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MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

SECOND YEAR SEMINAR: DECEMBER 10-11, 1997

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TABLE OF CONTENTS

MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS
Second Year Seminars: December 10-11, 1997

DECEMBER 10, 1997 2
- Exercise I : Rating the Budget Document 2
- Assembling the Budget Document 3
- Techniques of Presenting the Budget 3
- Budget Presentation Skills 3
- Exercise II : Role Playing 4

DECEMBER 11, 1997 4
- Work Plans and Budget Monitoring 4
- Exercise III : Work Plan Formulation 5
- Guest Speaker 5

MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

Second Year Seminars: December 10-11, 1997

This report briefly describes the December seminar on Modernizing Financial Management for Hungarian Local Governments. The program aims at training Hungarian local government finance officers to improve budgeting and financial management within their cities. The December seminar was the fifth seminar of the second year program, which extends from June 1997 to March 1998.

The agenda, list of participants, and course material are included in Annex A. Ten local governments attended the December seminar, some from large cities like Székesfehérvár, but the majority from smaller towns. Table 1 shows the list of local governments who have attended the second year seminars so far.

DECEMBER 10, 1997

The seminar started with Mr. József Hegedüs (Metropolitan Research Institute (MRI)) welcoming the participants. This was followed by a presentation by Ms. Andrea Tönkő (MRI) and Mrs. Krajsoczki (local Hungarian trainer and head of the finance department for the city of Szentes) on the program budgeting process. On the evaluation sheets handed out at the previous (November) seminar, participants had requested that the elements of program budgeting discussed at various seminars be presented together in a comprehensive way—to enhance their understanding of why program budgeting is an effective and comprehensive technique of budgeting. Ms. Tönkő therefore summarized what was said at previous seminars regarding the following elements:

- Strategic goals
- Fiscal Indicators
- Problems
- Objectives
- Program alternatives
- Set of criteria
- Selecting programs for implementation

Mrs. Krajsoczki's presentation on the process of program budgeting was based on Szentes' experience. She discussed the annual work plan and experience gathered through work. She said that program budgeting is substantially different from traditionally established budgeting practice in Hungary, and it may be hard to get municipal staff to accept the new techniques. It is important to identify individuals who are responsible for the implementation of the various stages, and who direct and coordinate the process. The work plan must be strictly followed.

Exercise I : Rating the Budget Document

This exercise was conducted by Mr. Hegedüs and Ms. Tönkő. Participants were divided into three groups and given three budget examples for each of the following three topics—goals and objectives, budget message, and performance measurements. After choosing one topic and

reading the samples, each group had to specify criteria by which the budgets could be rated. Finally, they had to defend the order of rating they chose.

Assembling the Budget Document

The exercise was followed by Mr. Hegedüs' presentation on assembly and contents of a good budget document. Mr. Hegedüs first discussed a sample Hungarian work plan provided by the city of Szentes. A work plan details the activities involved in preparing a program budget. The Szentes work plan had the following components: (1) activities relating to the budget calendar, (2) the staff involved, (3) deadlines, and (4) person responsible for the activity. Mr. Hegedüs then discussed the following guidelines for governmental budgeting:

- Policy overview
- Operating details
- Financial summaries
- Organizational and community profiles
- Final document

Techniques of Presenting the Budget

Mr. József Kéri (Hungarian local trainer and head of the finance department for the city of Szolnok) and Mr. Phillip Rosenberg (consultant to the Urban Institute (UI)) made a presentation on the techniques of presenting the budget to the City Council. Mr. Rosenberg stressed that budget presentations require: (1) possessing substantive knowledge of the subject, (2) thinking in terms of the format and content, (3) developing diagnostic/analytic statements and background papers (4) holding orientation sessions for council members, and (5) organizing and presenting budget data. Mr. Kéri stated that those who compile the budget have to serve City Council members. Background studies and critical and analytical observation can greatly help City Council members in making decisions. Good organization of budget data can lead to a better understanding of its elements as well as the substantial differences between various alternatives. Finally, Mr. Kéri said that being well prepared to present the budget may alleviate the traditional tension between the staff and Council members and decrease the risk of rejection of the budget.

Budget Presentation Skills

Ms. Katalin Pallai (local Hungarian trainer) made a presentation on how to present the budget. The success of a presentation greatly depends on the method of presentation, and a good presentation is based on continuous communication with the audience. Planning a presentation involves the following

- Analysis
- Defining the content
- Structuring the message
- Identifying and developing necessary tools
- Finalizing and checking

Presentation tools are: (1) words, (2) body language, and (3) technology and other auxiliary tools. Ms. Pallai's presentation also discussed the importance and characteristics of auxiliary tools, the techniques of developing them, and the importance of the presenter's personality in making a successful presentation. Ms. Pallai ended her presentation with a discussion on basic presentation techniques which comprise of: (1) concentration, (2) simplification, (3) structuring, (4) dramatizing, and (5) either personalizing or impersonalizing.

Exercise II : Role Playing

Each January or February, local government finance officers present the proposed new budget to the municipal council in their city. Training in this seminar therefore focused on a role playing exercise. Participants were divided into different groups—a 7 member municipal council, a clerk, a finance officer, and two technical department heads. The council had to appoint a mayor and was divided into two factions: the majority and the opposition. The role playing simulation involved the finance officer presenting a budget to the council; comments by members of the public; objections and counter proposals on some budgetary elements by three council members; technical explanations by two department heads, and a final vote on the budget by the council. The objective of the simulation was to show that finance officers should view the budget proposal from the perspective of the municipal council and thus be better prepared to defend their own budget. The moderator for this exercise was Ms. Pallai.

DECEMBER 11, 1997

The second day of the workshop was focused on a new topic—budget work plans and monitoring.

Work Plans and Budget Monitoring

This presentation was made by Mr. Rosenberg, who discussed the importance and purpose of a work plan and the process of creating it. Components of a general work plan are a detailed list of: (1) revenues, (2) expenditures, and (3) other sources of funding and responsibilities of the government. Creating a detailed work plan is a precondition to objective performance measuring and also an excellent method of familiarizing the budgetary staff with the institutions. A project work plan comprises of the following elements:

- Identifying work activities/tasks
- Identifying and quantifying desired outputs for each activity/task
- Determining and listing inputs (work hours, square meters of work required, contracts, etc.) needed to attain the planned output
- Estimating unit prices.

Once the budget is adopted, monitoring the implemented budget and evaluating intermediate results makes it possible to adjust programs and redirect resources as necessary.

5

Applying this procedure minimizes overspending and waste. The process of monitoring involves:

- Reviewing the department capacity
- Reporting and reviewing programs
- Site visits and help

Mr. Rosenberg ended his presentation by analyzing two sample reports. The first was on a pavement repair program under the transportation service, and the second was a expenditure report for a police department.

Exercise III : Work Plan Formulation

This exercise was monitored by Mr. Rosenberg. Participants were first given an example of a "typical" work plan to review, and then required to formulate work plans for three activities (tree planting, street repairs, and trees maintenance) under environmental maintenance.

Guest Speaker

The guest speaker at the seminar was Mr. Ferenc Saly from the State Audit Agency (STA). Mr. Saly stated that auditing by the State Audit Agency also serves the interests of local governments because although old mistakes cannot be corrected, future ones can be prevented. In some cases it is the local government that requests an audit, however, the capacity of the STA staff is limited. It is a challenge for city notaries to continuously supervise compliance with the law and improve regulations. STA's activities therefore result in helping local governments in their internal auditing (for example: institutions or the Mayor's office). Local governments have no options or recourse in case of objections to the results of an STA audit.

Mrs. Krajsóczki from the city of Szentes asked Mr Saly his opinion on local governments' internal auditing. According to Mr. Saly, the internal auditing by local governments is not very good. He stressed that it would be important to create check points in the internal auditing process. The problem, though, is that auditors are usually treated in a hostile way. Internal auditors tend to keep silent about irregularities they find because revealing them could endanger themselves or their jobs. This situation could be ameliorated by strengthening their positions in the office hierarchy and improving their reputation. Local governments should recognize the importance of the work done by this staff.

Table 1
List of Cities Participating in the Second Year (1997-1998) Seminars on Modernizing Financial Management for Hungarian Local Governments

No.	Cities	Population	May 14-15, 1997	June 18-19, 1997	September 24-25, 1997	November 14-15, 1997	December 10-11, 1997
1.	Budapest District VI	23,246	✓		✓	✓	✓
2.	Csongrád	19,112	✓	✓	✓	✓	✓
3.	Debrecen	210,143	✓	✓	✓	✓	
4.	Eger	61,400	✓		✓		
5.	Gödöllö	29,761	✓	✓	✓		
6.	Hajdúszoboszló	23,387	✓	✓	✓	✓	
7.	Hódmezővásárhely	49,901	✓		✓		✓
8.	Karcag	22.637	✓				
9.	Kazincbarcika	34,759	✓	✓	✓		
10.	Kecskemét	105,058	✓	✓	✓		
11.	Nagykanizsa	53,353	✓	✓	✓	✓	✓
12.	Nagykőrös	26,646		✓	✓	✓	✓
13.	Orosháza	34,600		✓	✓	✓	✓
14.	Püspökladány	17,000	✓	✓	✓	✓	✓
15.	Szegvár	5,285	✓	✓	✓	✓	
16.	Székesfehérvár	107,181	✓	✓	✓	✓	✓
17.	Szentes	33,000	✓	✓	✓	✓	✓
18.	Szolnok	81,500	✓	✓	✓	✓	✓

ANNEX A

United States Agency for International Development

MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

Hotel Rubin, 1118 Budapest, Dayka Gabor u. 3
December 10-11, 1997

TABLE OF CONTENTS

Agenda

List of Participants

A. Transparencies

A 1 The Program Budgeting Process

A.2 Assembling the Budget Document

A.3 Budget Presentations: Substance

A.4 Budget Presentations: Presentation Skills

A.5 Work Plans and Budget Monitoring

B. Exercise

B 1 Rating the Budget Document

B 2 Budget Presentation to City Council

B 3 Work Plan Case Study

B.4 The Asphalt Paradox

C. Background Reading

C.1997 Szentes Work Plan

C.2 "Model Performance Review Regulations" by Edward A. Lehan

C.3 "A Note on Performance Review Procedures" by Edward A. Lehan

C 4 Example of Performance Review Report

C.5 "A Note on Work Plans" by Edward A Lehan

C 6 "Implementing and Monitoring the Budget" by Juliet Carol Powdar

C 7 "The Budgeting Process" by Gregory S Allison

C 8 "Financial Reporting" by Gregory S. Allison

C 9 "Productivity Monitoring Systems, Indicators, and Analysis" by Theodore H Poister

C.10 Budget Document Score Card

C.11 "Budgets as Literature" by Edward A. Lehan

C.12 "Budget Formulation" by Edward A. Lehan

AAGENDA
DECEMBER 1997

Agenda
MODERNIZING FINANCIAL MANAGEMENT
FOR HUNGARIAN LOCAL GOVERNMENTS
December 10-11, 1997, Budapest
Hotel Rubin, 1118 Budapest, Dayka Gábor u. 3

December 10, 1997

9.30 - 10.00 a.m.	Registration
10.00 -11.00 a.m.	The Program Budgeting Process *Andrea Tönkö, Városkutatá* *Erzsebet Krajovszki, Szentes*
11.00 - 12.30 p.m.	Exercise: Rating the Budget Document Group Presentation and Critique *József Hegedus and Andrea Tönkö, Városkutatás*
11.30 a.m.	Coffee served during Exercise
12.30 - 1.00 p.m.	Assembling the Budget Document *József Hegedus, Városkutatás*
1.00 - 2.00 p.m.	Hosted Luncheon
2.00 - 3.00 p.m.	Budget Presentations: Substance *József Keri, Szolnok* *Philip Rosenberg, Urban Institute*
3.00 - 3.30 p.m.	Budget Presentations: Presentation Skills *Katalin Pallai, City of Budapest*
3.30 - 5.30 p.m.	Role Playing Exercise: Budget Presentation to City Council ***Moderator:*** Katalin Pallai, City of Budapest
3.30 p.m.	Coffee served during Exercise
5 30 p.m.	Adjourn and Reception

December 11, 1997

9 00 - 11 00 a m	Work Plans and Budget Monitoring *Philip Rosenberg, Urban Institute*

11 00 - 11.15 a.m	Coffee Break
11 15 - 12 15 p.m.	Exercise: Work Plan Formulation Exercise: The Asphalt Paradox Group Presentation and Critique *Philip Rosenberg, Urban Institute*
12.15 - 1.15 p.m.	Guest Speaker *Ferenc Saly, State Auditing Office*
1.15 - 2.15 p.m.	Hosted Luncheon
2.15 p.m.	Adjourn

LIST OF PARTICIPANTS

Municipalities

1. Mrs Kotsis
finance staff
Mayor's Office VI district

2. Lajos Germán
office manager
Mayor's Office VI. district

3. Tamás J Kiss
educational staff
Mayor's Office VI district

4. Dr Marián Miklós
council member, alderman
Mayor's Office VI district

5. Ferenc Lázi
council member, head of the finance comittee
Mayor's Office VI. district

6 Éva Horinka
Mayor's Office, VI district

7. Istvánné Szepesi
group leader
Mayor's Office, Csongrád

8. Bardy Beatrix
Mayor's Office, Csongrád

9. Enikõ Elek Mrs. Tóthpál
education staff
Mayor's Office, Eger

10. Dr. Györgyné Heltati
office manager
Mayor's Office, Gödollõ

11. István Tengelits
office manager
Mayor's Office, Gödollõ

12. Edina Kérdõ
Mayor's Office, Hódmezõvásárhely

13 dr Gabriella Dávid Tóthné
educational staff
Mayor's Office, Hódmezõvásárhely Julianna

14 Jánosné Lajtos
budget group leader
Mayor's Office, Karcag

15. Hodos Mrs. Vinczéné
education expert
Mayor's Office, Hódmezõvásárhely

16. Katalin Pataki Mrs Richter
budget group leader
Mayor's Office, Kecskemet

17 Györgyné Kovács
budget expert
Mayor's Office, Kecskemét

18. Mrs. Gátszegi Gertrúd Gorontay
finance officer
Mayor's Office, Nagykanizsa

19. Mrs. Mária Szányiné Kovács
finance officer
Mayor's Office, Nagykanizsa

20. Ferencné Holló
finance staff
Mayor's Office, Nagykõrõs

21 Mrs. Tóth Éva Péczeli
finance staff
Mayor s Office, Nagykõrõs

22 Mrs Haklik
Head of Financial Department
Mayor's Office, Orosháza

23 Janosné Laluska

Mayor's Office, Orosháza

24 Mrs Kurthy
manager, municipal finance management
Mayor s Office, Puspokladany

25 Ibolya Végh
notary
Mayor s Office, Szegvar

26 Mrs Gyombér
administraion group leader
Mayor s Office, Szegvar

27 Regina Jasztrapszky Mrs Meszaros

28 Varga Sandor

budget expert
Mayor's Office, Székesfehérvár

29. Lipták János
manager, technical department
Mayor's Office, Szentes

30. Mária Szalontai Mrs. Lencse
manager, social policy department
Mayor's Office, Szentes

31. Gál Antal
manager, Family Help Center
Mayor's Office, Szentes

32. Mrs Erzsébet Krajovszki
group leader
Mayor's Office, Szentes

33 Imre Balogh
municipal officer
Mayors Office, Szentes

34. Kéri József
manager, finance department
Mayor's Office, Szolnok

35. Péter László
Mayor's Office, Szolnok

36. István Menyhárt

Mayor's Office, Szolnok

37. Gézáné Kovács
TÁKISZ, Szolnok

38. István Hágen
TÁKISZ, Szolnok

Advisors

39. Katharine Mark
advisor, municipal finance
The Urban Institute, Budapest

40. Philip Rosenberg
advisor, municipal finance
The Urban Institute, USA

41. Margaret M. Tabler
advisor, municipal finance
The Urban Institute, Budapest

42. Dr. Ferenc Saly
State Audit Agency, Budapest

43. Zoltán Gyorgyi
Education Research Institute

44. Mihály Lados
research fellow
MTA RKK, Győri Regionális Kutató, Győr

45. Katalin Pallai
advisor

46. József Hegedus
advisor, municipalities
Metropolitan Research Institute

47. Róbert Kovács
fellow
Metropolitan Research Institute

48. Andrea Tönkö
fellow
Metropolitan Research Institute

49 Zsolt Pataki
fellow
Metropolitan Research Institute

SLIDES
DECEMBER 1997

17

The 1997 Work Plan of the City of Szentes for Preparing the Budget in Program Structure

PHASE I:

Activity	Staff involved	Deadline	Responsibility
- meeting	Ms Lencse, Head of Soc.Pol.Ggroup	04.21.97	Ms Krajsóczki
- frame the strategic goal	Ms Lencse	05.20.97	Ms Krajsóczki
- define the program objective	Mr Gál, Head of Family Help Center		
- develop sub-programs	Mr Balogh, Senior Staff in Budget Group		

PHASE II.

Assess current status, data acquisition

- information from citizens - a review the present system of services	Mr Takács, Dept.Head Ms Szebellédi, Head of Institution Mr Hódi finan. officer Ms Kanfi finan. Officer Ms Kovács finan.offic.	06.20.97	Ms Lencse
- develop the costs of services (fact 95 and 96. plan for 97) by forms of services	Mr Balogh	07.01.97	Ms Krajsóczki
- develop the indicators to influence the costs of services, set up trends (number of employees, logistical arrangements, etc.)	Mr Balogh	07.01.97	Ms Krajsóczki
- review the number of service users (fact 95. 96. plan 97)	Ms Szebellédi Ms Benkő, head of	07.01.97	Ms Lencse

	institution, Mr Gál		
- review the utilisation rate of institutions providing services	Mr Balogh	08.01.97	Ms Krajsóczki

PHASE III.

- evaluate information gathered	Ms Lencse, Mr Balogh Mr Gál	08.15.97	Ms Krajsóczki
- set priorities	"Ms Lencse, Mr Balogh Mr Gál	09.30.97	Ms Krajsóczki
- prepare the 1998 budget policy	"Ms Lencse, Mr Balogh Mr Gál	09.30.97	Ms Krajsóczki
- define service norms	"Ms Lencse, Mr Balogh Mr Gál	09.30.97	Ms Krajsóczki
- develop alternatives, present investment opportunities	"Ms Lencse, Mr Balogh Mr Gál	09.30.97	Ms Krajsóczki
- committee review	"Ms Lencse, Mr Balogh Mr Gál	10.31.97	Ms Krajsóczki
- prepare 1998 budget, present to council	"Ms Lencse, Mr Balogh Mr Gál	12.19.97	Ms Krajsóczki

- STRATEGIC GOAL AND OBJECTIVES
- SOLUTIONS FOR ACHIEVING THESE OBJECTIVES
- CRITERIA USED IN SELECTING
- SOLUTION RECOMMENDED
- PERFORMANCE MEASURES:
  - INPUT MEASURES
  - OUTPUT MEASURES
  - EFFICIENCY MEASURES
- LEGAL BACKGROUND

LONG-TERM ANALYSIS

- CURRENT SERVICE LEVEL
- FUTURE NEEDS
- CAPACITIES, STATE OF INFRASTRUCTURE
- CAPITAL IMPROVEMENT NEEDS
- POSSIBLE CHANGES IN THE ORGANIZATION STRUCTURE

Guide for Governmental Budgeting

(Based on D. Strachota "The best governmental budgeting" GFOA. 1994

- Policy overview
- Operating Detail
- Financial Summaries
- Organizational and Community Profiles
- Final Document

Policy Overview

- Budget priorities and goals
- State budget, economic and policy assumptions
- Relate the budget to the past and the future

Operating Details

- Department and program mission statement
- Performance measures (effectiveness, efficiency, demand, workload)
- Financial data
- Organizational structure

Financial Summaries

- Revenues and expenditures
- Revenue sources analyses
- Capital budgeting
- Debt summary and analyses
- Other funds and off-budget resources

Organizational and Community Profile I.

- Organizational chart -- tips
  - page reference in the detailed document
  - functions and programs under organizational units
  - staffing, and other budget information
  - design (colours, forms, etc)

Organizational and Community Profile II.

- Options for key materials describing the community
  - historical information
  - political background (governance)
  - population, social and demographic information, employment
  - infrastucture, housing
  - map, chart, photo

Final Document -- purpose

- Integrate diverse, competing proposals
- Encourage debate over budgetary issues
- Accurate and clear communication

Final Document -- tips

- Table of contents (index, lists)
- Glossary
- Graphs and other visuals
- Cover design
- Users guide

BUDGET PRESENTATIONS: SUBSTANCE

- SUBSTANTIVE KNOWLEDGE OF THE SUBJECT
- THINK IN TERMS OF FORMAT & CONTENT
- DEVELOP DIAGNOSTIC/ANALYTIC STATEMENTS & BACKGROUND PAPERS
- HOLD ORIENTATION SESSIONS FOR COUNCIL MEMBERS

BUDGET PRESENTATIONS: SUBSTANCE

- ORGANIZE AND PRESENT BUDGET DATA
  - TOPIC SELECTION & EMPHASIS
  - RELATE TO FISCAL POLICY
  - INTERPRET NUMERICAL DATA
  - REVIEW CURRENT FY PERFORMANCE
  - PRESENT SERVICE LEVELS & RELATED COSTS

BUDGET PRESENTATIONS: SUBSTANCE

- ORGANIZE & PRESENT BUDGET DATA
  - DISCUSS ALTERNATIVES CONSIDERED
  - ISOLATE LEADING ISSUES
  - IDENTIFY UNCONTROLLABLE ITEMS
  - IDENTIFY WEAKNESSES

Presentation on How to Present

"The brain is a wonderful thing.
It starts working at birth and keeps working
right up to the moment when one stands up
to make a public speech."

Presentation on How to Present

Communication

Message

Addressor **Addressee**

Feedback

Presentation on How to Present

Success =

Knowledge

+

Preparation

+

Execution: the Presentation

Presentation on How to Present

Content

Structure

Form

Presentation on How to Present

- Analysis
- Defining the Content
- Structuring the Message
- Identifying and Developing Necessary Tools
- Finalizing and Checking

Presentation on How to Present

Parts of the Presentation

Introduction: Tell What You Are Going to Say

Discussion: Tell What You Want to Tell

Conclusion: Tell What You Have Just Told

Presentation on How to Present

Parts of the Presentation

Introduction: Connect to Prior Information
Goal, Motivation, Draft

Discussion: Elaboration, Involving the Audience, Reinforcement

Conclusion: Connect to Next Information

Presentation on How to Present

TOOLS Words

Body Language

Technology, Auxiliary Tools

Presentation on How to Present

Purpose of Auxiliary Materials

- Make Understanding Faster
- Winning and Keeping Attention
- Focusing on Fundamentals
- Providing More Accurate Information
- Reminder

Presentation on How to Present

Auxiliary Materials Relate to the Topic
Simple, Comprehensible
Legible
Accurate
Colourful
Easy to Handle

Presentation on How to Present

Transparencies Title: Minimum 36
Text: Minimum 24
Double Spacing
Maximum 6 or 7 Lines
Max. 5 Min./Sheet
Borders and Colours

Presentation on How to Present

The Good Presenter is Friendly
Objective
Credible
Understanding
Easy to Understand

ACTIONS FOSTERING CONTINUOUS IMPROVEMENT IN THE EFFICIENCY AND EFFECTIVENESS OF SERVICES

PRELIMINARY STUDIES	COST CENTER DOCUMENTATION	IMPLEMENTATION			
		QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
1 Revenue Collection Action Plan (RCAP) 2 Budget Perspective					
	1 Problem Definition and Goal(s) 2 Collaborators and Interested Parties 3 Conditions of Performance 4 Work Plan 5 Alternatives 6 Budget				
		1 Adoption			
		1 Work Plan 2 Allotment 3 Performance Review 4 Corrective Action			
			1 Work Plan 2 Allotment 3 Performance Review 4 Corrective Action		
				1 Work Plan 2 Allotment 3 Performance Review 4 Corrective Action	
					1 Work Plan 2 Allotment 3 Performance Review 4 Corrective Action

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Presentation on How to Present

Personality - Self Confidence
- Courage
- Faith
- Sobriety
- Self Restraint
- Style

Presentation on How to Present

Basic Presentation Techniques

Concentration

Simplification

Structuring

Dramatizing

Personalizing, Impersonalizing

FORMULATING A GENERAL WORK PLAN

- REVENUES
  - TIME TABLE FOR RECEIPT OF OWN SOURCE REVENUE, BY TYPE
  - TIME TABLE FOR RECEIPT OF TRANSFERS, BY TYPE
- EXPENDITURES
  - TIME TABLE FOR EXPENDITURES, BY TYPE
- OTHER???

PLANNED CASH FLOW ANALYSIS

	JAN FEB	MAR	DEC
REVENUE.			
EXPENDITURE			
BALANCE (+ OR -)			

CASH FLOW ANALYSIS

	JANUARY PLAN	JANUARY ACTUAL	DEVIATION (+ OR -)
REVENUE:			
EXPENDITURE:			
BALANCE (+ OR -)			

FORMULATING A PROJECT WORK PLAN

- IDENTIFY WORK ACTIVITIES/TASKS
- IDENTIFY AND QUANTIFY DESIRED OUTPUTS FOR EACH ACTIVITY/TASK
- DETERMINE AND LIST INPUTS (WORK HOURS, SQ. METERS, KILOS, CONTRACTS, ETC.) NEEDED TO ATTAIN PLANNED OUTPUT
- ESTIMATE UNIT PRICES

FORMULATING A PROJECT WORK PLAN

- MULTIPLY UNIT PRICE BY REQUIRED INPUTS
- DETERMINE TOTAL COST
- DETERMINE COST PER UNIT OF OUTPUT
- DETERMINE OUTPUT PER WORK HOUR
- COMPARE TO PAST AND CURRENT TRENDS
- DEVELOP MILESTONES

COMPARING UNIT MEASURES

	UNIT MEASURES	DESIRED TREND
X/Y	COST PER UNIT OF OUTPUT	DOWN
Y/X	OUTPUT UNITS PER COST	UP
Z/Y	STAFF TIME PER UNIT OF OUTPUT	DOWN
Y/Z	UNITS OF OUTPUT PER STAFF TIME	UP

KEY
X = COST, Y = OUTPUT OUTCOME IMPACT, Z = WORK HOURS, DAYS, WEEKS, ETC

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COMPARING UNIT MEASURES

TIME SERIES

	UNIT COST	VARIANCE
LAST YEAR'S ACTUAL	900	
		+100
CURRENT YEAR'S REVISED ESTIMATE	1,000	
		-50
NEXT YEAR'S TARGET	950	

COMPARING UNIT MEASURES

STANDARD

	OUTPUT PER HOUR	VARIANCE
LAST YEAR'S BUDGET	100	
		+100
CURRENT YEAR'S REVISED ESTIMATE	110	

COMPARING UNIT MEASURES

MARKET PRICES

ALTERNATIVES	COST	PROGRAM A	VARIANCE
COMPANY X	900		
COMPANY Y	1,000		
COMPANY Z	1,100		
AVERAGE	1,000	1,200	+200

Compare "Costs"/Benefits of Alternative Approaches

MARGINAL PRODUCTIVITY

X = INPUT	Y = OUTPUT/ OUTCOME
80% OF CURRENT YEAR ESTIMATE	NUMBER
100% OF CURRENT YEAR ESTIMATE	NUMBER
120% OF CURRENT YEAR ESTIMATE	NUMBER

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MARGINAL PRODUCTIVITY

INPUT	COST	X TOTAL	Y OUTPUT
ALTERNATIVE A	ft	ft	NUMBER
ALTERNATIVE B	ft	ft	NUMBER
ALTERNATIVE C	ft	ft	NUMBER

TABLE FOR WORK PLAN

COST CENTER CODE
COST CENTER NAME
COST CENTER MANAGER

#	ACTIVITY / TASK	INDICATOR	FISCAL YEAR				TOTAL	
			1st quart.	2nd quart.	3rd quart.	4th quart.	PURPOSE	HOURS
A	B	C	D	E	F	G	H	I
	Total working hours							
	Add permitted absentee hours							
	Total paid hours							

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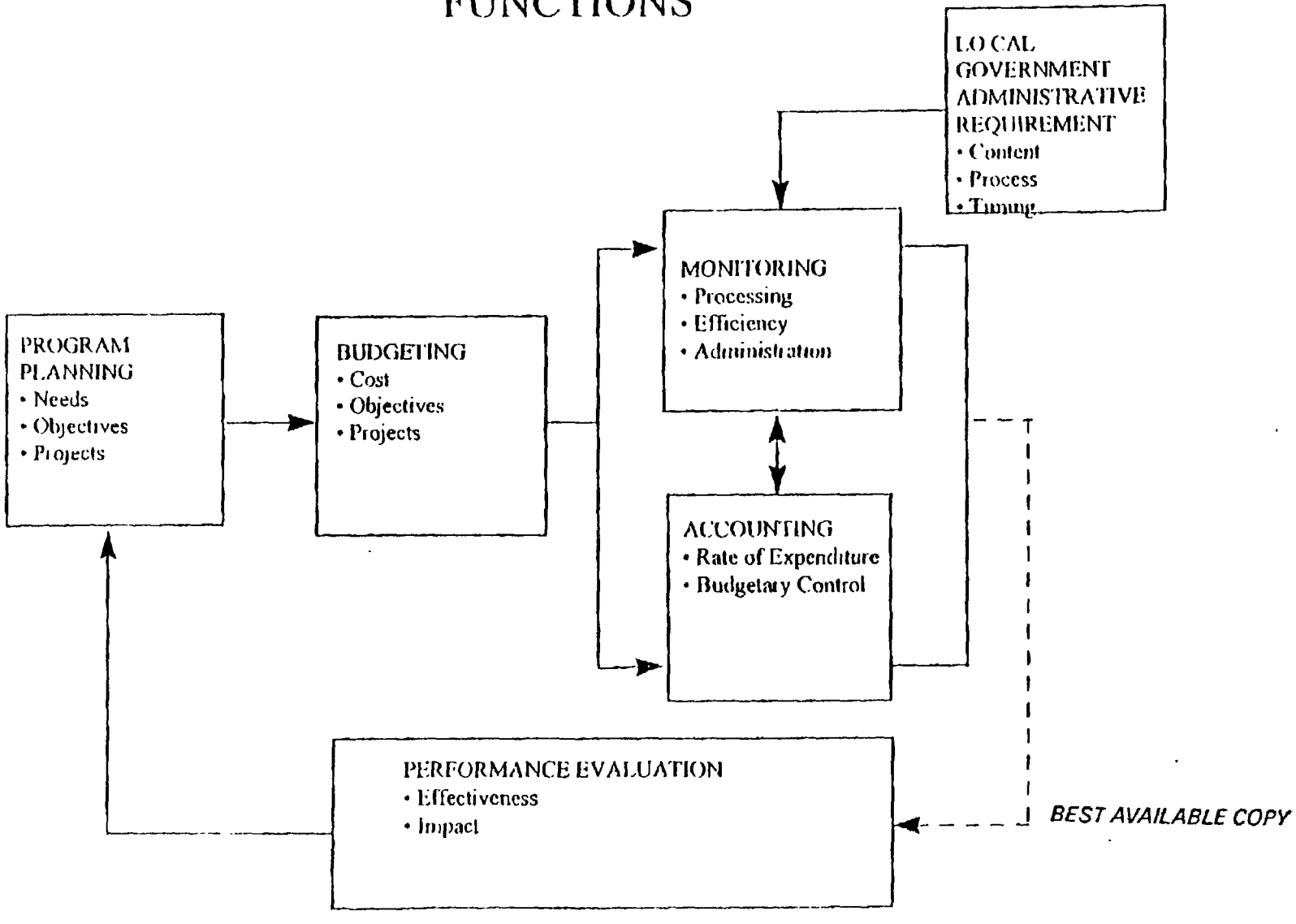
RELATIONSHIP OF MONITORING TO OTHER MANAGEMENT FUNCTIONS



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BUDGET MONITORING

- FORMAL PERFORMANCE REVIEW
- ORAL, WRITTEN AND VISUAL PRESENTATIONS
- COMMITTEE REVIEW
- REVIEW COVERS: PAST, CURRENT, FUTURE
- ALLOW TIME FOR CORRECTIVE ACTION

ADMINISTRATION AND EXECUTION

- CONSTANT REVIEW
  - DEPARTMENT/INSTITUTION
  - EXECUTIVE
  - LEGISLATIVE
- BUDGET CONTROL AND ACCOUNTING
  - FUNDS AND ACCOUNTS
  - BUDGETARY APPROPRIATIONS
  - ALLOTMENTS

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THE MONITORING PROCESS

DEPARTMENT/ CONTRACTOR CAPACITY/SYSTEMS	REPORTING & REPROGRAMMING	FIELD VISITATION & ASSISTANCE
REVIEW ADMINISTRATIVE CAPACITY • PERSONNEL/SKILLS • EQUIPMENT • PAST PERFORMANCE • ACCOUNTING SYSTEMS • PURCHASING • ASSET MANAGEMENT	REVIEW REPORTS FOR ACCOMPLISHMENTS OF: • TARGETS • MILESTONES • RATES OF EXPENDITURE • CONTRACT COMPLIANCE • CONFORMANCE TO LAW	PROVIDE TECHNICAL ASSISTANCE BY FIELD VISITATION TO: • CORRECT DEFICIENCIES • OBSERVE ACTIONS • REVIEW PROGRESS
INCORPORATE REQUIREMENTS WITHIN CONTRACT OR PERFORMANCE AGREEMENT	PROVIDE INPUT TO MANAGEMENT DECISION TO ADJUST BUDGET/ OUTCOMES/ STRATEGY	CONDUCT UNITED REVIEWS TO TEST COMPLIANCE WITH MANAGEMENT AND PERFORMANCE ISSUES

REPORTS AND EVALUATION

- ACCOUNTING AND FINANCIAL REPORTS
  - CLASSIFICATION OF FUNDS
  - REPORTS BY FUND OR ACCOUNT
    - APPROPRIATION
    - EXPENDITURES
    - UNENCUMBERED BALANCE
    - OTHERS REQUIRED BY LAW

REPORTS AND EVALUATION

- MANAGEMENT REPORTS
  - FINANCIAL AND STATISTICAL DATA
    - ACTUAL VS ESTIMATE
    - PERCENTAGES
    - COMPARATIVE AND HISTORICAL DATA
    - RATIOS
    - RELATIONAL TO DEMOGRAPHIC DATA
    - TRENDS

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REPORTS AND EVALUATION

- MANAGEMENT REPORTS
  - PERFORMANCE MEASUREMENT
  - PROGRAM ACHIEVEMENT AND STATUS
  - EXCEPTION REPORTING
  - MANAGEMENT ANALYSIS
  - SPECIAL REPORTS
  - PUBLIC VS. INTERNAL REPORTS

REPORTS AND EVALUATION

- REPORTING HIERARCHY AND STRUCTURE
  - OPERATING AND WORKING REPORTS
    - DETAIL
  - MANAGEMENT REPORTS
    - SUMMARY
  - DISTRIBUTION
    - WHO GETS WHAT WHEN?

REPORTS AND EVALUATION

- REPORT FREQUENCY
  - DAILY
  - WEEKLY
  - MONTHLY
  - PERIOD
  - QUARTERLY
  - SEMIANNUALLY
  - ANNUALLY
  - AS NEEDED

REPORTS AND EVALUATION

- REPORTING EVALUATION AND ACTION
  - WHAT DOES THE REPORT TELL ME?
  - SHOULD ANY ACTION BE TAKEN?
  - WHO HAS THE REPONSIBILITY?
  - MAKE BUDGETARY ADJUSTMENTS, PROGRAM DECISIONS, ETC.

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SAMPLE REPORT

SERVICE: TRANSPORTATION
PROGRAM: PAVEMENT REPAIR
OBJECTIVE: Improve quality by repairing and paving 15% of the City's streets. Increase citizen satisfaction by 20%.

INDICATORS OF PERFORMANCE (ft in 000)

INPUT	96 ACTUAL	PLAN QTR	ACTUAL QTR
DEMAND			
Lane Km of Paved Streets	638	638	638
Citizen Requests	180	46	40 +
Km of Sidewalk	313	313	313
Km of Curb	211	211	211
WORK LOAD			
Hours Repairing Streets	23,799	4,633	5,100 -
Tons of Asphalt Used	7,380	1,907	2,100 -
Km of Cracks Sealed	16	0	0
PRODUCTIVITY			
Cost Per Ton of Asphalt Applied	32 ft	52 ft	62 ft
Cost Per Km of Cracks Sealed	200 ft	0	0
EFFECTIVENESS			
% Change in Citizen Complaints	-	-10%	- 15% +

EXPENDITURES (ft in 000)

	96 ACTUAL	PLAN QTR	ACTUAL QTR
PERSONNEL	62,500	14,375	15,800 -
OPERATING COSTS	26,000	7,000	13,780 -
CAPITAL OUTLAY	98,000	9,800	12,300 -
TOTAL	186,500	31,175	41,880

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Report of Expenditures Against Quarterly Plan
(000)

DEPARTMENT: Police	1 ANNUAL BUDGET	2 PLANNED THROUGH 1ST QTR.	3 ACTUAL	4 Over (UNDER) PLAN	5 % OVER (UNDER)	6 UNEXPENDED BALANCE OF TOTAL BUDGET	7 % BUDGET EXPENDED
Services:							
Patrol	600	137	124	(13)	(9)	476	21.7
Community Service	200	100	105	5	5	95	52.5
Total	800	237	229	(8)	(4)	571	28.6
DEPARTMENT: Public Works				Column 3 minus Column 2			
Services:							
	9—9	9—9	9—9	9—9	9—9	9—9	9—9
	9—9	9—9	9—9	9—9	9—9	9—9	9—9
Total	9—9	9—9	9—9	9—9	9—9	9—9	9—9

15

EXERCISE
DECEMBER 1997

EXAMPLE A3.1

RECREATION

DEPARTMENT BUDGET NARRATIVE

The Recreation Department directs and coordinates a wide variety of recreational activities in the City. The department operates and maintains 15 playing fields, neighborhood playgrounds, tennis courts and two major parks. Additionally, the department is responsible for the maintenance and upkeep of thirteen boulevard areas, two cemeteries and the sidewalks and grounds of City buildings.

The Recreation Department provides support for Garden Clubs as well as being responsible for removing dead trees, trimming limbs and bushes at corners, picking up litter and dead animals in the street.

The Recreation Department sponsors dances, organized sports leagues and provides a summer recreational program opportunity for children.

1994 BUDGET HIGHLIGHTS

As Proposed

$17,915 or 2.45% increase is attributable to personnel costs, supplies and materials.

As Adopted

Proposed budget was reduced by $13,000.

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EXAMPLE A3.2

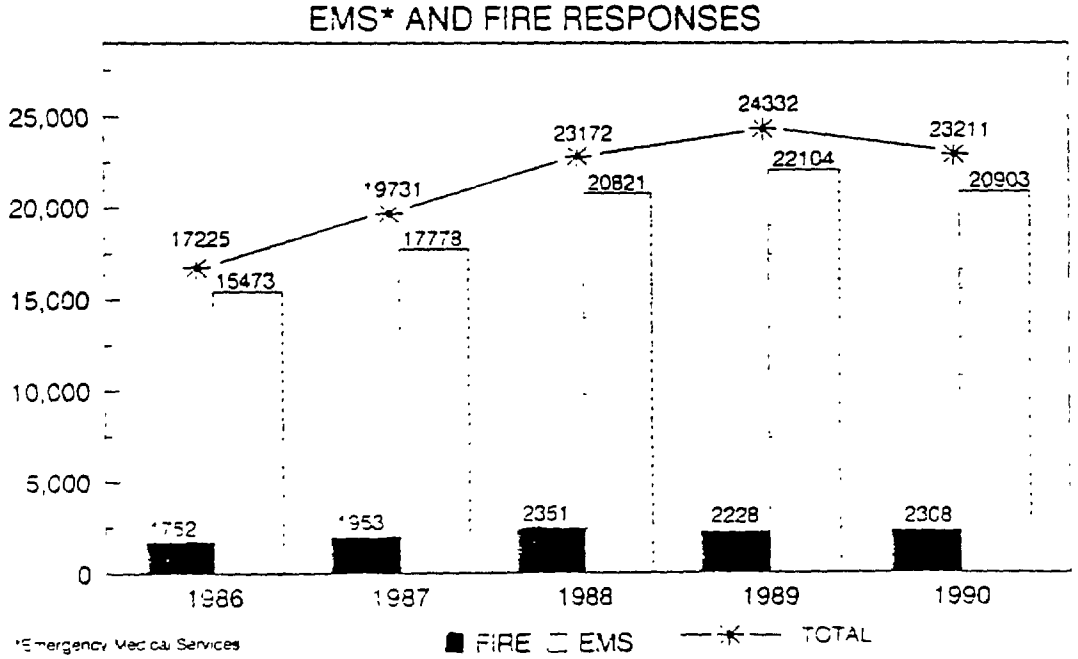
OBJECTIVES FOR COMING YEAR

- Establish a quarterly newsletter to update staff on new procedures, required training and other pertinent information.
- Develop and implement a fire safety coloring book and poster awards program for all of the special education and kindergarten through fifth grade school classes in County.
- Build a trailer-mounted safety E.D.I.T.H. (exit drill in the home) house for use in the schools and community education programs.
- Conduct 500 fire and safety inspections of motels, hotels, and apartment buildings.
- Prepare and present eight community awareness campaigns on seasonal topics and special hazards including Child Drowning Prevention, Fireworks Safety and Christmas Holiday Safety.
- Arrive at 90% of all alarms within 3 minutes from time of dispatch by the Communications Center and respond to alarms in a safe manner.

BUDGET HIGHLIGHTS

The FY 1991-92 budget for Fire Services increases by 7% over estimated FY 1990-91 expenditures. This increase is due primarily to the unfreezing of several positions throughout the department as well as a cost-of-living salary adjustment and substantial benefit adjustments for all staff. Also, services and supplies increase by $73,401 because of higher fuel and medical prices and vehicle capital recovery costs. Funds budgeted in capital outlay will allow Fire Services to improve its advanced life support/cardiac services by purchasing five Life Pac 10-Cardiac Monitor/Defibrillators with Pacemakers (four replacements and one new addition). Fire Services will also purchase refrigerant and antifreeze recovery and recycling systems. No new positions are added for FY 1991-92.

FIRE DEPARTMENT
EMS* AND FIRE RESPONSES



54

EXAMPLE A3.3

FY 1993

PERFORMANCE GOALS AND OBJECTIVES

GOAL 1: CONTINUE TO CONDUCT AN EFFECTIVE INSPECTION OF ALL COMMERCIAL PROPERTY WITHIN THE FIRE DISTRICT. THIS ACTIVITY INCLUDES NEW INSPECTIONS, REINSPECTIONS, PLANS REVIEW, VIOLATIONS ISSUED AND VIOLATIONS CORRECTED.

Objective 1: To utilize the new fire prevention design software to enhance inspection logs, scheduling and violation tracking.

Objective 2: To develop a base via the new software to allow a time duration for each normal inspection, less travel time.

Objective 3: To increase the number of inspections performed by Assistant Fire Marshals by 5% in FY 1993.

Performance Measures	Actual FY 1991	Estimated FY 1992	Projected FY 1993
Demand Measures			
Number of Commercial units to inspect	4,950	5,000	5,300
Efficiency Measure			
Number of inspections per inspector	561	768	807
Effectiveness Measure			
Workload divided by demand	.453	.615	.609
Workload Measure			
Number of commercial units inspected	2,242	3,073	3,227

GOAL 2: TRAIN ALL PERSONNEL IN THE PROPER OPERATION AND MAINTENANCE OF EMERGENCY TOOLS AND EQUIPMENT (LADDERS, NOZZLES, HURST TOOLS, PROTECTIVE BREATHING APPARATUS, ETC.) IN ORDER TO EXTEND THEIR LIFE CYCLE AND REDUCE REPAIR AND REPLACEMENT COSTS.

Objective 1: Develop Standard Operating Procedures for the operation and use of all emergency tools and equipment prior to December 1992.

Objective 2: Establish a schedule that provides regular cleaning and maintenance for all emergency tools and equipment prior to January 1993.

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EXAMPLE A3.3 (cont'd)

GOAL 3: PREPARE FOR AN INSURANCE SERVICES OFFICE (ISO) COMMERCIAL RISK SERVICES, INC. INSPECTION. THIS ACTIVITY INCLUDES A HIGHER LEVEL OF FIRE TRAINING, FLOWING OF FIRE HYDRANTS, COMPLETION OF QUICK ACCESS PLANS AND PURCHASE OF ADDITIONAL EQUIPMENT FOR EMERGENCY VEHICLES.

Objective 1: To flow 1500 hydrants during FY 1993.

Objective 2: Purchase and equip apparatus with ISO-required tools and appliances prior to May 1993.

GOAL 4: DEVELOP A COMPREHENSIVE COMPANY OFFICER TRAINING PROGRAM THAT WILL PROVIDE DIRECT ACCOUNTABILITY AND RESPONSIBILITIES FOR ALL LIEUTENANTS IN ORDER TO MEET THE FIRE DEPARTMENT'S REQUIREMENTS OF THE ISO CLASS 3 RATING.

Objective 1: To provide an accountability documentation process that clearly identifies the company officers' (Lieutenants) monthly training responsibilities for ISO prior to November 1, 1992.

Objective 2: To provide a series of monthly training packets that will outline training areas to be covered each month by the company officer with assigned personnel; program training section by November 1992, with full implementation prior to January 1993

Objective 3: To increase company-level training to a minimum of 14 hours per person per month in fire-related subjects that meet ISO Class 3 rating requirements prior to February 1993.

GOAL 5: TO INVOLVE ALL FIRE DEPARTMENT EMPLOYEES IN A.P.P.L.E. INITIATIVE.

Objective 1: To provide the support materials, training and encouragement necessary to stimulate employee involvement in the A.P.P.L.E. quality improvement initiative.

Objective 2: To provide all employees continuous training in the tools and methods of quality improvement and in providing quality services to the citizen/customer of the community.

Objective 3: To ensure that A.P.P.L.E. core representatives from the Fire Department are dedicated, interested and enthusiastic in continuing the A.P.P.L.E. initiative.

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56

EXAMPLE A4.1

June 10, 1991

Members Board of Education
and Citizens of

The budget document of any organization reflects the philosophy, goals and operational priorities which are valued. We believe our philosophy of continuous progress for students is accomplished because our Board of Education and administration have focused our resources in the area of personnel. Our commitment to recruitment, selection and ongoing staff development of quality people has paid tremendous dividends for the district as reflected in our accomplishments evidenced elsewhere in this document.

Even with the relatively low per pupil expenditure documented in this report, our staff has provided an educational program that continues to be nationally recognized for both its quality and uniqueness. The flexible and creative efforts of our staff are keys to continued success of City Schools.

In addition to staffing our focus on the comprehensive planning involved in this 1991-92 budget has been helpful to our leadership team. As an example, earlier this year, we were victimized by an arsonist resulting in the loss of our entire high school for approximately three months. During that time period, because of our financial projections, we were better able to plan for the immediate and long term needs of our students. The budget and financial planning process have also been helpful in assisting the Citizens' Financial Advisory Committee to project the capital needs of the district well into the future.

As this budget clearly demonstrates, there is a need to address both projected operating deficits and facility improvements. We will be better able to provide a rationale to our constituencies as we communicate these needs.

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EXAMPLE A4.1 (cont'd)

At the 1991 National School Boards convention our Board presented a "Share the Success" Seminar to over 600 participants. The title of our seminar was "Building Credibility and Accountability Through Long-Range Planning." The process which we used to build this report and the other long-range planning documents the district develops is vital. Our Board is equally proud of the administrative clerical staff which has assisted throughout this process.

EXAMPLE A4.2

June 3, 1991

Members of the City Council
and Citizens of the City of

Submitted herewith for your consideration is the administration's recommended budget for all funds of the City government for the fiscal year ending June 30, 1992. Many months of work were spent compiling the budget and the result of this effort provided the basis for the c pilation of this budget, which, in its abbreviated form clearly indicates the probable costs of the various programs, policies and projects to be carried forth by the City over the fiscal year 1991-92.

Our basic approach in preparing this budget was to insure the continuation of the scope and level of traditional services and functions. This has proved to be a challenge when the overriding fact in preparing the entire budget was that revenues have remained rather flat, while many fixed costs continue to increase beyond our control. To address this situation a goal has been established, in the coming fiscal year, to further develop the existing budgetary and financial policies the city currently has in place. We believe by concentrating on this effort now, rather than waiting two or three years until the only options available are extreme, we will improve and strengthen our community rather than detract from it.

Budget Highlights

- Develop a needs assessment of capital improvement projects and consider alternatives to fund capital needs. Special attention should be made to developing a sidewalk replacement program.
- Investigate alternatives that provide an adequate capital reserve and fund balance over the next five years for the water fund.
- Implement new pre-employment physical for better evaluation.
- Hire a consultant to review police communications system and recommend improvement program. Obtain a 50% grant from SEMA to replace communications equipment.
- Investigate the possibility of a compost facility.
- Continue work to improve the appearance of the community.
- Employee benefits and salaries maintained at competitive levels.
- Continue to pursue an active Economic Development program.

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- Replace needed capital items through a combination of lease purchasing and reduction in fund balance as found in the capital improvement section of this document on pages 141-144.
- Continue a high level of infrastructure improvements to the streets, water and sewer systems.

GENERAL FUND

Changes in the General Fund include: Economic Development costs have been separated from Administration and City Council to clearly identify those costs associated with economic development efforts; handguns will be purchased for police officers to eliminate the requirement that each officer provide his/her own; a burn room and flammable liquids burn pit will be constructed to improve fire training; a compost facility will be investigated and may be sited to deal with the upcoming prohibition on landfilling yard wastes; and the purchase of mowing equipment to adequately maintain the increased park system.

SPECIAL REVENUE FUNDS

Water lines will be extended in the Tax Increment Financing District. The new extensions will loop existing water lines. This will provide greater reliability, pressure, flow and fire protection.

CAPITAL IMPROVEMENT FUND

Passage by voters of the City's transportation sales tax last November will continue the program through 1997. This allows us to complete many overlay and street reconstruction projects. Included in this year's program is one mile of Osteopathy Street reconstruction, construction of Cottage Grove between Harrison and Illinois and approximately $445,000 in overlay, concrete and seal coat projects.

Enterprise Fund Highlights

- Investigate alternatives in the water fund that will provide an adequate capital reserve and fund balance over the next five years.
- Develop a multi-year sewer extension program.
- No change in sewer rates.
- Adopt and implement a new pricing and discount policy for the Airport.

Several major projects are scheduled in the Water Fund. Of most importance is major repairs to the Forest Lake Dam as required by the Department of Natural Resources. The City is seeking a Community Development Block Grant of $259,000 and will use its $300,000 capital reserve fund to match the grant. Other major projects include painting of the north and south water towers and the Osteopathy Street water line replacement to coincide with the street project.

During FY 1990-91 the City refunded the 1985 Sewer Revenue Bonds which significantly reduced interest costs and made $200,000 available for sewer infrastructure projects. A goal to develop a multi-year sewer

extension program to expand sanitary sewer to non-sewered areas of has been established. Additionally, due to the reduced debt service payments, it is projected that current sewer rates will be adequate for the next five years.

A new pricing and discount policy will be implemented starting July 1st. The plan outlays measures that should increase the cash flow position of our airport.

Other Highlights

Other general highlights include: continued investigation into the construction of a shell building for economic development; inspections for asbestos will be made in all City-owned buildings to comply with State and Federal laws; implementation of fleet management software in t' Central Garage.

Personnel Highlights

- Staffing levels will remain the same as the previous year.
- Health insurance increased 17% and dental 4%.
- No cost of living increase is budgeted for FY 1991-92.
- Better distribution of worker compensation costs.
- Further refinement on personnel postion control policy, which can be found on page 7 section V.

A majority of the budget represents personnel costs. This is not unusual since local government is primarily a service organization. Personnel increases are only due to merit advancement. Approximately 50% of the City employees are eligible for merit increases in FY 1991-92.

Both health and dental insurance premiums increased for the FY 1991-92 year, which is not surprising considering the continual health care crisis. In an attempt to keep the cost down to both the City and the e loyee who purchases dependent coverage, a variety of cost containment features were reviewed and ultimately some were selected which resulted in a net increase over last year of $50,335 compared to the proposed $70,692.

Workers Compensation insurance costs have been distributed to each department on the basis of generally accepted insurance industry ratings allowing for a more fair and equitable distribution of these costs to the use departments.

In the policy area, the Personnel Policy has been clearly defined regarding the addition of regular full-time and part-time positions.

FINANCIAL POSITION

From a quick look at the ending balances of the "Proposed Combined Summary of Revenues, Expenditures and Fund Balances" table which can be found on page 15, it would appear that is in fairly good shape. The General Fund ends the year with a total of $861,979. However, we plan to start the fiscal year with $1,165,289. It is apparent that we

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are using $275,310 in reserves to operate the general fund during the next year. As previously stated our revenues are relatively flat while our expenses have continued to increase. Measures must be taken to stop the erosion of the General Fund balance in future years. We are also using $300,000 in water reserves to fund the Forest Lake Dam project as previously related. Cities across America will find the 1990's to be significantly different from the 1980's and rebuilding these reserves will not be as easy, and will find it no different. Therefore, during the coming year continual refinement of our budgetary and fiscal policy is imperative. For the past two years we have been addressing policy during the budget sessions. This year we continued to refine the reserve fund policy, the personnel position control policy and the contingent appropriation policy, which can be found in the budget polices section of this document. In all probability we will need to begin budgetary and financial policy refinement soon after the fiscal year begins.

, like most communities and businesses in this country is certainly not in a position to fund all of its wants, nor is the city in a position to fund all of its needs. However, we are continually working to identify and prioritize those needs, and those needs which have not been funded are those which are considered beyond the priority need of maintaining a stable tax structure. Simply put, the City of is continually working to address the needs of the City. The City is not in a position to repair or replace everything at once, but this does not represent procrastination or disregard for these needs. As one looks at the goals and objectives there are substantial improvements which have benefitted from a gradual, yet direct, address of problems.

Conclusion

To insure that the goals of the Council are achieved, close monitoring through bimonthly staff meetings, newsletters to Council and hands on management will allow us to keep on top of things.

I am pleased to recommend the budget for your consideration and adoption. I wish to thank the staff members for their thoughtfulness and diligence in preparing this budget. I especially wish to thank , Finance Director, for her thorough coordination and compilation of this budget.

Respectfully submitted,

EXAMPLE A4.3

CITY MANAGER'S DEPARTMENT

LETTER TO MAYOR AND COUNCIL

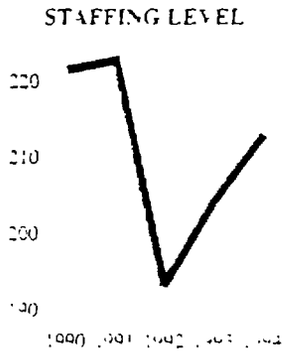
December 13, 1993

Honorable Mayor and City Council

Dear Mayor and Council Members:

I respectfully present the published budget of the Town as approved by Council September 28, 1993. Following the Town's adopted mission statement, the 1993-94 budget was developed under the premise that the Town exists to "*create a dynamic, progressive, quality atmosphere in which to work, play, and live with an emphasis on balanced growth.*" I believe the FY 1994 budget meets this goal as well as the following budget objectives.

- **No increase in the total property tax rate.** The tax rate for the new budget is $.5271 per $100 assessed valuation which is less than the $.5338 rate of the previous budget. The Town was able to accomplish this objective as a result of new residential and commercial development which as attracted over the last two years. New construction contributed to a 3.8% increase in total appraised values. The new development, combined with the expansion of the region's economy, is also expected to generate an additional 13.7% in sales tax revenue which helps reduce the Town's dependency on property taxes.[1]
- **Maintain existing levels of service to the community.** New development increases the demand on city services which may lead to a decline in levels of services if staffing is not adjusted to accommodate the demand. The FY1994 budget meets the demand by adding nine full-time equivalent positions which represents a 4.4% increase in staffing.[2]



- **Maintain a compensation and benefit package sufficient for attracting and retaining a qualified and highly motivated work force.** The budget includes funding for the Town's merit pay system based on 3% of salaries.[3] The budget also reflects additional funding for the Town's pension system which will provide greater benefits to the Town's employees at their retirement.[4]

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1 For more information related to property taxes, please refer to Appendix B.
2 Please refer to individual department narratives for explanations of staffing changes.
3 Please refer to Appendix D for a detailed explanation of the Town's compensation and merit pay plan.
4 The Town's pension system is maintained through the Texas Municipal Retirement System. Effective January 1st, 1994 the Town will increase its contribution to the plan from 6% to 7% of employee salaries. This contribution is matched by the employees, who will see their contribution also increase to 7%. Total impact of the enhancement to the budget is approximately $115,000.

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63

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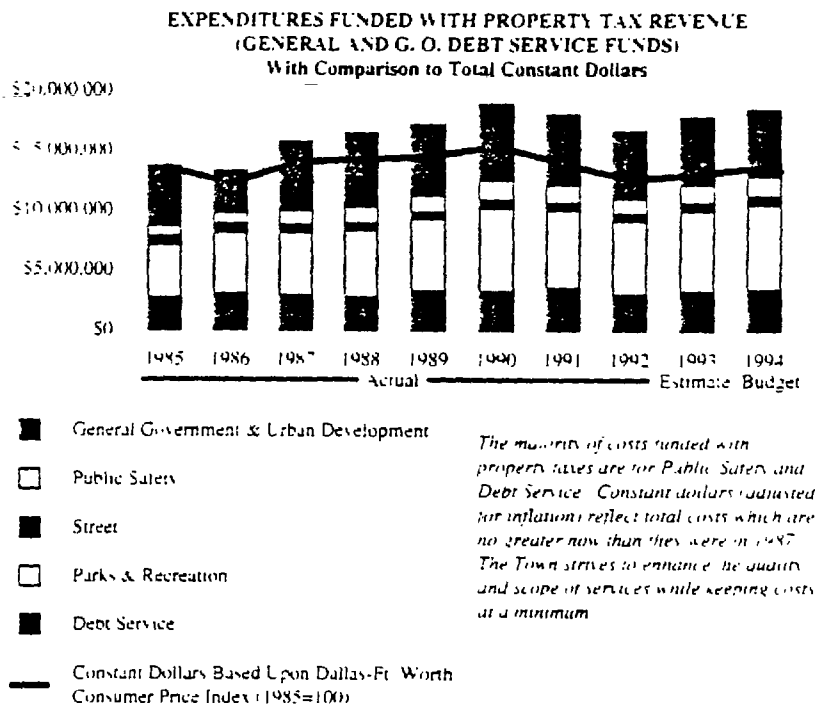
EXAMPLE A4.3 (cont'd)

- **Maintain minimum fund balances which protect the Town's financial integrity.** The General, Hotel, Debt Service, and Proprietary funds have fund balances of at least 25% of expenditures which are sufficient for meeting unexpected shortfalls in revenues or demands upon fund resources.
- **Utilize outside funding to optimally leverage local resources to improve or expand the Town's infrastructure.** By joining the City of in the construction of the sewer tunnel, the Town will be able to expand its wastewater system to accommodate full build-out of the Town's west side for much less than it would have cost had the Town attempted to construct a sewer treatment facility on its own. Participation in the Federal Aviation Administration's capital grant program gives the Town the ability to construct over $1.5 million in airport improvements in FY 1994 with only $150,000 in local funds. Lastly the Town will utilize almost $2.3 million in Transit local assistance program money to improve the Town's intersections which will facilitate the flow of traffic through the community.[3]
- **Establish utility fees which meet the Utility fund's operating and debt service expenses.** The issuance of $20.2 million in certificates of obligation (C.O.'s) last fiscal year to pay for the Town's share of the Branch Sewer Tunnel and other wastewater improvements required the Town to increase wastewater fees 55%. The increase, while large, will be sufficient to maintain the fund's fiscal integrity for at least the next five years.



The majority of costs funded with property taxes are for Public Safety and Debt Service. Constant dollars (adjusted for inflation) reflect total costs which are no greater now than they were in 1987. The Town strives to enhance the quality and scope of services while keeping costs at a minimum.

THE BUDGET IN BRIEF

Revenues for all appropriable funds total $40,949,520 in the FY 1994 budget, an increase of almost $10.2 million over the previous year. Most of the increase is related to bond proceeds from last year's issuance of C.O.'s which will be used to construct improvements to the Town's wastewater system. Because of the increase in wastewater fees, revenue generated from service fees is expected to increase a net $2,558,750. As mentioned earlier, the tax rate for the Town was reduced to $.5271 and will generate an estimated $7,477,900. Of this amount, 70.5% is dedicated to the retirement of the Town's out-standing debt while only 29.5% is used for operation and maintenance purposes. It is important to note that property tax is playing less of a role

[3] All capital projects are fully described in the Town Chronicle section of the document.

64

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EXAMPLE A4.3 (cont'd)

in this year's budget than the last. After adjusting for the bond proceeds, property tax comprises only 21.7% of total revenues compared to 23.4% the previous year.

Expenditures total $10,767,[illegible] almost exactly $10 million greater than in the FY 1993 budget. Again, much of the increase is due to the wastewater capital project program. Excluding debt service and capital project expenditures, total operating expenditures increased $1.7 million or 9.3% over the previous year. Approximately $728,000 of the increased cost is attributed to personnel costs: the addition of nine positions, the funding of the merit payment program, and the enhanced retirement benefits. The rest of the increase is directly related to the costs of serving the growing [illegible] community. Contractual services which include the Town's contracting of garbage collection, mowing services, street sweeping, and utilities increased a cumulative $675,000. Maintenance costs, fueled by building modifications required by the Americans with Disabilities Act, increased over $150,000.

Fund balances are anticipated to increase a net $180,360, with the largest increase associated with the Hotel fund. In accordance with the Town's recently adopted long-term financial plan, $531,000 of "excess" General fund balances were transferred to the Streets and Parks capital project funds. These transfers are the first step in the Town realizing its goal of improving and expanding its infrastructure without issuing additional general obligation debt.

MAJOR POLICY ISSUES

There were many issues which affected the development of this budget. These issues represent challenges and opportunities which will impact how [illegible] develops over the next several years.

Strategic Planning Process

We are near completion of a process which was initiated almost a year ago. The group of citizens and business leaders which was appointed by Council has worked diligently to develop a new mission statement for the Town and a strategy for accomplishing this mission. The strategic plan will be presented to Council in February, 1994.

Long-term Financial Plan

The most important aspect of the 1993-94 budget is that, for the first time, the budget was adopted in context of a long term financial plan. The plan's goal is to identify resources in the General fund which can be used to fund future capital projects without issuing additional general obligation debt.

Residential Development

Development of single family homes in the Le Laes area which began two years ago is nearing completion. Over this period of time, the Town's stock of single-family structures increased by more than 75%. The Council also approved zoning for the multi family development for the first time in many years. The infusion of the new product is important to a community [illegible] challenges in the area of housing are many. We must begin to address the question of rehabilitating or removing older multi-family units but still provide housing opportunities for people at many economic levels. We are confident that we can devise innovative strategies for addressing the housing issue and will demonstrate that in the coming year. We also have the issue of how to provide an urban housing district in a suburban location. This issue hinges on our ability to develop the Special Events District and to build a synergy that calls for urban housing.

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65

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EXAMPLE A4.3 (cont'd)

Commercial Development

The Town has been successful in attracting retail centers which not only increased the revenue generated by sales tax but broadened the tax base which may have the desired affect of stabilizing what has been a fairly volatile revenue source. has once again established itself as a premier address for corporate office tenants. Last year the Town welcomed Anthem Insurance and Intecom We were especially pleased to secure the relocation of Information Services from their Belt Line location to their new facility on the Parkway. This company has been an integral part of success for the past number of years, and they are growing significantly each year. In 1994 the Town will be home to the southwest regional offices of the Insurance Corporation and the national headquarters for Cosmetics. It should be emphasized that all these relocations were performed without the Town offering *any* tax abatements. The Town believes that a clean, safe urban environment, high quality public services, and sufficient infrastructure are the real inducements for businesses. The Town's challenge over the next few years is to continue to manage commercial growth so that it does not negatively impact the quality of life within the Town. takes great pride in maintaining a cosmopolitan atmosphere with the ideal mix of commercial and residential uses.

Special Events

The Town has made great progress over the last year in realizing its goal of becoming an entertainment center for the region. This progress is a result of the special events office which was established in last year's budget. The office has worked diligently to expand the scope and improve the quality of its special events. The special events manager has also worked with outside consultants to develop an effective advertising and marketing campaign. (The 1993-94 budget adds a new position to the office, reflecting the Town's emphasis on achieving its goals.

Performance Measurements

The format of the budget document has been modified to report the operational objectives of every department as well as selected performance measurements. Over the next year, the Finance department will be working with all departments to expand and improve performance reporting. A goal of the organization is to establish a comprehensive reporting system which will give the public, Council, and staff directors the ability to evaluate the level and value of service we provide the community.

The budget process was made so much easier this year by the early involvement of the Council. Your acceptance of the long-term financial plan concept will allow staff to more effectively administer the Town's resources over the years. Also you have been of tremendous help in establishing the goals and objectives of this organization. I cannot emphasize enough the importance of a supportive Council in effectively addressing the many challenges which face this community. I look forward to building upon this valuable relationship over the coming year.

Respectfully submitted,

EXAMPLE C2.1

1991-92 Annual Budget

FUND: GENERAL
DEPARTMENT: PARK MAINTENANCE

DEPARTMENT ACTIVITIES AND SERVICE LEVEL DESCRIPTION:

This activity accounts for the operation and maintenance of the four City parks.

The Park Maintenance Department is funded primarily from park dedication fees, lease income and miscellaneous revenues.

Personnel levels increased slightly over the previous years with the creation of a regular, part-time maintenance position. Personnel expenditures increased slightly due to cost of living increases, as well as the increased fringe benefit costs.

In order to qualify as a Tree City, U.S.A., the City must provide services and make purchases equal to $2 per capita each year for the care of trees within the City. Some of the tree care services are donated by interested citizens, merchants and others.

Capital requests are for playground equipment.

STAFFING LEVELS:

Position Title	1988-89	1989-90	1990-91	1991-92
Public Works Director/Building Official	0.08	0.08	0.08	0.08
Parks Maintenance Worker	0.00	0.00	0.69	0.69
TOTAL	0.08	0.08	0.77	0.77

INDICATORS:

	1990-91	1991-92
Acres of parks maintained	12.5	12.5
Concerts scheduled	4	1
Yard of the Month awards issued	7	7

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EXAMPLE C2.2

DEPARTMENT: PARKS AND RECREATION
DIVISION: PARKS

FUNDING SOURCE: GENERAL FUND
FUND NUMBER: 01-06-51

PERFORMANCE MEASURES

ACTIVITY AND PERFORMANCE MEASURES	1989-90 Actual	1990-91 Estimate	1991-92 Budget
Acres of parkland maintained	196	197	197
Acres of right-of-way maintained	212.77	257.4	265.2
City facilities and other acreage maintained	46	56	56.5
Number of trees planted with tree spade	60	52	40
Number of building maintenance and other non-parks related jobs completed by parks crew	128	150	150
Full-time parks personnel/acre maintained	1:56.8	1:63.8	1:64.8

PERSONNEL SCHEDULE

EMPLOYEE TITLE	1990-91 Budget	1990-91 Actual	1991-92 Budget	SALARY RANGE
Director of Parks and Recreation	1	1	1	13
Parks Foreman	1	1	1	7
Caretaker III	1	1	1	3
Caretaker II	3	3	3	2
Caretaker I	3	3	3	1
Total Full-Time Employees	9	9	9	
Part-Time Employees (Seasonal)	1	1	1	$6.00 per hour

68

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STATUS REPORT

PERFORMANCE
FY 1992 GOALS AND OBJECTIVES

GOAL 1: RECYCLE 20% OF THE CITY'S SOLID WASTE STREAM.

Objective 1: To place ten partitioned roll-off containers in mobile home parks and apartment complexes by June 1, 1992.

STATUS: *Two partitioned roll-offs will be placed at an apartment complex and a mobile home park by June 1, 1992. Due to market conditions for recyclables, program expansion is being delayed.*

Objective 2: To increase newspaper and cardboard recycling by 25% by the end of the fiscal year.

STATUS: *Newspaper recycling is projected to increase by 29.9%; i.e., 2,351.29 tons in FY 1991 to 3,356.70 tons in FY 1992.*

Cardboard recycling is projected to increase by 43.9%; i.e., 142.18 tons in FY 1991 to 253.56 tons in FY 1992.

Performance Measures	Actual FY 1990	Actual FY 1991	Original Projected FY 1992	Revised Projected FY 1992
Demand Measures				
Tons of Refuse Collected	60,600	60,840	61,000	59,000
Efficiency Measure				
Average Cost Per Ton Recycled	$97.00	$69.00	$25.00	$52.00
Effectiveness Measure				
Percent of Waste Stream Recycled	3.1%	7.2%	19.7%	12.2%
Workload Measure				
Tons of Material Recycled	1,900	4,660	12,000	7,200

GOAL 2: PROVIDE EFFLUENT REUSE WATER TO THE CITIZENS OF LARGO THROUGH ESTABLISHMENT OF A RESIDENTIAL REUSE DISTRIBUTION BASE.

Objective 1: To establish the central service area as the hub for entire residential reuse network. Establishing this central area as the base of residential reuse requires a supply of effluent water to this area, construction of a storage and pumping facility, and the installation of large diameter trunk lines and small diameter branch lines to supply effluent water to residential users.

STATUS: *Construction of the reuse storage tank, pumping facility and trunk lines is underway with a projected completion date of September 1992. Phase IV Residential Expansion which will entail the installation of branch lines and residential services connections is currently in the design stage.*

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Objective 2: To investigate possible grant funding sources to ensure implementation of Phase III construction in FY 92.

STATUS: *A grant amount of $566,400.00 was secured from the . Water Management District for the residential expansion which is currently in the design phase.*

Objective 3: Development of residential and commercial connection and service fees and the establishment of engineering standards for providing residential service.

STATUS: *Drafts of proposed changes in reuse color coding and identification have been completed. Material specifications and engineering standards for residential service have been developed and submitted to the City Engineer for approval. Final draft of connection and service fees is under development.*

GOAL 3: CONTINUE TO EXPAND THE SPARKLING WATER SYSTEM TO HIGH PROFILE CUSTOMERS WITHIN THE LARGO SANITARY SEWER DISTRICT AND TO ULTIMATELY PROVIDE FOR REUSE OF ALL EFFLUENT FROM THE WASTEWATER TREATMENT PLANT.

Objective 1: To coordinate customer tie-in to Phase II Reuse Expansion in the Northeast Service Area.

STATUS: *All permits have been issued, 25% of the customers are on-line, 25% are in the design or construction stage, and 50% are pending.*

Objective 2: To increase the volume of effluent provided by the Sparkling Water System, thereby decreasing ground water withdrawals and surface water discharge.

STATUS: *Several major users have come on-line which will have a major impact on reducing ground water withdrawals. Additional customers which are in the construction and/or design phase will further impact the amount of effluent presently being discharged to surface waters.*

PERFORMANCE MEASURES	Actual FY 1990	Actual FY 1991	Original Projected FY 1992	Revised Projected FY 1992
DEMAND MEASURES				
Miles of Distribution Lines	12	16	15 (A)	16
Efficiency Measure				
Gallons Per Day Provided	1,150,000	1,200,000	1,550,000	1,300,000
Effectiveness Measure				
Revenues from Water Charges and Fees	12,000	35,000	40,000	50,000
Workload Measures				
Number of Customers	13	24	22	28

(A) Completion of Phase II Expansion ahead of schedule resulted in the distribution lines being placed into service in the latter part of FY 1991: not FY 1992 as originally projected.

70

AVERAGE CITY
PROPOSED SECTORAL BUDGET

SECTORAL FUNCTIONS (000)

	LAST YEAR	THIS YEAR	PROPOSED BUDGET
CITY MANAGEMENT	217829	223420	254816
HEALTH SERVICE	2949	2079	2908
SOCIAL	266071	320202	210500
EDUCATION	1228		1750
CULTURE	4563	2747	16850
‹TERNAL ORGANIZATIONS	34601	48945	33520
SPORT	876	1034	15780
TOTAL	**528117**	**598427**	**536124**

REVENUE ANALYSIS (000)

	LAST YEAR	THIS YEAR	PROPOSED BUDGET
OWN REVENUES	306	156	2000
ACCUMULATIONS & CAPITAL INCOME		20	
FUNDS TAKEN OVER	3933	3801	
BUDGET TRANSFERS	523878	594450	534124
TOTAL REVENUE	**528117**	**598427**	**536124**

EXPENDITURE ANALYSIS (000)

	LAST YEAR	THIS YEAR	PROPOSED BUDGET
PERSONNEL	7401	6818	10140
TAXES FROM EMPLOYEES	2842	2765	4602
LOGISTIC EXPENSES	239153	246285	277362
TRANSFERS & SUBSIDIES	278721	342559	244020
ACCUMULATED EXPENSES			
OTHER			
TOTAL EXPENDITURES	**528117**	**598427**	**536124**

To: Municipal Council
From: Chief Financial Officer
Subject: Revised Revenue Projection

We previously submitted a budget for Sectoral Functions totaling HUF 536,124,000, supported by Own Revenues of HUF 2,000,000 and Budget Transfers of HUF 534,124,000.

This advises you that the total revenue expected from Budget Transfers is less than originally anticipated. In adjusting to this new estimate, we suggest that the Municipal Council consider reducing the commitment to Sectoral Functions from HUF 536,124,000 to HUF 500,000,000.

The Municipal Council may respond by either (1) increasing our reliance on user fees, the business tax, and other municipal revenues to meet our original expenditure plan of HUF 536,124,000; (2) reducing program commitments to HUF 500,000,000; or (3) a combination of revenue and expenditure changes amounting to HUF 36,124,000.

To: Municipal Council
From: Councilor Kiss
Subject: Increased Allocations for Improved Street Services

As we all know, there is a steady deterioration of our municipal streets. Citizen complain constantly to me about this situation. I am sure they complain to you, my colleagues on the council.

I have reviewed the proposed budget for next fiscal year and, with due respect to the judgment of the Mayor and his staff, we should increase the allocation to City Management to correct this situation. My analysis shows that, when adjusted for inflation, the city intends to reduce spending in this area by approximately 50%, when compared to the prior year expenditure of HUF 59,150,000.

My request for increased funding for City Management centers on the allocation for Street and Bridge Maintenance. This area has been reduced sharply in the proposed budget from HUF 51,991,000 in the current year to HUF 35,000,000 in the proposed budget year.

sing the prior year's budget of HUF 59,150,000 as a base, and adjusting for inflation at 30% per annum, we should spend HUF 100,000,000 in the proposed budget year simply to maintain the same level of spending as the prior year. Given the poor condition of the roads, we should provide this amount for pot-hole patching and rehabilitation of streets in serious disrepair.

To: Municipal Council
From: Councilor Nagy
Subject: Budget Reductions

I am incensed over the proposed budget for the next fiscal year. The three budget options suggested by the Chief Financial Officer in his memorandum to the Council do not go far enough to address the fundamental issue of our need to reduce expenditures significantly.

We need to make major cuts in all sectors of the budget, improve our productivity, reduce the number of municipal employees, and consolidate a number of institutions.

The savings to the city from these actions must be passed on to our citizens in the form of reduced taxes. A number of my colleagues on the Council support me in this request and we are prepared to withhold our approval of the budget until our demands are met.

To: Municipal Council
From: Councilor Pesta
Subject: Increased Allocations for an Expansion of Cultural Activities

I have reviewed the budget for the Sectoral Function. While the proposed budget increases the amount for Culture significantly, in recognition of the celebration of our thousand year anniversary, I think we should seriously consider increasing the allocation for Culture even higher than proposed.

We should capitalize on the opportunities our celebration brings to the city. I would like to add an additional HUF 5,000,000 to the proposed budget to fund activities featuring national and international performers. Currently, our cultural activities rely on local talent. Expanding cultural activities will further stimulate civic pride and generate increased economic activity by bringing visitors to the city. I believe the Economic Director can determine the economic benefit accruing to the city by expanding cultural activities.

To: Municipal Council
From: Director of Technical Department
Subject: Proposal of Councilor Kiss to add HUF 65,000,000 to the Proposed Allocation of HUF 35,000,000 for Street Services

The proposed allocation of HUF 35,000,000 limits the City to only responding to citizen complaints regarding pavement failure in our 100 kilometers of streets. We neither patrol the entire street system on a scheduled basis, nor do we have a systematic approach to repair. With our limited budgetary resources, the city does not have a comprehensive street repair program.

To: Municipal Council
From: Director of Culture
Subject: Proposal of Councilor Pesta to add HUF 5,000,000 to the Proposed Allocation of HUF 16,850,000

On short notice, I am not able to properly respond to the suggestion that HUF 5,000,000 be added to the proposed allocation of HUF 16,850,000 to fund cultural events using nationally and internationally known performers. It takes time to make arrangements with performers and negotiate their fees.

Councilor Pesta's suggestion is worthy of consideration as the appearance of major performers during our anniversary celebration will enrich the experience of our citizens. Should the council adopt the additional allocation, our staff will develop a ticket pricing strategy that will allow us to use this additional allocation only as a contingency reserve to pay any expenses that exceed event receipts.

LEGISLATIVE ACTION ON BUDGET (000)

FUNCTION	FROM	TO	CHANGE
CITY MANAGEMENT	254,816	_____	_____
HEALTH SERVICE	2,908	_____	_____
SOCIAL	210,500	_____	_____
EDUCATION	1,750	_____	_____
CULTURE	16,850	_____	_____
EXTERNAL ORGANIZATIONS	33,520	_____	_____
SPORT	15,780	_____	_____

LEGISLATIVE INTENTION

INDICATE THE EXPECTED CHANGE IN SERVICE LEVELS RESULTING FROM THE REALLOCATIONS IDENTIFIED ABOVE.

_____

_____

_____

_____

_____

VOTING (To be completed by the Secretary of the Council)

Council Member	Voting Yes	Voting No
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

WORK PLAN CASE STUDY NARRATIVE

Using the data and worksheet provided, formulate a work plan for the three activities listed on the attached Work Plan for Environment Maintenance.

- Distribute the annual indices referred to in TOTAL for the year by quarters
- Calculate the unit costs of both inputs and outputs.
- Identify positive or negative trends.
- Identify additional indices and unit costs you would add to the work plan

See the work plan for City of Padang, Indonesia for an example of a "typical" work plan.

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WORK PLAN
PROGRAM - ENVIRONMENT MAINTAINANCE

	Activity	I quarter	II quarter	III quarter	IV quarter	Total
1	**Tree Planting**					5.000
	Working hours					2.000
	Fuel (litters)					250 litter
	The number of participants					5
	Expenses					10.000.000
	The end of the activity					
	working hours/number of trees					
	Expenses/number of trees					
	number of trees/ number of participants					
	Fuel/number of trees					
2	**Repairing of streets**					400m²
	Working hours					1,000
	Fuel (litters)					300 litter
	Asphalt spent on repairing					40m³
	Expenses					1,600.000
	The end of the activity					
	Expenses/result					
	Expenses/working hours					
	Working hours/result					
	Fuel/result					
3	**Cutting of branches and curing of trees**					10,000 trees
	Working hours					2.000
	Fuel (litters)					200
	Chemicals					1.000 kg
	Expenses					5.000.000
	The end of the activity					
	Expenses/result					
	Expenses/working hours					
	Chemicals/result					
	Result/working hours					
	Total of working hours					
	Permitted absences					
	Total sum of paid hours					

WORK PLAN - CITY OF PADANG, INDONESIA

PROGRAM: Revenue Collection SUB-PROGRAM: Hotel and Restaurant Tax

ACTIVITIES/TASKS	FY92 Q4	FY93 Q1	FY93 Q2	TOTAL WORK HOURS
A Patron Billing Format - Work Hours	100			100
Locations	424			
Format Effective		1/04		
B PBN 1. "Manual of Practice" - Work Hours	100			100
Number of Manuals	500			
Distribution Complete		1/04		
Manuals Per Work Hour	5			
C Training Program - Work Hours		100		100
Trainees		1,200		
Certificates Per Work Hour		12		
Training Complete		30/06		
D Continuous Training Program - Work Hours			60	60
Trainees			120	
Certificates Per Work Hour			2	
E Billing Machine Program - Work Hours	50	100	250	400
Number of Machines		10	30	
Total Work Hours Per Installation			4	
Installation Complete			30/09	
F Hotel Audit Program - Work Hours	215	215	215	645
Locations	43	43	43	
Work Hours Per Location	5	5	5	
G Restaurant Inspection Program - Work Hours	3,810	3,810	3810	11,430
Locations	381	381	381	
Inspections	11,430	11,430	11,430	
Inspections Per Work Hour	3	3	3	
Inspections Per Location	30	30	30	
H Contingent Action Proposal	?	?	?	?
Performance Review	28/02	30/05	31/08	
Unallocated Work Hours	100	100	100	300
Total Work Hours	4,375	4,325	4,325	13,135
Authorized Absences (Work Hours)				262
Total Paid Hours				13,397

Paul D. Epstein "The Asphalt Paradox." from Chapter Two: The Decision Making Process in Casebook in Public Budgeting and Financial Management Edited by Carol W Lewis and A Grayson Walker, III. 1984 New Jersey Prentice-Hall, Inc.
The original version of "The Asphalt Paradox" is in Using Performance Measurement in Local Government by Paul D Epstein, published by the National Civic League, Denver, CO, USA (1988). Reprinted by permission of the author Mr Epstein is Principal of Epstein and Fass Associates, a consulting firm, at 140 Nassau Street, Suite 9C, New York, NY 10038, USA. Phone: 212-349-1719. E-mail. epstein@pipeline.com

*The Asphalt Paradox**

Like many other jurisdictions, this city was in a tight fiscal squeeze. The budget officer saw the need for the city to save money and increase efficiency wherever possible. Through the chief executive, the budget officer called upon all departments to make existing resources go as far as possible.

The city committed a large proportion of its budget each year to resurfacing streets and highways, which the city did with its own work force. The city government did not want to cut this program because the streets generally were considered to be in bad shape—with many cracks and potholes. Poor street conditions were one of the biggest sources of citizen complaints.

An industrial engineer was assigned to the resurfacing program to see if it could be made more efficient. The engineer's initial analysis indicated the following:

The program had an operating efficiency of $17,500 per lane-mile resurfaced; this unit cost was based upon

$10,000 labor cost per lane-mile
$7,500 asphalt cost per lane-mile.

At the current rate of productivity per labor-hour, the city's resurfacing crews would be able to resurface 75 lane-miles in one year.

After carefully charting out the entire resurfacing process, work sampling the resurfacing crews in action, and analyzing the results, the engineer determined that it was possible, in a relatively short time, to improve the schedule of delivery of asphalt, vary the size of resurfacing crews to meet the needs of each job, and improve work methods. The engineer concluded such changes would increase the productivity of the resurfacing labor force by 33 percent in the first year of implementation alone. His conclusions were as follows:

The existing resurfacing work force would be able to resurface 100 lane-miles in a year.
The unit cost of labor would be reduced to $7,500 labor cost per lane-mile.
The program's operating efficiency

*By Paul D. Epstein, Division of Government Capacity Building, Office of Policy Development and Research, U.S. Department of Housing and Urban Development. Adapted from *Using Performance Measurement in Local Government: A Guide to Improving Decisions, Performance, and Accountability* (Washington, D.C.: HUD, 1981, draft), Chapter 4. Forthcoming under same title from Van Nostrand and Reinhold: N.Y., 1983. The author is currently manager of New York City's Citywide Productivity Program.

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would improve considerably, as the total unit cost would be reduced by $2,500, the new unit cost being $15,000 per lane-mile resurfaced, based upon

$7,500 labor cost per lane-mile
$7,500 asphalt cost per lane-mile.

In seeking approval to implement the proposed resurfacing improvements, the engineer told the budget officer that the improvements would have an annual "efficiency value" of $250,000 to the city. This figure was based upon the benefit realized by resurfacing 100 lane-miles at a reduced unit cost.

The engineer calculated benefit as equal to the reduction in cost per lane-mile multiplied by the number of lane-miles resurfaced:

benefit = ($2,500)(100) = $250,000
"efficiency value"

Convinced by this argument, the budget officer supported the engineer's recommendations to the chief executive who, in turn, approved them. The chief executive was pleased that the city might get 100 lane-miles resurfaced by the same crews that resurfaced only 75 lane-miles last year. The operations improvements were implemented quickly and smoothly. Labor productivity increased as predicted and the projected $2,500 reduction in unit cost resulted. By the end of the fiscal year, the resurfacing work force, without adding any staff, had resurfaced 100 lane-miles of streets and highways.

However, the budget officer was angry at the engineer by the close of the fiscal year. In fact, the budget officer was livid. He had expected a $250,000 benefit, but when all the bills were totaled, he decided the "improved" program had actually cost the city budget an additional $187,500. How had it happened?

Under the original program of resurfacing 75 lane-miles at a higher unit cost, the total costs would have been

Labor ($10,000 per lane-mile)(75 lane-miles) = $750,000
Asphalt ($7,500 per lane-mile)(75 lane-miles) = $562,500.
Total Cost = $1,312,500

Under the "improved" program of resurfacing 100 lane-miles at the lower unit cost, the actual costs were

Labor ($7,500 per lane-mile)(100 lane-miles) = $750,000
Asphalt ($7,500 per lane-mile)(100 lane-miles) = $750,000
Total Cost = $1,500,000

The result was a net increase in city expenditures of $187,500 ($1,500,000 - $1,312,500 = $187,500).

PROBLEM

Who was right? Was the engineer, who calculated a "benefit" of $250,000; or was the budget officer, who calculated an added cost of $187,500?

FOR DISCUSSION

1. How could a jurisdiction be tempted into taking a benefit it cannot afford? What sounds better, anyway—$250,000 worth of increased services or $187,000 in savings?
2. Given that increasing services generates a higher dollar "efficiency value," when should productivity gains be taken in the form of actual savings?

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BACKGROUND
DECEMBER 1997

BUDGET FORMULATION GUIDELINES*

Diagnostic Focus

The guidelines which follow divide the budget formulation task into two phases: (1) diagnosis and (2) analysis of alternatives. Generally, the time devoted to the diagnostic phase far exceeds the time required for the weighing of alternatives. Some experienced budgetmakers report that the ratio of diagnostic to analytical time should be about four to one, indicating the critical importance of a correct assessment of the problem to be addressed by the allocation of public funds.

DIAGNOSIS: THE PRELIMINARY WORK

Loosen Up Your Thinking

Begin by employing broad survey techniques. Review pertinent data in files and documents, and search the formal literature. Where appropriate, conduct field inspections. Finally, consult with people who can offer insight and advice.

These steps will help you define the scope of the problem, the relative significance of the data at hand, and the data which must be assembled. In addition, the steps will also assist you in mastering the special nomenclature of the science or techniques involved in the program situation.

Conventional Problem Statements May Mislead

Remember, experienced analysts agree that conventional or obvious statements about public problems should be regarded with suspicion, lest administrators and policymakers be led to dwell on symptoms, or worse, on erroneous questions.

Suppose the problem concerns the nutrition of the elderly portion of the population. In this case, do not take at face value any of the assumptions which might be put forward as problem definitions, such as the assumed impact of nutrition on health, the listing of personal limitations or barriers preventing the elderly from enjoying good diets, and the presumed failure of institutions to meet the needs of the elderly.

In the animal-control case, the warden tends to define the problem in rather logistical terms: efficient impoundment is the problem,

*These guidelines incorporate material appearing in Edward A. Lehan, *Simplified Governmental Budgeting* (Chicago: Municipal Finance Officers Association, 1981), pp. 40–45. Reprinted with permission.

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85

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and a new, better-located pound is the solution. The Centerville Humane Association supports this definition on compassionate grounds. Both the warden and the association resist a broader definition dealing with the causes of the animal-control problem.

Action Research

The diagnosis is to be oriented toward action, or performance, not knowledge for its own sake. As decision-related research, the problem definition must be sufficiently broad to identify the controlling variables, establish objectives, and specify performance criteria. Referring again to the nutrition of the elderly, for example, the isolation of the elderly may be identified as the critical element in the situation—that is, the factor which, if altered, would decisively affect nutritional status of the elderly. The identification of isolation as a controlling variable would have important implications, because the choice of goals, the selection of the target population, and the performance criteria would then logically relate to it.

In the animal-control case, the warden identifies official and citizen logistics as the controlling variable and suggests that a budget attacking this variable will produce a better impoundment situation. In focusing on official and citizen travel problems and costs, the warden foregoes an attack on another possible controlling variable, animal-owner motivation. If owner motivation can be positively influenced, the animal-nuisance situation could be altered at its roots, reducing impoundments—and the need for a new pound—in the bargain. Thus, due to its impact on behavior, licensing also merits consideration as a controlling variable.

The Achilles' Heel of Policy

Study the demographic and logistical characteristics of the situation. *Who, what, when, where,* and *how* questions deeply intrude into all aspects of public programming. (Remember: implementation is the Achilles' heel of policy!) Regarding the nutrition of the elderly, techniques of statistical inference might be used to gain an understanding of how geographical and population characteristics, such as poverty and density, interact. If, for example, the distributions of elderly poverty and elderly density are not congruent, what are the implications for service delivery?

In the animal-control case, nuisances and the resulting complaints may not be randomly distributed. Instead, the situation may involve many chronic offenders and equally chronic complainers.

CONCLUDING THE DIAGNOSTIC PHASE

Before the analysis of alternatives is begun, the results of the diagnostic phase must be put in writing.

Problem Definition and Goal

First, compose a problem definition and a resulting goal statement. As a rule, avoid completely verbal goal statements, such as, "Improve the nutrition of the elderly." Try instead to frame a goal statement in numerical terms, such as "Reduce the number of elderly citizens with anemia from _____ to _____ in _____ months."

In the animal-control case, if licensing is chosen as the critical factor, one could frame the following goal statement: "Increase the number of licensed animals from an estimated 1,650 in the current year to 1,750 next year." This goal could also be stated in terms of proportions: "Increase the percentage of licensed animals from an estimated 50 percent in the current year to 53 percent next year."

In addition, setting goals in a numerical way tends to ensure that chosen goals are practical and measurable. A goal, to be practical, must be attainable in a specific time. Remember, success in implementation is directly related to choosing goals which are practical—that is, attainable. Furthermore, it is easier to set milestones or performance checkpoints, which are an essential part of a work plan, if the chosen goal is measurable.

Target Population

Next, describe the target population. Every public program has a clientele, willing or not. An accurate description of the target population lends precision to the goal statement and makes it possible for an analysis of impacts and benefits to begin. Target groups comprise those individuals, organized or not, perhaps even unborn, who are to be affected by the expenditures outlined in the multiyear financial projection.

Who comprises the target population of Centerville's animal-control program? Those owning animals? Those owners permitting animal nuisances? Or those nonowners who benefit from the regulatory and service procedures?

Because the description of impacts and benefits depends on a good description of program clientele, one should be as accurate as possible in identifying the target population. Of course, more precision than the situation allows is not expected. For example, a public-works director, charged with keeping the public way passable and safe, will not find it easy to accurately specify the number or charac-

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teristics of persons benefiting from expenditures for street maintenance, lighting, snow removal, and so on. Often, approximations must suffice. A public-works director can develop data which can stand as a substitute for direct data on the target population. Information on traffic and its volume, speed, and direction might substitute very nicely for people, particularly if such data are classified by type of street (e.g., local, connector, arterial) and are linked to accident and street-crime information.

Performance Criteria

Once you have produced a tentative goal statement and described the potential target population, outline the performance criteria. Performance criteria include the leading ideas, the causal relationships, the assumptions, and the standards which influence the size, shape, and direction of a proposed program. Minimum daily nutritional requirements for the elderly is an example of a standard which, if applied, would have an important impact on program design. Protecting the privacy and enhancing the independence of the target population might also be considered in testing alternative ways of improving elderly nutrition.

Similarly, the impoundment standards of the Centerville Humane Association will probably play an important role in the animal-control case, if the jurisdiction adopts a budget for a new pound.

Causal relationships, or correlations, are particularly important. For example, in the case of elderly nutrition, it might be hypothesized that health (defined in terms of longer life and reduced institutionalization) is partially dependent on nutrition, thus making nutrition a controlling variable which can be manipulated in desirable ways by various strategies. Remember, correlations, or causal relationships, provide the firmest foundations for program planning and implementation.

In the animal-control case, one might study the correlation between licensing and animal-owner responsibility. If most nuisances are caused by nonlicensed animals, a direct attack on delinquent owners through a census, steep fines, and so on, might be a worthy alternative to constructing a shelter or increasing staff hours to cope with increasing complaints.

ANALYTICAL PHASE: THE STUDY OF ALTERNATIVES

Determining program approaches which give some promise of achieving the goals, with minimum side effects, is the next task. Proper comparison of the impacts and benefits of the respective alternatives

should yield a preferred course of action. This preferred alternative should produce the highest net return to society. Moreover, the benefit ascribed to the preferred alternative should equal or exceed its estimated cost.

In addition to recommending "no action at all," the range of alternatives in the elderly-nutrition case might include common meals, home-delivered meals, homemaker services, supervised shopping, income supplements, and nutrition instruction. Note that each alternative chosen for analysis must be directly related to the problem definition and goals, target population, and performance criteria. Otherwise, the resulting issue paper will lack logical coherence. For example, if, in the problem definition, isolation is identified as a critical factor (or controlling variable) having powerful effects on nutrition, then the relative utility of socialization or housing programs aimed at the isolation of the elderly must be assessed, under the assumption that the reduction of isolation will also reduce malnutrition as a desirable by-product. On the other hand, given the problem definition, one would not put much analytical effort into the study of income supplements, as such payments would have little or no impact on isolation, the controlling variable.

In the animal-control case, depending on one's choice of controlling variable(s), the alternatives might include increased staffing, construction of a new pound, a licensing drive, an animal census, an education campaign, a leash law, steep fines, higher service charges, and sterilization services.

Impacts and Benefits

One must exercise imagination and ingenuity in devising ways to compare the impacts and benefits of alternatives. In general, data on costs are much easier to assemble than data on benefits. Use the best sources available. Consult the literature for help in applying various analytical techniques, such as cost-effectiveness and benefit-cost, which might help in the comparison of alternatives.

Obviously, attempts to compare alternatives by means of analytical techniques require that any presumed linkages between the variables be specified. For example, in the elderly-nutrition problem, the presumed linkage between nutrition and health can be explored by assessing the relative efficiency of alternative program approaches, such as home-delivered meals and congregate living, in reducing the number of days lost to death and disability by the target population. By assigning a dollar value to each day of life and to the daily cost of institutional care, it is then possible to use benefit-cost comparisons to determine which alternative produces the highest net return.

Given the obvious difficulties of specifying the linkage of possible

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program approaches to elderly nutrition and the impact of nutrition on health, many students of this problem recommend an action-research experiment in programming, rather than a definitive program recommendation. By this means, various alternatives can be tested with representative populations, measuring results of each against the performance of the total elderly population.

In the animal-control case, a benefits schedule might well include personal injury, property damage, public convenience, and cost avoidance. In searching for the benefits of the animal-control program, one should not overlook the considerable value of the impoundment procedure to those whose pets inadvertently stray away. After all, half of the animals impounded in Centerville are redeemed.

Remember, the means of implementation must be built up in the course of analysis. Alternatives which look good analytically may not look practical to implementers. Involving potential implementers in the analysis of alternatives is a good way to avoid wasting time and resources on the study of unrealistic approaches.

Multiyear Projections

A budget request should include a multiyear projection of program costs and a financing plan (i.e., taxes, grants, service charges, and so on). This helps reviewers and policymakers to get an idea of the future implications of adopting the alternative preferred by the budgetmaker. In addition, each year's financing plan should provide funds which equal or exceed the proposed expenditures.

Rejected Alternatives

A budget request should conclude with a concise commentary on the rejected alternatives. Such a commentary forces the author(s) of a proposal to maintain consistent criteria for the examination of all options. Furthermore, it provides reviewers and policymakers with a broad context, thus helping to inspire confidence in a proposal as a thoughtful response to a carefully considered problem.

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90

The 1997 Work Plan of the City of Szentes
for Preparing the Budget in Program Structure

Activity	Staff involved	Deadline	Responsibility
PHASE I			
- meeting	Ms Lencse, Head of Soc.Pol.Ggroup	04.21.97	Ms Krajsóczki
- frame the strategic goal	Ms Lencse	05.20.97	Ms Krajsóczki
- define the program objective	Mr Gál, Head of Family Help Center		
- develop sub-programs	Mr Balogh, Senior Staff in Budget Group		
PHASE II			
Assess current status, data acquisition			
- information from citizens	Mr Takács, Dept.Head	06.20.97	Ms Lencse
- a review the present system of services	Ms Szebellédi, Head of Institution Mr Hódi finan. officer Ms Kanfi finan. officer Ms Kovács finan.offic.		
- develop the costs of services (fact 95 and 96, plan for 97) by forms of services	Mr Balogh	07.01.97	Ms Krajsóczki
- develop the indicators to influence the costs of services, set up trends (number of employees, logistical arrangements, etc.)	Mr Balogh	07.01.97	Ms Krajsóczki
- review the number of service users (fact 95, 96, plan 97)	Ms Szebellédi Ms Benkõ, head of institution, Mr Gál	07.01.97	Ms Lencse
- review the utilisation rate of institutions providing services	Mr Balogh	08 01 97	Ms Krajsóczki
PHASE III			
- evaluate information gathered	Ms Lencse, Mr Balogh Mr Gál	08 15 97	Ms Krajsóczki
- set priorities	"	09 30 97	Ms Krajsóczki
- prepare the 1998 budget policy	"	09 30 97	Ms Krajsóczki
- define service norms	"	09 30 97	Ms Krajsóczki
- develop alternatives, present investment opportunities	"	09 30 97	Ms Krajsoczki
- committee review	"	10 31 97	Ms Krajsóczki
- prepare 1998 budget, present to council	"	12 19 97	Ms Krajsoczki

MODEL PERFORMANCE REVIEW REGULATIONS

1. RATIONALE. Defined as goal attainment, "performance" requires teamwork, and timely adjustment of the means of attainment to solve production problems as they emerge These regulations establish procedures for securing the required teamwork and work plan adjustments by providing a forum for the conduct of performance reviews and a process for implementing recommendations for corrective action resulting therefrom

2. PERFORMANCE REVIEW COMMITTEE. Effective immediately, these regulations shall be implemented by a Performance Review Committee. The following officials shall be members of the Committee:

_____, Chairman
_____
_____
_____
_____
_____
_____

(Committee membership depends on the organization in question, and the technical basis of its programs and projects In complex organizations, the leaders of key "centralized process" units, such as purchasing, personnel, centralized equipment maintenance, etc , deserve consideration for membership because the effectiveness and efficiency of such units strongly condition the ability of accountable managers to attain their targets.)

Furthermore, to foster goal attainment, the chairman may require the participation of other officials in the review process who, by virtue of their knowledge and function, can help the accountable managers define and solve production problems

3. SECRETARIAT. The Budget Director's Office shall serve as the Committee Secretariat. The Secretariat will prepare the Committee's quarterly Report, including recommendations for corrective action and proposed allotment requests

4. COMMITTEE DUTIES. The Performance Review Committee shall conduct formal, periodic performance reviews To this end, the Committee shall

- Define the reporting units and the accountable managers (cost center, project, program, activity, task, etc)
- Establish the form and content of performance reports
- Establish and maintain a schedule of field inspections by the internal audit staff and other appropriate personnel to verify information submitted to the Committee

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- Establish a schedule of formal quarterly Performance Reviews covering all designated reporting units, these reviews to be completed prior to the preparation of periodic allotment requests
- To be conducted during the first week of the last month of each quarter, these reviews shall cover
  - Actual results in the last completed quarter, measured against performance targets, and expenditure and, where applicable, revenue expectations.
  - Estimated results in the current quarter, measured against performance targets, and expenditure and, where applicable, revenue expectations.
  - Projected performance, expenditure, and, where applicable, revenue estimates for the next quarter
- Submit Performance Reports and recommended allotment requests to _____ (insert name of responsible official), outlining 1) performance to date, 2) problems encountered, 3) recommended corrective actions and, 4) performance targets for the period to be covered by allotment requests

5. DUTIES OF THE COMMITTEE CHAIRMAN Assisted by the Secretariat, the Chairman shall

- Pursuant to consultation with the Committee, set Performance Review schedules and agendas
- Secure timely reporting of financial and performance data
- Require performance analysis by the Secretariat for the consideration and the Committee.
- Assist with the implementation of work plans and corrective actions recommended by the Committee, ensuring the timely transmission of decisions to all affected officials

6. DUTIES OF ACCOUNTABLE MANAGERS. Accountable managers are expected to make "stand-up" presentations, supported by visual aids, where appropriate As work is normally beset by difficulties, accountable managers are encouraged to furnish the Committee with an explanation of problems encountered, and, most important, corrective actions taken, or recommended It is also expected that all program leaders will conduct monthly performance reviews covering the work of accountable managers reporting to them

7. SANCTIONS. Only unusual circumstances will excuse the failure to report accurately, and on time If not expressly excused by the Committee Chairman, failure to report on time, or inaccurate performance reports, will result in disciplinary action

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A NOTE ON PERFORMANCE REVIEW PROCEDURES

Effective budget implementation depends on the integrated employment of 1) budgetary accounting 2) work plans, and 3) periodic formal performance reviews. This note concentrates on periodic formal performance reviews, the third component of the budget implementation triad.

Unless strong performance review procedures are established, budgeting degenerates into an annual estimating and accounting ritual. More than any other part of the budgeting repertoire, it is the institutionalization of formal reviews which invests the budget system with "managerial muscle".

PERFORMANCE REVIEW SPECIFICATIONS

- Formal performance review procedures established by regulations.
- Program leaders provided with a forum for oral, written and visual presentations.
- To provide program leaders with a supportive audience, reviews are conducted by a Committee selected for its ability to assist program leaders attain stated targets.
- Conducted periodically, 2/3rds through the selected period, to provide opportunity for corrective action in pursuit of targets.
- Review covers past milestone period (results related to intentions), current milestone period (estimates related to intentions), and next milestone period (projection of intentions).
- Review Committee secretariat documents proceedings, reporting formally to accountable officials regarding status of targets and recommended corrective actions.

"Performance" is similar to the terms, "efficiency" and "effectiveness" in that it requires comparison to give it significance, or meaning. In the following abstract calculation, significance is given to a stated "performance" by deriving a "variance" by subtracting an ideal, standard or target from it, both stated, of course, in similar terms:

Performance
(Ideal/Standard/Target)
Variance

These terms can be absolute numbers, or unit measures or other performance ratios. In addition to revealing the magnitude of variance, the subtraction will provide an indication of the direction of the variance in that the stated performance will equal (zero), exceed (+) or fall short (-) of the stated ideal, standard or target.

Effective organizations attain stated goals. Efficient organizations attain stated goals at "minimum," or "lowest" cost, relative terms which acquire meaning only through comparisons. Assessing the effectiveness and efficiency of any activity requires the development and maintenance of data, and data arrays, as follows:

- Input data, expressed in terms of money and/or worktime,
- Output data, expressed by measures of production,
- A calculation dividing input by output, or output by input to derive a "unit measure," and
- One or more additional ratios based on comparable situations to provide a reference for evaluation of the subject unit measure

To be readily available for the Work Plan formulation and Performance Reviews, the required input and output data must be (1) identified, and (2) recorded. As incurred, costs and worktime must be recorded by the activities and or tasks identified in Work Plans, then summarized at pertinent milestones. Similarly, output data must be recorded and summarized. Over time, using unit measures as a guide, responsible officials can evaluate input-output relationships, and then

95

encourage the formulation of plans to improve the relative efficiency of program operations, that is, reduce unit costs and unit times, and/or increase output per workhour and per amount expended.

Cost center managers should be granted periodic opportunities to address their colleagues and superiors concerning their performance, no later than every quarter. It should be a "stand up" presentation, supported by visual aids, when appropriate. All presentations should reference the input-output commitments registered in the current Work Plan, with significant variances indicated and explained. In general, experience indicates that cost center managers will trace variances between intentions and results to one, or more, of the following factors:

A) Unanticipated changes in input prices

B) Unanticipated changes in volume and type of applied resources, including staffing

C) Unanticipated performance from assigned physical assets

D) Unanticipated and uncontrollable changes in the production situation which invalidate original production assumptions.

E) Environmental contingencies

Variances in unit measures are most frequently traced to factors A and B. In an economy subject to inflation, unanticipated cost variances are to be expected, as prices cannot be accurately predicted, even for the near future. Factor C is often cited to explain variances from period to period, especially if new technology has been introduced. Equipment failure, and/or delays in equipment repair are also frequently cause negative variances. Most significant, Factor D considerations include shortfalls in services and/or good due from other units of the government. Factor E refers to accidents, including natural and man-made disasters, which interfere with the conduct of work.

By design, the reviews should be conducted by strategically constituted Performance Review Committees 2/3rds of the way through the selected milestone period, toward the end of the second month of each quarter, for example, if Work Plans are organized by quarters. Reviews provide formal opportunities for cost center managers to address their respective agencies as

96

institutions, presenting results compared to intentions for the completed prior period, revised estimates of results related to intentions for the current period and a projection intentions for the upcoming period. The projections also form a solid basis for allotment requests, if used by the government, and for cash management planning. The six data elements involved in the typical Performance Review are displayed in the simplified model shown below:

Past Period	Present Period	Future Period
Original Forecast	Original Forecast	Original Forecast
Revised Forecast	Revised Forecast	
Actual Performance		

So placed, with 2/3rds of the period completed, responsible cost center managers have sufficient experience to present revised estimates for the current period, and conditioned on proposed action plans for the remaining portion of the period.

These timely reviews provide responsible program leaders with sequential opportunities to ensure goal attainment by encouraging, and/or authorizing timely corrective action in those cases where results are falling short of targets. At the 2/3rds point, if the projected unfavorable variances are deemed significant, the accountable officials still have time remaining in the period to authorize corrective action (adjusted deployments, changed procedures, etc.) to put the performance for the period "back on target."

Reviewing the data on work plans and performance reports, Performance Review Committees can assess the reasons for significant "shortfalls" in performance, and encourage the formulation of recommendations for corrective action. As stressed before and repeated here for emphasis, the failure to formulate Work Plans, and to conduct periodic Performance Reviews thereon, represents a very serious management deficiency. If Work Plans and performance data is not available to facilitate an assessment of the effectiveness and efficiency of program activity, the Performance Review Committee should forcefully address this deficiency by recommending the formulation of the necessary Work Pans and the monitoring of planned activities and goals

97

Representatives of significant staff units, especially planning, budget and personnel, and centralized auxiliary service units, are expected to participate in these periodic reviews to help each agency and its cost center managers solve production problems. This procedure encourages the attainment of performance targets during the year, via timely corrective action. Most importantly, frequent reviews pinpoint recurring productivity problems - problems which require systemic changes in operating procedures, cost center by cost center.

When conducted as formal affairs, performance reviews tend to stimulate desirable organizational behavior, as follows:

- Anticipation of periodic formal performance reviews influences behavior in the intervals between reviews.

- Conduct of the review, itself, influences behavior as the participants reach understandings and agreements concerning actions to be taken by particular parties.

- Reviews promote collaboration among units *upstream* and *downstream* of the cost center manager in question which have the resources or responsibility to assist the manager solve problems defined during review proceedings.

- The reviews stimulate corrective action

98

EXAMPLE OF PERFORMANCE REVIEW REPORT

The following exhibit provides an example of a performance report. It relates to a work plan for primary health care in St. Elizabeth Province in Jamaica, which incorporated 47 targets spread over 6 cost centers. The table indicates the status of targets in terms of direction of variance rather than magnitude of variance. The symbols key follows:

Under target (-)
On target =
Over target +

ST. ELIZABETH. Dr. Paula Elster, Medical Officer of Health, reported on results for the first quarter, summarized as follows:

	Quarter Ending 30/6/87			
COST CENTRE	No. of Targets	(-)	=	+
ADMINISTRATION	11	8	3	
MATERNAL CHILD HEALTH	9	2	4	3
CURATIVE SERVICES	6	1	5	
DENTAL SERVICES	6	2	3	1
ENVIRONMENTAL HEALTH	9	7	2	
SUPPORTING SERVICES	6	2	4	
	47	22	21	4

At the time of our Review, Dr. Elster was not able to report on expenditures for the first Quarter of 1987-88. As noted above, the St. Elizabeth Primary Care Team reported that it is "on" or "over" in 25 of its 47 targets, an overall percentage of 53 %.

Dr. Elster provided a schedule of targets for the second quarter, but the review was held too early in that quarter for a report on estimated results.

Dr. Elster's report provided explanations for performance shortfalls, including diversion of technical staff time to clerical tasks in the absence of a medical records officer and delays in the delivery of motor vehicle log books and dental equipment. As much time is wasted in delivering messages by motor vehicle, Dr. Elster recommended the installation of radio communications. She also recommended in-service training for the mosquito control staff.

Although it did not establish midwifery coverage as a goal, the St. Elizabeth Team is concerned with the "low" birth registration ratio (81% in 1986) and the "low" proportion of these registered birth delivered with the assistance of trained staff. Dr. Elster attributed this situation to a shortage of midwives.

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A NOTE ON WORK PLANS

Effective budget implementation depends on the integrated employment of 1) budgetary accounting 2) work plans, and 3) periodic formal performance reviews. This note concentrates on the construction of Work Plans, the second component of the budget implementation triad.

Performance responsibility is best secured by the formulation and execution of formal Work Plans, periodically reviewed and updated. Although they have proven merit at all levels of government organization, the preparation and execution of Work Plans are especially useful at basic levels of organization and supervision, the points of service and product delivery.

Work Plans provide a foundation for periodic formal Performance Reviews, an indispensable ingredient of results-oriented budgeting. By tracking progress, the work plan-based review process permits the implementation of timely corrective action to ensure goal attainment, if possible, in all cases of impending failure to reach stated targets set for the period in question.

The failure to formulate Work Plans, and to conduct periodic Performance Reviews thereon, represents a very serious management deficiency.

The preparation of a Work Plan, and the expenditure requirements to fund the activities and/or tasks set forth, represent the final step in the process of formulating and documenting a results-oriented budget, that is, a budget formatted to link input to indicators of production.

The steps preceding the formulation of a Work Plan, and its associated expenditure requirements, should clarify the problem to be addressed by the Work Plan, state the goal(s) to be attained, identify collaborators and affected parties and specify the conditions of performance. If the preceding steps are properly executed, Work Plans, and the associated expenditures, will have a firm programmatic justification. The procedures for the formulation of Work

Plans. and the associated expenditure requirements, are displayed in the following exhibit:

General Procedures For Formulating Work Plans and Budgets

1) Identify work activities/tasks assigned to each cost center.

2) Identify and quantify desired output(s) units associated with activities/tasks

3) Determine and list the input units (work hours, kilowatt hours, square meters/feet, mileage, etc.) and other resources (e,g,: contracts) needed to attain the estimated number of output units.

4) Estimate input unit prices.

5) Multiply the required input units by their unit prices.

6) Price the other required resources.

7) Determine the total cost center allocation by adding all cost components.

8) Where applicable, calculate unit cost or cost per unit of output.

9) Where applicable, calculate output units per workhour or workhours per output unit, and any other pertinent performance ratios.

The following exhibit displays the ***desired tendency*** of selected ratios:

Cost per unit of output should go..... **DOWN**
Output units per cost should go..... **UP**
Staff time per unit of output should go .. **DOWN**
Units of output per staff time should go .. **UP**

10) Compare all ratios to past and current experience. If comparisons do not show movement in the desired direction, review production techniques and associated inputs, seeking improvements in productivity and or lower input cost or work hours.

At minimum, Work Plans embrace the following elements:

- Activities/Tasks
- Effort (Workhours, and, if available, costs)
- Outputs (Targets).
- Checkpoints (Milestones)
- Performance Ratios

Schematically, these elements can be arranged in the following manner:

ACTIVITIES/TASKS	Period 1, 2, etc -->	Total Cost	Total Hours
1. Activity/Task (Work Hours)			
Cost			
Output			
Performance Ratios			
/_			
/			
N. Activity/Task			
Total Workhours	_____	_____	_____
Authorized Absences (Hours)	_____	_____	_____
Total Paid Hours			

Two versions of a sample Work Plan are displayed below. Alternative "A" displays data discretely, quarter by quarter, providing totals in the last column at the right. The second version, Alternative 'B," is based on the same quarterly data, but displays the data cumulatively, with each quarter's data added to the prior quarter Consequently, each quarter provides a year-to-date totals, with the last quarter's figures also serving as the year-end total.

If possible, both formats, the discrete quarterly totals and the cumulative year-to-date approaches, should be used simultaneously to provide maximum insight during the review process.

The sample Work Plan identifies reading proficiency as an activity/task in a primary school, designated as Alpha Primary. As noted, this Work Plan could be expanded to also incorporate additional activities and/or tasks, serving to mark Grade Four as a comprehensive center of performance responsibility in the Alpha Primary School.

ALTERNATIVE "A" (Data displayed discretely by quarters)

ALPHA PRIMARY SCHOOL. Grade Four Workplan

	ACTIVITIES/TASKS	Q1	Q2	Q3	Q4	Total
1	Reading Proficiency					
	Cost (direct $)	4.000	12.000	12.000	12.000	40.000
	Teaching Time (hours)	144	432	432	432	1.440
	Pupil Time on Task (hours)	3.600	10.800	11.800	12.800	39.000
	TOT/TT (hours)	25 0	25.0	27 3	29 6	27 1
	Cost/TT ($/hour)	27 78	27.78	27 78	27 78	27 78
	Above Reading Norm (%)	70 0	75.0	79 0	82 0	
N	Other Activities, etc *					
	Total Work Hours	144	432	432	432	1.440
	Add Authorized Leave (hours)	36	36	36	36	144
	Total Paid Hours	180	468	468	468	1.584

* List additional activities/tasks, including related supporting services charged to the cost center but not easily or accurately assignable to the programmatic activities and/or tasks

As demonstrated by this sample, Work Plans should incorporate performance ratios, or standards, whenever possible. Indeed, unit measures, such as, unit cost, cost per unit, output per workhour or workhours per unit of output provide the very strongest foundation for work plans.

Work Plans can be organized by periods other than quarters, monthly, for example.

ALTERNATIVE "B" (Data displayed cumulatively, providing year-to-date totals at the end of each quarter)

ALPHA PRIMARY SCHOOL. Grade Four Workplan

	ACTIVITIES/TASKS	Q1	Q2	Q3	Q4
I	Reading Proficiency				
	Cost (direct $)	4.000	16.000	28.000	40.000
	Teaching Time (hours)	144	576	1008	1.440
	Pupil Time on Task (hours)	3.600	14.400	26.200	39.000
	TOT/TT (hours)	25.0	25 0	26 0	27.1
	Cost/TT ($/hour)	27.78	27.78	27 78	27.78
	Above Reading Norm (%)	70 0	75.0	79 0	82.0
N	Other Activities. etc *				
	Total Work Hours	144	576	1.008	1.440
	Add Authorized Leave (hours)	36	72	108	144
	Total Paid Hours	180	648	1.116	1.584

* List additional activities/tasks. including related supporting services charged to the cost center but not easily or accurately assignable to the programmatic activities and/or tasks

Also please note that work time forms the basis of Work Plans. Work time can be calculated by hour, week, month or year. As it reflects time-on-task. worktime embraces all forms of effort, regardless of payment concept, including that of staff, whether permanent, part-time or temporary, overtime contributions, and time of contractors, if used. In contrast, paid time forms the basis of budgets. Thus. at the bottom of the sample Work Plan, these two different concepts are reconciled with the addition of a calculation of "authorized absences." This usually includes vacation leave, sick leave, holiday pay. etc.

Inevitably. Work Plans require adjustment as the work proceeds. As dynamic documents. Work Plans should always register the best current estimates of worktime commitments and output delivery dates. Therefore, Performance Reviews provide an opportunity to assess progress, and, if necessary. adjust future work time allocations. expected output. and. perhaps. output delivery dates These reviews will provide the government with sequential opportunities

to ensure goal attainment by encouraging, and/or authorizing timely corrective action in those cases where results are falling short of expectations. Frequently, the accountable officials will find it necessary to assign additional assistance to lagging activities, drawing on the unallocated work hours provided for such contingencies. Where lagging results reflect deficient inter-agency collaboration, also a common occurrence, corrective action will probably require the active intervention and assistance of accountable officials. Additionally, Performance Reviews tend to pinpoint recurring productivity problems - problems which can only be solved by systemic changes in assignments and/or operating procedures.

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"Implementing and Monitoring the Budget." Chapter 6 from The Operating Budget. A Guide for Smaller Governments by Juliet Carol Powdar. Government Finance Officers Association 1996.
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Implementing and Monitoring the Budget 6

Once the budget has been adopted by the governing body, it is the budget officer's responsibility to implement the budget. Expenditure planning and reporting plays an important part in the monitoring of the budget, as the budget officer or a designee becomes responsible for developing quarterly or monthly projections of expenditures. Periodic reporting of actual expenditures against the budget must be made, and corrective measures, such as transferring funds from one activity to another or curtailing expenditures not essential to maintaining the most critical services, must be effected if a department exhibits a spending rate higher than anticipated without a good cause.

In This Chapter

- Budget implementation
- Expenditure planning and reporting
- Transferring funds among budgeted items
- Position control
- Monitoring revenues
- Monitoring progress towards service objectives
- Four themes of budget presentation

A large percentage of the budget involves payroll expenditures, which means that position control is an important aspect of budget control. Establishing a formal position and pay plan is critical to maintaining budget control over expenditures. Monitoring of expenditures should involve not only enforcing fiscal controls but also ensuring that planned work strategies are being completed. Monitoring progress towards service objectives accomplishes this task.

The sections below detail the steps involved in implementing and monitoring the budget.

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Budget Implementation

The beginning of a fiscal year sets into motion the implementation of the budget adopted by the legislative body. Spending limits established through the appropriation ordinance passed by the legislative body must be entered into the accounting records so that effective accounting control

106

can be established. To effectively monitor the implementation of the budget, the budget officer should:

- work with departments to establish monthly or quarterly spending forecasts and monitor progress against them,
- report actual expenditures compared to detailed budgets,
- review and make recommendations to the legislative body on departmental requests to transfer funds among appropriation items,
- monitor payroll expenditures,
- monitor progress toward the achievement of service objectives, and
- initiate procedures necessary to adjust budgets to reflect changes in revenue availability.

These specific aspects of budget implementation are discussed in this chapter.

Expenditure Planning and Reporting

The budget officer or other staff member assigned the responsibility of monitoring expenditures works with departments to develop quarterly or monthly projections of expenditures. Actual expenditures then could be plotted against these estimates. Should a department exhibit a rate of spending higher than anticipated in the plan without good cause corrective measures should be adopted immediately. Such measures may involve transferring funds from another activity, revising work plans, reducing the service objective, or curtailing expenditures not essential to maintaining the most critical services.

Developing the Expenditure Plan. The expenditure plan can be developed based on each department's historical pattern of expenditures, adjusted for any special considerations related to the current year budget. Exhibit 23 can be used to help develop the historical data needed to make the plan. A simple detailed procedure for a quarterly plan keyed to Exhibit 23 is described below.

Step 1: The Budget Officer Prepares the Baseline Plan

1) Obtain actual quarterly expenditures for previous five years and enter those amounts in the appropriate columns.

2) Compute percent of total expenditures made in each quarter of each fiscal year. For example, the percent for the first quarter of 1991 would be computed as $250 ÷ $1,125 = 22 percent.

3) Compute the five-year average percent expended in each quarter. For example, the average for the first quarter would be computed as

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Exhibit 23
Expenditure Planning Worksheet
(in thousands of dollars)

Department: Police Service/Function (Activity): Patrol	1st Quarter Actual	 %	2nd Quarter Actual	 %	3rd Quarter Actual	 %	4th Quarter Actual	 %	Total Actual/ Budget
Historical data:									
FY1991	$250	22.0%	$312	28.0%	$313	28.0%	$250	22.0%	$1,125
FY1992	275	23.0	325	28.0	312	27.0	263	22.0	1,175
FY1993	275	23.5	313	26.0	325	27.0	275	23.5	1,188
FY1994	300	24 0	325	26 0	337	27.0	288	23.0	1,250
FY1995	313	24 0	350	26.0	362	27.0	300	23.0	1,325
Computed average (%)		23.3		26 8		27.2		22.7	
Adjusted average (%)		24 0		26.0		27.0		23 0	
1996 Expenditure projection	360	24.0	390	26.0	405	27 0	345	23 0	1,500
Adjusted base budget	330	24 0	357	26.0	373	27.0	315	23 0	1,375
Estimated deviation	13		30		40		42		125
Final expenditure plan	342		388		412		358		1,500

(250 + 275 + 275 + 300 + 313) – $6,063 (sum of five years actual/budget column) = 23.3 percent.

4) Adjust the computed average percents for obvious trends. For example, while the first quarter average expenditure is only 23.3 percent, the trend in most recent years (1993, 1994, and 1995) has been close to or at 24 percent. Thus, the expected percent is adjusted up to 24 percent from the average 23.3 percent. For a similar reason, the expected percent for the second quarter is adjusted down to 26 percent.

5) Apply adjusted average percent to current-year budget. For example, with a budget of $1.5 million, the expected expenditure for the first quarter is .24 x $1,500,000 = $360,000.

Step 2: Adjust for Major Anticipated Deviations

The raw expenditure projection based on historical trends also must be adjusted for any major expected deviations from past trends. For example, a number of new positions may be in the budget, but it is anticipated that they will not be filled for several months. This situation would cause the expenditures to deviate from past trends. To calculate the impact of anticipated deviations on expenditure projections, the following steps may be taken

1) Possible deviations should be discussed with the department head, and the dollar value should be quantified. For example, three new positions at $30,000 plus expenses equals $125,000. Remove these

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Exhibit 24
Report of Expenditures Against Quarterly Plan
(in thousands of dollars)

Department: Police	1 Annual Budget	2 Planned through 1st Qtr.	3 Actual	4 Over (Under) Plan	5 Percent Over (Under)	6 Unexpended Balance of Total Budget	7 Percent Budget Expended
Services:							
Patrol	1,500	343	310	(33)	(9)	1,190	20.7
Community Service	500	250	262	12	5	238	52.5
Total	2,000	593	572	(21)	(4)	1,428	28.6

special amounts from the basic budget and recompute the percent by quarter based on the adjusted budget figure. For example, the $1.5 million budget is adjusted to $1,375,000 because of the $125,000 reduction for three new positions. (See the adjusted base budget row in Exhibit 23.) New amounts for each quarter are computed.

2) Estimate and spread the effect of each deviation. For example, the amounts estimated for the three new positions are first quarter $12,500, second quarter $30,000, third quarter $40,000, fourth quarter $42,500.

3) Add the adjusted base budget and estimated deviations to obtain the final expenditure plan.

Monitoring the Plan. The expenditure plan is a monitoring device. Actual current-year monthly or quarterly expenditures can be reported in relation to the plan. Significant deviations could signal problems that may create fiscal difficulties for a locality. Exhibit 24 presents a departmental quarterly report format using an expenditure plan. It can be used in the following way to compare actual expenditures against the plan:

1) Determine amount over (under) plan: subtract column 2 from column 3.

2) Determine percent over (under) plan: divide column 4 by column 2.

3) Determine unexpended balance of total budget: subtract column 3 from column 1.

4) Determine percent of budget expended: divide column 3 by column 1.

It is important to note that this process will work well only if invoices are processed promptly every year. If major "hold backs" or delays occur, the accounting system will not reflect the timing of liabilities accurately.

Periodic Reporting of Actual Expenditures Against the Budget. At least monthly, a report should be prepared showing expenditures made compared to the detailed budget. A sample of such a report is presented in Exhibit 25. The data for the monthly budget report should be drawn from the locality's accounting system, and the structure of the report

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Exhibit 25
Monthly Budget Report

Budget Category Department: Police Activity: Patrol	Budget	Expended This Mo.	Expended This Year	Unexpended Budget	% Budget Expended	Outstanding Encumbrances
Salaries and wages	900,000	100,000	500,000	400,000	55	0
Fringe benefits	100,000	10,000	60,000	40,000	60	0
Contractual services	100,000	20,000	40,000	60,000	40	12,000
Supplies and materials	75,000	5,000	50,000	25,000	67	10,000
Equipment	50,000	0	10,000	40,000	20	30,000
Total	**1,225,000**	**135,000**	**660,000**	**565,000**	**54**	**52,000**

should correspond precisely to the budget classification structure used in the budget document. The report presents the following information:

- the budgeted amount,
- the amounts expended for the month,
- the amount expended for the year to date,
- the prior year amount expended to date,
- the percent of budget expended to date, and
- the total of any outstanding encumbrances.

Formal Allotment Systems. In larger localities, a formal allotment process might prove a useful tool for budget control. Under this system, specific portions of a department's appropriation are made available, usually on a quarterly basis. For example, if a department had an appropriation of $1 million, only $300,000 might be made available or allotted to it in the first quarter of the fiscal year. Unlike the expenditure plan, however, the allotment is a direct control device. Funds cannot be expended in excess of the allotment. Specific action to increase the allotment would be required if a department wished to expend more in a quarterly period than had been allotted, and the increase would require the budget officer's approval. Overly stringent use of allotments, however, can hamper an agency's flexibility and ability to be efficient.

Transferring Funds Among Budgeted Items

The budget officer should ensure that funds are spent only as authorized by the appropriation ordinance. Changes in the manner in which funds are spent should be formally reviewed as amendments to the approved budget. These amendments may include such actions as

- transfers among budgeted items,
- increases in budgets resulting from the appropriation of additional funds, and

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- decreases in budgets resulting from reductions to avoid budget deficits.

If the level of appropriation has been set too low (perhaps at the minor object level), the budget office may spend all its time on processing budget change forms. A suitable level of appropriation would grant flexibility to program managers.

Transfers. Budget transfers may be required for several reasons. First, it may be necessary to transfer funds to departmental operating budgets from reserves for emergencies or central budgeted accounts for salary adjustments. Second, transfers may be needed to move funds from one department or activity to another to reflect a realignment of priorities or objectives. For example, an especially hard winter might make it necessary to transfer funds into a snow removal activity from parks maintenance. Transfers among major objects of expenditure within a department or activity may be needed to adjust budget estimates to meet actual operating realities. Major transfers may make it necessary to modify expenditure plans.

Budget transfers should be in compliance with a budget transfer policy, which should be established and approved by the legislative body. A hierarchy also should be established for authorization of the budget transfers. Most of these transfers should be reviewed and approved by the budget officer before they become effective. In some cases, these transfers also should require approval of the chief executive and or the legislative body. For example, transfers among items specified in the appropriations ordinance should require legislative approval. In these cases, the budget officer should review the proposed transfer and make a recommendation to the chief executive and/or legislative body. In some localities, transfers of funds between minor objects within the same major object of expenditure are permitted without necessarily going through the budget officer and/or the chief executive and the legislative body. For example, expenditure overruns in postage offset by a surplus balance in office supplies at the end of the year may be allowed. Conversely, expenditure overruns in personal services should not be automatically offset by a surplus balance in capital.

A standard format should be used to transfer funds among budgeted items. A possible format is presented in Exhibit 26. In the example presented, funds are being transferred from the public works department supplies line item to the supplies line item for parks and recreation.

The form, in most cases, will be initiated by the operating department seeking the transfer. The reason for the transfer as well as the reason the funds are available to be transferred should be stated. Including the section "reason funds available" forces a justification for why the funds are laying idle in a department's budget. The form should be approved by the appropriate officials (i.e., budget officer, finance director, and/or chief

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Exhibit 26
Budget Transfer Journal Entry

Date of Request:

Transfer From:

Department: Public Works

Account Number:

Account Name: Supplies $350.00

Reason Transfer Needed:
To cover cost of supplies (sporting) needed for department's fitness program

Reason Funds Available:
Funds initially budgeted in department's budget but Parks & Recreation could purchase the items cheaper because they place bulk purchases.

Transfer To:

Department: Parks & Recreation

Account Number:

Account Name: Supplies $350 00

Requested by: _____ **Date:** _____

Approved by:
Budget Officer _____ **Date:** _____

Finance Director _____ **Date:** _____

Chief Executive _____ **Date:** _____

Council Action Required **Yes** **No**
If Yes, Date Approved _____
Date Disapproved _____

Posted By _____ **Date Posted** _____

executive). Legislative approval also should be obtained where necessary. After approval, the entry should be made in the accounting and budget records. (The form in Exhibit 26 becomes a budgetary journal entry.)

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As a culmination to the operating budget process, the budget officer should receive permission from the governing body to "clean up the books" by making transfers from accounts with surpluses to accounts with deficits. The budget officer also should be required to report to the governing body where the money for the transfers came from and how the money was used.

Increasing and Decreasing the Budget. Net increases and decreases to the budget should be reviewed and approved by the budget officer, the chief executive, and the legislative body. This rule should apply to all types of budget increases and decreases. These may include

- increases resulting from unexpected grant funds or additional revenues becoming available and
- decreases resulting from the need to reduce appropriations to keep spending within available revenues.

When such actions are taken, the budget should be adjusted at the appropriate level of detail (i.e., program, department/activity, or object for the budget unit affected).

Position Control

An important aspect of budget control encompasses detailed control over payroll expenditures. This category of expenditures typically comprises a very large percentage of a local budget. The most effective way to exercise control over these expenditures is through a formal procedure for position control.

Position control is a system which ensures that each employee whom a locality adds to its payroll on a permanent basis is hired for a position that has been approved and budgeted, and the rate of pay for the position has been approved by the legislative body within the context of a localitywide pay plan.

Position control consists of the following steps:

- establishing a comprehensive list of jobs (positions) for all departments (a position plan),
- establishing standard rates of pay for all similar jobs or positions (a pay plan),
- budgeting funds for approved positions,
- hiring persons into approved positions (filling positions), and
- modifying the position and pay plans in an orderly manner

Establishing the Position and Pay Plan. To establish the position plan for a locality, a comprehensive list of all jobs should be prepared. This list could be developed by the department heads based on current jobs. For each job, the following items should be specified:

- a descriptive job title for each position,
- a full description of the duties to be performed by and the responsibilities of each position, and
- a statement of the education, skills, and experience needed for each position.

This information should be reviewed by the budget officer, chief executive, or personnel officer in order to coordinate descriptions of similar positions across departmental lines, ensure that all information is

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Exhibit 27
Sample Set of Salary Ranges

Salary Range Number		Minimum Salary	Salary Steps 2	3	4	5	6	Maximum Salary
		1	2	3	4	5	6	7
1	Weekly	$308	$323	$338	$355	$373	$393	$413
	Monthly	1,333	1,400	1,470	1,538	1,615	1,700	1,788
	Annual	15,990	16,770	17,550	18,640	19,370	20,410	21,450
2	Weekly	323	338	355	373	393	413	433
	Monthly	1,400	1,470	1,538	1 615	1,700	1,788	1,875
	Annual	16 770	17,550	18,640	19,370	20,410	21,450	22,490
3	Weekly	338	355	373	393	413	433	455
	Monthly	1 470	1,538	1,615	1,700	1,788	1,875	1,973
	Annual	17,550	18,640	19,370	20,410	21,450	22,490	23 660
4	Weekly	355	373	393	413	433	455	478
	Monthly	1,538	1,615	1,700	1,788	1 875	1,973	2,040
	Annual	18,640	19,370	20,410	21,450	22,490	23,660	24,830
5	Weekly	373	393	413	433	455	478	500
	Monthly	1,615	1,700	1,788	1 875	1,973	2,040	2,168
	Annual	19,370	20,410	21,450	22,490	23,660	24,830	26 000
6	Weekly	393	413	433	455	478	500	525
	Monthly	1,700	1,788	1,875	1,973	2,040	2,168	2,275
	Annual	20,410	21,450	22,490	23,660	24,830	26,000	27,300
7	Weekly	413	433	455	478	500	525	553
	Monthly	1,788	1,875	1,973	2,040	2,168	2,275	2,393
	Annual	21,450	22,490	23,660	24,830	26 000	27,300	28,730
8	Weekly	433	455	478	500	525	553	580
	Monthly	1,875	1,973	2,040	2 168	2,275	2,393	2,513
	Annual	22,490	23 660	24,830	26 000	27,300	28,730	30 160

presented in a comparable and correct format, and ensure accuracy in the statements of duties and qualifications. The descriptions should also be in compliance with Occupational Safety and Health Administration and Americans with Disabilities Act (OSHA/ADA) requirements.

Once the position plan is established, pay rates for each position can be assigned. Salary scales for similar positions should be the same, regardless of the department in which the position is located. A good way to develop these pay rates is to review salaries paid for similar positions in other jurisdictions.

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It also is desirable to assign a salary range to each position. This means that a range of salaries, from a minimum to a maximum, should be assigned to each position. The full set of salaries is called the "salary range." Each salary within the range is called a salary step. Typically, five or six salary steps, each approximately 5 percent higher than the preceding step, are assigned to each position. Exhibit 27 shows a sample set of salary ranges.

This approach is helpful because it provides a clear line of progression for each employee. Salary raises resulting from good performance and/or seniority would involve the movement from a lower to a higher step in the salary range. When a cost-of-living adjustment is provided, the entire range is increased. With pay for performance plans, salary ranges exist for positions but steps are eliminated, as a range of merit increases could be offered to an employee based upon performance.

Budgeting Based on the Position and Pay Plan. Budgets for salaries should be based on the position plan for each department. When the budget is being developed, each approved position should be listed in support of the budget request for salaries. (See Chapter 5). New position requests should identify the position title and proposed salary range.

Modifying and Maintaining the Position and Pay Plan and Related Budget. There should be a provision for the personnel officer, if one exists, to provide some review of the appropriateness of the requested action. All personnel actions are reviewed by the budget officer for fiscal impact or availability of funds before being forwarded to the chief executive and/or legislative body for review and approval. It should be noted that certain personnel actions, such as abolishing a position or filling a position at a lower salary than budgeted, need not go to the chief executive or legislative body for approval unless special circumstances require their involvement, such as the abolishment or change in an activity or program. The creation or reclassification of positions, however, must be approved. Without an effective review and approval process for the establishment of new positions, unwieldy budgets will result.

In the review of all personnel actions, the major issues are to determine the following:

- whether the position in question is authorized by the legislative body by reviewing the authorized departmental position listing,
- if the requested personnel change is justified by reviewing the department's work program and current demands for service, and
- the fiscal impact of the requested personnel actions

The fiscal impact assessment needs to take account of the level of funding in the department's personal services budget, determine whether a transfer of funds is involved, and specify the source of any funds that are transferred.

Monitoring Revenues

Revenues, as well as expenditures, should be monitored, either on a monthly or quarterly basis, in relation to the budget. Actual receipts to date should be compared to the budget's estimated amounts for the same period. If receipts are lagging, steps should be taken to readjust revenue

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estimates for the remainder of the year. A parallel adjustment in budgeted expenditures also might be necessary to avoid a deficit or excessive surplus. The cause for revenues lagging behind estimates may be that bills were not sent in a timely manner or that the state government is lagging in the release of grant funds or shared revenues. Such problems should be identified and corrected.

Like expenditures, revenues can be monitored against plans. Revenue plans can be developed for each revenue source by using an approach and a worksheet similar to that for expenditures outlined in Exhibit 23. The procedure might be as follows:

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Step 1: For each revenue source, obtain the actual collections by quarter for the past five years.

Step 2: Compute the average percent by quarter and adjust for obvious trends.

Step 3. Apply quarterly percents to annual revenue estimate.

Step 4: Adjust quarterly estimated revenue flows for major anticipated deviations. (For example, an increased rate will be applied to business licenses at midyear.)

Step 5: Report actual revenues against plan to spot possible problem areas.

Monitoring Progress Towards Service Objectives

Monitoring of expenditures should involve not only enforcing fiscal controls but also ensuring that planned work strategies are being carried out. The drive to achieve activity objectives within established budget limits should be a continuing effort on the part of operating agencies. Exhibit 28 is an example of how a quarterly status report could be provided to illustrate how planned work strategies are being carried out. In this example, the fire service delivery project in the fire department received a budget to hire an additional 30 firefighters to help improve fire service delivery for improved safety in residential areas. To date, 15 of the 30 firefighters were hired, with financial data provided showing the actual expenditures on a quarterly basis and the total expenditures to date compared to the total budget for this activity.

Statistics on work achieved should be collected and evaluated The budget officer should stay in close personal contact with department heads and program managers to discuss project problems and progress. In addition, the budget officer may wish to observe as many local activities as possible and not rely on performance statistics exclusively to provide sufficient insight to monitor performance effectively.

The monitoring system entails the establishment of standards and procedures to measure progress toward identified workload levels and

Exhibit 28
Quarterly Status Report
(third quarter)

Project Name: Fire Service Delivery
Operating Agency: Fire department
Project Term: July 1, 1994 to June 30, 1995
Total Cost: $430,800
Funding Source: $430,800 Revenue Sharing

Objective

To improve fire service delivery for improved safety in residential areas

Description

To provide an additional 30 firefighters By augmenting firefighter force in present fire companies it is expected that companies will attain recommended strength and improve service delivery to the community.

Performance Measures

	Proposed	Completed to Date	Percent Completed
Number of firefighters hired	30	15	50

Financial Data

		Expenditures				
Budget		**Total Exp.**	**1st Qtr.**	**2nd Qtr.**	**3rd Qtr.**	**4th Qtr.**
Personnel	$387,720	$180,936	$60,342	$77,544	$48,465	
Contractual	8,616	2,154	2,154	0	0	
Commodities						
Fixed charges	34,464	32,310	12,924	8,616	5 385	
Capital outlay						
Total	**$430,800**	**$215,400**	**$75,390**	**$86,160**	**$53,850**	

performance targets. Monitoring provides the input to determine if the locality is meeting its goals and objectives as articulated in the budget. Monitoring results also will provide important information to policy makers, the budget officer, and department heads to be used in budget preparation for the following fiscal year

Formal Mid-Year Review. In some localities, the review of the current budget is a formal process involving a presentation to the legislative body on the status of expenditures against resources as well as the attainment of specified objectives. This might be done at midyear and/or at the end of the third quarter In some localities, quarterly reviews or year-end evaluations replace the midyear review During these formal reviews, the department heads, budget officer, chief executive, and legislative body basically undertake the same type of review that took place when the budget was prepared. This formal review process permits the legislative body to reallocate resources as necessary and obtain a comprehensive midyear financial picture It allows adequate lead time to correct fiscal problems before the end of the fiscal year

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Summary: Four Themes of Budget Presentation

All of the elements discussed in this and the preceding chapters combine to facilitate the operating budget process. After reading this publication, a question is worth asking: What is good budgeting? Good budgeting seeks to ensure that the four major aspects of budget documentation are identified and communicated to the residents of a community, the media, and the financial community. The Government Finance Officers Association's Distinguished Budget Presentation Awards program has defined the four major categories in the operating budget process and their themes as follows.

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- **The budget as a policy document.** As an operating plan for a locality, the budget document should identify, propose, and clarify policies. These policies should be adopted by an elected governing body upon recommendation of a chief executive officer.
- **The budget as a financial plan.** Central to all budgeting concepts is a notion of sources and uses of funds/resources. Whether simply by appropriation or some other, more sophisticated strategy, the budget takes account of available and anticipated streams of resources and provides a plan for their disposition. In the public sector, the budget is the primary instrument for promoting solvency, efficiency, and collective choices regarding distribution and allocation of resources between economic sectors and individuals.
- **The budget as an operations guide.** Apart from forming the basis for policy decisions, the budget provides a framework for government operations. The operating considerations go beyond financial dimensions, and affect the number and level of employees, promotions and reorganizations, and other factors that affect day-to-day activities of various units. As an operations guide, the budget seeks to explain the relationship between organizational units and programs.
- **The budget as a communications device.** As part of a public process, the printed operating budget document is a central focal point for residents, taxpayers, the financial community, and the media. Although other opportunities exist for disclosure and transmittal of financial, strategic, and operational information, budget hearings on the proposed operating budget afford the public and the media the single most important opportunity to obtain and to understand the workings of a locality.

"The Budgeting Process." Chapter 9 from Accounting Issues and Practices. A Guide for Smaller Governments by Gregory S. Allison. Government Finance Officers Association 1996.
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The Budgeting Process 9

The operating budget is the governing board's official policy document; as such, it represents the board's goals and objectives. The relationship of budgets to the administration and management of a local governmental unit differs greatly from the role budgets play in the private sector. While most private-sector enterprises usually prepare budgets for their operations, these documents are purely management tools. However, almost all legally adopted governmental budgets have the force of law and violations are generally illegal.

In This Chapter

- Budgeting versus Accounting Functions
- Role of the Budget Officer
- Preparation of the Budget Proposal
- Revenue Projections
- Compilation of Expenditure Requests
- Performance Indicators
- Budget Approval
- Monitoring Budgetary Performance
- Adherence to Purchasing Statutes and Ordinances
- Monitoring Revenue and Expenditure Activity
- Budgetary Reporting

Adoption of governmental budgets is typically mandated by state statutes and/or local ordinances, and such budgets represent the constituent's spending mandate for services and capital outlay. Once approved, the budget cannot be overspent without the express consent of the governing board. Because operations must be managed within budgetary constraints, the preparation and subsequent monitoring of the budget is an integral part of the government's fiscal administration. This chapter will focus on basic budgeting processes of smaller local governmental entities.

Budgeting versus Accounting Functions

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Obviously, fiscal structures differ from government to government. Titles are not always consistent (i.e., fiscal controllers may be referred to as finance directors, treasurers, controllers, comptrollers), positions that are

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Budgeting perspectives and generally accepted accounting principles (GAAP) are often totally different and this can cause practical problems in the gathering and reporting of information.

elected in one state may be appointed in another, and job descriptions for similar types of management positions may vary greatly. The budgetary function is also managed in many different ways in local governmental units across the United States.

Some entities incorporate their budgetary function into the overall financial function of the government. For example, the finance department may be comprised of the accounting, billing, collections, and budgetary functions. In that case, a budget officer (whose duties will be discussed later in this chapter) works for the head of the finance department. The benefit of such an arrangement is that there usually is a good understanding and working relationship between accounting and budgeting personnel. It is imperative that the two functions work closely because of the common information that must be shared.

It is more common, however, for the budgeting function to be independent of the finance or accounting functions. Sometimes, budgeting is ultimately accountable to the government's chief administrator (i.e., city or county manager). At other times, the budget officer or manager may report directly to the governing body, although this arrangement is rare. Unfortunately, when the budgeting functions are entirely removed from the accounting functions, it is not uncommon for work to be duplicated or for communications between the functions to be limited.

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Budgeting perspectives and generally accepted accounting principles (GAAP) are often totally different and this can cause practical problems in the gathering and reporting of information. For example, most governments budget on a cash basis, where transactions (e.g., revenues and expenditures) are only recognized when cash is received or disbursed. Budget personnel, understandably, may only be familiar with this manner of accounting. However, GAAP do not recognize the cash basis as an acceptable reporting method. It can be used for internal management purposes, but it cannot be the basis used in external reporting. If the budget function is completely separate from the accounting function, it is sometimes difficult for budget personnel to understand the restrictions of GAAP reporting if they are only familiar with a budget perspective that employs a cash basis.

Role of the Budget Officer

Most governmental entities are required by state statutes or local ordinances to have a designated budget officer. The specific duties of such officers can vary greatly among governments, but their basic functions are relatively consistent.[1] Some budget officers may devote all of their

[1] For example, it is not uncommon for the encumbrance system and bidding process to be the responsibility of the purchasing department (refer to Chapter 4 (The Purchasing Process)), if the purchasing and budgeting departments are separate.

180

time to such duties, while others may take a more seasonal approach to their responsibilities (i.e., "budget season"—the time during which the budget is prepared and adopted). The following is a list of the common duties of budget officers, or of similar individuals in small local governmental units:[2]

- *Coordinating the budgetary process.* This typically includes preparation of the revenue projections and compilation of the expenditure requests from each of the government's departments. Once the final budget proposal is prepared, it is presented to the governing board for its approval.[3]
- *Monitoring budgetary performance throughout the budget year.* This includes the tracking of actual revenues in relation to projections and the monitoring of expenditures and encumbrances in relation to appropriations.
- *Maintaining the encumbrance system.* This includes approval of purchase requisitions and the preparation of approved purchase orders.
- *Coordinating formal bidding procedures and ensuring compliance with applicable state purchasing laws and local ordinances*

The remainder of this chapter focuses on each of these budget functions in more detail.

Preparation of the Budget Proposal

Anyone who works in local government knows about "budget season." This is the time when all departments put together their budget requests for the upcoming fiscal year. The revenues are projected, the budget is balanced, and the proposal is presented to the governing board for approval. Most governments have a detailed budget calendar. This calendar, often established by state statutes, indicates when the proposal must be completed and ultimately adopted by the governing board. The overall process may take as long as six to eight months.

Governments typically are required to prepare a balanced budget. Simply put, this means that the revenue sources must equal the planned expen-

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[2] If the government has a more decentralized purchasing function, department supervisors may be responsible for many of these tasks. Also, in smaller governments, the budget officer and purchasing agent may be the same individual. Refer to Chapter 4 (The Purchasing Process) for more information on the role of a purchasing agent.

[3] Especially in smaller governmental units, the governing board may be more intimately involved in the preparation of the budget proposal. Typically, the board may have one or several work sessions with the budget officer. Sometimes, subcommittees may be formed comprised of one or several board members who work with the budget team to prepare the detailed proposal.

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ditures. It should be noted that a revenue source is not confined to new revenue streams. Use of funds on hand (e.g., appropriation of fund balance) is a type of "revenue" source that is often used to balance the budget.

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Some governments prepare multi-year budget projections. This practice has become more prevalent as governments search for long-term solutions to decreasing revenue bases. When projections are prepared for two years, the proposal is re-evaluated at the end of year one and, if necessary, adjustments are made to the second year's budget.

In addition to the operating budget discussed in this chapter, most governments also prepare a separate capital budget that is usually part of a larger capital improvement plan. These capital improvement plans are often for five or more years and are effective tools in planning for the funding and purchase of major capital items. The basic budgetary processes are the same; revenue (regardless of whether it is to be generated by taxes, grants or bond proceeds) is projected and expenditures are planned.

Revenue Projections

Revenue projections should be completed for all funds. Some revenue sources are set amounts that can be projected accurately, such as some intergovernmental revenues (e.g., grants, subsidies). However, most revenue sources vary from year to year and are dependent upon many variables. Therefore, it is important to consider as many of these variables as possible and to rely heavily on historical information, tempered by current circumstances, when projecting revenues. Many budget officers use sophisticated budgeting theories in developing revenue projections. Others rely upon historical information (i.e., What has the revenue stream been in the past several years?) and even intuition in developing projections. It is recommended that conservatism be used when projecting revenues in such a manner. Revenue shortfalls can be quite disruptive to the delivery of services, the credibility of the jurisdiction, and access to credit markets.

The process of evaluating and projecting revenues can be relatively simple and logical. Good historical records are a must for evaluating the history of individual revenue streams. This is why it is very important that the accounting and budgeting functions work closely. When at all possible, work should not be duplicated and good historical information should be carried forward from year to year so that consistent trends can be established. Obviously, there is no need to recreate historical information each year. In fact, only the most recent information needs to be developed

Each individual revenue source in each individual fund has to be projected. Individual calculation sheets should be prepared as the supporting documentation for each revenue line item projection. Such sheets

may be prepared manually, although most budget officers use computer spreadsheets for the calculations. At a minimum, each revenue sheet should include the following information for each individual line item:

- title of account,
- fund,
- department and/or function,
- account number,
- actual past year's data[4],
- projected actual results for the current year[5],
- explanation of exceptions in actual data[6],
- calculation for projected revenue and budget proposal (note that any specific assumptions being made that are not obvious should be included and explained), and
- a column also should be included for the "amount approved" (often, the amount requested is not the amount approved; it is recommended that both the request and the approved amount be included on the support sheet—it is good historical information that may be needed for future reference).

See Exhibit 8 for an example of a revenue projection worksheet.

Compilation of Expenditure Requests

On the other side of the budget equation are expenditures. In most cases, the budget officer or similar administrative employee is responsible for calculating revenue projections. However, the responsibility for coordinating expenditure requests is usually assigned to each of the department heads. They are responsible for submitting the initial requests to the budget officer for their own departments. Much of the preliminary work in assessing expenditure line item histories and developing spending plans for the current year can be assigned to the individual departments. It becomes the responsibility of the budget officer to coordinate

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[4] The actual number of years that are used in the evaluation is at the discretion of the budget officer. It is recommended that a minimum of three years be used, if possible. It is also recommended that the information sheet include the final budgeted amounts for at least the immediately preceding year

[5] Obviously, the preparation of the budget is taking place during the current fiscal year and the actual results for it are not yet available. The revenue sheet should include a projection of actual results for the current year, complete with assumptions used in arriving at the calculation

[6] It is not unusual for any account to experience variances at times Material variances that are evident on the revenue calculation sheet should be briefly explained

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Exhibit 8
Revenue Projection Worksheet

Revenue line item _____

G/L account number _____

Fund _____

Revenue description _____

Prior Year Final Budget	Prior Year Actual	Current Year Budget	Actual Year-To-Date	Proposed Budget	% Increase (Decrease)

Analysis/Calculations

Prepared by _____

Date _____

124

the receipt of all the budget requests from the departments, review them for accuracy and reasonableness, and incorporate them into the preparation of a balanced budget proposal. Of course, most budget officers also review the expenditure requests in detail and try to "trouble-shoot" them as much as possible before submitting the final proposals to the governing body.

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All department heads or other employees who are responsible for preparing the budget requests for their departments should be made privy to all information necessary for them to complete their proposals on a timely basis. Most of these employees have little or no access to accounting or budgetary records. Also, they will need instructions on how to complete budget request forms and worksheets and when the information must be remitted to the budget department. It is a good idea to hold one or several group meetings, as needed, at the beginning of the budgetary process to brief the employees who are working with the budget about the particulars of the process and to respond to any questions they may have. Most budget officers will prepare a budget manual or budget packet that includes all this information and make it available to the applicable employees at the beginning of the process.

Budget worksheets for all expenditure line items should be prepared in the same manner as was discussed for revenue line items. Again, access to good detailed historical information is invaluable in calculating the expenditure requests for the coming year. Also, as with the revenue projections, it will be necessary to project the actual expenditures for the current year. In addition to the information mentioned above, the expenditure account worksheets also should include justifications or explanations for the budget requests. Some budget requests are self-explanatory, such as departmental supplies, and are based on previous and current years' actual activity. Other requests, such as travel or capital outlay requests, often require more detailed written justification. Unfortunately, expenditure requests are much more subject to public scrutiny than are revenue projections.

Local governmental units are very labor intensive. Thus, salaries, wages, and employee benefits comprise the majority of total operating expenditure requests. In some governments, this may be as much as 75 percent—80 percent of total expenditures. Fortunately, salaries and related costs are usually very predictable and are often the least volatile of all expenditure accounts. Particularly in smaller local governmental units, personnel levels are strictly controlled. While there may be lapsed salary amounts for various time periods due to unexpected employee resignations or terminations, rarely are more employees hired than are authorized. Nor do the pay rates often exceed that which is allowed and budgeted. Occasionally, overtime pay for hourly workers may exceed projections, especially for public works and public safety employees whose jobs are directly affected by unpredictable events. However, rarely do these cases materially exceed amounts within the budget.

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Performance indicators are financial and nonfinancial statistics and calculations that focus on measurements of accomplishments and measures that relate efforts to accomplishments.

Salary, wage, and employee benefit amounts should be individually calculated for each approved employee position, using the pay rates and benefit levels currently authorized. One simple way to do this is to prepare salary and similar benefit budget worksheets for every department in the organization. The spreadsheets can be designed to easily change variables such as pay rates and anticipated regular and overtime hours. Once they have been developed, the spreadsheets can be updated from year to year with the necessary changes and the expenditure projections calculated quickly and accurately. Extra care should be taken to ensure that unauthorized personnel do not have access to this information. It is recommended that the minimum number of employees possible work with the salary and related benefits calculations. In fact, in many local governmental units, only the budget or finance officer or the chief governmental administrator (e.g., city or county manager) works with these particular budget requests.

Performance Indicators

This chapter has stressed the need to justify revenue projections and expenditure requests with historical information. Also, it has been noted that some types of expenditure requests, such as capital outlay, warrant the presentation of more specific details. Many governments also prepare various types of performance indicators for use in their budget request justifications. Performance indicators are financial and nonfinancial statistics and calculations that focus on measurements of accomplishments and measures that relate efforts to accomplishments.[7] For example, measurements of accomplishments would include indicators that present output (e.g., Tons of garbage removed? Number of miles of road maintained? Number of fires extinguished?). Measures that relate efforts to accomplishments more closely assess efficiency and cost outcomes (e.g., What is the cost per ton of garbage removed? What is the average cost per mile of standard road maintenance?).

Budget managers have found that such financial and nonfinancial indicators can be very useful in the budgetary process. Trend data can be established and presented to the budget committee or governing board to justify expenditure requests. For example, activity data such as the number of active patrolling officers, arrests, emergency responses, and the like can be used to supplement the budget requests for the public safety department and provide additional evidence of the services provided and how the expenditure requests tie into the continued provision of these or the need for additional services. All budget officers should experiment with the use of performance indicators and incorporate them

[7] Some governments contract for performance or operational audits. The focus of this type of audit is to establish whether the government is performing its duties economically and efficiently and/or whether the government's programs and activities are meeting their goals and objectives.

126

into their budgetary process. Once again, care must be exercised in obtaining and presenting accurate data.

Budget Approval

Once a final balanced budget proposal has been completed, it is submitted to the governing board for its formal approval. Most state statutes dictate the latest date that budgets can be approved for the upcoming fiscal year. Once adopted, appropriations can only be added with the approval of the governing body. The budget has the force of law and is the premier financial management document of the government.

The budget has the force of law and is the premier financial management document of the government.

Monitoring Budgetary Performance

The budget officer's work is not completed when a new budget has been approved. Actually, an important aspect of the job throughout the year involves the monitoring of budgetary performance. In most local governments, budgets are not merely financial plans but the legal spending mandate established by the governing board. Therefore, unless new funds are appropriated or the budget is amended, only the amount initially budgeted can be spent, and then it must be spent only for its intended purpose. Usually, it is irrelevant if more funds than were anticipated have been generated. The governing board must specifically amend the budget or increase appropriations for further expenditures to take place legally. Also, both the level and type of expenditures have to be monitored. All applicable state statutes and local ordinances regarding purchasing have to be followed and, if the government utilizes an encumbrance accounting system, purchase orders have to be approved and monitored. This part of the chapter briefly focuses on the task of monitoring budgetary performance.

Adherence to Purchasing Statutes and Ordinances

As mentioned in Chapter 4 (The Purchasing Process), most governmental units are subject to various laws and ordinances that dictate proper purchasing practices. Most state statutes include at least some limited reference to purchasing law as it applies to governmental units throughout the state. Other states have embellished state provisions and adopted more comprehensive, and possibly more restrictive, local purchasing guidelines.[8] Whatever the case, the budget officer should be

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[8] Some state statutes outline strict, comprehensive purchasing laws that must be followed by local governmental units. Others have chosen to relinquish the development and monitoring of adherence to purchasing laws to the local government's governing board

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aware of all applicable statutes and laws and ensure that guidelines are followed appropriately.

Monitoring Revenue and Expenditure Activity

The key to monitoring revenue accounts is to investigate variances that are outside the norm for that particular revenue source.

Budget officers should monitor the status of the budget on an on-going basis.[9] All revenue and expenditure accounts should be reviewed at least monthly and all exceptions investigated. Even the smallest local governmental entities may have hundreds of revenue and expenditure accounts that are budgeted. Therefore, it is usually necessary to use department heads or employees with budgetary responsibility for expenditure monitoring. In most cases, the budget officer or another key finance department employee will monitor the revenue accounts.

To begin with, the revenue accounts are relatively simple to track and potential problems are usually readily identifiable. Some accounts will reflect activity on a very predictable basis. For example, property tax revenue accounts should have activity consistent with the government's property tax calendar (i.e., When are the taxes due?). Many intergovernmental revenues, such as grants or shared taxes, are very often paid either at regular intervals (e.g., quarterly) or in lump sums. Many revenue sources, such as interest and certain user charges, are collected monthly, often with very little variation. The key to monitoring revenue accounts is to investigate variances that are outside the norm for that particular revenue source. Simple analytical review procedures work well for most account analyses.

Expenditure accounts, on the other hand, are best monitored by department heads or employees with budget responsibilities within the department. All departments should receive monthly budget reports from the accounting department. These reports should include only the expenditure accounts applicable to the department. Each account should have the following information about it on the report:

- the budget appropriation,[10]
- the month's expenditure activity,
- year-to-date expenditure activity,

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[9] As was noted in Chapter 4 (The Purchasing Process), the purchasing agent is also responsible for monitoring the budget-to-actual performance of the expenditure accounts. If a governmental entity has both a budget officer and purchasing agent, the budget officer is responsible for monitoring all accounts while the purchasing agent focuses on the availability of funds when approving requisitions. Often in small governments, however, the budget officer and purchasing agent are the same.

[10] This should be the most recent amount. If amendments have taken place since the adoption of the original budget, the budget amount should include the effect of such amendments.

- outstanding encumbrances,
- a cumulative total of year-to-date expenditures plus outstanding encumbrances, and
- the difference between the line item's budgeted appropriation and the cumulative total of expenditures and outstanding encumbrances.[11]

Expenditure accounts are best monitored by department heads or employees with budget responsibilities within the department.

Refer to Exhibit 9 for an example of a typical computer printout of the budgetary status for a line item.

In most cases, department heads are responsible for the management of funds within their own department. They tend to be very cognizant of charges that are appropriate in their accounts and are quick to point out exceptions they have identified. The monthly reports also serve as a status check for department heads to inform them of the funds that are available for the remainder of the year. This helps in their planning of purchases or other disbursements.

Common Exceptions

While the department heads' monitoring is very important, the budget officer should still review all the expenditure accounts for reasonableness and investigate any exceptions. As with the revenue accounts, not all expenditure accounts are used on a monthly basis. Some, such as capital outlay, may only have one or two actual transactions in a given year. The following is a list of some of the types of exceptions that may warrant further investigation:

1) Almost all salaries, wages, and other benefit accounts are used on a consistent basis. The amounts charged in any one month rarely vary significantly. In fact, many accounts may not vary at all between months. If expenditures are evenly spread over a twelve-month period, each month would reflect approximately 8 percent of total expenditures. Therefore, if any one month's activity is significantly in excess of 8 percent of the total budgeted amount, or if the cumulative amount used is significantly higher than it should be at a given point in the year (e.g., 9 months = approximately 75 percent), it should be investigated. (This exercise applies to all expenditure accounts where relatively consistent monthly expenditures monthly are the norm.)

2) Large balances of outstanding encumbrances, as well as encumbrances that have been outstanding for long periods of time, also

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[11] This amount reflects the amount available. It may also be helpful to present this amount as a percentage of the amount budgeted. For example, 75 percent would indicate that approximately 75 percent of the budgeted amount has actually been used or committed (i.e., outstanding encumbrances).

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Exhibit 9
Computer Printout—Line Item Budget Status

Account #	10-4200-0010	Period end	Summary
Line item description	Office supplies	Budget	$2,800
Fund	General Fund	Outstanding POs	$1,395
Department	Accounting	Spent YTD	$ 250
Month/Period	01/01/95–01/31/95	Remaining	$1,155

Date	Code	Description	Budget	P.O.	Actual	Remaining
01-01-95	CB	Establish budget	$2,500	$0	$0	$2,500
01-03-95	PO	P O #10–Acme Supplies		125	0	2,375
01-06-95	JE	J.E. #2			100	2,275
01-10-95	PO	P.O #26–Discount House		1,395	0	880
01-13-95	AP	Check #226–Acme Supplies			150	730
01-13-95	PO	Liquidate P O. #10		<125>		855
01-30-95	BA	Budget amendment #1	300			1,155

Activity Codes

CB — current budget
BA — budget amendment
PO — purchase order
LP — liquidate purchase order
JE — journal entry
AP — accounts payable

130

should be investigated. Often, this is a result of purchase orders not being liquidated when the goods are received and the bill paid. This results in double-counting and the amount available for future appropriation is understated.[12]

3) Accounts that go for several months without activity being posted, even though there are budgeted amounts, may indicate posting problems. Department heads should be contacted to ascertain the nature of the line item (if the budget officer is not specifically aware of its use). This often results in the discovery of transactions that have been posted to the wrong account.

4) Any single large transactions should at least be reviewed for accuracy. This is very common in capital outlay accounts.

The budget officer (or purchasing agent, if there is a separate position) is also responsible for the overall maintenance of the encumbrance accounting system. Refer to Chapter 4 (The Purchasing Process) which includes a detailed description of the process of approving purchase requisitions and issuing purchase orders.

Budgetary Reporting

It is management's responsibility to ensure compliance with the legally adopted budget. Management should monitor budget-to-actual information regularly and track the resources that are actually available and the expenditures that are taking place. They should also track the status of outstanding encumbrances to ensure that they are being liquidated as necessary. This cannot be done unless management has access to timely budget and financial information. One of the most important duties of the budget officer is to ensure that reports are prepared timely and that management has the information available so as to make informed assessments and decisions.

It is management's responsibility to ensure compliance with the legally adopted budget.

Budget updates should be made available to management, at a minimum, on a monthly basis. Most computer systems allow reports to be custom designed. Budget officers typically prepare a variety of reports to be distributed to different levels of management. For example, finance officers and their superiors are generally more interested in the "big picture," such as total revenue projections versus total departmental or functional expenditures and encumbrances. Department heads, on the

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[12] It is recommended that the budget officer review the status of outstanding purchase orders on a regular basis (e.g., monthly). Any outstanding purchase orders that are identified as no longer necessary (e.g., the goods or services have been received, the order was cancelled) should be liquidated to avoid distorting the amount of funds available for appropriation.

Exhibit 10
Monthly Budget-to-Actual Statement

Budgetary Report
General Fund
Month and Year-to-Date Ended March 30, 1995

Department/object	Budget	Outstanding Encumbrances	Actual March 1995	Actual Year-to-Date	Active YTD and Encumbrances	Uncumbered Remaining	% Remaining
Accounting department:							
Salaries/wages	$175,000	$0	$14,583	$136,292	$136,292	$38,708	22%
Employee benefits	66,500	0	5,706	50,411	50,411	16,089	24
Supplies	23,500	3,905	1,975	16,089	19,994	3,506	15
Travel	5,000	0	886	3,017	3,017	1,983	40
Maintenance	4,000	0	290	2,610	2,610	1,390	35
Capital outlay	15,500	8 000	0	3,510	11,510	3,990	26
TOTAL	$289 500	$11 905	$23 440	$211 929	$223 934	$65 566	23%

other hand, are more concerned with the budgetary status of each of the line items within their own departments.

Department heads use these monthly reports to assess "how much money they have left" and to determine that proper charges have been made to their accounts. Exhibit 10 is an example of how a monthly budget-to-actual statement could look. In addition to these computer printouts, most employees who have responsibility for monitoring budgetary performance for their departments or functional areas also have access to computer terminals. Those that have the appropriate clearances may access account information daily to verify postings and budget-to-actual status. However, the monthly reports are important reminders that each account should be monitored regularly.

Most governing boards also expect monthly budget reports. While physical copies of the reports are sent to the members, often along with explanatory information that management deems necessary, it is not uncommon for monthly financial presentations to be made to the full board or a subcommittee of the board (i.e., finance committee).

The benefits of monthly monitoring by the governing board are obvious. For example, if revenue projections are not being met as planned, or if line items are in danger of being overspent before the fiscal year end, alternative measures may need to be taken. In the case of the potential revenue shortfall, the governing board may need to cut back spending authority, search for alternative revenue sources, or appropriate more usage of fund balance. If line items are in danger of being overspent (or if they have already been overspent), management may have to suspend other planned purchases and/or transfer unspent and unencumbered appropriations from another line item to cover the shortfall. Some of these budgetary actions may require specific governing board approval.

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As mentioned earlier in the chapter, many governments are beginning to use performance indicators as another budgetary tool. These indicators are only of use to the government's management if they are monitored and evaluated on a regular basis.

Budgetary compliance must be communicated externally to the government's constituents and any other interested third parties. However, external budgetary reporting is generally performed on a less regular basis. In fact, such reporting usually is done in conjunction with the government's comprehensive annual financial report (CAFR). GAAP require that the CAFR report budget-to-actual information at the legal level of budgetary control for all governmental funds that legally adopt budgets.[13] However, to ensure that compliance is met, it is imperative that management monitor budgetary performance consistently throughout the year.

Summary

The budgeting process in the government environment is as important as the accounting process. Operating and capital budgets have to be prepared annually and approved by the governing body. It is then the responsibility of management to monitor the budget on a routine basis, ensuring compliance with the approved appropriations. While local ordinances and state statutes that establish budgetary policies differ from government to government, this chapter has detailed the basic budgetary process that is common to all governmental entities. Management has the ultimate responsibility of ensuring that a budget is prepared according to applicable local and state laws, that there is compliance with the budget, and such results are properly reported to the constituency.

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[13] The Government Finance Officers Association's 1994 *Governmental Accounting, Auditing and Financial Reporting* defines the legal level of budgetary control as "the level at which spending in excess of budgeted amounts would be a violation of law."

"Financial Reporting." Chapter 11 from Accounting Issues and Practices. A Guide for Smaller Governments by Gregory S. Allison. Government Finance Officers Association 1996.
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Financial Reporting 11

Local governmental entities prepare hundreds of different types of reports each year. Many of these reports are for internal management use only. They are not released to the public or published in any formal manner. A good example of this type of report is the budget analysis, discussed in detail in Chapter 9 (The Budgeting Process). Other reports are designed for public use and publication, such as the government's comprehensive annual financial report (CAFR) and popular report. This chapter focuses on the types and purposes of reports typically prepared in a small local governmental environment, both those designed for internal use and those published for public use.

In This Chapter

- Interim Reporting
- Fiscal Year-End Reporting and the CAFR
- Popular Reporting

Interim Reporting

The reports that are generated for management[1] use only are typically prepared monthly throughout the government's fiscal year. These interim reports are designed to provide management officials with the up-to-date fiscal information necessary to perform their jobs efficiently and effectively. Often, these monthly reports are supplemented with quarterly reports that may provide differing types of detail and trend analysis. Every governmental entity should determine the types of reports it needs and the frequency with which they should be prepared.

In a governmental environment, the most common type of interim report is the monthly budget report. Because of the importance of budgetary compliance in a local government environment, the monthly budget report is essential for management to be able to monitor performance and

[1] For purposes of this chapter, management is defined as both elected and non-elected officials.

134

Common Interim Reports

- Budget-to-actual report
- Balance sheet
- Operating statements
- Cash-flow analyses
- Investment reports

plan for both the short and long term. In any given month, there may be numerous types of budgetary reports produced, each designed for a different user. For example, reports which detail line-item activity, transaction by transaction, may be prepared for departmental managers. More summarized information, such as departmental summaries, may be prepared for upper management (e.g., those more interested in the "big picture"). All of these reports should be prepared on the budgetary basis used by the government. This is very frequently the cash basis. Budgetary performance is measured by the amount of cash actually collected and spent in relation to budget projections. Sometimes, for budgeting purposes, the government may consider encumbrances (e.g., purchase orders) to be expenditures. Accordingly, while this is not in accordance with generally accepted accounting principles (GAAP) for external reporting purposes, the encumbrances should be considered a use of resources for budgetary purposes and reported accordingly. The same theory holds true for revenue recognition. For GAAP purposes, the recognition of revenue is not always consistent with the actual receipt of the associated funds. For budgetary purposes, it is often more important to assess whether cash has actually been collected and is available for use rather than whether the revenue has been earned.

There are many other types of interim reports that are prepared for use by management. These include, but are not limited to, balance sheets, operating statements, and cash flow analyses. The balance sheet, a "snapshot" of the assets, liabilities, and equity of an entity as of a certain date (e.g., month end), is usually of more use to financial managers such as the finance director or accounting manager than for governing boards and upper management. Their focus is more on operating performance and cash flow, not necessarily the specific status of assets and liabilities. Therefore, it is not uncommon for governments to prepare and distribute balance sheets only quarterly or annually. Finance directors and accounting managers have access to this information, usually at any time they need, throughout the year.

Cash flow reports are another example of monthly reporting that can be of great use to certain levels of management. The monitoring of cash flow is an integral part of fiscal management. Even in the smallest governmental entities, total cash inflows and outflows can be staggeringly large. For those in management responsible for ensuring cash is available for the payment of current obligations and that a proper balance between use and investment of funds is achieved, cash flow reports are invaluable. There is no set format for reports prepared for management use only. They should be designed to reflect actual cash inflows and outflows by fund. The actual results should be compared to projections and major variances should be identified and explained.

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Another common report that is similar is a monthly investment report. An investment report provides detail about the investment portfolio as of the end of the reporting period. In the current market environment, more governing bodies are requesting monthly updates on the composition of their portfolios, as well as the maturity dates and current fair market values of investments. A typical investment report would include:

Types of Audit Opinions

- Unqualified
- Qualified
- Adverse
- Disclaimer

- the type of each investment,
- the face value of each investment,
- the current market value of each investment,
- the interest rate, or yield, on each investment,
- the date of acquisition, and
- the maturity date.

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An investment report also should include a summarization of the categories of the investments (e.g., commercial paper, banker's acceptances, Treasury bills). The ratios of the totals of each category to the total portfolio can then be compared to the investment policy. Refer to Chapter 6 (Managing Cash and Investments) for more detail on investment policies.

Fiscal Year-End Reporting and the CAFR

At the end of each fiscal year, governments should prepare financial statements in accordance with GAAP. Unlike interim reports, which are rarely prepared on a GAAP basis and are designed primarily for management's use, year-end reports primarily are for the benefit of external users. Independent auditors are hired to audit these financial statements and render an opinion as to the fair presentation of the financial data they contain.[2] There are generally four types of opinions that auditors may render on the financial statements[3], as follows:

Unqualified - An unqualified opinion, commonly referred to as a "clean" opinion, is given when the financial state-

[2] At a minimum, the independent auditor should render an opinion on the government's general purpose financial statements (GPFS), defined later in this chapter.

[3] An auditor is only required to furnish an opinion on the GPFS. However, in full scope audit, the scope of the auditor's opinion is extended to include the combining and individual statements and schedules, which are located in the financial section of the CAFR following the GPFS.

ments have been prepared in accordance with GAAP and the auditors believe the information included therein is fairly presented.

Qualified - A qualified opinion is rendered when one or several issues have come to the attention of the auditors that would preclude them from rendering a completely unqualified opinion on the financial statements. For example, the financial statements may include some type of material departure from GAAP or there may be significant uncertainties affecting their fair presentation. With the exception of the identified issues, however, the auditor opines that the statements are fairly stated.

Adverse - An adverse opinion is rendered when the auditor finds the financial statements as a whole are not prepared in accordance with GAAP.

Disclaimer - Auditors issue a disclaimer when they are not rendering any type of opinion (i.e., unqualified, qualified, adverse) on the financial statements. A disclaimer of opinion is issued when auditors have not been able to examine information sufficiently for them to be able to render an opinion.

Every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report.

A government should, at a minimum, prepare GPFS at the end of each fiscal year. The GPFS represent the government's financial position, results of operations, and cash flows in accordance with GAAP. They are comprised of five basic financial statements and the accompanying note disclosures. These five statements are the:

1) Combined balance sheet—all fund types and account groups,

2) Combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types and similar trust funds,

3) Combined statement of revenues, expenditures, and changes in fund balances—budget and actual—governmental fund types with legally adopted annual budgets,

4) Combined statement of revenues, expenses, and changes in fund equity—all proprietary fund types and similar trust funds, and

5) Combined statement of cash flows—all proprietary fund types and nonexpendable trust funds.

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These statements should be issued as part of the government's CAFR. The Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards* states that:

Every governmental entity should prepare and publish, as a matter of public record, a *comprehensive annual financial report* (CAFR) that encompasses all funds and account groups of the primary government (including its blended component units). The CAFR should also encompass all discretely presented component units of the reporting entity. (Section 2200.101)

Sections of the CAFR

- Introductory
- Financial
- Statistical

The CAFR includes more detailed information about the government than can be ascertained from the GPFS. A CAFR includes three basic sections: the introductory, financial, and statistical sections. Each section is designed to provide specific information to various users of the report. These users range from the average taxpayer to rating agencies and other analysts interested in the financial condition and fiscal policies of the government.

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The introductory section includes general information on the government, including its basic organizational structure and identification of its elected and non-elected officials. It is designed for the less-sophisticated CAFR user who is interested in a general overview of the government's operations. Most of the introductory section is composed of the letter of transmittal. The letter of transmittal offers management's perspective on the government's financial condition, economic environment, and goals and objectives. At a minimum, the following information should be included in the letter of transmittal:

- definition of the financial reporting entity (specifically any legally separate entities included in the reporting entity and reasons for their inclusion),
- overview of the local economy,
- discussion of the government's major initiatives (current and future),
- brief discussion of the government's internal controls and budgetary policies,
- summarization of the government's financial condition (by major fund),
- brief discussion of the government's policies related to debt administration, cash management, and risk financing, and
- other information that would be of interest to the users of the CAFR (e.g., awards or commendations the government has received).

The financial section includes the independent auditor's opinion and the GPFS. Also included in this section are the combining and individual

A popular report is not designed to provide the same detailed financial information included in the CAFR. Instead, a popular report focuses on the overall services provided by the government.

fund and account group statements and schedules that support in detail the aggregated financial information contained in the GPFS. The financial section is of most use to sophisticated CAFR users who understand governmental accounting and reporting principles and need detailed financial information about the government.

The statistical section provides a variety of ten-year trend data, both financial and nonfinancial in character, that is of primary interest to investors and creditors assessing the creditworthiness of the government. The tables in this section generally include the following (as deemed applicable to the government):

- general governmental expenditures by function,
- general governmental revenues by function,
- property tax levies and collections,
- assessed and estimated actual value of taxable property,
- property tax rates (for direct and overlapping governments),
- principal taxpayers,
- special assessment billings and collections,
- computation of the legal debt margin (current year only),
- ratio of net general bonded debt to assessed value and net bonded debt per capita,
- ratio of annual debt service for general bonded debt to total general expenditures,
- computation of overlapping debt (current year only),
- revenue bond coverage,
- demographic statistics,
- property value, construction, and bank deposits, and
- other miscellaneous statistics deemed useful by the government.

Refer to the Government Finance Officers Association's 1994 publication *Governmental Accounting, Auditing and Financial Reporting* for more detailed information on the preparation of a CAFR and *An Elected Official's Guide to Financial Reporting* for more information on governmental reporting issues.

Popular Reporting

In addition to CAFRs, more and more governments are preparing popular reports. A popular report is not designed to provide the same detailed financial information included in the CAFR. Instead, a popular report

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focuses on the overall services provided by the government. It can be an excellent public relations tool designed to appeal to the average taxpayer. The financial information that is included is limited. Readers are advised of the availability of the CAFR for more detailed financial information. It should be noted that while the information is not presented on a GAAP basis, it should be presented on a basis consistent with GAAP and the differences should be explained.

Popular reports are prepared in a wide variety of formats. These include "glossies" (e.g., professionally prepared documents with easy-to-read narratives, photographs, and other types of graphics), newspaper-style reports, newspaper inserts, pamphlets, calendars, and even videotapes. They are not intended to replace a CAFR; instead, they are less formal publications that should inform the general public on the goals and accomplishments of the local government. Popular reports should be widely distributed within the jurisdiction and made available to all citizens.

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Summary

This chapter has focused on the different types of reporting that is common to a small local governmental unit. Interim reporting policies should be developed by management to meet the individual needs of the government (i.e., they should be "tailor made"). External reporting is more generic among governmental units (e.g., CAFRs, popular reports), but it is still management's responsibility to ensure that procedures are in place that enables them to effectively and efficiently prepare such reports.

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10

Productivity Monitoring: Systems, Indicators, and Analysis

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I. INTRODUCTION

Performance monitoring, the periodic measurement and tracking of key indicators of organizational or program performance, has been a staple in the public manager's tool kit for some time (Poister and Streib, 1989). Indeed, it is considered by at least one authority to constitute one of only two true management systems used in government, along with management by objectives (MBO) systems (Swiss, 1991). Yet, considerable confusion remains as to what performance monitoring systems are, and it is safe to say that in practice they are not utilized as effectively as they might be. The technique should be viewed as an ongoing evaluative activity which focuses on program outcomes and is tied in as a central element of other managerial direction and control systems (Wholey, 1983). Very briefly, the principal reasons for the failure of performance monitoring to reach its potential include faulty conceptualization of performance, poor design of measurement systems, and the lack of direct connections to decision-making processes.

As has been established elsewhere in this volume, measurement systems are indispensable for effective productivity improvement efforts. In some cases, discreet evaluation research designs employing before and after measures or control/comparison groups may well suffice. However, particularly with respect to comprehensive productivity improvement programs mounted by organizations over time, ongoing monitoring systems are especially advantageous because they can help to identify needs and target projects as well as track results over the long run. This chapter provides a conceptual framework for developing such productivity monitoring systems. Detailed examples drawn from various urban transit systems are used to demonstrate its operationalization with indicators and various forms of analysis. The approach, however, which is based on system models emphasizing indicators and analysis keyed to improving productivity, is applicable to all substantive program areas.

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II. PRODUCTIVITY MONITORING SYSTEMS

A productivity monitoring system consists of (1) a data component, (2) an analysis component, and (3) an action component (Poister, 1983; Altman, 1979). As shown in Figure 1 the elements of these components are established by managerial decisions that are part of the monitoring *process* but not part of the monitoring *system* itself. Policymakers and managers have responsibility for setting objectives and at least the outline of strategies and activities aimed at achieving them. Management is also responsible for developing consensus about the kinds of indicators to be included as well as the kinds of analysis and the intended uses of a productivity monitoring system.

A. The Data Component

Generating data that provide valid, reliable, and appropriate measures is essential in order for a monitoring system to impact on improved productivity. Furthermore, since data collection and processing consume the lion's share of the cost of implementing a monitoring system, the design must be geared to the selective acquisition of meaningful data in order to be cost-effective.

The most striking aspect of the data component is that in most program areas, relevant performance indicators come from such a wide variety of data sources. These range, for example, from internal agency records, accounting data, and administrative data reported to sponsoring agencies, through client-based or "caseload" data, observational counts and physical inspections, to citizen surveys. Fortunately, many of these types of data are readily available and incur relatively little additional cost for reformatting. While "external" data are usually desirable to complement these existing data sets, the overall monitoring system can be made more efficient by utilizing available data as much as possible. The most important consideration in developing the data component is what kinds of indicators to include, and this in turn depends on what kind of evaluative criteria are to be used to monitor performance. The relevant variables to be considered can be identified through a model of the program logic, illustrated below, that clarifies the assumptions of cause effect relationships by which a program is expected to produce its intended impacts.

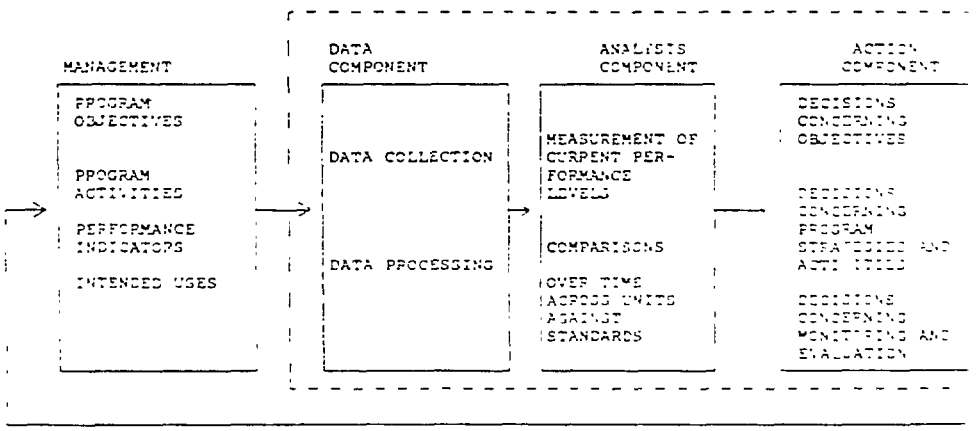

Figure 1 Performance monitoring system logic.

142

III. PRODUCTIVITY MODELS AND MEASURES

A workable performance monitoring system must be based on a clear understanding of the purpose of the program and the logic connecting its inputs, outputs, and intended effects. Figure 2 is a basic systems model of the logic underlying a conventional bus transit operation consisting of a primary service delivery component and two support components, (1) maintenance and (2) planning and marketing. The inputs into the system are resources such as employees, vehicles, facilities, equipment and materials that can be measured individually or summarized as dollar costs. The program itself is a conversion process in which operational, policy, and design parameters such as preventive maintenance procedures, routes and schedules, and fare structure determine the system's outputs.

Outputs are the most immediate products of a program, and in the case of transit the principal outputs—those produced directly by the service component—are vehicle miles and vehicle hours operated; measures of the amount of service offered to the community. Another output measure, bus seat miles of service provided, represents the capacity of the system. It is at the output stage of the system logic that interdependencies among the program components begin to appear. For example, the maintenance program outputs—buses cleaned, preventive maintenance checks, and repairs completed—contribute to both the ability to produce the service outputs, vehicle miles and hours, and the quality of these outputs. Similarly, some of the planning and marketing outputs such as service plan adjustments feed directly into the service component.

Output targets are immediate managerial objectives but do not represent the real outcomes-oriented objectives, or benefits, of the program. While numerous and sometimes

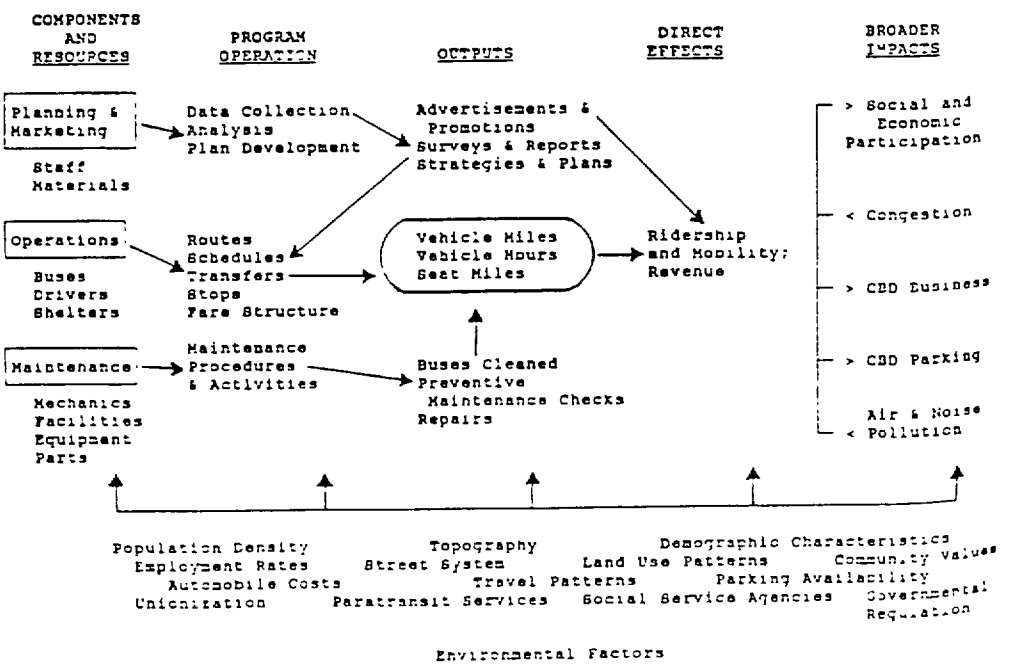

Figure 2 Urban transit system program logic.

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Table 1 Selected Transit Productivity Indicators

Resources and outputs	Service quality
Total expense	Percent on-time trips
Vehicle-hours	Percent transfers
Vehicle-miles	Accidents per 100,000 vehicle-miles
Seat-miles	Service interruptions per 100,000 vehicle-miles
Labor productivity	Service consumption
Vehicle-hours per employee	Passenger trips
Vehicle-hours per operator	Annual rides epr capita revenue
Vehicle-miles per maintenance employee	Revenue per passenger trip
Vehicle productivity	Utilization
Vehicle-miles per vehicle	Passenger trips per vehicle-hour
Vehicle-hours per vehicle	Passenger trips per vehicle-mile
	Passenger miles per seat-mile
Unit costs	Revenue per vehicle-hour
Expense per vehicle-mile	
Expense per vehicle-hour	Cost effectiveness
Variable cost per vehicle-mile	Cost per passenger trip
Variable cost per vehicle-hour	Percent cost recovery (revenue ÷ expense)
	Deficit
	Net cost per passenger trip

are often tracked as well a passenger miles traveled per seat-mile provided, which is the percent of capacity that is utilized. In addition, the ability of a system to generate revenue in relation to the amount of service provided is represented by the measure of revenue per vehicle-hour.

Finally, cost-effectiveness indicators relate the direct effects of the system to the cost of the resources going into it, most directly the cost per passenger trip. Although most transit systems are not expected to totally finance themselves from earned revenue, in the business enterprise sense of the "bottom line" cost-effectiveness is expressed in terms of the relation of revenue to expense, or the percent cost recovery. In addition, the operating deficit incurred and the net cost per passenger trip are other frequently used indicators of cost-effectiveness.

B. Selecting Indicators

The choice of specific indicators to be included should depend primarily on the particular purposes for which a performance monitoring system is being instituted. Other factors include the expense and relative ease of collecting valid and reliable data as well as the potential consequences of reporting particular measures and sheer manageability. One research effort used factor analysis or aggregate data reported to the Urban Mass Transportation Administration (UMTA) to reduce a list of 48 measures to seven "marker" variables which consistently represent the larger set (Fielding, et al., 1985). However, such abbreviated lists of indicators may be useful for making intersystem comparisons and yet fail to capture many of the more subtle aspects of the productivity of a particular system.

conflicting policy objectives are often assigned to transit, its overall objective may be best summarized as providing affordable mobility. Thus, the direct effects of a transit system, representing the attainment of this principal objective, are best summarized in terms of ridership levels. Increased mobility and transit ridership over the long run can also contribute to broader impacts relating to other community goals such as more widespread participation in social and economic activities, increased activity in central business districts, decreased traffic congestion and increased parking availability, and even reduced air and noise pollution. The model further recognizes the resource-dependent, open systems nature of transit operations with the inclusion of numerous environmental variables, ranging from demographics and employment rates to land use patterns, travel patterns, and governmental regulations. While not usually built into formal performance monitoring systems, a strategic management perspective obviously requires keeping track of such factors as they may facilitate or impede transit performance.

A. Performance Indicators

The conceptual framework provided by this system model of transit program serves as a guide for developing and selecting measures to be used in productivity monitoring. Managers are usually interested in tracking the status of several of the elements included in Figure 2 in absolute numbers, and ratios and rates computed by relating some of these to other provide indicators or productivity and overall transit performance. Table 1 lists a number of performance indicators that are commonly used by transit managers, grouped by performance dimension as keyed to the systems model. This is by no means an exhaustive list, but rather a selective set of indicators which illustrate the range of appropriate performance measures (Fielding, 1987; Miller, 1980). First, total expense is included in the list because managerial performance is often keyed in part to cost-containment objectives. Similarly, the standard outputs such as vehicle-miles and vehicle-hours are basic operational elements that are often included in monitoring systems as scale factors. Measures of various aspects of the quality of service, such as the percent of bus trips that are on time according to printed schedules, the percent of trips requiring transfers, accident rates, and service interruption or "breakdown" rates, are critical to the concept of productivity as the relationship of quantity and quality to program cost.

Labor productivity indicators relate outputs to the employees contributing to their production. Because wear and tear on the buses is reflected more accurately by vehicle-miles as opposed to vehicle-hours, vehicle-miles per maintenance employee is an appropriate indicator of the labor productivity of the maintenance program, whereas the vehicle-hours of service generated by the bus operators better reflects the labor productivity of the service component. Vehicle productivity can be measured by either vehicle-miles or vehicle-hours per active vehicle in the fleet. Unit costs relate outputs to the cost of resources, as measured by such indicators as the cost per vehicle-mile and the cost per vehicle-hour.

Effectiveness is reflected first of all by consumption in terms of ridership. This is measured most directly by the number of passenger trips made on the system, but for comparative purposes the annual number of rides per capita may also be of interest. Consumption may also be measured by the amount of revenue generated by the system and/or the revenue per passenger trip, as at least a partial reflection of the value of the benefit received by patrons. Overall productivity can also be viewed in terms of utilization rates, the extent to which the system is utilized relative to the amount of service provided. Thus, the number of passenger trips per vehicle-hour and passenger trips per vehicle-mile

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Managers using performance measures to monitor the status of their individual transit systems are likely to prefer a somewhat more comprehensive set of indicators that more fully represent the various dimensions of performance of concern to them. One observer points out that performance measurement systems in the public sector often need to balance varying information demands from different constituent groups, and suggests that in such situations the scope of the system can best be determined by gearing it to what potential users want to know about the program (Grizzle, 1982). For a local transit system this would mean a measurement system that would allow the flexibility to provide summary information on key performance areas on a comparable basis to UMTA, and perhaps state agencies, while tailoring additional indicators to serve the presumably more specific needs of the individual transit manager.

Performance indicators are usually thought of as rates or ratios, and in making intersystem comparisons this is necessary in order to standardize for widely differing scales of operation. One system may experience many more service interruptions than another, for instance, but in terms of service interruptions per 100,000 vehicle-miles operated it may be exhibiting superior performance. On the other hand, tracking a single system's performance solely with rates and ratios often will not provide optimal feedback because the basic reasons underlying changes that are observed will not always be apparent. If, for example, a system experiences increases in the number of passenger trips per vehicle-hour over a particular time period, does this reflect actual growth in ridership, a cutback in service levels, or both? Thus, it is often helpful to report trends in terms of absolute magnitudes as well as with performance ratios.

Table 2 summarizes outputs and operating expenses from fiscal 1984 through fiscal 1989 for the Metropolitan Atlanta Rapid Transit Authority, or MARTA, a major bus and rail system in Atlanta, Georgia. While the vehicle-hours and vehicle-miles operated by the bus system over this period have remained very stable, unit costs rose steadily as operating expenses increased from $76 million in fiscal 1984 to $106 million in fiscal 1988 owing to wage increases and the higher prices of other factor inputs. However, unit costs decreased substantially in fiscal 1989 as output increased marginally, whereas operating expenses were cut down to $96 million.

In contrast, unit costs of the rail system tended to decrease over several years and at $2.80 per vehicle-mile in fiscal 1988 were actually lower than $3.90 per vehicle-mile in fiscal 1984. The explanation for this is that operating expenses on the rail system slightly more than doubled from $17 million in fiscal 1982 to $40 million in fiscal 1987, and then dropped back a little to less than $38 million in fiscal 1988 as power costs decreased. However, during this same period vehicle-miles operated more than tripled from 3.9 million to 13.5 million as track was added to the system and new stations opened. As rail outputs increased faster than expenses, the net effect was substantially improving operating efficiency. Nevertheless, in fiscal 1989 operating expense rose dramatically to $4.01 per vehicle-mile, even though output increased slightly, as total expenses jumped up to $59 million.

One common negative effect of measurement systems is goal displacement, whereby organizational behavior reacts over time to maximize performance on those dimensions emphasized by the system at the expense of other equally or more important objectives. Thus, the selection of indicators is critical in terms of avoiding a boomerang effect in which overall productivity improvement is actually impeded by the use of a monitoring system. This requires a well-balanced set of indicators which offset such potential dysfunctional incentives created by any one measure. Often measures can be paired in a checks and balances approach by trying to anticipate the problems likely to be created by focusing too narrowly on some performance criteria while neglecting others.

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Table 2 MARTA Outputs and Expenses

	Fiscal year					
	1984	1985	1986	1987	1988	1989
Bus system						
Vehicle-hours—000's	2,079	2,121	2,155	2,192	2,155	2,20[illegible]
Vehicle-miles—000's	29,018	29,393	29,770	30,323	29,872	30,26[illegible]
Accidents	696	678	755	657	667	74[illegible]
Accidents/100,000 VM	2.4	2.3	2.5	2.2	2.2	2.[illegible]
Operating expense—000's	76,466	82,030	84,279	90,880	106,480	96,06[illegible]
Expense/Vehicle-mile	$2.64	$2.79	$2.83	$3.00	$3.56	$3.1[illegible]
Expense/Vehicle-hour	$36.78	$38.68	$39.11	$41.46	$49.41	$43.5[illegible]
Rail system						
Vehicle-hours—000's	314	448	531	529	561	62[illegible]
Vehicle-miles—000's	6,144	10,038	12,156	12,549	13,494	14,79[illegible]
Accidents	N/A	291	451	377	326	31[illegible]
Accidents/100,000 VM		2.9	3.7	3.0	2.4	2.[illegible]
Operating Expenses—000's	23,965	29,847	38,840	40,488	37,727	$59,31[illegible]
Expense/vehicle-mile	$3.90	$2.97	$3.20	$3.23	$2.80	$4.0[illegible]
Expense/vehicle-hour	$76.32	$66.62	$73.15	$76.54	$67.25	$94.9[illegible]

For example, maintenance managers can most readily maximize the number o vehicle-miles operated per maintenance employee simply by reducing the number o employees in their divisions, but if they are no longer able to conduct essential preventiv maintenance activities on a reasonable schedule, buses will begin breaking down ar service quality will suffer markedly. To establish a balance between maintenance eff ciency and service quality, then, a measure such as the number of service interruptions p 100,000 vehicle-miles operated should be included to assure that the real purpose of tr maintenance component will not be ignored for the sake of cost control.

IV. MONITORING TRANSIT SYSTEM PRODUCTIVITY

Since performance monitoring is the periodic measurement of key indicators at regu intervals, it accumulates time series data bases which lend themselves most readil comparisons over time. For instance, MARTA develops a monthly statistical summ which tracks some 19 measures corresponding to its bus system and 34 indicators for tr rail system, including outputs, operating efficiency, utilization, and cost-effectivene measures. In addition to reporting these figures for the individual month and the chan from the same month of the preceding year, this report shows most of the same informati for a 12-month moving total and for the fiscal year to date, in each case comparing curre performance with the preceding year.

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88	1989
155	2,208
872	30,265
667	742
2.2	2.5
480	96,066
3.56	$3.17
9.41	$43.52
561	624
494	14,795
326	315
2.4	2.1
727	$59,311
2.80	$4.01
7.25	$94.99

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A. Trends Over Time

Table 3 shows a selected set of these indicators for the month of June, 1988; since MARTA's fiscal year ends in June, the fiscal year to date entries also represent the entire fiscal year. At the beginning of this fiscal year the base fare was raised from $0.65 to $0.75, and the overall results are readily apparent from Table 3. Total vehicle-miles and vehicle-hours operated in June of 1988 were marginally higher than in June of the preceding year owing to continued expansion of the rail system, and total operating expenses were up by 11.6% to $14,185,563. However, ridership in June, 1988, was lower than in June of the preceding year, with a sharper decrease in linked passenger trips, down 6.0% to a little over 6 million than in unlinked trips, down by 2.1%. This differential decrease reflects the conversion of some line haul bus routes to feeder routes for new rail stations, and may also suggest that the fare increase had greater impact on central city residents than on suburban commuters who tend more to make multisegment trips. Utilization rates decreased to 3.42 passenger trips per vehicle-mile and 54.31 trips per vehicle-hour, and the combined effect of the increase in expenses with the loss in ridership was an 18.4% increase in the cost per passenger trip.

Yet, total passenger revenue went up by 20.6% over the same period to $3,861,778 as a result of the higher average fare being paid by the vast majority of patrons who were still using the system. As predicted by the underlying logic that calls for a fare increase, the net effect was an improvement in MARTA's revenue to cost ratio, which at 0.2722 in June of 1988 was 8.1% higher than in June of the preceding year. Such monthly comparisons, along with similar measures for the fiscal year as a whole, are obviously important for MARTA management to track, in particular with respect to the aggregate effects of service and fare changes. However, these particular data may obscure possible differential impacts on the bus system versus the rail system; for example, greater erosion of bus passengers than rail passengers as the result of a fare increase, which could be clarified simply by computing the percent changes from the same month a year ago separately for each mode.

Table 3 MARTA—Selected Performance Indicators

	This month				Fiscal year to date	
Indicator	bus system	rail system	total system	% change last year	total system	% change last year
Vehicle-miles	2,558,000	1,149,000	3,707,000	+2.8	43,893,000	+2.4
Vehicle-hours	184,900	48,100	233,200	+1.9	2,792,600	+1.0
Passengers—linked	3,849,000	2,258,000	6,107,000	−6.0	71,959,000	−4.5
Passengers—unlinked	7,109,000	5,555,000	12,664,000	−2.1	148,253,000	−1.1
Passengers/mile	2.78	4.83	3.42	−4.7	3.38	−3.4
Passengers/hour	38.45	115.01	54.31	−3.9	53.96	−2.1
Operating expense	$10,550,102	$3,635,461	$14,185,563	+11.6	$144,801,222	+10.2
Expense/Vehicle-mile	$4.12	$3.16	$3.83	+8.5	$3.30	+7.8
Expense/Vehicle-hour	$57.06	$75.58	$60.83	+9.5	$52.70	+9.1
Expense/passenger	$2.74	$1.61	$2.32	+18.4	$2.01	+15.5
Passenger revenue	$2,442,035	$1,419,743	$3,861,778	+20.6	$45,993,579	+17.9
Revenue/expense	0.2315	0.3905	0.2722	+8.1	0.3176	+7.0

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For longer-term trend monitoring it may be more convenient to use quarterly rather than monthly data. Table 4, for example, shows selected indicators for the Peninsula Transportation District Commission, or PENTRAN, a medium-size bus system in Newport News, Virginia. These data pertain to each quarter of fiscal year 1988, with equivalent figures for each fiscal 1987 quarter provided as a basis of comparison. Total ridership was higher in the second and third quarters and lower in the first and fourth quarters of fiscal 1988 as compared with fiscal 1987, but the net effect was a decrease in total passengers from 4,985,786 to 4,815,048 for the year as a whole. For each quarter of fiscal 1988 revenue was less than in the corresponding quarter of 1987, and overall revenue decreased from $3,050,915 to $2,905,361 for the year. Overall, revenue was down by 4.8% for the year, whereas total passengers were down 3.4%, indicating a slightly lower average fare on the system in fiscal 1988 even though the same fare structure was in place as in fiscal 1987. Since expenses were higher in fiscal 1988 in all except for the third quarter, PENTRAN's percent cost recovery factor slipped from about 44% in fiscal 1987 to roughly 40% in 1988, and the net cost per passenger trip increased from $0.77 in fiscal 1987 to $0.89 in 1988.

Longer-term trends are often presented most effectively in time series graphs. Figure 3 plots ridership trends on a quarterly basis from fiscal 1984 through fiscal 1989 for the Williamsport Bureau of Transportation (WBT) City Bus operation, a small transit system in Williamsport, Pennsylvania. First, some systematic seasonal variation is evident, with senior citizen passenger trips tending to be lower and regular revenue passenger trips tending to be lower and regular revenue passengers tending to be higher in the third quarter of the fiscal year, January through March. Regarding long-term trend, the plots indicate that whereas senior citizens have tended to decrease gradually over the past 6 fiscal years, regular revenue passenger trips have increased over the same period. The net effect of the opposing trends has been a very slight increase in total passenger trips over the long run, averaging in the vicinity of 270,000 trips per quarter.

Table 4 PENTRAN Revenue and Expense Comparisons

Fiscal Year		Fiscal Year Quarter 1st July–Sept	2nd Oct–Dec	3rd Jan–March	4th April–June	Total
1988	Revenue	$ 674,179	$ 718,806	$ 771,982	$ 740,394	$2,905,361
	Expense	$1,738,636	$1,729,036	$1,746,740	$1,967,623	$7,182,035
	% Cost recovery	38.8%	41.6%	44.2%	37.6%	40.4%
	Deficit	1,064,457	1,010,230	974,758	1,227,229	4,276,674
	Total passengers	1,016,584	1,284,230	1,297,977	1,215,595	4,815,048
	Net cost passengers	$1.05	$0.79	$0.75	$1.01	$0.89
1987	Revenue	$ 696,448	$ 798,107	$ 779,966	$ 776,394	$3,050,915
	Expense	$1,575,496	$1,626,456	$1,751,3343	$1,927,473	$6,880,759
	% Cost recovery	44.2%	49.1%	44.5%	40.3%	44.3%
	Deficit	879,048	828,349	971,368	1,151,079	3,829,844
	Total passengers	1,192,216	1,250,700	1,259,552	1,283,318	4,985,786
	Net cost passenger	$0.74	$0.66	$0.77	$0.90	$0.77

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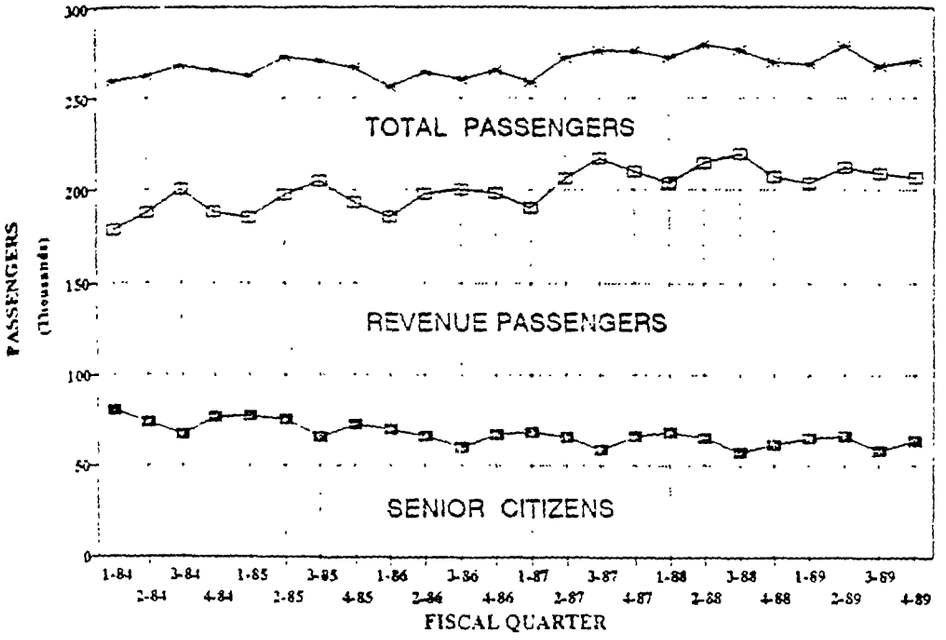

Figure 3 WBT long-term trends.

B. Intrasystem Comparisons

As with the MARTA rail and bus systems, disaggregating the data down to the major components of a transit operation often provides additional insight as to how well these components, and the system as a whole, are performing. For example, in addition to its regular bus service with on the order of 2.6 million passengers per year, PENTRAN also operates some separate work "trippers" that carry more than a third of a million passengers per year and a "shipyard express" service to the largest single employer in the area, which carries more than a quarter of a million passengers per year. Furthermore, under contract with the local school system, PENTRAN also operates separate school bus service that carries well over a million students per year to junior and senior high schools in the area. The school bus fare is only $0.40 as compared with $0.60 for the regular service, $0.75 for the work trippers, and $1.00 for the shipyard express.

As shown in Table 5, tracking key indicators for these individual components reveals different trends in their ridership over time. Although all four components lost riders between fiscal 1986 and 1987, these trends continued through the next year on the first three components but not on the school bus service. Ridership decreased from fiscal 1987 to 1988 by more than 200,000 on the regular operation even as vehicle-hours increased marginally, and the work trippers lost more than 30,000 passenger trips, whereas the shipyard express carried 20,000 fewer riders. However, the school bus service, which is primarily sensitive to school enrollment trends, carried 110,000 more passenger trips in 1988 than in 1987. These countering trends resulted in the net loss of some 150,000

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Table 5 PLNTRAN Ridership Trends by Service Element

	Fiscal Year						
	1982	1983	1984	1985	1986	1987	1988
Regular service							
Vehicle hours	90,123	96,954	99,303	99,061	98,628	101,869	104,054
Passengers	3,240,350	2,964,409	3,050,476	3,304,605	3,056,878	2,885,406	2,680,922
Passengers/vehicle-hour	36.0	30.6	30.7	33.4	31.0	28.3	25.8
Work trippers							
Vehicle hours	17,466	17,036	14,760	14,477	15,693	16,948	14,965
Passengers	370,011	387,762	405,586	402,486	402,478	368,825	334,567
Passengers/vehicle hour	21.2	22.8	27.5	27.8	25.6	21.8	22.4
Shipyward express							
Vehicle-hours	13,900	13,849	12,522	12,331	11,898	14,381	14,481
Passengers	292,057	303,576	308,360	290,471	294,760	291,325	268,350
Passengers/vehicle-hour	21.0	21.9	24.6	23.6	24.8	20.3	18.5
School buses							
Vehicle hours	N/A	N/A	N/A	27,065	28,820	30,647	28,388
Passengers	1,328,964	1,398,922	1,450,031	1,389,700	1,287,543	1,261,743	1,373,356
Passenger/vehicle hour	N/A	N/A	N/A	51.3	44.7	41.2	48.4

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passengers systemwide and explain PENTRAN's lower average fare on the system as a whole and the decrease in aggregate revenue.

Especially on smaller systems, tracking many of these key indicators on a route-specific basis can be helpful in fine-tuning operations. In Williamsport, for example, WBT checks various aspects of individual route performance at least once a year in addition to tracking most of the same indicators on a quarterly and annual basis for the system as a whole. Table 6 shows a few of these indicators broken down by route for a single week in September, 1987; the top eight routes listed in Table 6 are regular daily routes, whereas the remaining four months are evening routes and trippers. The variable cost of operating each route was estimated by a model employing unit cost items for both vehicle-miles and vehicle-hours for the system as a whole.

The Newberry, Montoursville, Garden View, and Loyalsock routes are the real backbone of the system, operating the most service and incurring the greatest cost. However, ridership (not shown), and hence revenue, are also higher on these routes, and thus their operating deficits for the week are not far out of line with the other routes. By contrast, the West Third Street, South Side, and East End routes produce considerably less revenue but still have operating deficits comparable to the Garden View and Loyalsock routes. Looking at cost-effectiveness, among the regular routes the Newberry route has the lowest deficit per passenger trip at $0.19, followed by the Garden View route at $0.44, and the West Third Street route at $0.54.

At the other end of the spectrum, the South Side route incurred a deficit per passenger of $1.22, and the Montoursville and East End routes had operating deficits per passenger of $0.80 or more. Similarly, the percent variable cost recovery on the Newberry, West Third Street, and Garden View routes all exceed the systemwide average of 45%, whereas the

Table 6 WBT Expense, Revenue, and Deficit by Route (September 18–23, 1989)

Route	[a]Estimated variable cost ($)	Revenue ($)	Operating deficit ($)	Operating deficit/passenger trip ($)	Percent variable cost recovery[a]
Newberry	3,218	2,293	925	0.19	71
Montoursville	3,517	1,187	2,330	0.95	34
Garden View	3,202	1,585	1,617	0.49	50
Loyalsock	3,034	1,317	1,717	0.64	43
Market Street	879	378	501	0.63	43
West Third Street	2,025	929	1,096	0.54	46
South Side	1,926	563	1,363	1.22	29
East End	1,922	735	1,187	0.80	38
Nightline East	305	137	168	0.57	45
Nightline West	382	177	205	0.55	46
PM Shuttle	61	57	4	0.02	93
Hill's Express[b]	67	31	36	0.60	46
Muncy Mall Local	681	185	496	2.10	27
Lycoming Mall	475	181	294	1.40	38
Totals	21,694	9,755	11,939	0.60	45

[a]Variable Estimated Cost = ($0.52 × vehicle-miles) + ($16.26 × vehicle-hours)
[b]Saturday only

152

Montoursville and East End routes recovered less than 40% of their operating cost through the fare box, and cost recovery was only at 29% on the South Side route. While WBT planners have often focused on the Market Street route as needing attention because of its low absolute volume of ridership, these data show that the Market Street route performs relatively well and suggest that the Montoursville, East End, and especially the South Side routes may well be higher-priority candidates for modification in configuration and/or service levels.

C. Comparisons Against Standards

Monitoring systems often measure actual performance against fixed standards, targets developed in the planning process, or amounts set in the budget. For example, WBT has developed 29 standards relating to staffing ratios, labor productivity, operating deficiency, service quality, utilization, and cost-effectiveness and annually measures actual performance against these standards. A selected set of these standards is shown in Table 7 along with WBT's actual performance on these criteria for fiscal 1989. Statewide averages for the so-called medium-size systems in Pennsylvania are also shown as a basis of comparison. The percent employee attendance is defined as one minus the number of unexpected sick occurrences and "missouts" as a proportion of the total number of report times for bus operators; all the other indicators have been defined elsewhere in this chapter. WBT's actual performance met or exceeded each of the standards with the exception of passenger trips per vehicle-hour, which was very close to the standard at 27.5 vs 28. In addition, WBT outperformed the statewide average on nine of the 12 indicators for which comparable data were available, a profile which reflects very respectable performance levels while suggesting there is still some room for improvement.

Table 7 Selected WBT Performance Standards Fiscal Year 1987

Criterion	Standard	WBT Fiscal 1989	Statewide Average 1989
Percent employee attendance	≥97%	98.8%	NA
Vehicle-miles per employee	≥15,000	16,631	15,219
Vehicle-miles per maintenance employee	≥80,000	85,631	91,233
Vehicle-hours per operator	≥1700	1757	1669
Vehicle-miles per vehicle	≥28,000	31,512	26,008
Expense per vehicle-mile	≤$2.75	$2.43	$2.75
Expense per vehicle-hour	≤$40.01	$34.57	$36.92
vehicle-miles between road calls	≥3500	5596	5024
Collision accidents per 100,000 vehicle-miles	≤3.0	0.84	2.42
Percent on-time performance[a]			
peak periods	≥90%	93.3%	NA
non-peak	≥95%	100.0%	NA
Percent transfers	≤10%	6.5%	6.27
Passenger trips per vehicle-hour	≥28	27.5	23.2
Net cost per passenger	≤$0.90	$0.77	$0.75
Operating ratio (revenue/expense)	≥35%	43%	51%

[a] Percentage of trips departing from a bus stop within 5 minutes of scheduled time

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V. MONITORING SYSTEMS AND PRODUCTIVITY IMPROVEMENT

Many local government programs maintain monitoring systems for reporting to state and federal agencies but fail to translate the information provided into decisions and actions aimed at improving productivity. Results-oriented management requires tying monitoring efforts into other management strategies and systems, and the most direct means of accomplishing this is through the establishment of objectives which serve as standards against which productivity indicators can be evaluated.

In setting challenging yet realistic standards, transit agencies can analyze their own past trends in the context of key environmental constraints to gauge what fair expectations might be. For example, changes in the price of fuel will influence the cost per vehicle-mile, and current and anticipated employment patterns in the service area might temper expectations concerning the number of passenger trips per vehicle-hour. As suggested by the example involving WBT's performance standards, peer group comparisons with other transit agencies might also provide a frame of reference for developing reasonable objectives. In addition, technical analysis and prevailing industrial engineering standards may be helpful in setting objectives on such dimensions of productivity as on-time performance or the number of service interruptions per 100,000 vehicle-miles operated.

While MBO systems are now prevalent at all levels of government, one issue that frequently arises is that managers are justifiably reluctant to be held accountable for outcomes which they cannot control. Thus, for instance, operations managers are frequently concerned that on-time performance may be hindered by traffic congestion over which they have no control, and maintenance managers understandably resist being held responsible for the serviceability of equipment made with faulty components. At higher levels, transit managers may readily agree to be evaluated in terms of the quality of service they provide but not in terms of revenue generation, since so many factors beyond their control influence ridership.

However, such criteria clearly should not be omitted from managerial objective setting and performance monitoring systems because they in fact define what overall productivity is all about; to exclude such factors from consideration would be to deny management responsibility for performance. Rather, as pointed out elsewhere (Grizzle, 1982), the notion of shared responsibility should be the governing principle here. Thus, managers need to take the relevant external factors into account in setting specific objectives and assume joint responsibility with subordinates for the reasonableness of these expectations. Furthermore, evaluations of individual's performances in light of agency objectives should always be tempered by consideration of the factors beyond their control that might have influenced the results.

A. Programmatic and Measurement Changes

When productivity is found to be declining over time, or to be consistently below agency standards or "industry" averages, this should prompt investigation of the problem and analysis of whether programmatic changes are in order, at either the strategic or operations level. In the field of transit, such solutions play out through changes in management policies, marketing strategies, maintenance practices, or the service plan of routes and schedules. For example, PENTRAN's continued loss of ridership over a 3-year period led to the development of a new service plan which reconfigured some routes, eliminated unproductive runs on other routes, and provided for a 20% net increase in overall service aimed at reversing this negative ridership trend.

154

Problems that surface through ongoing monitoring can also lead to the initiation of incentive systems designed to improve productivity. WBT, for example, found it was consistently well below standard on employee attendance, with frequent "missouts" and sick leave abuse driving up overtime costs to unreasonable levels. Management's response was to institute a quarterly incentive program in which drivers and mechanics with a perfect attendance record for the 3 months are given a $50 U.S. savings bond as a bonus. These attendance records are also factored into decisions about a series of annual awards for drivers and mechanics that also carry monetary rewards. The result of incentives has been a dramatic reduction in "missouts" and overtime charges and marked improvement in overall employee attendance.

Finally, an unexpected or seemingly unreasonable results can sometimes signal a measurement problem with the monitoring system itself. Obtaining reliable data on ridership, for example, which is so critical to monitoring transit productivity, can be particularly difficult for multimodal systems. This is especially true when service quality is enhanced by barrier-free transfers that leave no "paper trail" and when weekly or monthly passes are used repeatedly in multisegment passenger trips, making it difficult to distinguish between originating trips and mid-trip transfers. On such systems, MARTA, for example, registered bus boardings and faregate entries on the rail system may bear little resemblance to the overall number of passenger trips. Indeed, after its statistical summaries continued over several months to produce ridership figures that seemed anomalous, contained inexplicable fluctuations over time, and did not correlate well with other system parameters, MARTA determined that its revenue-derived passenger data were unreliable. Rather than modify system objectives or make operational changes based on faulty data, MARTA decided to improve its own measurement system. The result was a complex passenger estimation model that utilizes a combination of electronic data, traffic checker counts, and parameters drawn from sample surveys to develop reliable estimates of monthly passenger trips and transfer patterns by mode and fare payment category.

V. CONCLUSIONS

In summary, the regular monitoring of program performance is an indispensable element of strategic management which is concerned with productivity improvement at the operating level as well as enhancing overall effectiveness. Performance monitoring is very prevalent among urban mass transit systems, which readily lend themselves to illustrate the issues surrounding the design and utilization of monitoring systems. However, as is the case in many other program areas, transit agencies often fail to take full advantage of their monitoring systems to increase cost-effectiveness and improve productivity, largely because these systems have been implemented to fulfill reporting requirements but not designed to serve local managerial needs. While a handful of key indicators may suffice simply to track the status of system performance, for example, a balanced, more encompassing set of indicators may be better suited to assist in policy and managerial decision making.

Using urban transit systems as examples, this chapter has reviewed several issues concerning the selection of indicators to be included in monitoring systems and the kinds of comparisons that will facilitate effective utilization of this information in improving productivity. Taking full advantage of the potential of performance monitoring, however, requires designing and utilizing monitoring systems with direct linkages to other management strategies and systems regarding budgeting, personnel, and overall direction and control, which increasingly are found in the public manager's tool kit. The key to

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successful productivity monitoring is the use of systems frameworks, not only for delineating the underlying logic and performance indicators of the target programs, but more importantly to assure a logic in the design of the monitoring system itself which will translate the results of measurement and analysis into decisions that will lead to productivity improvement.

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Appendix C
Budget Document Score Card

"Budget Document Score Card." (Appendix C) from The Best of Governmental Budgeting A Guide to Preparing Budget Documents by Dennis Strachota. GFOA 1994. © GFOA 1996. Reprinted with permission

Choose the appropriate response for each question, add up the corresponding points, and check them against the scores at the end of this score card.

As a Policy Document

1. Which of the following are included in your budget?
   ____ Department or program objectives for the budget year or biennium *(3 points)*
   ____ Organizationwide goals that span more than one budget *(6 points)*
   ____ both of the above *(9 points)*

2. What is included in the budget message?
   ____ summary of major revenue and spending proposals *(3 points)*
   ____ recommendations to address major issues and problems confronting your government *(6 points)*
   ____ themes that link policy issues with budget proposals *(9 points)*
   ____ all of the above *(12 points)*

3. What fiscal policies are included in your document?
   ____ financial policies that span more than one budget (e.g., debt policies) *(3 points)*
   ____ fiscal guidelines pertaining to the current budget (e.g., limiting spending increases to 2 percent) *(6 points)*
   ____ both of the above *(9 points)*

As a Financial Plan

4. What debt information is included in the budget?
   ____ estimate of current outstanding debt *(3 points)*
   ____ analysis of current debt capacity and its implications for the budget *(6 points)*
   ____ both of the above *(9 points)*

5. Which of the following financial summaries are included in your budget?
   ____ consolidated summary of revenues and expenditures for all budgeted funds *(3 points)*
   ____ summary of expenditures by department or program

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within fund type *(6 points)*

____ both of the above *(9 points)*

6. What type of revenue analysis is included in the document?

____ description of major revenue sources *(3 points)*

____ discussion of significant revenue trends and underlying assumptions for revenue estimates *(6 points)*

____ both of the above *(9 points)*

7. How detailed is the spending information presented for individual departments or programs?

____ more than five line items or objects of expenditure *(1 point)*

____ less than five line items or objects of expenditure *(3 points)*

____ expenditures by activity only *(6 points)*

8. What information does your operating budget include on major capital projects?

____ list of major capital projects and their costs for the budget year or biennium *(3 points)*

____ estimated impact of capital projects on current and future operating budgets *(6 points)*

____ both of the above *(9 points)*

9. How many years of data are included in the financial summaries or departmental and program schedules?

____ one year *(1 point)*

____ two years *(3 points)*

____ three years *(6 points)*

As an Operations Guide

10. How much information on department and program responsibilities is provided?

____ mission statement or statement of purpose for each department of program *(1 point)*

____ mission statement or statement of purpose for each major activity within a department or program *(3 points)*

11. What measures of performance are provided for departments or programs?

____ discussion of prior budget results and accomplishments *(3 points)*

____ one or two years of quantitative or qualitative performance data *(9 points)*

____ three years of quantitative or qualitative performance data *(12 points)*

158

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12. What information is included in your budget on personnel or staffing levels?
    ____ number of full-time equivalent positions by department or program *(1 point)*
    ____ number and type of full-time equivalent positions by department or program *(3 points)*
    ____ number and type of full-time equivalent positions for each of three years *(6 points)*

13. What is included in the organizational chart?
    ____ departments *(1 point)*
    ____ departments and activities *(3 points)*
    ____ departments, activities, and position counts *(6 points)*

As a Communications Device

14. Which of the following reader aids are included in your budget?
    ____ table of contents *(1 point)*
    ____ table of contents and glossary *(3 points)*
    ____ table of contents and glossary, and index *(6 points)*

15. What type of information is provided on the budget process?
    ____ description of budget phases and timetable *(1 point)*
    ____ description of budget phases, timetable, and roles of key participants *(3 points)*
    ____ description of budget phases, timetable, roles, of key participants, and related financial planning systems (e.g., capital improvement planning) *(6 points)*

16. What type of visuals are included in your budget?
    ____ graphs (e.g., line graphs, bar charts, pie charts) *(1 point)*
    ____ graphs and maps *(3 points)*
    ____ graphs, maps, and photographs *(6 points)*

17. Where are graphs placed within the document?
    ____ grouped together *(1 point)*
    ____ interspersed throughout the budget *(3 points)*

18. What information is provided on the community of population served by your jurisdiction?
    ____ economic, demographic or social statistics *(1 point)*
    ____ economic, demographic or social statistics by geographic area or population sector *(3 points)*

19. What is included on the budget cover?
    ____ title only *(1 point)*
    ____ title and artwork (e.g., design or photos) *(3 points)*

____ title and artwork in more than one color *(6 points)*

20. How is your budget summarized?
    ____ summary within the budget document *(1 point)*
    ____ a separate budget-in-brief or summary budget *(6 points)*

Document Scores (Maximum Score: 141 points)

37 to 67	*Requires a Major Overhaul*
68 to 98	*Some Sections May Need Major Revisions*
98 to 128	*Could Use Some Fine-tuning*
+ 129	*Looks Like a Budget Award Winner*

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EFFECTIVE BUDGETARY PRESENTATIONS:

The Cutting Edge

COMPILED BY
GIRARD MILLER

Hehan, A Edward 1982 Budgets as Literature " in Effective Budgetary Presentations The Cutting Edge Edited by Girard Miller Municipal Finance Officers Association

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MUNICIPAL FINANCE OFFICERS ASSOCIATION

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BUDGETS AS LITERATURE

'In every work
egard the writer's end,
Since none can compass
more than they intend'

'A perfect judge
will read each work of wit
With the same spirit
that its author writ'

In common English, "literature" includes everything written. Literary critics, however, set aside this broad definition in favor of a more limited idea. They limit their definition to those compositions that tell stories or please readers with imaginative word use.

This narrower concept effectively removes factual compositions from the realm of critical appraisal. On this ground, many will argue that budgets' pre-eminently factual content exempts budgets from the reach of literary critics. Of course, if we admit that budgets have no standing as works of imaginative literature, our inquiry into the merits of these documents is over before it starts. We reject this argument, offering the samples assembled in this book as evidence for our stand.

Budgets as Works of Imagination. If you have not yet leafed through this book, kindly do so now. What do these exhibits—drawn from scores of budgets—tell us? First, we find it hard to generalize about these samples because their form and expression vary widely. We do find some standard features, however, such as the use of major object expenditure classifications. But the uniformities are trifling compared to the differences. Indeed, the eye is struck by the extent of variation: the variegated forms; the variances in layout, type fonts and sizes, the dissimilarities of document organization; the differences in narrative displays; data arrays; etc. Inventive minds clearly are at work here.

These variances prove that each document designer sought certain effects, consciously or unconsciously. What moved the designers to choose as they did? Some speculation is in order. Consider the six sample tables of contents displayed. What inspired the designer of the Phoenix, Arizona operating budget to index the entries of the table of contents? What aesthetic influences caused the Cypress, California designer to employ large type, arresting section headlines and a balanced layout for the table of contents? Also, consider this: All six designers used a dotted line connecting entries to page numbers for quick and easy reading. We wonder why these designers did not flush these entries against the page numbers to accomplish the same purpose. Further, why did the designer of the Henrico, Virginia table of contents list eight entries to the inch, compressing the text? Was it a strong desire to confine the table to a single page?

From our viewpoint, these speculations are not trivial. Indeed, they throw a bright light on our thesis that budgets are not strictly factual communications; rather, they are fascinating, mysterious products of literary imagination and so are fit subjects for critical appraisal.

Reflections on the State of the Art. Budget documents were once primarily accounting statements, page after page of figures intelligible only to persons preparing them. Judging by the samples in this book, interpretive displays now are relatively common. This judgment, however, is tempered by the existence of many sample pages wholly devoted to numbers.

While we can only speculate about document designers' motivations and aesthetic values, it seems fair to say that the samples indicate: 1) a commitment to interpretation; and 2) a desire to place interpretive material on the same page as the related expenditure display. In many cases, this latter impulse leads to crowded pages. Many designers respond to the problem of integrating numerical and narrative displays by zoning space—that is, preprinting boxes, titles, messages and columns. This standardized approach to the space assignment problem often leaves either too much or too little room for interpretive material, which varies in

(This essay on the prospects for a literary theory of budget documentation incorporates, where appropriate, selections from *An Essay On Criticism* by Alexander Pope, 1711.)

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content and length. The space assignment problem can be solved in aesthetically pleasing ways, however, as shown especially in the samples from St. Paul, Minnesota, Asheville, North Carolina, Phoenix, Arizona and Mississauga, Ontario. To their credit, the designers of the latter three samples also incorporated graphic displays.

In general, designers who give visual prominence to expenditure displays—assigning them zones that cross entire pages—seem to have the greatest difficulties presenting interpretive, eye-catching material. Evidently, success in emphasizing interpretive elements depends on assigning expenditure data to side zones.

Note also that crowded pages—regardless of intention—give the reader a sense of randomness or intellectual promiscuity. This effect tends to corrode budget credibility by undermining its claim to relevance. Budget designers must always be conscious of the pernicious effects of information overloads. Selectivity and flexibility are the watchwords. Attracting and holding reader attention demands judicious space use. Isolating and addressing key issues requires careful selection of interpretive material. For the same reasons, excessive reliance on fixed space assignments—and extensive page coverage with preprinted forms—are vices to avoid. These practices reduce the flexibility to address key issues in an interesting manner.

'But true expression, like the unchanging sun, Clears and improves what'er it shines upon'

In examining these sample budgets, a live-wire critic could not refrain from comment on the extremely low use of programmatic expenditure classifications. Having just made the point that flexibility and selectivity are master concepts of document design, what are we to make of this reliance on major object classifications? With rigid commodity-oriented classifications occupying valuable space in the expenditure displays, budget designers lose the opportunity to use programmatic or performance cost centers to concentrate attention on key issues.

In this connection, we must remember that the unique presentation requirements of each budget probably change yearly. Although cost center standardization for comparability certainly is important, it cannot be an overriding consideration. It is much more important to center attention on significant problems. In some years, this may mean a more (or less) extensive breakdown of expenditure titles, depending on the abstraction level needed to do justice to the issues.

Abstraction levels are to a budgetmaker what tools are to an artisan. In selecting expenditure titles and in composing interpretive material, the budgetmaker sharpens the focus of his art. There is no space for extensive detail, yet generalities are unacceptable. From a critical viewpoint, the quality of budget documentation hinges on topic selection and emphasis. Budgetmakers take on moral responsibility (often unrecognized) for defining reality for other people—a task that makes a budgetmaker a metaphysician, of sorts.

Neglect Without Cause. Regrettably, budget documents do not get the critical attention they deserve. Triviality is not the cause of this neglect, because budget documents are extremely important from a socioeconomic viewpoint. In aggregate, budgets reflect huge sums. Annually, much of the nation's wealth passes an appropriations test before expenditure. Yet, budget documents—important governmental papers—rarely are reviewed for communicative and aesthetic merit. Are there intrinsic reasons why critics do not appraise budgets for their information content, coherence, readability, appealing formats and adherence to scholarly cannons of language, reference and accuracy?

This neglect is even more puzzling after examining an example of a competent review, like "A Review of the County Manager's 1979 Budget Message, Monroe County, New York"

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(page xii). The review proves a clever critic can have great sport with budget documentation by applying literary and scholarly criteria. Although a lighthearted spoof of a particular budget message, Stuart A Dunham's critique certainly applies to budget documents in general. His review deals with common deficiencies, such as excessive reliance on bureaucratic jargon, a preference for abstract language and platitudes and a tendency to personalize programs and organizational units. Imagine how such criticism might affect budget designs. Critics might be able to accomplish what a budgetmakers' legion has not—budget process reform.

'The generous critic fanned the poet's fire, And taught the world with reason to admire'

Critical Duties and Opportunities. Prospective critics of budgetary literature have the following duties in common with critics in general:

First, they must assess quality, judiciously applying standards. Given the state of the art exemplified in this book, developing valid judgment criteria is not simple. As budgeting students tirelessly point out, the *means* somehow affect the *ends* of budgeting, i.e., who gets what. It is fair to assume, then, that in every jurisdiction, serious procedural and allocation issues lurk below the innocent-looking surface of budget aesthetics.

Critics of budgetary literature must take a strong stand on the most important aspect of budget documentation, the quality of expenditure interpretation. In practice, this means budget documents must include tightly coordinated displays of expenditures, revenues, related work loads, goal expectations and ascribed benefits—all in aesthetically pleasing presentations. The sample expenditure displays in this book are not tightly linked to performance data or goal statements. Even in the Visalia, California budget for aquatics and youth sports (page 115), which has an excellent array of goal statements (measureable and time-bound), expenditures are not allotted to these goals. By and large, the designers of the budgets here place no reliance on unit costs, neglecting this method of expenditure/performance data linkage. Only one budget, St. Paul's for Como Zoo (page 103), provided unit cost experience. Further, statements of public benefit are conspicuously absent from all samples.

'Tis hard to say, if greater want of skill Appear in writing or in judging ill'

These examples highlight the magnitude of the assessment task facing prospective critics of budgetary literature. But, as the challenge is great, so are potential effects. If interpretive standards can be developed and applied by vigorous critics, one can confidently expect significant changes in the substance and form of budgeting in many jurisdictions.

In addition to assessing quality, budget critics must communicate their judgments so they help budgetmakers and budget users recognize, appreciate and enjoy quality work. Cybernetic? Synergistic? Call its effects what you will. Vigorous criticism, elegantly expressed, enhances the appreciation of critic and those subject to criticism.

Media Needed. Given the current institutional void, prospective critics of budgetary literature are hard-pressed to find suitable media for their criticism. Few have the enviable position of Dunham, who was editorial chairman of the area's leading newspapers at the time he reviewed the Monroe County budget. Professional journals will undoubtedly welcome critical general reviews, but they cannot be expected to publish particular expositions. Since this important work cannot be left to chance, institutional vehicles are needed. After years of experimentation with the concept of budgetary criticism, I concluded that we need assessments of the budget function similar in many respects to financial audits.

Subjective, aesthetic elements make these prospective budget assessments intrinsically

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164

more difficult than financial audits, requiring a different kind of mind. I am convinced, however, that sufficient talent can be attracted to the challenging tasks of budgetary criticism. Expanding on the experience of the Municipal Finance Officers Association, I recommend a Certificate of Budget Assessment of equal caliber to the MFOA Certificate of Conformance in Financial Reporting. Budget assessment reports can certainly be stylized enough to allow systematic review. Establishing a Certificate of Budget Assessment could help to structure the field without stifling creativity.

Edward A. Lehan
January 1982

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A REVIEW OF THE COUNTY MANAGER'S 1979 BUDGET MESSAGE, MONROE COUNTY, NEW YORK

Critic Cheers Morin Manuscript

Reprinted from The Times Union (Rochester, New York) Viewpoints column by Stuart A. Dunham, October 21, 1978

Book Review "Monroe County Manager's Budget Message to the County Legislature" by Lucien A. Morin, limited edition paperback

The body of the literary remains [illegible] Rochester can overlook the collected works of Lucien Morin

Although commended the county manager has moved beyond his Oral Period with its soft shifts of metaphor so remarkable of Pound and Stevens

Let us examine his budget report to the County Legislature

It is helpful to remember that Morin's first name is a Gallic version of the name of Lucian, the Greek pamphleteer of the 2d Century A.D. and subject of Croiset's admirable study, Essai sur Lucien et les genres de Lucien, a title popular with American readers because it has no acute accents

In his satiric works, the original Lucian often played on the discrepancy between literal statement and the actual meaning

This device is used effectively in the budget message when Morin twice refers to the County Legislature as "Your Honorable Body" capital letters and all. The original Lucian would have been proud of the irony

Morin's style is derivative, a ray of eclectic light. He is no tenderfoot in the use of allegory, for instance, but is instead a rather well developed Bunyan

But note how he reverses the usual allegoric device of portraying ideas as people

The usual allegoric method is to convert characteristics into people named Mercy, Purity, Ignorance, etc.

In a clever switch, Morin converts people and objects into Priorities, Human Services, Capital Projects and Governmental Units

There is a metaphysical quality here that goes back to Immanuel Kant, although it is well to remember that the German thinker somebmes changed his concepts to suit his audience. For careful analysis, you have to distinguish between the Kant of Konigsberg and the Kant of Worms

And what a brooding sense of man's infallibility in Morin's message!

Dostoyevsky would envy Morin's evocation of crime and punishment, his almost lyrical feeling for such phrases as "the functional area of public safety services," "court mandate for female prisoners," "career criminal bureau," "office of criminal justice planning," and (echoes of Flaubert's *mot juste*) "incarceration of both men and women offenders."

It should come as no surprise that Morin has steeped himself in Toynbee's challenge and response concept

At one point he writes: "The Administration recognizes that taxpayers can no longer bear the heavy burden of increased taxes."

And then later he swings the timeless pendulum: "The Treasury Department in 1979 will continue its efforts of collecting current and delinquent taxes at 97 percent of the total."

Scholars will immediately recognize this as classic bifurcation. (Until now, bifurcating was not encouraged around the county office building except for a small designated area of the county clerk's office.)

And Blake himself would have stood in awe before the rich allusiveness of "integrated automated accounting and financial system."

With Eliot, Morin resists the 17th Century coarsening of speech. Garbage grinding becomes Resource Recovery and treated sewage becomes Pure Waters

Note the hints of Logical Positivism in Morin's concept of "services package" and an "activities based budget," and the Jungian archetype in his promise of "optimize the life use of all process equipment."

But the important discovery is that Morin has been profoundly influenced by Chinese poetry

Just rearrange one of those sentences and the secret is out

The Administration
recognizes
that
taxpayers
can no longer
bear
the heavy burden
of increased
taxes

It is all there. The sense of regret over the irretrievable passing of time and its modern equivalent, taxes. The image of recognition. The verse of Zen Buddhism (or, in contemporary terms, Zen Buddhermanism of the OTB era)

Yes, Morin's work most closely parallels that of Tu Fu, poet of the Tang Dynasty. Can we be on the threshold of an era of Lu Mo of the Henrietta Dynasty?

Dunham is editorial chairman of the Gannett Rochester Newspapers

Reprinted from Lehan, Edward A., *Simplified Governmental Budgeting* (Chicago, IL: Municipal Finance Officers Association, 1981) page 34

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UNIT 5

Budget Formulation

FORMAT SPECIFICATIONS

Issue-Paper Structure

As pointed out in Unit 4, budgets presumably have production functions, which are described by the equation, $y = f(x)$. Given this, it can be seen that budgets should be formulated in ways which illuminate the variables embraced by the equation. What goods are to be produced, and why? Who needs them, and for how long? Are production techniques justified? Are options available? Such questions must govern the formulation of budgets, and therefore, they dictate the format for budget requests.

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Accordingly, a proper budget request should incorporate a multiyear perspective and a five-part commentary which covers the following topics:

- problem definition and goal(s)
- target population
- performance criteria
- preferred solution: impacts and benefits
- rejected alternative

This format is designed to provoke broad thinking. It requires budgetmakers to organize information and to describe the leading ideas

Lehan, A. Edward. 1984. "Budget Formulation." Chapter 5. Budgetmaking: A Workbook of Public Budgeting Theory and Practice. New York: St. Martin's Press.
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166

supporting a proposal to spend public funds. A budget proposal prepared in this format is called a *program memorandum* or an *issue paper.*

Now study Exhibit 13, a sample program memo dealing with a proposed budget for health services delivered in homes rather than institutions. Note that the structure of the memo follows the specifications outlined previously. These specifications help budgetmakers to apply logic and mathematical techniques to the facts of particular cases, thus fostering the diagnosis and analysis of (1) problems and/or issues, (2) controlling variables which must be changed to "solve" or "resolve" issues, (3) attainable goals, (4) target population characteristics, and (5) the criteria taken into consideration in making budgetary decisions.

The structure of an issue paper imposes a logical framework on the development of proposals to allocate public funds. A preferred solution, for example, must be logically related to a previously stipulated problem and defined in terms of the controlling variables. It must also be related to the stated characteristics of the target population and to the criteria advanced to justify the selected production technique. Because the parts of an issue paper are so interrelated, its composition is governed by rather strict logic. Inconsistency, non sequiturs, and other lapses of logic almost always indicate diagnostic or analytical weaknesses, or both.

Instructions

This unit is organized around an exercise on animal control in the fictional city of Centerville. The facts of the case are presented first, followed by a set of budget formulation guidelines.

Study the animal-control exercise, and then consult the guidelines for assistance in thinking through the problem. Note that the guidelines supply helpful hints concerning the exercise. In addition, they provide examples of how to apply issue-paper thinking to other problems—in this instance, nutrition for the elderly. For guidance on the layout of your issue paper, refer to Exhibit 13.

ANIMAL CONTROL IN CENTERVILLE: AN EXERCISE IN BUDGET FORMULATION

The Setting

The city of Centerville, population 54,600 and growing, relies on the privately owned ABC Kennels for the impoundment of stray animals. This shelter is located in south Centerville, 10 miles from the population center of the city, where the animal warden and a

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EXHIBIT 13. A Sample Program Memo

PROGRAM MEMO

To: Chief Executive

From: Director of Health

Subject: Home Care

Date: 00/00/00

Expenditures	*Budget Year 1*	*Budget Year 2*	*Budget Year 3*	*Budget Year 4*	*Budget Year 5*
Home care	$70,000	$75,000	$80,000	$85,000	$90,000

Financing Plan	*Budget Year 1*	*Budget Year 2*	*Budget Year 3*	*Budget Year 4*	*Budget Year 5*
Private grant	$ 7,000	$ 7,500	$ 7,200	$ 6,600	$ 6,000
Service charges	61,600	67,200	72,800	78,400	84,000
Property taxes	1,400	300			
	$70,000	$75,000	$80,000	$85,000	$90,000

PROBLEM DEFINITION AND GOAL. As originally specified in our "issue paper" last year, the steadily rising cost of institutional care for stroke and fracture victims, and the ensuing financial drain on victim, family, and, in welfare cases, society, were defined as a problem requiring public action. Started last year as an efficient, less costly alternative to institutionalized care, a home care team, on contract from the ABC Rehabilitation Center, can be expected to deliver coordinated therapeutic services to an estimated 220 persons in the next fiscal year, up 20 from the current-year estimate of 200. A 5-year forecast follows:

Performance Data	*Cases*	*Unit Cost*
Current year	200	$325
Budget year 1	220	318
Budget year 2	240	313
Budget year 3	260	308
Budget year 4	280	304
Budget year 5	300	300

As you will recall, this service got started with a pledge from the XYZ Foundation to support the service to at least the 10 percent level. As noted in the multiyear plan, an expected increase in case load reduces unit costs to a point where the foundation grant decreases to 6.7 percent, and the taxpayer subsidy disappears. As the break-even point for full self-financing is 500 cases, elimination of Foundation support will

*From Edward A. Lenan, *Simplified Governmental Budgeting* (Chicago: Municipal Finance Officers Association, 1981), pp. 40–41. Reprinted with permission.

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EXHIBIT 13 (cont.)

Home Care Program Memo
Page 2

not occur in the coming 5-year period, unless service charges are increased beyond the $280 average for each case. This alternative will be discussed in the last part of this memo.

TARGET POPULATION. Stroke and fracture victims predominate among the referrals from doctors and area hospitals. We also provide service to chronically ill persons with the object of either making them comfortable, or reducing their dependency. With stroke and fracture victims, our physical and speech therapists aim at self-care, and beyond that, economic productivity. Our estimates of case-load growth are based on (1) increased awareness of our service, (2) projections of higher incidence of strokes, and (3) the drive of hospitals to reduce the length of stays.

PERFORMANCE CRITERIA. Cost avoidance is the primary measure of success. As noted below, in the cross-classification of home care costs and benefits, the net benefits are calculated at $184,000 in the coming year, a 263% return on our investment. In addition, note that a small portion of this gain is expected to derive from an earlier return of patients to economic productivity, a secondary measure of program success.

PREFERRED SOLUTION: IMPACTS AND BENEFITS. The concept of this program, delivery of therapeutic services in the home, will require an investment of $70,000 next year. The following exhibit cross-classifies this investment and its ascribed benefits by three impact categories:

	IMPACTS		
	Reducing Personal Dependency	*Reducing Economic Dependency*	*General Welfare*
COSTS			
Number of cases	70	60	90
Case cost	$20,950	$28,800	$20,250
BENEFITS			
Unneeded institutional care	$60,000	$50,000	$90,000
Unneeded nursing care	24,000		
Patient productivity		30,000	
	$84,000	$80,000	$90,000

Each of the 220 cases expected next year has been classified according to its potential. In 70 cases, costing $20,950, the therapeutic effort is aimed at improving the patient's capability for self-care, eliminating an estimated 600 days of institutionalized care @ $100, or $60,000, and 600 days of home nursing care @ $40, or $24,000. Benefits will exceed costs by $63,000.

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BUDGET FORMULATION GUIDELINES*

Diagnostic Focus

The guidelines which follow divide the budget formulation task into two phases: (1) diagnosis and (2) analysis of alternatives. Generally, the time devoted to the diagnostic phase far exceeds the time required for the weighing of alternatives. Some experienced budgetmakers report that the ratio of diagnostic to analytical time should be about four to one, indicating the critical importance of a correct assessment of the problem to be addressed by the allocation of public funds.

DIAGNOSIS: THE PRELIMINARY WORK

Loosen Up Your Thinking

Begin by employing broad survey techniques. Review pertinent data in files and documents, and search the formal literature. Where appropriate, conduct field inspections. Finally, consult with people who can offer insight and advice.

These steps will help you define the scope of the problem, the relative significance of the data at hand, and the data which must be assembled. In addition, the steps will also assist you in mastering the special nomenclature of the science or techniques involved in the program situation.

Conventional Problem Statements May Mislead

Remember, experienced analysts agree that conventional or obvious statements about public problems should be regarded with suspicion, lest administrators and policymakers be led to dwell on symptoms, or worse, on erroneous questions.

Suppose the problem concerns the nutrition of the elderly portion of the population. In this case, do not take at face value any of the assumptions which might be put forward as problem definitions, such as the assumed impact of nutrition on health, the listing of personal limitations or barriers preventing the elderly from enjoying good diets, and the presumed failure of institutions to meet the needs of the elderly.

In the animal-control case, the warden tends to define the problem in rather logistical terms: efficient impoundment is the problem,

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*These guidelines incorporate material appearing in Edward A. Lehan, *Simplified Governmental Budgeting* (Chicago: Municipal Finance Officers Association, 1981), pp. 40–45. Reprinted with permission.

170

and a new, better-located pound is the solution. The Centerville Humane Association supports this definition on compassionate grounds. Both the warden and the association resist a broader definition dealing with the causes of the animal-control problem.

Action Research

The diagnosis is to be oriented toward action, or performance, not knowledge for its own sake. As decision-related research, the problem definition must be sufficiently broad to identify the controlling variables, establish objectives, and specify performance criteria. Referring again to the nutrition of the elderly, for example, the isolation of the elderly may be identified as the critical element in the situation—that is, the factor which, if altered, would decisively affect nutritional status of the elderly. The identification of isolation as a controlling variable would have important implications, because the choice of goals, the selection of the target population, and the performance criteria would then logically relate to it.

In the animal-control case, the warden identifies official and citizen logistics as the controlling variable and suggests that a budget attacking this variable will produce a better impoundment situation. In focusing on official and citizen travel problems and costs, the warden foregoes an attack on another possible controlling variable, animal-owner motivation. If owner motivation can be positively influenced, the animal-nuisance situation could be altered at its roots, reducing impoundments—and the need for a new pound—in the bargain. Thus, due to its impact on behavior, licensing also merits consideration as a controlling variable.

The Achilles' Heel of Policy

Study the demographic and logistical characteristics of the situation. *Who, what, when, where,* and *how* questions deeply intrude into all aspects of public programming. (Remember: implementation is the Achilles' heel of policy!) Regarding the nutrition of the elderly, techniques of statistical inference might be used to gain an understanding of how geographical and population characteristics, such as poverty and density, interact. If, for example, the distributions of elderly poverty and elderly density are not congruent, what are the implications for service delivery?

In the animal-control case, nuisances and the resulting complaints may not be randomly distributed. Instead, the situation may involve many chronic offenders and equally chronic complainers.

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CONCLUDING THE DIAGNOSTIC PHASE

Before the analysis of alternatives is begun, the results of the diagnostic phase must be put in writing.

Problem Definition and Goal

First, compose a problem definition and a resulting goal statement. As a rule, avoid completely verbal goal statements, such as, "Improve the nutrition of the elderly." Try instead to frame a goal statement in numerical terms, such as "Reduce the number of elderly citizens with anemia from _____ to _____ in _____ months."

In the animal-control case, if licensing is chosen as the critical factor, one could frame the following goal statement: "Increase the number of licensed animals from an estimated 1,650 in the current year to 1,750 next year." This goal could also be stated in terms of proportions: "Increase the percentage of licensed animals from an estimated 50 percent in the current year to 53 percent next year."

In addition, setting goals in a numerical way tends to ensure that chosen goals are practical and measurable. A goal, to be practical, must be attainable in a specific time. Remember, success in implementation is directly related to choosing goals which are practical—that is, attainable. Furthermore, it is easier to set milestones or performance checkpoints, which are an essential part of a work plan, if the chosen goal is measurable.

Target Population

Next, describe the target population. Every public program has a clientele, willing or not. An accurate description of the target population lends precision to the goal statement and makes it possible for an analysis of impacts and benefits to begin. Target groups comprise those individuals, organized or not, perhaps even unborn, who are to be affected by the expenditures outlined in the multiyear financial projection.

Who comprises the target population of Centerville's animal-control program? Those owning animals? Those owners permitting animal nuisances? Or those nonowners who benefit from the regulatory and service procedures?

Because the description of impacts and benefits depends on a good description of program clientele, one should be as accurate as possible in identifying the target population. Of course, more precision than the situation allows is not expected. For example, a public-works director, charged with keeping the public way passable and safe, will not find it easy to accurately specify the number or charac-

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teristics of persons benefiting from expenditures for street maintenance, lighting, snow removal, and so on. Often, approximations must suffice. A public-works director can develop data which can stand as a substitute for direct data on the target population. Information on traffic and its volume, speed, and direction might substitute very nicely for people, particularly if such data are classified by type of street (e.g., local, connector, arterial) and are linked to accident and street-crime information.

Performance Criteria

Once you have produced a tentative goal statement and described the potential target population, outline the performance criteria. Performance criteria include the leading ideas, the causal relationships, the assumptions, and the standards which influence the size, shape, and direction of a proposed program. Minimum daily nutritional requirements for the elderly is an example of a standard which, if applied, would have an important impact on program design. Protecting the privacy and enhancing the independence of the target population might also be considered in testing alternative ways of improving elderly nutrition.

Similarly, the impoundment standards of the Centerville Humane Association will probably play an important role in the animal-control case, if the jurisdiction adopts a budget for a new pound.

Causal relationships, or correlations, are particularly important. For example, in the case of elderly nutrition, it might be hypothesized that health (defined in terms of longer life and reduced institutionalization) is partially dependent on nutrition, thus making nutrition a controlling variable which can be manipulated in desirable ways by various strategies. Remember, correlations, or causal relationships, provide the firmest foundations for program planning and implementation.

In the animal-control case, one might study the correlation between licensing and animal-owner responsibility. If most nuisances are caused by nonlicensed animals, a direct attack on delinquent owners through a census, steep fines, and so on, might be a worthy alternative to constructing a shelter or increasing staff hours to cope with increasing complaints.

ANALYTICAL PHASE: THE STUDY OF ALTERNATIVES

Determining program approaches which give some promise of achieving the goals, with minimum side effects, is the next task. Proper comparison of the impacts and benefits of the respective alternatives

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should yield a preferred course of action. This preferred alternative should produce the highest net return to society. Moreover, the benefit ascribed to the preferred alternative should equal or exceed its estimated cost.

In addition to recommending "no action at all," the range of alternatives in the elderly-nutrition case might include common meals, home-delivered meals, homemaker services, supervised shopping, income supplements, and nutrition instruction. Note that each alternative chosen for analysis must be directly related to the problem definition and goals, target population, and performance criteria. Otherwise, the resulting issue paper will lack logical coherence. For example, if, in the problem definition, isolation is identified as a critical factor (or controlling variable) having powerful effects on nutrition, then the relative utility of socialization or housing programs aimed at the isolation of the elderly must be assessed, under the assumption that the reduction of isolation will also reduce malnutrition as a desirable by-product. On the other hand, given the problem definition, one would not put much analytical effort into the study of income supplements, as such payments would have little or no impact on isolation, the controlling variable.

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In the animal-control case, depending on one's choice of controlling variable(s), the alternatives might include increased staffing, construction of a new pound, a licensing drive, an animal census, an education campaign, a leash law, steep fines, higher service charges, and sterilization services.

Impacts and Benefits

One must exercise imagination and ingenuity in devising ways to compare the impacts and benefits of alternatives. In general, data on costs are much easier to assemble than data on benefits. Use the best sources available. Consult the literature for help in applying various analytical techniques, such as cost-effectiveness and benefit-cost, which might help in the comparison of alternatives.

Obviously, attempts to compare alternatives by means of analytical techniques require that any presumed linkages between the variables be specified. For example, in the elderly-nutrition problem, the presumed linkage between nutrition and health can be explored by assessing the relative efficiency of alternative program approaches, such as home-delivered meals and congregate living, in reducing the number of days lost to death and disability by the target population. By assigning a dollar value to each day of life and to the daily cost of institutional care, it is then possible to use benefit-cost comparisons to determine which alternative produces the highest net return.

Given the obvious difficulties of specifying the linkage of possible

program approaches to elderly nutrition and the impact of nutrition on health, many students of this problem recommend an action-research experiment in programming, rather than a definitive program recommendation. By this means, various alternatives can be tested with representative populations, measuring results of each against the performance of the total elderly population.

In the animal-control case, a benefits schedule might well include personal injury, property damage, public convenience, and cost avoidance. In searching for the benefits of the animal-control program, one should not overlook the considerable value of the impoundment procedure to those whose pets inadvertently stray away. After all, half of the animals impounded in Centerville are redeemed.

Remember, the means of implementation must be built up in the course of analysis. Alternatives which look good analytically may not look practical to implementers. Involving potential implementers in the analysis of alternatives is a good way to avoid wasting time and resources on the study of unrealistic approaches.

Multiyear Projections

A budget request should include a multiyear projection of program costs and a financing plan (i.e., taxes, grants, service charges, and so on). This helps reviewers and policymakers to get an idea of the future implications of adopting the alternative preferred by the budgetmaker. In addition, each year's financing plan should provide funds which equal or exceed the proposed expenditures.

Rejected Alternatives

A budget request should conclude with a concise commentary on the rejected alternatives. Such a commentary forces the author(s) of a proposal to maintain consistent criteria for the examination of all options. Furthermore, it provides reviewers and policymakers with a broad context, thus helping to inspire confidence in a proposal as a thoughtful response to a carefully considered problem.

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175