

Budget & Finance

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BUDGETING IN THE AGE OF AQUARIUS

John Mikesell presented this year's S. Kenneth Howard Award to **Stanley E. Collender** for his work *The Guide to the Federal Budget*, now in its sixteenth edition. After entertaining the audience with his wit and wisdom (you should read the introduction to the fifteenth edition of his book), Dr. Collender offered some insights into what we can expect following this year's elections.

Collender noted that budgeting in the 1990s is much different from budgeting in the 1960s when revenue sources were flowing pretty strongly. He compared the free spending attitude to the free sex philosophy of that decade by calling it "Budgeting in the Age of Aquarius."

Collender predicted a slim majority in Congress for the party that wins, putting a coalition of moderate Democrats and Republicans, the so-called *bluedogs*, in a position to exercise considerable power. Under such a coalition, he predicts that the current trend of deficit reduction will continue. With Bob Dole losing the presidential election, Collender predicts that the GOP will react by moving farther right or toward the center. That choice will depend on the GOP leadership's assessment of *why* they lost. A move to the center would support the moderate coalition. A Dole loss will also end any discussion of a tax cut just as Steve Forbes' loss ended the debate on the flat tax.

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A surgeon, an engineer and a budget analyst all died at the same instant and were met by St. Peter at Heaven's Gate. St. Peter informed them that, unfortunately, there was room for only one of them. St. Peter agreed to admit the one who had engaged in the oldest profession of their three callings. The surgeon replied first, saying that the creation of Eve from Adam's rib was a *surgical* procedure. The engineer responded by saying that God first created the heavens and the earth from chaos, an *engineering* marvel. Finally the budget analyst asked, "Who do you think created the chaos?"

~ Stanley Collender, 1996 Howard Award Recipient ~

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On another matter, Collender noted that it is unfortunate that just about anyone can adopt the title *budget analyst* regardless of training or qualifications. He called on the academics in the audience to work toward establishing a program that would certify budget analysts to improve professional standards and create a legacy for the future.

The line-item veto that the president will add to his budgetary powers next January is, in Collender's estimation, the most fundamental change in federal budgeting since the Gramm-Rudman-Hollings Act. However, its use is likely to be more subtle and behind the scenes, with the president using the threat of a veto to gain support.

~ Wes Clarke ~

BURKHEAD AWARD to Broom and McGuire

This year's Jesse Burkhead Award went to **Cheryle A. Broom** and **Lynne A. McGuire** for their article "Performance-Based Government Models: Building a Track Record" that appeared in the winter 1995 issue of *Public Budgeting and Finance*. **Marvin Phaup** of the Congressional Budget Office and president of Public Financial Publications, Inc. presented the award to Dr. Broom. Dr. McGuire was unable to attend due to the impending birth of a child.

Their article was selected by the committee, from among twelve articles given serious consideration, due to its clarity and the authors' insights into the need for, and promise of, performance measures in government.

WILDAVSKY AWARD to Richard F. Fenno

Professor **Richard F. Fenno, Jr.**, Distinguished University Professor and Kenan Professor of Political Science, University of Rochester, was presented with the Aaron B. Wildavsky Award for Lifetime Scholarly Achievement in Public Budgeting at the 1996 ABFM meeting in Washington DC.

The award especially cited his landmark contributions to our understanding of the legislative budget process: *The Power of the Purse: Appropriations Politics in Congress* (1966), *Congressman in Committees* (1973), *Homestyle* (1978), and *The Emergence of a Senate Leader: Pete Dominici and the Reagan Budget* (1991).

Professor Fenno has received a variety of academic honors: The D. B. Hardeman Prize of the LBJ Library, the Woodrow Wilson Award of the APSA, and the Franklin Burdette, Pi Sigma Alpha Best Paper Award of the APSA. Professor Fenno served as president of the American Political Science Association and is an elected member of the National Academy of Science, the National Academy of Arts and Sciences, and the American Philosophical Society.

At the presentation, Professor Fenno briefly reminisced about his friend Aaron Wildavsky. The Aaron B. Wildavsky Award was established in honor of Wildavsky's career and life. Previous recipients are **Naomi Caiden**, **Allen Schick**, and **Louis Fisher**.

~ Fred Thompson ~

Connecting Resources With Results

Significant changes are at last under way in federal budgeting and financial management. A new performance measurement, budgeting, and accounting framework is being developed and implemented within which the federal government will plan, budget, manage and be accountable for results.

These changes were presented at the opening session of this year's annual conference, by a panel of federal officials chaired by **Virginia Robinson**, executive director of the Joint Financial Management Improvement Program (JFMIP), which is developing related systems guidance. The audience responded with many questions, and a lively discussion of the implications of the new framework. **G. Edward DeSeve**, controller, Office of Management and Budget (OMB), set the scene with a short video narrated by Walter Cronkite, showing the strategic planning process used by the National Aeronautics and Space Administration to focus their efforts in order to achieve "faster, better, cheaper" results.

As the federal government moves toward budgetary balance, he explained, agencies which have traditionally asked, how can we get more? must now ask, how can we do more with less?

Moreover, they must be able to answer the question being asked by the president, the Congress, and the taxpayers, what are we getting for what we are spending?

The answer to that question, Mr. DeSeve said, requires connecting resources to results -- integrating planning, budgeting, and performance and financial reporting.

- The first tool to do this was provided by the Government Performance and Results Act of 1993. It requires that each agency establish a clear mission, implement a five-year strategic plan and annual performance plans based on that mission, and measure their progress using clear, comprehensive performance measures (both outputs and outcomes).
- The second tool was provided by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. Under these acts, timely, accurate, and useful financial and performance information will be provided to program managers to help them do their job better; such information will also be reported to the public so that they can hold managers accountable for results.
- Having a strategic sense is vital if an agency is going to be effective, Mr. DeSeve said. The pro-

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Resources and Results...*continued*

cess establishes targets against which performance can be measured, and -- frankly --justifies agency existence in an era of budget balancing. He noted that OMB has been working with agencies on strategic planning and performance measures. Developing these is not easy, but Mr. DeSeve is a true believer that if we think hard enough, a performance measure can be found for any major function, and that performance measurement should go beyond agency boundaries to compare crosscutting functions.

- Finally, if we are to measure actual performance against that which is planned, budget accounts (and organizational structures) should be aligned with programs and linked to goals and objectives. Budget account structures for many agencies lack this alignment, clouding understanding about how much funding is applied to outputs and outcomes.

Justine Rodriguez, deputy associate director for economic policy at OMB, focused on the role of budgeting in this new framework. She answered three questions:

- *Why do we need budgeting and accounting?*

Most entities, public and private, have both, she noted, because they serve different purposes. The budget is a system for allocating new resources to alternative uses. Its guiding principle is the recognition of the full cost of an obligation at the time it is made. This is particularly important for the federal government, which is not constrained by the need to earn revenue by finding markets for its products and services, nor is its borrowing constrained by credit market assessment of its financial condition or the rate of return on proposed projects. Moreover, separation of powers under the constitution requires up-front authority from the Congress before the executive can collect taxes, borrow on the credit of the United States, or draw money from the treasury.

Accrual accounting is a system for tracking resources at the time they are used. In the private sector, resources are used when the goods and services they produce earn revenue. In the federal government, they are used when the goods, services, and transfers are provided to the public.

This is the appropriate way to assess the expense of producing outputs and achieving outcomes. Because of the different nature of the federal government (and other not-for-profit entities) versus businesses, Ms. Rodriguez said, there is a role reversal in the use of budgets and accrual statements. Businesses raise funds from

investors and creditors using accrual-based statements to show how well they are earning profits and accumulating wealth and using budgets for management. But not-for-profit entities, including the federal government, raise funds from taxpayers and donors using the budget to show the acquisition of resources *and* their use. The federal government is now discovering the potential of accrual measures --including cost accounting for outputs -- to improve its management.

- *What's wrong with federal budgeting now that makes it out of kilter with the current focus on results?*

She noted the clutter of tiny accounts, large accounts that are not homogeneous, and lack of systematic alignment with programs.

Moreover, resources used to achieve results are not charged to the programs' budget accounts. Salaries and expenses are often entirely or partially paid centrally; there is no charge for some accruing benefits; many support services are provided free or at a subsidized price; and fixed assets may be paid centrally. In short, *resources* are not linked to *results* in budgeting, and managers have no incentive to maximize results within a resource limit.

- *Is there a way to integrate budgeting into a simpler, more coherent information and incentive system that connects resources with results?*

Yes! Align budget accounts with programs, allocate funds on the assumption that these accounts will pay for all resources used to achieve their goals, and then charge them for these resources. Where support services are provided centrally, they should be financed by charging programs for their services on a competitive basis.

There is a way to facilitate comparison of the performance plan and budget with the performance and financial results, Ms. Rodriguez explained. Differences between budgetary and accrual measures are significant only for fixed assets and inventory, which are acquired before they are used, and for retiree benefits and environmental cleanup, which accrue before resources are needed. If a fixed asset budget account is used to acquire assets and rent them to programs, the program account would show the use of the asset, the fixed asset account would record that rent as an offsetting collection, the "rent" would net out, and the budgetary "bottom line" for the agency would show only asset acquisition.

Similarly, programs would pay accruing retirement benefit costs to an employee retirement fund, but only

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Resources and Results...continued

benefit payments would be included in the budget total. By using inter-account payments, she concluded, the budget for each program would be roughly comparable to its accrual expenses, yet the up-front control of the budget totals would not be relinquished.

Steven App, deputy chief financial officer, Department of the Treasury, and **Frank Sullivan**, deputy assistant secretary for financial management, Department of Veterans Affairs, provided a practical look at how the new framework is being implemented.

Mr. App chairs the Chief Financial Officers Council (CFOC) Working Group on GPRA Implementation. He provided an overview of a training conference that he organized for agency staff on how to develop strategic plans successfully. The conference included workshops on developing crosscutting performance measures by function, and an insightful, challenging speech by Franklin D. Raines, the new director of the Office of Management and Budget.

Mr. Sullivan chairs the CFOC Working Group on Implementing Cost Accounting. For the first time, the federal government has cost accounting standards. Agencies will find them useful, Mr. Sullivan said, to assess the cost of outputs under the Government Performance and Results Act (GPRA), to set user fees, to recover the costs of agency working capital or support service funds, and to improve management. His group is recommending specifics of identifying full and inter-entity costs, and working with the Joint Financial Management Improvement Program on cost accounting systems.

As chair of another CFOC working group, Mr. Sullivan recommended that the myriad reporting requirements on agencies be streamlined into two reports: a planning and budget submission that includes the GPRA annual performance plan and budget request, and an "accountability report" that summarizes actual operating and financial results. Several agencies, including the Department of Veterans Affairs, are piloting such reports to much acclaim. Mr. App noted that Treasury is working on the design of the first government-wide financial report to be subject to audit, and is also integrating the new concepts into its standard general ledger and financial systems.

Before going to Treasury, Mr. App led a pioneering effort at the Department of Housing and Urban Development (HUD) to align budget accounts with programs. HUD started from considerable misalignment, including one very large account that financed activities all

over the department. The revised account structure did not gain approval of the new GOP majority in Congress, but the process of defining their goals enabled HUD to make the case for survival, and some account improvements were made.

Mr. Sullivan concluded the presentation by showing how performance and financial goals can be integrated in a single slender, bright, easy-to-read report that illuminates the extent to which the goals of the Department of Veterans Affairs are being achieved. This year for the first time, he said, the department's budget submission will show performance plans and resource requirements in the same alignment.

As other departments follow this lead, the increased transparency and better incentive structure should improve the efficiency, effectiveness, and accountability of the federal government.

~ *Justine Rodriguez* ~

Student Paper Award

Kevin J. Jackson received the ABFM graduate student paper award in recognition of his paper, "Tax Increment Financing: An Examination of Theory and Practice." A twin case study of Tax Incremental Financing (TIF) projects in Missouri, Jackson's paper questions whether TIF is a genuine economic development tool for the public good or whether it has become a public subsidy abused by the development community.

Presenting the award at the Thursday evening conference reception, **Karen Stanford**, award committee chair, noted that the reviewers found Jackson's work well researched, readable, of interest to both academics and practitioners and conceptually transferable to other policy areas. Jackson presented his paper as part of the Graduate Student Research panel at the conference. Jackson is an MPA graduate of the University of Missouri at St. Louis. A local government practitioner at the time he wrote the paper, he is now employed by a major national consulting firm. He was nominated by Professor Andrew D. Glassberg.

Eleven papers received nominations this year. Although the contest is not announced until Spring 1997, professors are encouraged to consider papers on budgeting and financial management that they have received during the entire academic year for next year's award. Next year's student paper award contest will be chaired by Professor Paula Kearns of Michigan State University.

~ *Karen Stanford* ~

From the Chair

Mark it on your calendar before you forget. The Ninth Annual Conference will be in Washington from Thursday, November 6, through Saturday, November 8, 1997. Due to religious holiday schedules and city-wide events in DC, the conference was moved from October to November. The ABFM conference dates for the next three years are November 7-9, 1997; November 5-7, 1998; and then back to October 8-10, 1999. The conference will remain at the Washington Marriott each year. Next year's room rates (\$109 for singles and \$124 for doubles) are better than the government rate. ABFM has negotiated a three year contract to hold prices to 1997 levels.

Despite my obvious bias, I think participants at our October conference generally agreed the meeting was highly successful. Thanks to members of the executive committee, program committee, panel chairs, and panel members, we had an excellent mix of topics and participants, as you can read throughout this newsletter.

After a lengthy business meeting, the membership approved major revisions in our Charter & Bylaws. One major change is a shift in the term of office of the chairperson from starting April 1 to starting January 1. This change will facilitate planning for our annual fall conference. Another change will shift the fiscal year to begin on January 1 instead of July 1. Another change is to increase annual dues from \$22 to \$25. This change is necessary to cover increasing costs (for example, postage rate increases) and to allow for enhanced membership services (such as improving our newsletter). The revisions also clarify the duties of the various officers of the association. I am pleased to report that ASPA has approved our revised charter and bylaws. Karen's term of office will now begin January 1, instead of April 1. Phasing in the new dues may take a while, since ASPA will need to print new forms for new members and continuing members.

In closing, I want to thank everyone for the help I received in organizing the 1996 conference. This was truly a collaborative effort of the finest type. I relied heavily upon Marilyn Rubin, our past chairperson, and Mike Bourgeois, our treasurer, as well as the members of the program committee and executive committee. Thank you. Thank you. Thank you. Now, I want to wish Karen Stanford, our chair-elect the very best.

~ Bob Lee ~

Report of Charter and Bylaw Revisions

The ABFM membership endorsed several changes to the charter and bylaws. The general membership meeting was held in conjunction with the conference. The changes to the charter and bylaws of ABFM achieve three major purposes. First, changes now reflect current practice, including the name change from *Section on* to *Association for*. Second, the list and responsibilities of officers is clarified. Third, the fiscal year is changed to a January-December basis.

Preamble and Article I

Name change from *Section on* to *Association for*.

Article II

First we prioritize the order of activities of the association. There are additional changes reflecting current practice.

Article III Membership and Dues

Full membership is now \$25. This will allow us to have enough to follow up with expired memberships. Two years ago the increase in cost for the journal was absorbed by the section. We need this increase in fee. Since the cost of the journal is more than the cost of the student membership, the student fee should be \$15. Article III Section 3.B now reads "student membership status will be offered to all ASPA student members. Effective January 1, 1997, annual ABFM dues for student member status shall be \$15.00." Other changes reflect current practice.

Article IV Officers and Their Responsibilities

Section 1 (Executive Committee) - in the second sentence should be changed to read that the term shall be no longer than one year. The sentence after next should read "In the event that the position of Chairperson or Chairperson-elect becomes vacant, the Executive Committee shall appoint a new Chairperson or Chairperson-elect. The Chairperson-elect shall serve from the time of election to January 1 of the following year when the Chairperson-elect becomes Chairperson. The Chairperson-elect office shall remain vacant from January 1 until the next election." Extensive discussion ensued regarding Section 7. (Membership Chairperson). There was overwhelming consensus on the need for a Membership Chairperson. In Section 11, wording was changed to indicate that the Chairperson of ABFM may appoint a replacement to chair the Wildavsky Award Committee.

Article V Elections

Much of the discussion centered on whether student members should be eligible for elective office. It was decided that student members should be eligible to both vote and to hold office. After lengthy discussion of dates and deadlines for election activities, it was decided that the election ballots should be mailed before April 1 and ballots should be returned before May 1.

Article VI Finance and Administration

The fiscal year is changed to the calendar year, January 1-December 31.

~ Henry Thomas ~

Home Page for ABFM

The Association for Budget and Financial Management now has a presence on the World Wide Web. Point your favorite web browser to <http://www.pubadm.fsu.edu/abfm> to view the association's brand new web page.

The home page was officially unveiled at the 1996 ABFM Conference in Washington, D.C. It includes links to information about the ABFM Executive Committee, other budgeting sites, conferences, simulation materials, the association's journal, *Public Budgeting & Finance*, the newsletter *Budgeting and Finance*, and ASPA. Over 35 people attended the session which showed off the page--at 8:30 on a Saturday morning.

The page is housed at the Askew School of Public Administration at Florida State University. **Carole D. Pettijohn**, Associate Director of the Florida Public Affairs Center, is the web master and oversaw the development of the home page. Also serving on the task force were **Fred Thompson**, the Elmer

and Grace Goudy Professor of Public Management and Policy at the George H. Atkinson Graduate School of Management at Willamette (Oregon) University, **Kurt Thurmaier**, an assistant professor in the Department of Public Administration at the University of Kansas, and **Michael Dougherty**, an Extension Specialist/Extension Assistant Professor in the Division of Community and Economic Development of the West Virginia University Extension Service. The project started at the 1995 ABFM conference and the page was developed by graduate students at FSU and by the committee. **David Coursey** deserves a big thank you for including the page as a class project for his students, and his valuable advice. Pettijohn, who was completing her dissertation during this period (*she successfully defended Oct. 31*) especially deserves to be commended for her hard work in making the ABFM Home Page an interesting and fun site to visit.

~ Mike Dougherty ~

From the Editor

Budget constraints can be such a bother sometimes! Such is the case with the newsletter. Although this issue is packed with reports from our annual conference in October, it doesn't do justice to the many excellent panels that presented to a full house, and to the thousands of corridor conversations that make the ABFM conference one of the most valuable meetings of the year for practitioners and academics in our field. Mark your 1997 calendars for the next conference so you won't miss out.

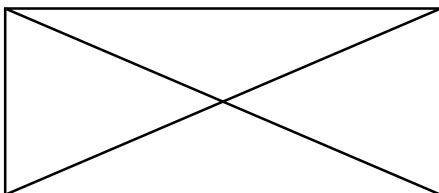
Finally, as we end our first full volume of issues for 1996, I want to give **Marion Sheppard**, our managing editor, a big thank you for making these issues happen. She is a wizard at getting everything to fit into a finite space!

Have a joyful holiday season everyone!

~ Kurt Thurmaier ~

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