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Budget preparation

PAD 642

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Budget preparation

- Budget preparation practices vary across agencies, but they are guided by instructions issued by the government's central budget office (such as Division of the Budget in New York State).
- Expenditures are typically classified by functional areas, organizational units (agencies), and object of spending.
- Functional areas are service categories—e.g., education, health, environmental protection, and economic development.
- Agencies are the organizational units responsible for delivering services, led by a department head—e.g., public works, police, and fire.
- Object of spending refers to what the money is spent on—e.g., salaries, supplies, and contracts.

Program information

- Program information is widely used in budget documents.
- Budget preparation instructions specify what program information must be included to justify a budget request.
- Program information is also used in performance measurement and performance management (as you may have seen in other MPA courses).
- Program information is often presented through performance measures.
- *What are performance measures?*

Performance measures

- Multiple types of performance measures are used, including social indicators, outcome measures, output measures, workload and productivity measures, and need measures.
- Together, these measures form a “logic model” that explains and supports a budget request.
- The logic is:
  - Identified needs justify resources (inputs, including funding and staff);
  - Inputs support program work (activities/workload);
  - Activities produce outputs;
  - Outputs contribute to outcomes
  - Outcomes improve broader social indicators.

Need → Inputs → Activities → Outputs → Outcomes → Social indicators

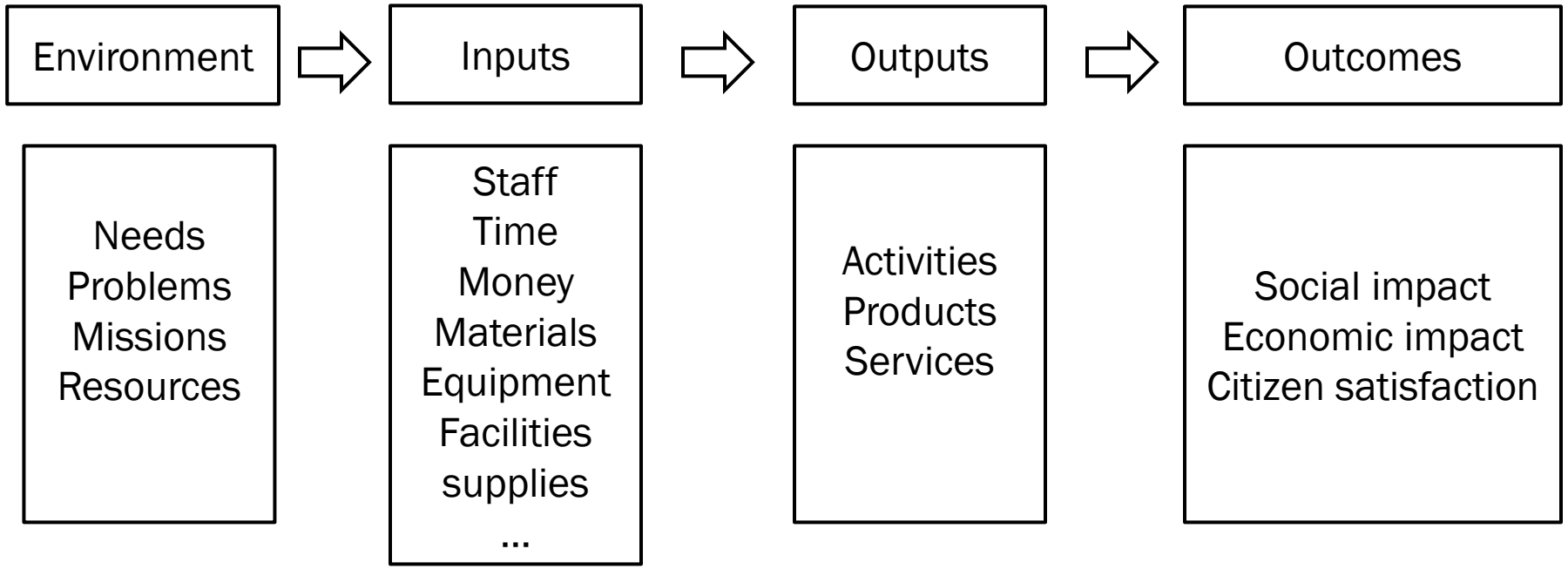
The logic model

- Example: Justifying the purchase of a fire truck **(logic model)**
  - The city has only two fire trucks, while other cities of similar size have three, which creates a need gap that leads to longer response times and higher fire damage. **(Need)**
  - Allocate $500,000 to purchase one additional fire truck. **(Input/Resource) ← Budget Request**
  - Put the new truck in service (staffing, training, maintenance, and deployment). (Activity)
  - The additional capacity reduces response time to < 10 minutes. (Output/Service level)
  - Faster response times increase rescues and reduce property damage (by $$). (Outcome)
  - Overall, community safety improves—e.g., fewer fire-related injuries/fatalities and lower property losses. (Social indicator)
- Performance measures help build a logical rationale for the budget request.

Types of Performance Measures (program information)

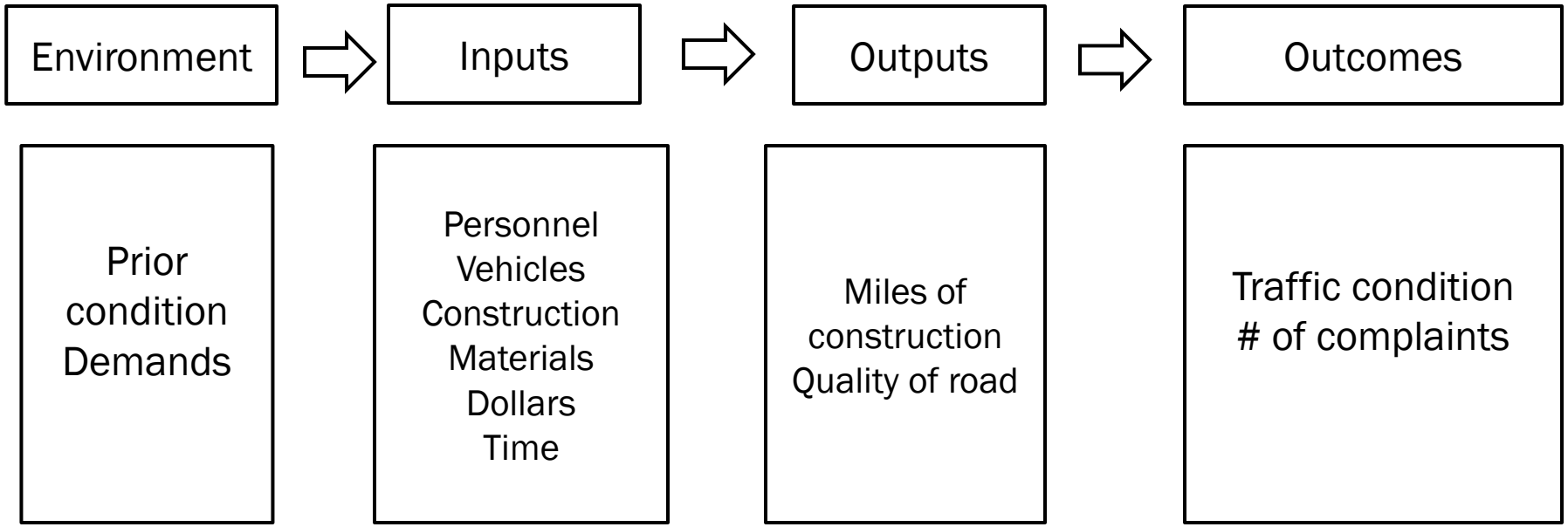
- Social indicators: Broad measures of the physical, social, and economic environment that reflect quality of life.
  - Examples: unemployment rate, educational attainment, air quality, median income, life expectancy.
- Outcomes: The intended effects of government actions or programs (often tracked with outcome KPIs).
  - Examples: higher graduation rates, improved student test scores, reduced disease rates, lower crime rates.
- Outputs: The direct products or services delivered.
  - Examples: number of patients treated, vaccinations administered, students trained, inspections completed.
- Activities / workload: The work performed to produce outputs.
  - Examples: workshops delivered, home visits conducted, patrol hours, staff hours assigned to a program.
- Inputs (resources): The resources used to carry out activities.
  - Examples: funding, staff positions, equipment, facilities, supplies.
- Need measures: The gap between current conditions and desired conditions (or demand vs. capacity).
  - Example: residents needing vaccines vs. available doses (or vaccination slots).

The logic model



Performance measurements

Example: $50,000 for road maintenance



Difficulties in using program information

- Unclear or overly broad missions: agencies may have very broad missions, making it difficult to decide which social indicators or need measures to focus.
- Measurement challenges (e.g., fire prevention education): prevention benefits are real but hard to observe, and results may take years to appear.
- Difficulty interpreting measures (e.g., social indicators): indicators move for many reasons, so changes may not reflect program performance.
- Attribution challenges (e.g., crime rates): outcomes are influenced by many actors and external conditions, making it hard to isolate one program's contribution.
- Equity considerations and competing demands: the "most efficient" option may not be the fairest. There are also tradeoffs across groups and neighborhoods.

Use performance measurements

- Highway patrol: response time; patrol hours/coverage; crash/fatality rate
- 911 service: call answer time; dispatch time; % calls answered
- Food/drink inspection: % inspected on schedule; violations per inspection; % corrected within X days
- Fire safety education: # people reached; pre/post knowledge (or behavior) change; residential fire incidents trend
- City jail system: capacity utilization; safety incidents per 100 inmates; cost per inmate per day

Systems of budgeting

- How do we budget?
  - What criteria should guide allocating resources to Activity A rather than Activity B?
- Common bases for budgeting:
  - Past spending patterns (current-services budgeting; baseline budgeting)
  - Performance and results (performance budgeting)
  - Goals and priorities (zero-based budgeting)

Budgeting systems

- Current services budgeting assumes no changes in programs, and any increases must be justified.
- Fixed-ceiling budgeting sets a government-wide dollar limit, which is then factored into limits for departments, bureaus, and other subunits.
- Open-ended budgeting asks each agency what it thinks it needs to deal with problems and provide sufficient services. This is a “what-if” approach to gather information on what could be done if resources are available.
- Performance budgeting links performance measurements with budgets and requires budget requests to be accompanied by program information for justification.
- Zero-based budgeting revisits the base of the budget and requires agencies to rejustify the budget from zero. Each program is challenged to justify its existence.
- Many of the techniques can be used in combination to form hybrid systems.

Current service budgeting

- Current-services budgeting ("incremental budgeting"): A current-services budget estimates the effects of continuing current tax and spending policies into the future.
- Current-services budgeting is commonly used because it offers:
  - Ease of use
  - Certainty
  - Agreement among stakeholders
  - Recognition of the nature of some costs (many costs are difficult to change quickly)
- However, current-services budgeting has problems:
  - Past problems will continue (inefficiencies can remain in the base)
  - Inefficient resource allocation (it does not systematically shift resources to higher priorities)

Current service budgeting example (note that it is a hybrid model)

You are the Director of the City of Albany Health Department. Your guideline budget for the coming financial year (FY) is 2.00% lower than the current FY. However, because the city cannot afford to lose any permanent staff, no reductions may be made to staff salaries or benefits. In fact, under existing pay and conditions-of-service agreements, permanent staff salaries will increase by 3.25% in the coming FY. In addition, depreciation for buildings and equipment is fixed for several years and cannot be reduced.

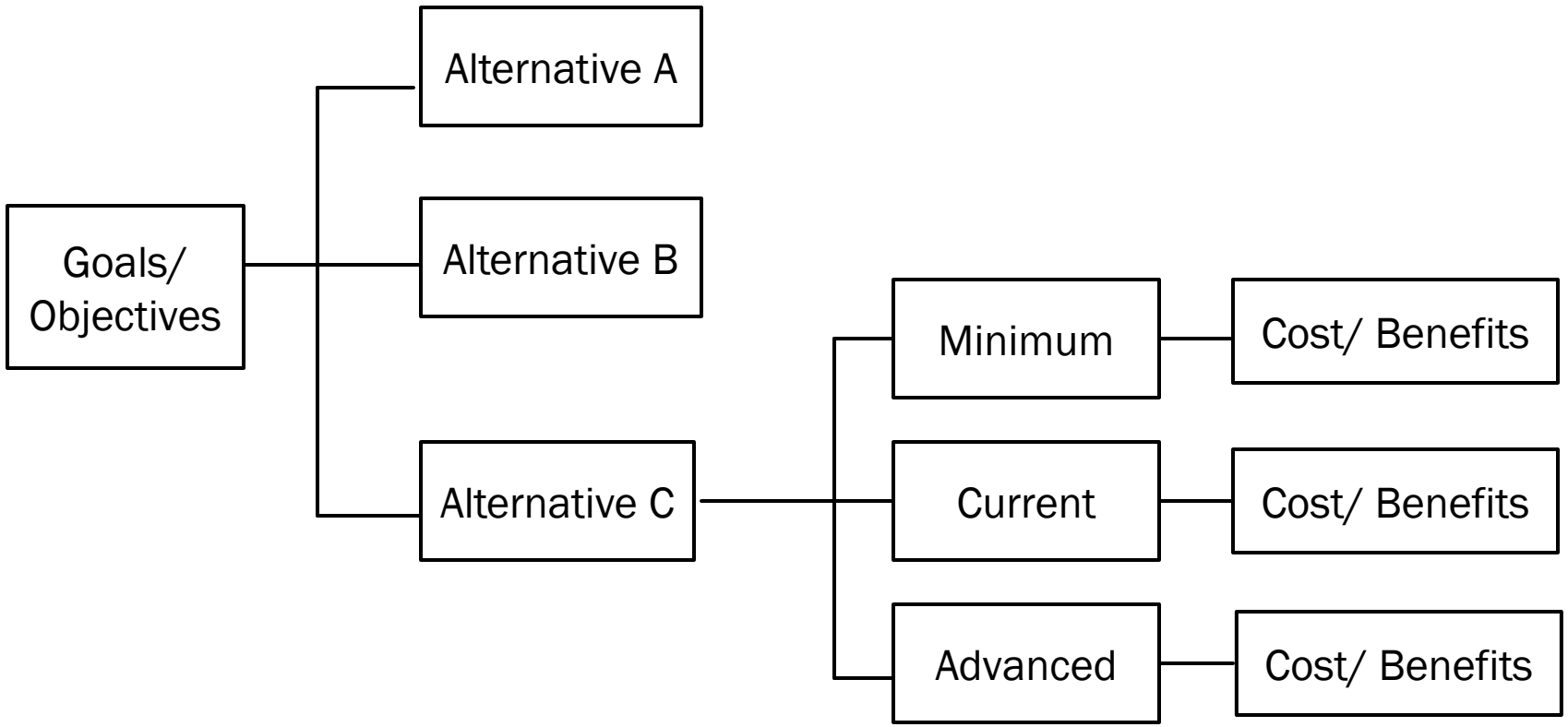
Budget Line	Description	Approved Expenditure for Current FY	Estimated Expenditure for Coming FY	Increment (percent) Increase
1000	PERSONNEL EXPENSES (Permanent Staff)	3,000,000	3,097,500	3.25%
1500	TEMPORARY & CONTRACT STAFF	900,000	865,890	-3.79%
2000	TRAVEL & TRANSPORT	350,000	336,735	-3.79%
3000	SUPPLIES AND SERVICES	7,500,000	7,215,750	-3.79%
4000	PREMISES-RELATED EXPENSES	200,000	192,420	-3.79%
5000	DEPRECIATION (Buildings & Equipment)	300,000	300,000	0%
6000	ADMINISTRATION EXPENSES	200,000	192,420	-3.79%
	TOTAL RECURRENT EXPENDITURE	12,450,000	12,201,000	-2%
	GUIDELINE AMOUNT			

Performance Budgeting

- Integrates program data (performance measures) into budget decision-making.
- Uses workload and unit-cost measures to justify the size of budget requests.
- Uses output and outcome measures to show how proposed spending will produce intended results.
- Difficulties:
  - Unclear or overly broad missions
  - Measurement challenges (e.g., fire prevention education)
  - Attribution challenges—isolating a program's contribution (e.g., crime rates)
  - Resource constraints—time, staff effort, and technical expertise

Zero-base budgeting - example

1. Initiating Process
2. Decision Unit (Program/Activity)
3. Identify Package
4. Evaluate Package



Zero-base budgeting Example

DECISION PACKAGE 1: BOOKMOBILE

PURPOSE: Provide service to remote regions served by the library. Enhance quality of life for the county's homebound and senior citizens or citizens without access to transportation.

LEVEL	ACTIVITY LEVEL	COST
BASE (min) 90%	25 hrs. per week	36,000
CURRENT 100%	30 hrs. per week	40,000
ENHANCED 110%	35 hrs. per week	44,000

CONSEQUENCES: Reduced funding means lower circulation rates among elderly library patrons.

ALTERNATIVES: Van service- rejected due to insurance costs

Zero-base budgeting Example

DECISION PACKAGE 2: IN SCHOOL PROGRAMS

PURPOSE: To encourage library use among grade school students and to enhance existing literacy programs. This program is targeted at low-income neighborhood schools.

LEVEL	ACTIVITY LEVEL	COST
BASE (min) 90%	8 hrs. per week	22,500
CURRENT 100%	10 hrs. per week (2 elementary schools)	25,000
ENHANCED 110%	12 hrs. per week	27,500

CONSEQUENCES: Reduced funding may affect literacy efforts and standardized test scores.

ALTERNATIVES: After School Program at Library – rejected due to staffing and insurance costs.

Zero-base budgeting Example

DECISION PACKAGE 3: FOREIGN FILM SERIES

PURPOSE: To Expand the cultural offerings available to county residents.

LEVEL	ACTIVITY LEVEL	COST
BASE (min) 90%	10 films per year	3,150
CURRENT 100%	12 films per year (2 elementary schools)	3,500
ENHANCED 110%	16 films per year	3,850

CONSEQUENCES: Reduced funding may cause county residents to spend discretionary income on cultural events in other counties. May affect county image and quality of life.

ALTERNATIVES: Alternate foreign films with popular and less expensive films – rejected due to lack of demand.

RANKING

1. In-School - 1	22,500	22,500
2. In-School - 2	2,500	25,000
3. In-School - 3	2,500	27,500
4. Bookmobile - 1	36,000	63,500
5. Film Series - 1	3150	66,650
6. Bookmobile - 2	4000	70,650
7. Bookmobile - 3	4000	74,650
8. Film Series - 2	350	75,000
9. Film Series - 3	350	75,350

BUDGET = 65,000

Reasons for budget reforms

- Respond to fiscal stress
- Improve efficiency and effectiveness
- Changes in government structure (e.g., professional management)
- Political leadership and support
- Staff capacity and technology (trained staff, data/IT systems)
- Legislative oversight and demands
- Legal or regulatory requirements
- Pressure from professionals (associations/experts)
- Citizen expectations and accountability demands

Constraints for budget reforms

- Staff capacity (training, incentives, coordination, communication)
- Leadership (commitment, continuity, follow-through)
- Legislature (support, oversight, political incentives)
- Citizens (trust, expectations, participation)
- Financial resources (startup costs, sustained funding)
- Information/data (data quality, access, compatible systems)
- Technical expertise (analysis, evaluation, IT skills)
- Political culture (risk aversion, resistance to change)