

PA 892 Public Budgeting

Spring 2012

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Class times: Thursday 10.00 am -11.55 am, Russell Lab 150
Office hours: Thursday 1-3pm, or by appointment

Course Objectives

Budgeting touches every aspect of the public sector, demanding that anyone concerned with policymaking or implementation understand how the process works. Budgeting shapes the macro economy; it reflects the political power of a variety of actors who engage in different strategies; it determines what programs get funded at what levels. This course provides a general understanding of budget preparation, adoption and execution; proposed reforms of the budget process; and competing theories of the politics of budgeting. Because other classes in La Follette deal with the taxation (especially PA 891 State and Local Government Finance), this class focuses more attention on the expenditure aspect of budgeting, although one class summarizes the principles of revenue raising.

This course aims to provide students with practical knowledge about how the budget process works, and covers both some of the technical aspects of budgeting and more general concepts and theories. To many students, the subject of budgeting appears both daunting and boring. It is, however, possible to engage in this topic. To do so requires two actions on your part: that you complete the readings, and that you are willing to engage in an informed and robust class discussion. To demonstrate the links between budgeting theories and skills, and the real world, the course will be structured around a series of case studies and practical exercises. These case studies will require you to analyze and offer an analysis of one practical aspect of the budgeting process and to submit this work to me for credit. Using the case studies we can engage in class discussion, placing what we are learning in a concrete context. A final role of the case studies is to facilitate your ability to effectively understand, analyze and concisely communicate information, a crucial skill in any professional setting.

Readings

The text for the course is as follows. It should be available at Underground Textbooks.
Lee, R.D., Johnson, R.W., Joyce, P.G. 2007. *Public Budgeting Systems 8th ed.* Sudbury Mass.: Jones and Bartlett Publishers.

Other readings listed on the syllabus, including case material, will be provided at Learn@UW.

Occasionally I will use online readings that will not be in the reader if they are excessively long, or if only require you to skim them. These readings are identified in the syllabus. I will

occasionally draw exercises and examples from a draft budgeting text by Bill Duncombe of Syracuse University and Jeffery Straussman of SUNY-Albany.

Course Requirements

Students will need to fulfill the following requirements:

1. Complete all reading assignments. Class sessions will not summarize the reading but rather will provide the larger systemic context, integrate the materials and explore the implications of the readings.
2. Participate in class discussion. This means actively engaging in discussions of the reading and the cases. While some classes will be primarily be about particular skills involved in budgeting, and therefore do not lend themselves to an interactive dialogue, the majority of the course focuses on issues that are amenable to good discussion. In particular, any class with a case study assigned will focus on student debate of the case. To participate, you will need to be in class, so please let me know in advance if you cannot attend. Frequent absences, late appearances, or other form of disruptions will negatively affect your participation.
3. You will be required to do one presentation throughout the course of the semester, either for your PART analysis or for your trend analysis. The assignment of these presentations will be made in class. Email me you powerpoint presentations ahead of time.
4. Complete written assignments on time. Case memos must be submitted by the **beginning** of the class on the day the case is assigned in the syllabus. Email me all written work. Late submission of grades will be penalized a letter grade for every day late.

Grading

The grading is as follows:

Reading a budget	5%
Theater Budget <i>or</i> Seven Letters Case	5%
The Daycare budget (joint analysis)	20%
Glenville cost analysis (joint analysis)	20%
The PART analysis (solo analysis)	15%
Trend analysis (joint/solo analysis)	35%

All cases are mandatory *except* for the Theater Budget/Seven Letters Case. Please do one or the other of these two cases.

The Daycare budget case and Glenville case are joint analyses cases, meaning that you will be assigned a partner. Previous students have found that having a partner significantly reduces the technical burden of these cases. The trend analysis may be done as a solo project, or with a partner if you find another student who wants to study the same organization as you.

Class participation, attendance and conduct will be used to resolve borderline grades unless such factors warrant more (positive or negative) weight (e.g., low attendance).

Anyone who scores above 90% gets an A. An 85-89 is an AB. An 80-84 is a B. 75-79 is a BC. Anything lower than a 75 is a C and significantly lower is a D or F.

How is Written Work Graded?

The goal of the case studies is to improve your ability to think about a complex budgeting scenario, and write a short and concise analysis of this situation. The memos should display a critical analysis of the main issues of the case, not a summary.

The cases will usually take the form of a written memo, but will occasionally require you to do some calculations. Instructions for each memo, including page limit, is at the end of the syllabus. You may use single space, 11 or 12 font size, Times New Roman font, and 1-inch margins.

How do I score the case studies? My way of scoring these is that everyone starts with a maximum score, and I mark down where I observe a serious problem. The overall criterion is whether you make a strong and clear argument. A strong argument requires the use of evidence where possible, logical claims that are persuasively presented, an ability to present and deal with counter-claims (here are the facts, this is my analysis and the conclusion I reach, here are possible objections to my conclusion and how I deal with them). More specifically, here are the major items I look for.

- Does it cover the major points? Or is there some major aspect of the case you overlooked? In practice, this means that you should deal with the central issue of the case, and when making a recommendation, demonstrate awareness of arguments against your point of view.
- Is there a significant flaw in the logic of your argument? If I think the flaw is so bad as to lead you to offer bad advice, the penalty is doubled.
- If you present the right conclusions, but do not support them with the level of analysis or detail to be really persuasive.

Any of the above failings will usually see you lose a point on a 5 point memo. Style, and basic errors will be included as considerations if you are on the borderline between a grade. If you failed to fundamentally understand or answer the assignment question you are looking at a possible fail.

For the case studies that require quantitative analysis, the same basic logic applies. Everyone starts with a maximum score. Errors lead to a deduction. Not all errors are created equal, so an error that does not have a dramatic impact on the soundness of your final analysis and conclusion will be penalized less than an error that skews your entire analysis. A simple typo could do this, so attention to detail is especially important for the quantitative exercises.

In the final paper (the trend analysis) I will be paying attention to the accuracy of your calculations. I will also look to see if you provided an insightful description of the budgeting process in the organizations, and how policy issues, the political context and other external factors affect this process. In doing so, I expect you to employ concepts from the class readings.

Case instructions are at the conclusion of the syllabus. Longer cases (for the Theater budget case and Seven Letters case) are included in the reader or will be available at the class website.

Academic Integrity

Failure to cite, or otherwise present written material prepared by others as your own work, will be considered plagiarism and treated accordingly. As commonly defined, plagiarism consists of passing off as one's own ideas, the words, writings, music, graphs/charts, etc that were created by another. In accordance with this definition, you are committing plagiarism if you copy the work of another person and turn it in as your own, even if you have the permission of that person. It does not matter from where the material is borrowed—a book, article, material off the web, another student's paper—all constitute plagiarism unless the source of the work is fully identified and credited. Plagiarism is cheating and a violation of academic and personal integrity and will not be tolerated. It carries extremely serious consequences.

To avoid plagiarism it is necessary when using a phrase, a distinctive idea, concept or sentence from another source to reference that source in your text, a footnote, or endnote. In drawing on materials to use you should look for support from the readings assigned for that topic, and other readings in the course. If you wish to look on the web for additional resources and arguments, by all means do so, but always cite any external source for quotation, fact, idea, etc.

All graded work is open-book. For the case memos, the PART analysis and the Trend Analysis there should be no consultation between students. For the Daycare Budget and Glenville cost analysis teams may talk to each other (indeed they are encouraged to do so) on technical and formatting issues of Excel, the format in which the budgets will be created, but not on the content of the budget or associated memo. For specific questions about interpretation or understanding please avail of the office hours to talk with me.

Useful Web Sites:

In addition to the websites mentioned below, here are many other useful websites.

Association for Budgeting and Financial Management: <http://www.abfm.org/>
National Association of State Budget Officers www.nasbo.org
American Association for Budget and Program Analysis www.aabpa.org
Citizen's Budget Commission <http://www.cbcny.org/>
Government Finance Officer's Association <http://www.gfoa.org/>
Government Accountability Office <http://www.gao.gov/>

Center for Budget and Policy Priorities <http://www.cbpp.org/>
The Concord Coalition: <http://www.concordcoalition.org/>
The Congressional Budget Office: <http://www.cbo.gov/>

American with Disabilities Act

The Americans with Disability Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring accommodation, please advise the instructor

1/26 Introduction: Characteristics of Budgeting

Lee, Johnson and Joyce, chapters 1-3

Introduction to Excel

In-class exercises: Budget balancing

Fix the Federal Budget: Today, you're in charge of the nation's finances. Some of your options have more short-term savings and some have more long-term savings. When you have closed the budget gaps for both 2015 and 2030, you are done.

<http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>

Now Balance Wilmington's Budget: Since you have balanced the national budget, now do it at the local level. <http://www.nytimes.com/interactive/2011/07/05/us/wilmington-budget.html?scp=10&sq=balanced%20budget%20amendment&st=cse>

Handouts: Stylized Facts About Government Growth

Discuss: Assignment of partners for both technical assignments, select presentation schedule,

Please bring a laptop, and prepare to be able to link online

2/2 Reading a Budget/Calculating Personnel Costs

Reading a Budget

Reading a Budget guide, adapted from Duncombe and Straussman

James Carney and Stanley Schoenfeld. 1996. "How To Read a Budget," in *Budgeting: Formulation and Execution*. (Athens, GA: Carl Vincent Institute of Government).

Mikesell, A Budget's Traditional Look, p.40-44

Personnel Costs

Marvin Friedman. 1996. Calculating Compensation Cost. Chapter 26 in *Budgeting: Formulation and Execution*, edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

Handout: Personnel Costs Example

Discuss Daycare budget

Due: How to read a budget.

2/9 Budget Preparation: Focus on Wisconsin

Lee, Johnson and Joyce, chapter, chapter 6 (133-148), chapter 7

Jacqueline H. Rogers and Maritah B. Brown, "Preparing Agency Budgets," (excerpt, pp441-449) in Handbook of Government Budgeting.

Mikesell, 130-139

Meyers, Roy and Irene Rubin. 2011. The Executive Budget and the Federal Government: The First Century and Beyond. *Public Administration Review* 71(3): 334-44.

Due: The Theater Budget.

Guest speaker: David Schmiedicke, Finance Director, City of Madison

2/16 Budget Review and Approval: Focus on Wisconsin

Lee, Johnson and Joyce, chapters 8 and 9

Roy Meyers. 1999. "Legislatures and Budgeting."

White, Joseph. 1998. Entitlement Budgeting vs. Bureau Budgeting. *Public Administration Review* 58:6:510-521.

On the web:

To review the Senate and House Appropriations Committees see the following web sites:

<http://www.senate.gov/~appropriations/> and <http://www.house.gov/appropriations/>

Due: 7 letters

Guest speaker: Bob Lang, Director, Legislative Fiscal Bureau

2/23 Cost Analysis

James Sorensen, Glyn Hanbery, and A. Ronald Kucic. 1996. Managerial Accounting. Chapter 45 in *Budgeting: Formulation and Execution*, edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

Ammons, David. Identifying the Full Costs of a Program. Chapter 46 in *Budgeting: Formulation and Execution*, edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

Pete Rose. 1994. Costing Government Services: Benchmarks for Making the Privatization Decision. *Government Finance Review*.

Handout: Cost Analysis example

Discuss Glenville Road Department Cost Analysis

Due: Daycare budget

3/1 The Politics of Budgeting

Rubin, I. "The Politics of Public Budgets" from *The Politics of Public Budgeting*, 3rd ed.

Wildavsky, A. and Caiden, N. *Classical Budgeting: The Dance of Dollars*. From *The Politics of the Budgetary Process*, 5th ed.

Coe, Charles and Deborah Wiesel. "Police Budgeting: Winning Strategies." *Public Administration Review*, 61:6:718-727.

Professional Practices Articles: Budget Analysts, *Journal of Policy Analysis and Management*, (Spring 2005), pp. 419-433.

Guest Speakers The Young Budegeteers: Joe Fontaine, Legislative Fiscal Bureau; Breann Boggs, State Executive Budget Office; Jake Miller, City of Milwaukee Budget Office

3/8 Budget Execution

Allen J. Proctor. Six steps for a community in crisis. Chapter 13 in *Budgeting: Formulation and Execution*. edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

Donald Axelrod. "Budget Implementation: The Budget in Action." From *Budgeting for Modern Government*.

Lee, Johnson and Joyce, chapter 10

Online:

U.S. General Accounting Office. *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse* (read Highlights, and Results in Brief , p3-6).

<http://www.gao.gov/new.items/d02863t.pdf>

Due: Glenville Cost Analysis

Discuss Trend Analysis

3/15 Performance Budgeting

Lee, Johnson and Joyce, chapter 6 (revenue estimating, 149-175)

chapter 5 (117-148)

Moynihan, Donald P. "Performance Management under George W. Bush." From *The Dynamics of Performance Management*, Georgetown University Press.

Moynihan, Donald P. and Matthew Andrews. 2010. "Budgets and Financial Management." In Richard Walker, George A. Boyne, and Gene A. Brewer (eds). *Public Management and Performance: Research Directions* (60-88). Cambridge, England: Cambridge University Press.

Kamensky, John M. 2011. The Obama Performance Approach: A Mid-term Snapshot. *Public Performance & Management Review* 35(1): 132-47.

Discuss PART analysis

Web Resources:

ICMA Performance Measurement material:

<http://www1.icma.org/main/topic.asp?tpid=18&hsid=1>

North Carolina benchmarking project: <http://www.sog.unc.edu/programs/perfmeas>

Due: Email me your choice of program/agency for the trend analysis

3/22 PART presentations

Lee, Johnson and Joyce, chapter 7

Joyce, Philip G. 2003. *Linking Performance and Budgeting: Opportunities in the Federal Budgeting Process*. Washington D.C.: IBM Center for the Business of Government.

Joyce, Philip. 2011. The Obama Administration and PBB: Building on the Legacy of Federal Performance-Informed Budgeting. *Public Administration Review*. 71 (3): 356-367.

Wildavsky, A. and Caiden, N. "Reform." From *The Politics of the Budgetary Process*, 5th ed.

Guest speaker: Mark Nicolini, Budget Director, City of Milwaukee

Due: PART Memos

3/29 PART presentations

4/5 Spring Break

4/12 Trend Analysis

Liner, Charles. Projecting Local Government Revenue. Chapter 19 in *Budgeting: Formulation and Execution*, edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

Ammons, David. Adjusting for Inflation When Comparing Revenues and Expenditures. Chapter 20 in *Budgeting: Formulation and Execution*, edited by Jack Rabin, W. Bartley Hildreth, and Gerald Miller. Athens, GA: Carl Vinson Institute of Government.

McNichol, Elizabeth, Phil Oliff, and Nicholas Johnson 2012. State Continue to Feel Recession's Impact. Center for Budget and Policy Priorities

4/19 The Politics of Budgeting II: Focus on Wisconsin

Forrester, John P. Public Choice Theory and Public Budgeting: Implications for the Greedy Bureaucrat. In John R. Bartle (ed) *Evolving Theories of Public Budgeting*, p101-124.

Bowling, Cynthia, Chung-Lae Cho and Deil S. Wright. 2004. Establishing a Continuum from Minimizing to Maximizing Bureaucrats. *Public Administration Review*. 64 (3): 489-499.

Stockman, David. "New Lessons: The Politics of Taking." From *The Triumph of Politics*. This is a hands-on account of the budget process by one of the most influential and powerful chiefs of the OMB. It is an entertaining as well as informative read.

Guest speaker: Rep. Mark Pocan

4/26 Principles of Revenue Raising

Lee, Johnson and Joyce, Chapter 4 and 5

In-class exercise: Coping with Revenue Shortfalls (from Watson, R.P., Cases in Managerial Roleplaying)

As assistant budget director identify the option or mix of options you feel would be best to increase revenue. What are the advantages and costs of the options you propose relative to other alternatives?

5/3 Trend Analysis Presentations

5/10 Trend Analysis Presentations

5/14 Trend Analysis paper due by 9am

Written-Work Instructions

Reading a Budget

This assignment involves learning to read and use the information in public budgets. As part of this assignment you will be looking at budgets for an agency in a state or local government, or an agency of the federal government. You need to pull off the internet all the budgeting information on that agency, as well as summary tables about the overall government budget. For the U.S. Budget, find a division or agency within one of the cabinet departments (e.g., Bureau of Land Management in the Dept. of the Interior), and find summary tables for the full department.

For the budget that you have selected, this assignment involves reading the budget documents and pulling out specific information.

- 1) Choose one agency or department within the budget and answer as best you can the following;
 - What is the mission(s) of this agency?
 - What are the major programs carried out by this agency?
 - What is the percent increase in total requested expenditures over last year?
 - What object of expenditure category is the most important; which is growing the fastest?
 - Is this organization growing faster or slower than the budget for the whole government?

- 2) If you are new budget analyst reviewing this agency for the first time, what information does this budget give you on the productivity and performance of this agency? What information would you like to see?

Summarize your answers in a two page memo! Please include web addresses for the information that you present and specific page numbers, and include attachments as you feel appropriate.

For the federal budget, look on the OMB Budget web site. Summaries of departmental budgets can be found here: <http://www.whitehouse.gov/omb/budget/fy2007/>
More detailed information can be found here:
<http://www.whitehouse.gov/omb/budget/fy2007/appendix.html>

For state and local government budgets go to ABFM site (<http://www.abfm.org/>) and then select "Budgeting and Financial Links", or go to NASBO website below for state budgets:
<http://www.nasbo.org/directoryPublicDirectory.php>
The Wisconsin budget is here: <http://www.doa.state.wi.us/debf/execbudget.asp>

Theater Case Instructions:

(Note – actual case is at class website/reader)

Prepare a memo (maximum two-pages) that analyzes this case. In preparing the memo, consider some/all of the following questions:

- What does the case tell us about the purpose of budgeting?
- Is budgeting different in non-profit organizations?
- Why does the Board reject Dobb's budget proposal?
- Given your knowledge of the case, how would recommend that the disagreements be overcome while creating a sense of fiscal stability?

In answering the above questions it is helpful to consider the motivations of the different actors involved in the case.

DAY CARE COMES TO NORTHVILLE

Northville, a medium-sized city in the midwestern part of the United States, has experienced a significant change in the composition of its municipal work force of 1,800 employees.

Approximately thirty-five percent of the city employees are now female. In a recent survey of city employees, over forty percent have said that "affordable day care for children" was important to them. Meanwhile Director of the Office of Personnel Mary Lux has become increasingly convinced that the lack of affordable day care is one of the main reasons for absenteeism and lateness among city employees. Mayor Petula Spark, some of the members of the city council, and the leader of the major city employees' union, Denardo Legato, all agree that something should be done. The question they are trying to answer is, what should it be?

Mayor Spark is in favor of doing something, in principle, but she is not in favor of incurring a major new expense, given the many legitimate claims on the city's already strained budget. She has told Legato, who is negotiating the day care program on behalf of the city employees, "We'll give you space and utilities for a year at no cost. It is up to you to come up with a suitable day care center that conforms to state and federal law." Several regulatory mandates and non-discrimination laws fall into this category. The only requirements specific to day care centers are that (a) they be licensed and inspected once a year, (b) all new day care workers take part in a three day state-certified training program and (c) the child/day care giver ratio be no greater than 8 to 1. The annual inspection fee is \$500. The total cost of the three-day training program is estimated to be \$200 per employee.

Mary Lux is responsible for planning the details of the day care program for the children of city employees. With Mr. Legato's approval, Ms. Lux has negotiated an arrangement with a local non-profit agency that is already providing day care services in the Northville metropolitan area.

Tiny Tots, Inc. has three locations; the contract with the City of Northville would be a fourth center. The Director of Tiny Tots, Klara Nemet, is enthusiastic about the prospects of a new center specifically for city employees. While discussing the proposed arrangements with Ms. Lux, Ms. Nemet said, "We will not need any additional administrative staff, since Ms. Perfekt, my administrative secretary, and I could certainly handle the additional administrative work."

Ms. Perfekt earns \$1,300 a month. Ms. Nemet's salary is \$2,400 a month. Tiny Tots, Inc. also must pay 7.15 percent of their salaries in the form of a social security contribution, 8 percent for unemployment and disability benefits; 6 percent of salaries goes to a pension fund, and \$60 per month for health benefits is paid for each of them. These fringe benefits apply to *all* employees of Tiny Tots, Inc.

The additional details of the contract are as follows:

- the day care center will be open 20 days every month. Parents pay a monthly fee based on an 8-hour day (9:00 a.m. to 5:00 p.m.).
- Fees do not vary if less than a full day or less than a month of day care is used by the parents.
- Based on projected demand, it is expected that the day care center will open in January 2000 with 120 children. Ms. Nemet has been successful in negotiating a ratio of 6 children to 1 day care worker for the first year of operation.

- Day care workers earn \$6.50 per hour. They work from 9 to 5 and get paid for eight hours.
- Children get a snack and lunch. The food cost is \$3.00 per child per day. The cost of supplies is \$1.50 per child per day. The City of Northville has purchased certain equipment (such as cots and desks) for the first 120 children. However, these costs are estimated to increase by \$50 per child as the enrollment at the day care center goes up. For the first four months, it is expected that the number of children will grow by 10 percent, beginning in February 2000.
- Beginning June 2000, the monthly growth is expected to be 5 percent.
- Parents pay \$200 per month per child.
- In the first year, Northville is "donating" space and utilities. Ms. Lux says that this city contribution is worth \$2,000 a month.
- Mr. Legato says that the union will contribute to the cost of the city's new day care center by providing \$1.00 per child per day for the children of union members. It is estimated that 70 percent of the children will be children of union members.
- The state has a subsidized day care start-up grant for the first year of operation. This grant is \$90,000 a year.

DAY CARE COMPUTER EXERCISE, PART 1

You are a budget analyst in the Budget Office of the City of Northville. Mayor Spark just asked you to "run some numbers" so that she can take a look at the arrangement that was just negotiated between Ms. Lux, Mr. Legato, and Ms. Nemet. You should prepare the budget in a spreadsheet. Since Mayor Spark may ask you some questions about the day care budget, you should prepare the budget using parameters and as many formulas as possible. A well-designed (and flexible) spreadsheet will simplify your task later.

Complete the following tasks and a brief one-page memo describing your findings:

- 1) Prepare the baseline 2000 monthly budget for the day care. (You can assume a calendar year.) Determine the total surplus and deficit for each month.
- 2) Suppose the child/staff ratio were changed to the maximum allowed by law. What impact would this have on the budget?
- 3) What would happen to the deficit if the enrollment increased by only 5 percent per month for all months?
- 4) What other changes can be made to balance the budget? What are the advantages and disadvantages of these changes? Produce a balanced budget and defend your choice of changes.

Daycare guide

Tips:

1. Get started early: this will take more time than you think.
2. Submit your budget in electronic form so I can examine it. If time permits, we will examine a one or two daycare budgets in class, so be prepared to discuss yours.

3. Collaboration: you may discuss techniques with each other teams (e.g. how to link pages), but the choices and calculations you make should be your own.
4. Respond to the questions with actual examples and estimates from your own budget. For example, answering question two by saying “reducing the child: staff ratio will reduce costs” is not a complete answer. Pick some specific changes and estimate the impact.
5. Understand the difference between assumptions and parameters. Parameters are key variables affecting budgets that are expected to change at least once in the next several years, such as wages, inflation rates, benefit levels, user fees, unit costs, etc. Read through the case narrative and highlight those factors that are parameters. Assumptions are defined as simplifications that are made in the spreadsheet design process to make it manageable. For example, you might assume in designing this day care budget that there is no turnover in day care workers, and that all day care workers receive the same hourly wage. While these assumptions are unrealistic in the long run, they may be reasonable simplifications for the first year’s budget. As you encounter questions about key parts of this exercise, make assumptions and formally write these assumptions down. The goal is to design a budget that is both flexible and transparent to future budget analysts.
6. Note that the parameters associated with fringe benefits include the percent of wages required to set aside for social security, unemployment insurance, pensions, and monthly costs for health insurance.
7. It’s a good idea to have your list of parameters on one excel worksheet, organized into logical categories, and your actual budget on the other. The actual budget should identify all of the major expenditures and costs (lay these out vertically) for each month (lay out months horizontally). The parameters should be a simple list of numbers e.g. salary, teacher-student ratio. This will help make your budget transparent. You can make your budget flexible by linking the parameters to the calculations on the budget page. As you change the parameters, the budget should automatically change. This will save you a lot of work, since one flexible budget is a lot easier than creating a different budget to answer each question.
8. Think about the desirable qualities for a budget and try to implement those. The budget should be easy to understand, clearly laid out and employing logical formulas to make calculations. As mentioned above, it is also desirable for such a budget to be flexible, able to adjust to changing parameters. You should only need one excel spread sheet (with a parameters worksheet and the actual budget worksheet) plus your memo.

Formatting:

9. How to link the pages: Assume you have your parameters on one worksheet (called Part1), and your actual budget on the other (part 2). You want to link the two. You make these linkages in an individual cell formula in your second worksheet. To do so you put an exclamation mark between the name of the worksheet you are referring to and the cell from that worksheet. For example, to multiply the cell A1 of worksheet part one by cell B2 of part 2, you would write the formula in worksheet part 2 as: =part1!A1*B2.
10. Absolute cell references: Excel allows you to use formulas to link to a cell, but the formula will normally adjust as you move it around. For instance the formula for B2 might be =A1+A2. If you move the formula to B3 it becomes =A2+A3. This works well for some instances, but in other occasions you will want to use absolute cell references. Absolute cell references, denoted by putting a \$ in front of either the column or row address, fixes the cell address in the formula so that it doesn’t change when it is copied to a new cell. This will be

useful when referring back to specific parameters. So, for example, if you wanted to consistently add A1 to another cell, the formula would become $\$A\$1+A2$ (or whatever the variable cell).

11. Note that excel allows you to round or roundup the solution of a calculation by simply writing “round” or “roundup” before the brackets of the calculation.

For more details on formatting in excel, please read Bill Duncombe’s *Introduction to Spreadsheets*. The guide is a little old, and parts of it may seem simplistic, but is still relevant for understanding Excel.

Case Guide for “Seven Letters”

(Note – actual case is at class website/reader)

This case, set in an unnamed community, chronicles an increasingly bitter dispute between the city Water Department (WD) and the Office of Budget and Allotments (OBA). The case is presented as an exchange of letters between these two agencies. The WD has requested a supplemental appropriation for the current fiscal year, which the OBA is reviewing in order to make a recommendation for approval/disapproval to the city manager. The OBA, dissatisfied with the amount and type of information initially submitted to justify the requested budget items, asks for additional data. The WD complies but does not satisfy the OBA, which, feeling that the WD is not being responsive to the specific types of information needed, again requests more data. This disagreement escalates from staff to agency managers -- and seems headed for ultimate resolution at even higher levels of city government.

Write a memo (two-page maximum) that analyzes the case. As always, the goal is to demonstrate what the case tells us about budgeting and management. In particular, I would like you to address the following issues:

- The roles of and relationship between program and central budget officials in budget allocations and priority-setting.
- Whether the requests of the OBA are justified or a bureaucratic nuisance that prevents managers from achieving their goals?
- How could these relationships be managed to reduce friction while also producing sound budget and management decisions?

You may respond in the memo writing from your own perspective, *or* you may adopt the guise of the Clyde Perham (the city manager), *or* H.P Robertson (Director of the Water Department) in a memo to all of the participants.

Glenville County Road Department Cost Analysis

You have taken over as the director of the Glenville County Road Department in the midst of turmoil. The previous director was forced to resign after a serious budget deficit in the previous year. The budget deficit was precipitated by a drop in the state reimbursement rate for maintenance of county roads. Previously, the state had been willing to reimburse up \$4,500 per mile for gravel roads, and \$7,000 for paved roads. After a report by the state auditor indicated gross inefficiencies in many county road departments, the state department of transportation decided to cut rates to force counties to become more efficient. The previous director ran a pretty "loose ship", and did not have good visibility on what it actually cost to maintain roads. He and the county executive were caught completely off guard when the road department had a deficit of over 25 percent.

The county executive hired you precisely because of your background in finance and budgeting, and she expects you to clean up this mess, and eliminate deficits while maintaining the level of service. After digging through piles of disorganized papers, you are able to put together some basic operating information on the department for last year (2001), which you summarized in the attached table. Using this information, you have laid out a series of tasks that you need to complete before you can get a handle on the road department budget.

- a) You need to first identify the mission centers for this department, and the logical output measures.
- b) You then need to determine which costs you can link directly to a mission center, and which are indirect costs.
- c) The next step is to determine how each cost category varies with output by identifying fixed, variable, step, and semi-variable costs.
- d) Using this information calculate appropriate cost rates and develop a unit cost table with each mission center. How large is the deficit compared to the state reimbursement rate?
- e) Assume staff can work up to the maximum productivity rate--by how much does this reduce the deficit?
- f) Do a flexible budget for the gravel road center, assuming that output varies by 20% above and below last year's output level. What happens to unit costs and the deficits?
- g) Do an analysis if the county dropped maintenance of paved roads. (You can assume that the state department of transportation will take it over.) Does this reduce the deficit per unit and in total?
- h) Do a breakeven analysis for gravel maintenance to determine how many miles of maintenance are required to breakeven. You can assume that you still providing paved roads, and therefore rely on cost figures from your answer to part d).

Your answer will be primarily in the form of an excel spreadsheet, but do prepare a short memo summarizing your results (maximum 2 pages).

Tips

1. Use the starter Excel sheet I sent you!
2. Unlike the daycare budget, you don't have much control over your parameters, so focus on simply showing what happens by accurately reflecting the parameters in your budget.

Note that the case describes the previous director as failing in part because of failing to explain the costs of the budget - while you cannot really control deficits, you should at least be able to explain costs better.

3. The only part of the problem you are asked to consider balancing the budget is with the breakeven analysis, and here you are asked only to estimate the number of miles that will be required to break even, so you do not tamper with the other costs.
4. The equipment cost involves a fixed lease per month *and* a variable rate per mile of every mile paved.
5. For the breakeven analysis, make sure that the number of miles for the breakeven point is feasible with the given number of workers you have and their productivity.
6. For the breakeven analysis, you should not apply all \$177,000 of maintenance costs to the gravel maintenance mission. What is the most appropriate cost driver for allocating maintenance?

Glenville Road Department

Cost Analysis

Mission: To maintain the county's 500 miles of roads which are both paved and gravel. Construction of new roads is carried out by the state.

Revenues: The state department of transportation will reimburse the county at a fixed rate per mile.

Personnel: All personnel are fulltime and work 225 days/year on average. All maintenance personnel receive the same wage, which will be \$35,000 (including fringe costs) per year in FY 2002.

The following is a summary of the activity and cost information that was put together for FY 2001. For simplicity no inflation was assumed in the initial cost analysis.

Glenville Road Department FY 2001 Actual Cost Data

Director	\$55,000	
Secretary	\$25,000	
Maintenance Facility (depreciation)	\$177,000	
Other Information:	Gravel Road	Paved Road
Supplies expenditures	\$60,000	\$77,000
Miles Repaired	100	70
Personnel (FTE)	3	4
Equipment lease (FY 2002):		
Fixed charge/month	\$4,000	\$6,000
Variable rate/mile	\$500	\$1,000
State reimbursement/mile	\$3,500	\$5,000
Max. Miles Per Day Per Person	0.17	0.10

PART memo

Assume you are a staff analyst for a Congressional committee—you can fill out the details as you feel best, e.g. your committee (appropriations or a specific substantive committee), House or Senate, your representative’s identity and party affiliation. The OMB has submitted the President’s budget to Congress, along with a series of performance evaluations arising from the Program Assessment Rating Tool. Your representative asks you to prepare a memo (5 single spaced maximum) that deals with the following issues.

Pick a program, and examine the OMB PART analysis. Examine the program yourself--the agency’s strategic plan and performance report should provide such information. Briefly describe the program, and consider whether the PART evaluations of the OMB were fair and accurate, and explain why you agree or disagree with the OMB solution. Consider what stakeholders will be impacted and their reaction. How else might the performance information have been interpreted?

Offer a budget recommendation for each program in terms of funding for FY 2009 (PART finished in 2008, so for the purposes of this analysis, you live in 2007, and 2009 is the future!). Use the table below to summarize such information. You should conclude your analysis by considering what your assessment tells you about the following questions: How reliable is the PART? What are its strengths and weaknesses? How do you expect it to change budgeting and management?

Program name	OMB PART evaluation	My PART evaluation	FY 2007 (actual)	FY 2008 (estimated)	FY 2009 President’s recommendation	FY 2009 My recommendation

Information Sources:

In assessing the program you need to become an expert on this particular area. Gather what information you can about it from agency websites, think tanks, newspapers (including govexec.com) and other sources (such as the Government Accountability Office). Be careful to cite sources.

Actual PART analyses: www.expectmore.gov (go to Details and Current Assessment of this program for current assessment)

Detailed budget info: <http://www.whitehouse.gov/omb/budget/fy2007/appendix.html>

INSTRUCTIONS FOR THE REVENUE/EXPENDITURE TREND ANALYSIS PROJECT

The purpose of this project is to provide you the opportunity to develop practical knowledge about budget practice and technique. You must choose an agency (or program within an agency) at the federal, state, or local government level or a non-profit organization ***and conduct an in-depth analysis of revenues and expenditures for the past six years, and make predictions for revenues and expenditures for the next two years.*** You must submit your choice of agency or program to me by March 23.

You are responsible for interviewing the relevant government and/or agency budget/fiscal officer(s) to determine budget roles and strategies and to provide a description of the budget process. Also, you will need the appropriate legislation, and budget documents to gather the fiscal data necessary to complete the tables attached. Your completed project will be a written analysis of budget process for the government or agency of your choice, supported with tables, a graph, and an organizational flow chart. **Your written project should be emailed to me by 9 a.m. on May 14, 2007.**

Your written presentation should be, at minimum, 10 typed pages, double-spaced, not including title page, tables, footnotes, references, etc. Use 12-point type. The following is an outline for the project.

I. INTRODUCTION

The section should provide the ***legal authorization*** for the existence of your organization. You should explain where the agency is located organizationally, ***its legislated purpose, authority, and responsibilities.*** You should provide information concerning the relationship in size, organizationally and fiscally, of the agency to total government, be it local, state, or federal. For a non-profit, you will want to explain the organization's relationship to networks of government and other non-profits. ***You must support this section with an organization chart*** illustrating the relationship between your agency and others in the government. For non-profits this chart should illustrate the inter-connections between the non-profit and other key organizations. Inter-organizational relationships for non-profits may vary and may be based on funding streams and/or service provision networks.

II. BUDGET PROCESS

This section presents information you gather from your interview(s) with the budget/fiscal officer(s). You should have this person provide you a detailed account of the budget process, beginning with the call for spending requests from the chief executive officer. Using the charts attached, you should document the trends in funding.

- A. **Conducting the Interview:** You should call the officer of the government/agency you have chosen and ask if they would be willing to provide you the information that you need. Explain that you are a La Follette graduate student enrolled in the public budgeting class and then explain what your project is and describe the type of information that you will need from them. A list of suggested questions is attached in Appendix 1. Please take these as suggestions not a comprehensive guide.

Once you get a positive response regarding the conduct of this project from an officer, secure an interview date, time, and place (presumably in their office) or telephone number if you are doing

a phone interview. Plan on an hour, to an hour and a half interview time, with the possibility of a second face-to-face or telephone interview for follow-up questions. Once you receive positive response for an interview, send a letter to the officer stating the purpose of your work, a list of questions you will seek answers to, a copy of the tables, and the established interview date, time, and place (a draft outline is in Appendix 2). Make sure that you put your name, address, telephone number and e-mail address on this letter so that the officer can contact you if necessary. The letter will serve as a reminder to the officer about your project and the interview.

If you wish to tape the session as well, be sure to ask permission at the beginning of the interview. Make sure that you offer to send your results of your analysis to the interviewee. You may want to send a copy of your paper to the officer to receive their comments before you submit your project on December 13, while leaving yourself enough time to change the paper if needs be. Regardless of this, make two copies of your paper, one to keep and one to send or take to the officer/officers that you interviewed.

III. BUDGET REQUEST/APPROPRIATIONS/AUDIT REPORT ANALYSIS

This section presents written results from your analysis of the fiscal data necessary to complete the tables and graph attached. You should consider if the officer's explanation of budget success coincides with appropriations and expenditures provided. For instance, are agency requests, on average, interpreted positively or negatively by the chief executive officer? By the congressional/legislative/council? Does the agency fare better with the chief executive or the congressional/legislative/council branch concerning spending requests? What percent of expenditures are from another level of government? Does this government/agency have a supplemental budget? If so, how much of their budget, if any, is newly appropriated in the supplemental budget? Does the agency even take advantage of the supplemental? Also, your consideration of nominal and adjusted dollars will provide an indication of real growth in spending of the agency for the past six years. Finally, you should use the trends of previous years to develop a prediction of future expenditure and revenues.

For a non-profit, these questions will need to be modified to fit a non-profit context. Consider the interrelationships between funders, the board of the non-profit, and the staff. What is the budget process and what is influencing the budget process at various steps along the way? What has influenced changes in the budget over time and how have the staff and board attempted to adapt to these changes? Or did they instigate these changes? Why?

IV. DISCUSSION AND CONCLUSION

This section is a summary of your findings. You should consider the relationship between your results and budget theory. For instance, do the budgeters in this government/agency/non-profit practice incrementalism? Is budgeting "politics as usual"? Where does rationality in terms of decision tools and analysis come into play? What recent budget reforms have been instituted?

Given past behavior, you should address potential future expenditures and revenue issues for this agency. At a minimum, consider the following questions and answer those that are relevant to the context of your agency or non-profit: Do you expect continued expenditure growth or decline for this agency? In light of a fiscally stressed environment, what has this agency done or what does it plan to do to limit spending in the future? What other factors may affect the spending pattern of this agency in the years to come? How

do you think this agency will survive compared to other agencies concerning requests in the future?
Given these questions, how much confidence do you have in your predictions?

Ultimately, a well-developed conclusion provides an indication of how closely empirical results equate with traditional literature concerning the topic.

Tables for Government/Agency Budget Analysis

TABLE 1: Comparison of Nominal to Real Expenditures

(This table is just an example; you may want to add additional years to get a better look at the trends. Note that you may only be able to get estimated numbers for fiscal year 2006. It is ok to treat them as actuals, just make a note of it. If you can get no numbers for 2006, you can treat this as a projection).

Along with the following table, you **should provide a graph** comparing nominal and real expenditures with dollars indicated on your Y-axis and Fiscal Year indicated on your X-axis. See the Excel Tutorial for help with developing this graph.

Fiscal Year	Expenditures in Current Dollars	% Change	Index or Deflator	Expenditures in Real Dollars	% Change
2001					
2002					
2003					
2004					
2005					
2006					

Table 2: Trend Analysis

For the trend analysis you should follow the technique demonstrated in class and fill out the following tables. Again you should create a graph, comparing the current dollar expenditure with the trend line.

Fiscal Year	Expenditure in current dollars	Level in central year	No of years from central year	Slope	Trend Line Value
2001					
2002					
2003					
2004					
2005					
2006					
2007					
2008					

If revenues are different from expenditures, you should complete the same two tables with accompanying graphs.

Table: 1a: Comparison of nominal to real revenues

Fiscal Year	Revenues in Current Dollars	% Change	Index or Deflator	Revenues in Real Dollars	% Change
2001					
2002					
2003					
2004					
2005					

2006					
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Table 2a: Trend Analysis for Revenue

Fiscal Year	Revenue in current dollars	Level in central year	No of years from central year	Slope	Trend Line Value
2000					
2001					
2002					
2003					
2004					
2005					
2006					
2007					
2008					

Finally, fill out the following table on source of funding.

TABLE 3: Revenue by Source, in millions/billions of dollars*

(This table is just an example; you may need to change the 'sources' depending on your organization. For instance, for federal agencies, you may want to list revenue from tax and non-tax sources; for non-profits, funds from grants, endowment, or fund-raising.)

Fiscal Year	Total Revenues	Federal Funds	% Federal Funds (of total)	State Funds	% State Funds (of total)
2001					
2002					
2003					
2004					
2005					
2006					
2007 (projected)					
2008 (projected)					

Appendix 1: Possible Budget Project Interview Questions

- Begin your interview with some questions about the person you are interviewing, for example,
 - How long have you worked in this position?
 - Briefly describe your career in government.
 - What is your educational background?
 - Do you enjoy your work for the government agency/non-profit?
- Then ask about the legal authority to operate for entity. For example, a County is an entity of the State. What does this mean? Also, how is the organization of the entity determined? How can it be changed? What are the legalities related to raising revenues on the part of this entity?
- Ask for the organization chart of the government agency/non-profit.
- Explain a typical budget cycle of your government, beginning with the call for spending requests.
- Explain the budget strategies of different players in the budget process – that is, the orientation of agency heads versus the commissioners/legislators/congressmen versus budget staff and CEO. Are most budget players just operating to enhance their budget? Does politics usually dictate the total budget process? (who gets what and how much?). How does agency performance get measured/accounted for in the budget process?
- Can you give me a breakdown of revenue sources? What percentage is own-source, and explain what those sources are. What proportion of revenues is from the state and federal governments? What kind of innovative revenue sources have you been able to take advantage of?
- How do you deal with dramatic shifts in revenues or expenditures mid-year? Do you have any kind of supplemental budget process to account for budget changes?
- What factors will influence (benefit or adversely affect) your government, and specifically, your organization, in the next few years? How might your government better prepare for the future? What do you see as the most pressing need of the government in the upcoming year?
- Thank you for your time. Would you like to receive a copy of this paper when it is completed? Also, if I have any other questions, may I call you back?

Appendix 2: Possible Follow-Up Letter to Budget Officer

The letter should contain the following:

- Correct name, title and address of budget officer
- Your name, your student status, the school name and program
- A brief description of the project that is for a graduate course in public budgeting
- A reiteration of the questions that you plan on asking. You may even want to give them the list so that they have a chance to think about the questions. You may want to send the tables that you will need to complete; they may not have all of the information, but the tables serve as an outline for the information that you will collect
- Thank them for their assistance in conducting the class project
- A note that you will provide them with a copy of the project (you should provide this to them BEFORE you turn it in; they can provide good feedback on results)