand book as required as well as encourage livestock owners to have permanent identification to enable trading of lost and stolen livestock.

Sub-Program Name	Priority	Required	Statutory Basis	Purpose	How Will this be Accomplished	Consequences of not Funding	Performance Measures
Animal Disease Control	1	Mandatory	KSA 47-104 through 47-2306	Protect the health, safety and welfare of Kansas' citizens and livestock industry through prevention, control and eradication of infectious and contagious diseases and conditions.	Utilize administrative and field staff. Utilize USA Herds database for documentation, licensing and premises registering. Routine practices will be accomplished annually with additional projects on an as-needed basis.	Negative economic impact on the state's animal industries in the event of a large animal disease outbreak with subsequent ripple effects throughout the entire economy.	Domesticated Deer licenses issued
Emergency Management	2	Mandatory	KSA 47-604 through 47-674; 7 USC 8301 et seq. (Animal Health Protection Act)	Increased readiness to respond to an animal disease outbreak affecting Kansas animal producers.	Utilize administrative staff and agency emergency manager. Additional support will be established from agency personnel through training and exercise practice. Routine practices will be accomplished annually with additional projects on an as-needed basis.	Being ill prepared for an animal disease outbreak would increase the negative economic impact on the state's animal industries.	
Kansas Board of Veterinary Examiners	3	Mandatory	KSA 47-814 through 47-854 (the Kansas Veterinary Practice Act). Additionally, K.S.A. 74-5,135 (temporary merger of the Board of Veterinary Examiners with the Department of Agriculture)	Assure public consumers each licensed veterinarian and each registered veterinary technician is qualified, properly trained and performing in accordance with the Kansas Veterinary Practice Act. Ensure all Kansas veterinary premises meet or exceed minimum standards to assure adequate facilities for providing veterinary services to the public.	Utilizing administrative and field staff. Utilize ACT database for documentation, licensing and premises registering. Support will be provided by KDA legal, IT, communications and fiscal divisions. Routine practices will be accomplished annually with additional projects on an as-needed basis.	Veterinary practices operating outside the law could lead to decreased consumer protection and animal welfare.	Livestock Market Vet Inspections
Animal Facilities Inspection	4	Mandatory	KSA 47-1701 through 47-1737 (Pet Animal Act)	Provide education to and license facilities that produce, sell, board, train, offer for adoption or harbor companion animals and enforce the laws governing such facilities.	Utilize administrative and field staff. Utilize USA Herds database for documentation, licensing and premises registering. Routine practices will be accomplished annually with additional projects on an as-needed basis.	Decreased animal welfare.	Feedlot Licenses issued
Brands	5	Mandatory	KSA 47-414 through 47-448	Direct an effective brand registration and inspection program.	Utilize administrative and field staff. Utilize Access database for documentation, licensing and premises registering. Routine practices will be accomplished annually with additional projects on an as-needed basis.	Any brand could be applied by any entity. Property rights and legal protection provided by branding livestock would be lost.	Livestock Market Brand Inspections Existing Brand Registrations Renewed

Animal Health Program Budget

	Animal Disease Control		Emergency Management		Board of Veterinary Examiners		Animal Facilities Inspection		Brands		Total	
	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Salaries and Wages	900,965	900,965	99,503	99,503	222,317	222,317	399,006	399,006	41,825	41,825	1,663,616	1,663,616
Communication	9,832	9,832	343	343	4,634	4,634	4,428	4,428	925	925	20,162	20,162
Freight and Express	400	400	-	-	-	-	-	-	200	200	600	600
Printing and Advertising	4,000	4,000	-	-	100	100	288	288	3,695	3,695	8,083	8,083
Rents	39,019	39,019	1,166	1,166	8,732	8,732	15,640	15,640	3,530	3,530	68,087	68,087
Repairing and Servicing	30,336	30,336	862	862	5,944	5,944	12,600	12,600	3,066	3,066	52,808	52,808
Travel and Subsistence	43,899	43,899	-	-	33,050	33,050	4,003	4,003	19,086	19,086	100,038	100,038
Fee- Other Services	217,737	217,737	91	91	2,463	2,463	5,112	5,112	2,031	2,031	227,434	227,434
Fees - Professional Services	486,000	486,000	-	-	7,500	7,500	-	-	114,000	114,000	607,500	607,500
Utilities	5,617	5,617	198	198	1,226	1,226	2,532	2,532	514	514	10,087	10,087
Other Contractual Services	17,862	17,862	-	-	1,250	1,250	760	760	85,380	85,380	105,252	105,252
Contractual Services	854,702	854,702	2,660	2,660	64,899	64,899	45,363	45,363	232,427	232,427	1,200,051	1,200,051
Clothing	3,500	3,500	-	-	-	-	-	-	-	-	3,500	3,500
Food for Human Consumption	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	213	213	-	-	-	-	3	3	57	57	273	273
Motor Vehicle Parts, Supplies	27,257	27,257	-	-	8,300	8,300	13,731	13,731	-	-	49,288	49,288
Professional Scientific Supplies	350	350	-	-	-	-	150	150	-	-	500	500
Stationery/Office Supplies	-	-	-	-	150	150	-	-	-	-	150	150
Other Supplies, Materials, Parts	430	430	-	-	-	-	-	-	-	-	430	430
Commodities	31,750	31,750	-	-	8,450	8,450	13,884	13,884	57	57	54,141	54,141
Capital Outlay	35,484	35,484	-	-	3,000	3,000	2,412	2,412	804	804	41,700	41,700
Subtotal State Operations	1,822,901	1,822,901	102,163	102,163	298,666	298,666	460,665	460,665	275,113	275,113	2,959,508	2,959,508
State Aid Payments	-	-	-	-	-	-	-	-	-	-	-	-
Claims	-	-	-	-	-	-	-	-	-	-	-	-
State Special Grants	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Assistance	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Total Reportable Expenditures	1,822,901	1,822,901	102,163	102,163	298,666	298,666	460,665	460,665	275,113	275,113	2,959,508	2,959,508
Non-Expense Items	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	1,822,901	1,822,901	102,163	102,163	298,666	298,666	460,665	460,665	275,113	275,113	2,959,508	2,959,508

Time Line to Implement Performance Based Budgeting in Kansas

