

## STATE BUDGET FORMAT AND SPENDING PLANS

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**Senate Bill 21 as passed by the Senate**  
**Sponsor: Sen. Tonya Schuitmaker**

**Senate Bill 802 as passed by the Senate**  
**Sponsor: Sen. Patrick Colbeck**

**House Committee: Oversight, Reform, and Ethics**  
**Senate Committee: Reforms, Restructuring, and Reinventing**

**Complete to 5-14-12**

### **A SUMMARY OF SENATE BILLS 21 AND 802 AS PASSED BY THE SENATE 5-3-12**

The bills would amend the Management and Budget Act (MCL 18.1101 et al.) to create for state agencies a new budget format and development process, and set requirements for spending plans following the enactment of a budget. The bills are tie-barred so that neither could go into effect both are enacted into law. A more detailed description of each bill follows.

Senate Bill 21 (S-3) would require each department, every fiscal year, to have a strategic mission, vision, goals, and a balanced scorecard in place by the deadline established in the act for the Governor to submit a budget to the Legislature.

The scorecard would have to include at least one existing metric or establish at least one new metric for each one-time or ongoing enhancement budget recommendation. Each metric would have to be in one of the following categories:

- Customer service (measuring the value received from the citizen perspective and the scale and quality of the service).
- Financial (quantifying the amount that the strategy, implementation, and execution of an enhancement budget recommendation is contributing to the bottom line).
- Internal business process (measuring how well business processes are structured or organized to meet citizen service expectations).
- Learning and growth (measuring how well the people, technology, and climate support the strategy of the enhancement).

"Balanced scorecard" is defined under the bill to mean "a management tool that allows managers to lead through monitoring the performance of an organization on the few but vital set of activities and measures that drive enterprise success. It focuses not just on financial dimensions but also other vital areas such as employees, customers, processes, and any other area crucial to the success of the organization."

Senate Bill 802 (S-1) would require each reporting unit (that is, a state agency to which an appropriation is made), beginning in fiscal year Fiscal Year 2013-14, to classify each line item in the enacted budget in one of the following spending categories: (1) core services, (2)

support services, or (3) work projects. Each reporting unit also would have to prepare a spending plan for each line item in the most recently enacted budget, and submit the plan to the State Budget Office within 60 days after the budget was enacted.

A spending plan would have to do the following:

- Summarize the line items by appropriation unit.
- Not exceed the gross appropriation for the line item in the enacted budget (although it may propose a lesser amount if the federal or state revenues are anticipated to be less than the amount appropriated).
- Identify the budget requirements for each core service, support service, and work project according to specified expense categories (including state employee salaries and fringe benefits; products and services provided by others; direct payments to clients; medical payments on behalf of clients; educational expenses on behalf of clients or students; and all other costs).
- Identify revenue sources and amounts for each appropriation unit.

Each reporting unit would be required to submit its spending plan to the State Budget Office each year within 60 days after enactment of the budget. Under the bill, the office would design a standardized spending plan reporting format, and make that reporting form available for use by each reporting unit.

Within 30 days after receiving the reporting units' spending plans, the State Budget Office would have to review and approve each plan or, if changes were requested, return the plan to the reporting unit, which would have two weeks to submit a revised spending plan. The State Budget Director would have to submit each approved spending plan to the appropriate Appropriations subcommittees and the Senate and House Fiscal Agencies in a spreadsheet-compatible format, and post it on the Department of Technology, Management, and Budget's (DTMB's) website.

The bill states, for FY 2014-15, *"the legislature intends that appropriations and the executive budget will group line-item appropriations into only three appropriation units: core services, support services, and work projects. Each reporting unit shall prepare a spending plan for each line-item category within each appropriation unit."*

The bill also states, for FY 2015-16 and each subsequent fiscal year, *"the legislature intends that appropriations and the executive budget will include a schedule of programs for each line item. The schedule of programs shall include suggested spending amounts for each program listed."*

The bill defines six terms: "appropriation unit," "core service," "reporting unit," "schedule of programs," "support service," and "work project."

Under the bill, "appropriation unit" is defined to mean a numbered section in a budget bill that includes a related group of discrete line-item appropriations representing the structure of an organization or its major programs, the sum of which line-item appropriations equals the total appropriation for the appropriation unit and the sum of the appropriation unit total equals the total appropriation for the organization.

"*Core service*" is defined to mean an activity that provides measurable value to beneficiaries such as citizens, businesses, and units of local government.

"*Reporting unit*" is defined to mean a state agency to which an appropriation is made.

"*Schedule of programs*" means a listing of the programs within a budget that are funded from a specific line item.

"*Support service*" is defined to mean an activity, such as information technology, accounting, human resources, legal, and other support functions that are required to support the ongoing delivery of core services.

"*Work project*" is defined to mean that term as defined in section 404 and that meets the criteria in Section 451a(1). Under Section 404(6), "work project" means a one-time nonrecurring undertaking for the purpose of accomplishing an objective contained in specific line-item appropriation for that purpose or any other specific line-item appropriation designated as a work project by law under criteria established under Section 451a(1).

#### **FISCAL IMPACT:**

The bills would have a minimal fiscal impact on state government, potentially creating modest cost increases for state departments to comply with the new requirements. The executive branch is already pursuing a similar "dashboard" model for measuring state government effectiveness. The proposed changes in the budget development process would not create any direct costs to departments, which currently prepare spending plans for internal purposes.

#### **BACKGROUND INFORMATION:**

As background information, the Executive Budgets for FY 2011-12 and FY 2012-13 (released in February 2011 and February 2012, respectively) proposed a "schedule of programs" format for departmental budget bills under which the number of appropriation line items is greatly reduced and funding amounts for individual programs are instead listed in a non-binding schedule. This format would increase the flexibility of the executive branch to expend funds on the varying activities for which funds are appropriated in each departmental budget, while reducing the Legislature's abilities to approve (or disapprove) changes in the specific purposes for which state funds are expended. With the exception of two departments (Military & Veterans Affairs and State Police), the Legislature has opted not to adopt this budget bill format for either fiscal year and instead retained traditional formats for the budget bills signed into law.

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