

Budget & Finance

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Federal Budget Concepts: Revolt, Reform or Renewal

The opening plenary session of the 1999 annual conference of the ABFM

Paul Posner of the General Accounting Office began this plenary session by asking, "Should we revolt or stay the course?" **Roy Meyers** of the University of Maryland at Baltimore quickly argued for revolt. From his perspective, the present process routinely supports the misallocation of resources. Instead of focusing on trade-offs and aiding public allocation decisions, the present process encourages mechanisms to avoid spending caps, such as "emergency" spending for the decennial census and such as White House budget initiatives that feature laudable goals, memorable rounded numbers, and symbolic outputs. Ideally, the national budget process should be a method for routinely confronting decision makers with programmatic trade-offs. Reliable budget information on costs and performance might make it much harder to set unrealizable aspirations that are followed by purely symbolic execution. Budgeting could be improved by incorporating the core principles of policy analysis. Rather than a return to PPBS, Meyers hoped that new interest in budget functions could begin to replace the present process.

Sandy Davis of the Congressional Budget Office and Senate Budget Committee looked at the challenges in restructuring the Congressional Budget and Impoundment Control Act of 1974. The fundamental purpose of the Act was not a set of timetables but to reassert congressional budgetary power. Two major factors in the budget conflicts of the last 25 years have been divided government, which produces wide policy differences and budgetary delays, and (until recently) persistent deficits. The 1990 Budget Enforcement Act focused on new policy actions rather than fixed targets, and new policy actions are being disciplined while current law escapes these procedures. And there is little requirement to look at long-term trends and changes. To succeed, a new budgetary process will have to (1) accommodate to surpluses as well as deficits, (2) balance the budgetary powers of the president and Congress, and (3) determine what is appropriately covered in the budget and what is not.

Gene Steuerle of the Urban Institute argued that the major budget issue is that the U.S. budget is on an unsustainable path. The 1974 Act aided a change from unsustainable growth in federal domestic outlays, but there are different areas of unsustainability now. Growth in Social Security, Medicare, and Medicaid is automatically built in. Thus we have many discretionary rules working at a time when mandatory items are two-thirds of the budget. As a consequence, it is becoming harder and harder for voters, as well as representatives, to influence spending. We need to build some rules about long run spending so that the future will have some resources to choose their spending priorities for themselves.

James Brumby of the International Monetary Fund noted that the budget dialogue in most OECD countries is really within the executive rather than the two sets of dialogues found in the U.S. Their major focus is typically on meeting mid-term fiscal targets, such as the Maastricht targets. Budget devolution has also been a major thrust, including block allocations to agencies without line items and with automatic carryover of unspent funds and revenues from one year to the next. These budgets, however, are based on agency outputs, rather than societal outcomes. A ministry's budget is essentially a contract between the chief executive and the minister on costs and service delivery, and Allen Schick has correctly pointed out that outcomes have no specific role in agency-executive negotiations.

Revolt, reform, or renewal? It seems we still have important choices to make.

GASB Begets State and Local Comparisons

It used to be the case that a researcher interested in comparing spending across governments could turn to the Advisory Commission on Intergovernmental Relations' handy presentation of Census Bureau data, *Significant Features of Fiscal Federalism*. Volume II of that annual publication was an invaluable resource because the cost was prohibitive for an individual academic researcher or research group to collect, analyze and—perhaps most importantly—ensure the comparability and consistency of the financial data from government to government.

But with the demise of the ACIR, and with cutbacks at Census that have slowed the publication of Census of Governments data, the users of government financial information have been left largely to fend for themselves. Those users should be heartened, then, by the momentous changes taking place in the field of governmental financial reporting.

In June the Governmental Accounting Standards Board (GASB) released completely revised guidelines for state and local governments to follow when preparing their annual financial statements. At least three of the major new features of future financial statements should make it easier for financial information consumers to compare individual governments.

Government-wide Statements

Until now, government financial information was divided among various funds when presented in annual financial statements. Because fund-based information remains important and useful to many decision-makers, governments will continue to report it. Yet, because the kinds and number of funds vary greatly across governments, ensuring comparable financial information between two governments (let alone twenty-five or a hundred) can be difficult, if not impossible.

From now on, however, governments will also prepare financial statements covering the entire governmental entity. In other words, regardless of what fund a government might use to account for spending on a particular program or the use of a certain revenue stream, all of it will appear on these new government-wide statements. Therefore, even if governments use widely disparate fund structures, their government-wide statements will contain comparable information.

Full Accrual Accounting

The fund structure is not the only source of variability among governments. The method of accounting for governmental fund-based statements, known as modified accrual, also generates some differences because individual governments may interpret differently the rules for when to record revenues and costs. Furthermore, some variation is the natural consequence of differences in the timing of when certain taxes are billed or

actually collected. Because accrual accounting is concerned with when a transaction occurs and not with when money changes hands, there is less chance that individual governments will account differently for similar events. Thereby it neutralizes a potential contributor to noncomparability.

Smoothing Over Differences in Service Delivery

Another factor that affects the comparability of financial data is how a government delivers and pays for a particular service. Water and sewer service, for instance, is provided in some cities like any other government service—managed and delivered by a municipal department funded with general tax revenues. In others, however, a legally separate entity—often called a public authority—is created to operate the water system like a private business, charging customers directly based on the amount of water they use.

In fund-based accounting and reporting, special care must be taken to ensure that all pertinent funds are included when comparing fiscal information. In the examples above, the municipal agency would likely be accounted for in the city's governmental funds, while the authority's operations would be reported separately as a component unit (or, in some cases, in an enterprise fund). But it may not always be readily apparent which funds include which services, making the task of assuring comparability quite difficult in some cases.

Because the new financial statements encompass the entire government, however, the particular mechanism used to deliver and finance a service is no longer salient—all services would be included regardless. Thereby the task of comparing similar governments as a whole is greatly eased. Depending on the level of detail provided by the government, individual services may not be visible, but may be aggregated into functional categories.

More Information

Governments are required to implement the GASB standards between 2002 and 2004, depending on the size of the government, although early implementation is encouraged. For additional information about the requirements of the GASB's new financial reporting model, visit their web site at <http://www.gasb.org>. For Performance Measurement for Government, see www.seagov.org.

Dean Michael Mead is Project Manager at the Governmental Accounting Standards Board and a member of ABFM.

Larry Terry Takes it Like a Gentleman

Larry Terry, the new *PAR* editor, discussed its future with about 15 ABFMers early Saturday morning at our annual conference. He got an earful.

Larry appeared at the behest of erstwhile ABFM chair and future ASPA president Dan Ahearne. Larry indicated that he was touring the country asking the advice of ASPA's members about reinventing *PAR*. Larry stated, for the record, that *PAR* has not been 100% effective in serving its broad, diverse audience. He also noted that his editorial team had received a great deal of information regarding what they could do to improve the journal as well as several positive comments. He assured the audience that they were taking all comments, both positive and negative, to heart. Once his tour is completed Larry plans to publish articles in *PAR*, *PA Times* and on the *ASPA* and *PAR* Webs sites indicating what he and his colleagues heard and how they planned to respond to such information.

Past chair Marilyn Rubin moderated the discussion around four questions:

- * What has been your experience in dealing with *PAR*?
- * How can *PAR* best serve both academics and practitioners?
- * Based on your sense of *PAR* right now, what specific things would you most like to remain the same? What specific things would you most like to change?
- * Imagine *PAR* ten years from now. What terms would you use to describe it?

The reaction to the first question was generally positive, although some respondents commented unfavorably on *PAR*'s glacial review and publication process. Others questioned the selection of reviewers. These are not problems that are unique to *PAR*, however. They are endemic to academic publishing.

The second question produced something of a feeding frenzy. One response was that you cannot simultaneously serve both audiences - scholars and practitioners need and want very different things. Most of those taking this approach proposed that ASPA publish two or more periodicals. One would address the interests of practitioners and look like *Governing* or *Government Executive*. The other would address the needs of scholars and look more like *J-PART*. The other faction present demurred, arguing that *PAR* could be scholarly, practical, and even relevant, like *Harvard Business Review*, *Sloan Management Review*, or *California Management Review* - for examples. Indeed, someone in the audience claimed that he knew more public officials who read *HBR* than *PAR*. Of course, this would

require *PAR* to shift its editorial focus toward the practical and the relevant and away from the purely academic and the irrelevant. It would be too strong to say that there was a consensus that the former meant a more managerial focus and the latter a political-science one, but I would like to.

Aside from content the only thing most people objected to about *PAR* was the size and clarity of its print. A few people in the audience said they wanted to see more book reviews. One mentioned that he missed the longer comparative book reviews. Larry said that in his tenure he had tried to address this issue, commissioning several long reviews.

In answer to the last question, people said it would be better, more relevant, more scholarly, and must reading for tens of thousands of public officials and the consultants and service providers who help them.

~ Fred Thompson, Willamette University ~

Request for Nominations: Managing Editor, *Public Budgeting and Finance*

The board of Public Financial Publications, Inc. is searching for a new managing editor of *Public Budgeting and Finance*, a highly-respected journal specializing in the practice and study of budgeting and finance at all levels of government. The journal is cosponsored by the Association for Budgeting and Financial Management and by the Association for Budget and Program Analysis, and is published by Blackwell Publishers.

In cooperation with the editor-in-chief, the managing editor will be responsible for coordinating the peer review of article submissions, for evaluating the quality of submissions, and for producing four journal issues a year. Applicants should demonstrate a broad knowledge of public budgeting and finance, the ability to manage article reviews and copy production, and the capacity to bring the journal into the electronic age with the assistance of the publisher. While the sponsors of the journal pay for some of the production expenses of the journal, applicants and their host institutions should also be able to provide additional in-kind financial assistance. Details on current production costs and processes are available on request.

The search committee would like to receive applications by January 10, and intends to select the new managing editor by the spring. The current managing editor will help with the transition through the summer and fall. The term of the managing editorship would last through 2002, with a possibility of renewal. Requests for further information and applications should be sent to the chair of the search: **Professor Roy T. Meyers**, Department of Political Science, UMBC, 1000 Hilltop Circle, Baltimore, MD 21250, 410-455-2196, <meyers@umbc.edu>

Has Government Really Learned the Art of Public Finance?

Chair: Eugenia Toma, University of Kentucky

Presenters: Barry Anderson, Deputy Director, Congressional Budget Office (CBO),
Rudolph Penner, Former Director of CBO and Former Chief Economist of OMB

Notes from second plenary

Following Eugenia Toma's opening remarks, Rudy Penner opened the session by posing the question "Do policy makers pay attention to public finance?" To answer his question, Penner noted that two things contribute to the appeal of public finance. First, it explains the world around us and second, it prescribes improvements that decision makers should consider. Public finance has demonstrated the benefits of multi-level government, given us the notion of optimality in spending and taxing, and made decision makers aware of spillovers, or externalities.

Penner commented also that public finance has its limitations. For instance, it may not be able to help developing countries embrace decentralization when centralization is all they know; and, while public finance has given us the distinction between private and public goods, it cannot necessarily tell us how to provide the latter. "Alas," Penner notes, "the market has it about right and we are paid about what we are worth." Although public finance is sometimes criticized for being influenced by ideology, Penner notes that this is no more the case than in the physical and biological sciences if you consider issues such as global warming.

The skills used in public finance have made analysis of trade-offs possible, a key activity in enforcing PAYGO rules. But the conclusions sometimes drawn by public finance scholars that equals should be treated equally creates difficulties for politicians. The public finance theorist would give a small favor to everyone, but the politician would rather give a large favor to a small group.

In summation, Penner posits that public finance may be a better way of thinking about policy issues than actually prescribing policy outcomes. The benefit of public finance theory and research is that government knows public finance better than it used to, and vice versa.

Barry Anderson commented on four reforms that have improved the way government accounts for costs, an issue critical in public finance work. The first two reforms are the ways government budgeteers account for loan guarantees and lease purchase arrangements. The last two deal with using the budget surplus to retire debt, and the view government takes of the trust funds.

In the past, OMB scored loans and loan guarantees on a cash basis, counting only the cash outlay but, in the case of a loan, not the loan itself. Under the new accrual method, the net cash flow is scored counting the loan. The reform to lease/purchase scoring forced agencies to determine if they were

leasing space or acquiring a building. Prior to 1990 government could acquire a building on a lease purchase arrangement and from a public finance perspective the only thing that showed up on the budget was the lease cost. But the lease provided a developer with collateral for borrowing. The agency could have gone directly to the capital market, built its building, and avoided the deadweight loss generated by the lease purchase arrangement. In 1990 this changed. Agencies were instructed ask the question, "Are we acquiring a building?" The answer was 'yes' if the period was twenty years or longer.

The third reform Anderson discussed is for the US Treasury to use some of the surplus to buy back debt. Finally the new view of government trust funds as a 'lock box' may help eliminate the disparity in the actual use of these resources and the public's notion of them. The trust funds have long been nothing more than accounting devices for financing government programs, but Anderson hopes that the new view will restore the sanctity of the trust funds. The result of these reforms may be that government budgeteers and public finance scholars have views of program costs that are more closely aligned. *Editor's Note: ABFM would like to thank Dr. Penner for his appearance. We wish him well as he continues to recover from bypass surgery.*

~ Wes Clarke, University of North Texas ~

New Faculty Highlights

Meagan M. Jordan has recently accepted a tenure-track, assistant professor position with the Institute of Government at the University of Arkansas at Little Rock. She received her Ph.D. in public administration from the University of Kentucky's Martin School of Public Policy and Administration. Her research area is state and local public budgeting and finance, and she recently published "Performance Budgeting and Performance Funding in the Sates: A Status Assessment" with Merl Hackbart in the Spring 1999 edition of Public Budgeting and Finance.

Meagan's dissertation, "Punctuated Equilibrium As a Comprehensive Theory of Local Government Budgeting: The Proof is in the Tails," applies an agenda based theory to local government budgeting. She continues to study how agenda positioning influences budgeting.

Meagan has been an ABFM member since 1993.

From the Chair

On behalf of the Executive Committee, I would like to thank all of the ABFM members who participated in our highly successful annual conference. Over 150 members and guests attended this year's conference and participated in 28 sessions including plenary sessions and special workshops. The program committee, with the assistance of many members, fashioned a program which covered the spectrum of topics relevant to public budgeting and financial management. An encouraging aspect of this year's conference was the participation of several international guests. Their presentations broadened the discussions and provided new ideas and challenges for the attendees.

Special congratulations are in order for this year's ABFM award winners. Honorees at this year's conference included Thomas J. Cuny who was recognized as the 1999 S. Kenneth Howard Award winner and Gloria Grizzle who was named the 1999 Aaron Wildavsky Award recipient. Kara Lindaman and other students from the University of Kansas received this year's Student Paper Award. Thomas' and Gloria's contributions are well known and definitely deserving of our association's recognition. The student award competition was keen and Kara and her colleagues should be proud of their accomplishments.

The ABFM membership also approved some major new initiatives for the future. Perhaps, the most significant action was the approval of a proposal to seek a "home" for the association. A special committee was appointed to finalize a proposal to establish a home to be known as the ABFM secretariat and to develop a process to solicit and select an organization to host the secretariat. The organization chosen to perform the secretariat responsibilities [a university or other institution] will provide administrative support for the organization, web site updates and other membership support activities which will make ABFM a stronger and more responsive organization. The association also approved a proposal to seek institutional sponsors for ABFM which will enhance the financial base of ABFM and, in turn, provide recognition for the sponsors in the association publications and web site.

Finally, I would like to thank the association for the privilege of serving as the 1999 Chair. It has been a pleasure to work with our members in carrying out the activities of this vibrant organization. I am confident that ABFM has a bright future and I am sure that Paul Posner, with the help of the other association officers and the executive committee will provide excellent leadership for ABFM in 2000.

Call for Papers and Presentations

ABFM

Association for Budgeting and Financial Management

**12th Annual Conference
October 5-7, 2000
Kansas City, Missouri**

The conference committee invites proposals from session organizers, paper presenters and session discussants to the Kansas City conference for the ABFM 2000 Program. Potential topics include, but are not limited to:

Budget Theory	Capital and Debt Management
Performance Budgeting	Public Accounting & Accountability
Changing Budget Processes	Deregulation - Financial Implications
Tax Policy and Impacts	Social Security Finance
Intergovernmental Finance	Changes in Education Finance
Budgeting Innovation	Infrastructure Finance
Public Funds Management	Electronic Commerce & Taxation
State and Local Budgeting	International Municipal Finance
Financial Markets and Municipal Securities	

Please send all correspondence to:
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Phone (785) 864-9093 FAX 785-864-5208
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Have You Tried These Sites?

State Government Finance Data, by State
<http://www.census.gov/ftp/pub/govs/www/state.html>

National Association of State Budget Offices
<http://www.nasbo.org/>

ICMA: Aggregate Survey Results
<http://www.icma.org/information/survey/results/>

ABFM: State and Local Budgeting Sites
<http://www.fpac.fsu.edu/abfm/links2.htm>

Looking Forward to Kansas City and ABFM2000

Start planning now to attend the ABFM2000 conference. Even though we just finished a successful ABFM conference in October, we are already looking forward to ABFM2000 in Kansas City. The 2000 conference will mark the first departure of the ABFM annual conference outside of DC since our first conference.

The Kansas City host committee is comprised of ABFM members from several universities in Kansas, Iowa, Missouri and Nebraska. Also pitching in to help is Courtney Christensen in the city manager's office of Kansas City.

Promotion of the ABFM2000 conference began at the 1999 meeting, where attendees could view a video of Kansas City and obtain various brochures with information on attractions

in the city and area. Prize drawings were held during the Friday luncheon for those who stopped by the information table. Changhoon Jung, the University of Georgia, won a free member's registration to the ABFM2000 conference. Gabriela Woolfson, of the University of Kentucky, won a free Saturday night hotel room at the conference.

Think about bringing the family along too! There are plenty of interesting and entertaining attractions to Kansas City, including the Truman Library and Museum, the Oregon/Santa Fe Trails Museum, the Toy and Miniature Museum, the Plaza Shopping Mall, the Hallmark Center... the list goes on! The ABFM2000 host committee plans to provide more information on the ABFM website as plans are firmed. Watch the website and future newsletters for more information.

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