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Project 2: Budget Formats - Group Project

Introduction

There are a wide variety of budgets available to public agencies. They each have benefits and limitations for the organizations that use them. Therefore, before choosing a specific type of budget to use, an agency must carefully consider which type of budget will benefit them the most. This paper will examine program, line-item, program performance and zero-based budgets as used by four distinct public agencies.

Program Budget Analysis

The Indiana Program Budget organizes expenditures by each state agency. The agencies that receive the most funding are Education (K-12 and Higher), Human Services, Tax Reduction, Distribution & Reserves, Transportation and Economic Development. Appropriations are broken down within each category to total 100%. One can clearly see which segment of the agency gets the most funding.

Additionally, a pie chart is provided to compare appropriations among agencies. This budget provides the reader with the big picture about where Indiana's priorities lie. The pie chart makes it even easier to distinguish what percentage of resources are spent on each area. In this case, we can see that Indiana lawmakers value education, but that they do not spend much on the environment.

This program budget, like all others, forgoes details and instead concentrates on the strategic goals of the program (in this case, the state). Because this budget spans two years, it is easy to compare and contrast the appropriations. The allocation for Library and Public Information Services (under Cultural and Information Resources) grows by

three percent in 2004-2005. In that same category, however, Historical Resources loses over four percent. Perhaps the facilities in this category are taking turns getting renovations. We can also see that the legislature allocation (under the General Government category) increases by 1.3%. One might conclude that the lawmakers are giving themselves a nice raise. Either way, the overall spending holds fairly steady in every category.

One of the greatest advantages of program budgets is that they give autonomy to the people who run different parts of the program. Indiana's program budget gives each agency director the authority to designate funds within their agency, as they see fit. This type of budget usually assumes a plan is in place that will connect expenditures to the goals of the program. This type of budget is also good for taxpayers because it clearly shows them how their money is being spent.

The great weakness of such a budget is the amount of time, money, and conflict that go into planning it. State budgets are notorious for taking months of deliberation and argument before they become final, and they often miss their deadlines because of it, leaving people scrambling to figure out what to do. Also, in the case of the Indiana budget, some taxpayers may want to know more about what specific things they are funding. These people may not be satisfied with a budget that contains no details. However, in general a program budget is the best type for Indiana to use because as a public budget, it is necessarily easy for the citizens of Indiana to navigate and understand.

Line Item Budget

The "Big Brothers/Big Sisters of Santa Clara County Kismet Budget Year 2" is a list of expenditures for the second year of the Kismet program. It outlines items the organization will spend money on during the course of the year. Major categories of

expenditures include personnel, materials and supplies, travel, contractual, and miscellaneous. These categories are further broken down into subcodes, such as specific job positions and conferences for staff members to attend.

One positive aspect of this line item budget is that the level of detail makes it easier to update the budget from year to year. Keeping track of expenditures is also easy. Additionally, line item budgets are good for non-profits that receive grants, such as this one, because it can clearly outline how every dollar is being spent. This budget allows for a greater accountability to funders, who have specific ideas of what the program should accomplish. The funders of the example budget clearly value education as a key component of the program. There is no money set aside to buy or fund activities that are not focused on learning, such as board games or sports equipment.

This budget shows that Big Brothers Big Sisters (BBBS) of Santa Clara County had a balance of \$35,578 from the previous year. It seems, however, that the surplus cannot be carried over to the next year, and that the budget money is “use it or lose it”. Sometimes staff members are not aware that their funds disappear if they don’t use them. Now that they have it clearly indicated on this budget, perhaps the BBBS staff members will keep a closer eye on their spending so that they can take advantage of every penny they have been allocated.

There is not much room for leeway in this budget. Because of this, line item budgets can be quite difficult to devise and to use. If, for instance, halfway through the year the organization learns that it will need more than \$400 for stamps, it is difficult to obtain more money for stamps. Conversely, money for certain line items appear to be excessive for the program. For instance, \$4,400 is allocated for technical assistance

training. \$6,800 is allocated for background checks, which is an extremely high amount, considering that background checks are usually less than \$20 per person.

Either the accountants or budget managers who constructed the budget were not in touch with the actual needs of the organization, or the needs of the organization changed since the budget's construction. This organization would be better off using a program budget. That way staff members can use money in a way that would most benefit the recipients in their program.

Program Performance Budget

The City of Sunnyvale organizes its police services by using a program performance budget. The specific elements that allow the budget to be identified are that the agency's mission, goals, and objectives are described. It illustrates what each dollar will accomplish instead of what each dollar will be spent on.

The advantages of a program performance budget are that it focuses on results. Departments are held accountable to certain performance standards. There is a greater consciousness of what services taxpayers are receiving for their money. The budget is flexible because the money is often allocated in lump sums, providing managers with the flexibility to determine how to best achieve the results. The disadvantages of a performance budget are that it is difficult to measure outcomes in the short-run. In addition, some public programs are not as popular as other programs. Program supporters and advocates believe that higher measures of performance will not fundamentally change the support they are likely to receive from the general citizens (Morgan et. al., 2005).

The City of Sunnyvale is using the budget to compare Sunnyvale averages of that current budget year with the average of seven calendar years for county, state, and

national comparisons. They are giving an important indication of how the dollars are expected to turn into results by outlining a general chain of cause and effect. It shows how dollars fund their day-to-day tasks and activities, how police services are expected to generate outputs, and what outcomes are to be expected. The limitation of using a performance budget is that the budget categories are not specific; rather, they are lumped together into general categories. The City of Sunnyvale chose this format because it clearly demonstrates that the city's police services are producing the goals they have set. In addition, Sunnyvale is performing much better than the national, state, and local averages, as shown by this budget. They are also reaching their intended goals, proving that the money being allocated to police services is being used effectively.

The City of Sunnyvale should continue to use the performance measure budget with police services so that individuals can track the police departments' results. It shows the upward progress that police services are making with the money that is being allocated to them, and how will continue to make progress the following year. Clearly the priorities of the agency are to provide police patrol, a category which has been allocated \$3,223,830.91. The fiscal trends seem to be that every year even though the products and the work hours are virtually the same, the production cost as well as the cost, increased.

Zero-based Budget Analysis

Zero-based budgets are recognizable because of their primary components: the base budget, decision units, reduced-level budget and decision packages. All decision packages are ranked by priority, which allows for important existing programs to be maintained while also permitting the addition of new programs. Zero-based budgeting is commonly used in government because it allows managers to try new programs and rethink those that may not be fully effective. It also prevents the workplace from

presuming the status quo and presents the occasion to reallocate resources. These are two main reasons why the Community Corrections Department (CCD) is using this budgeting technique in the example provided. (“Budget Formation,” 2004)

Money is tight in correctional institutions, and the CCD appears to be using this technique to reevaluate the effectiveness of its current programs (i.e. restitution center) and to remain innovative in its program creation throughout the years. Each decision package outlines the goal, methods, alternatives, impact, measures, and designated budget. The budget section provides a limited amount of information including, cost of personnel services and materials and supplies, the amount of fulltime employees, and the general fund amounts. They also use the summary page it to lay out what funds are designated to each decision package by various donors. (“Budget Formation,” 2004)

There are also some negative elements to using zero-based budgeting. It can be a difficult process for managers as well as employees when their programs are cut or are at risk of being cut. Employees may feel underappreciated, especially when they feel that they, or their department, are on the chopping block each year. It also takes a great deal of time to prepare the various decision packages, which could take time away from other necessary functions. (“Budget Formation,” 2004)

This budget clearly shows the priorities of the CCD since they are ranked in order of the decision packages. Restitution comes first, followed by job development and finally probation monitoring. Unfortunately, not much can be deduced about the CCD’s fiscal trends since this technique does not give budget allocations by decision package for the previous year. As for the fiscal status of the department, the budget shows that 56.6% of the department’s funding comes from State and Federal government, 16.6% comes

from the general fund and 26.5% comes from other sources but does not show if they are under-funded or over-funded. (“Budget Formation,” 2004)

While it is important for corrections agencies to stay ahead of the curve and properly protect and serve their communities, zero-based budgets require a great deal of time to prepare. Therefore, a program performance budget may be more appropriate for the Community Corrections Department. This type of budget would allow the department to have even more specific goals for each program and would closely evaluate performance so that the department could better determine whether or not to drop a program. (“Budget Formation,” 2004)

Conclusion

After observing four types of budgets and analyzing the benefits and limitations of each, it is clear that only half of the agencies are using the budget that correctly suits their needs. Big Brothers Big Sisters and The Community Corrections Department may be better served using different types of budgets. That being said, there are often constraints that public agencies encounter when forming their budgets. Big Brothers Big Sisters, for instance, is mandated by their grantor to use a line item budget. Important components to consider when choosing a type of budget to use are the goals of the agency, the amount of time they have to invest in budgeting, and any limitations that may arise according to the agency’s needs.

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