

North Lincoln

If I were a cabinet secretary and could have just one power, I would choose the power of budget review since theoretically it should give me all the clout I need. I just don't know what happened between theory and reality, but I do know that most of the Secretaries are not very happy with the system.

The speaker was Olin Thomas, Assistant Secretary of Administration and Finance and Director of the Office of State Planning and Management for the state of North Lincoln. He was reflecting on the nature of the changes that had taken place in the state's executive branch during 2006 and 2007. He continued:

The basic intention of state reorganization was to increase the Governor's control by having him deal directly with fewer people. Prior to reorganization, there were several hundred agency heads reporting to him, creating a very unwieldy system.

The agencies were organized into ten Secretariats [see Exhibit 1], and the Secretaries were given the power of budget review; that is, they were to review the budgets submitted to them from each agency within the secretariat, assure themselves that the budgets were adequate and properly directed, and make whatever changes were necessary before submitting them to A&F for final review. Under reorganization, the Secretaries were also given the responsibility of program evaluation, resulting in the power to create, budget for, evaluate, and dispose of both programs and agencies within their Secretariats.

At least that's how the process was supposed to work. I'm not clear as to exactly why it's not working that way, but it isn't.

BACKGROUND

In late spring 2009, Mark Davidson had assumed the position of Secretary of Administration and Finance (A&F) for North Lincoln. One of the principal problems he faced concerned the state's budgeting system and the many changes that had taken place as a result of the reorganization of the executive branch into ten Secretariats. It had not taken him long to realize that some sort of drastic action was needed to improve the system.

The process of preparing and implementing the state's annual operating budget was a long and complex one that had undergone several changes between 2007 and 2009. There were essentially five participants in the process: the Governor and his staff, A&F, the other Secretariats, the Bureau of the Budget (BOB), and the Legislature. The role of each participant had not been well-defined, either with respect to the budget or in relation to the other participants. One of Mr. Davidson's goals was to develop procedures and systems that would assure the state of effective budgeting and control.

Organization

Following reorganization, each of the 10 Secretariats had an average of about 30 agencies reporting to it. As Exhibit 2 indicates, each agency comprised several divisions, and each division had several appropriation accounts, each of which was thought of as a major program. As Exhibit 2 also shows, there were some 20 subsidiary accounts, which were the budgetary line items for an appropriation account.

Exhibit 3 shows how the budget was carried out for a large state agency, the Department of Mental Health. As it indicates, some major programs (i.e., appropriation accounts) were further divided into several subprograms. For example, a community mental health center (a major program) could be divided into such subprograms as day treatment, sheltered workshops, and after care.

As Exhibit 3 also indicates, responsibility for carrying out the budget took place along two dimensions. One was field operations and facilities, which corresponded to the agency's organizational structure (the left side of the exhibit). The field operations activity comprised regions at the highest level, followed by facilities, areas, and units within the facilities. Field operations and facility managers received budgets from the account executives (on the right side of the exhibit), and needed to adhere to them while striving to meet the objectives of the programs and subprograms that the budget funded.

Account executives could not spend more than the amount in their appropriation accounts. Their role was to determine which regions and facilities could best meet the needs of each major program and its various subprograms. The result, as the exhibit indicates, was that not all regions or all facilities had all programs or subprograms.

The Budget Cycle

Budgeting was an annual activity carried out in conjunction with the legislative program activity of the executive branch. The timing was such that both the budget and the Governor's proposed legislation were submitted to the legislature in January, six months prior to the fiscal year to which they pertained. Exhibit 4 shows the timing of the various activities, which are discussed in detail below.

In July of each year, the 300 or so state agencies began to prepare their budgets for the next fiscal year. In late summer, the budgets were submitted by the agencies to their Secretariats, where they were reviewed and sometimes modified by each Secretary and his or her staff, usually in consultation with the submitting agency. They then were sent to A&F for final review.

A&F reviewed the budgets, also making modifications.¹ Once the A&F review was complete, the Secretary of A&F notified all other Secretaries of the changes he had made. If a Secretary wished to appeal the A&F changes, he or she could do so, and A&F and the Secretary attempted to reach a compromise. Where a compromise could not be reached, the questions were taken to the Governor and his staff for final resolution. Once the difference had been resolved, the Governor submitted the final budget to the legislature as "House of Representatives Bill 1," commonly known as HR1.

Revenue estimates were also included in HR1, but received minimal treatment. By law the Governor was required to submit a balanced budget, although to do so he or she could draw on the available balance of 17 different revenue funds. As a result, it was not necessary for the revenue collected in a given year to equal the expenditures for that year. However, all the funds had specific uses, and there was no transferability among them. Therefore, if one fund had a large surplus, that surplus could not be used to finance a deficit in another fund.

Of the 17 revenue funds the two most significant (comprising approximately 90 percent of total revenues) were the General Fund and the Highway Fund. The General Fund included federal reimbursements, state income taxes, and other revenues not associated with one of the special-purpose funds. The Highway Fund included gasoline taxes, fees from the Registry of Motor Vehicles, and other highway-related revenue. Although most state expenditures were from the General Fund, many line items in HR1 contained references to one or more special-purpose funds, since, by statute, revenues from these funds were to be used for certain specified purposes.

HR1 went to the Ways and Means Committee of the House of Representatives, where it was reviewed, and where various officials of the executive branch were called on to testify. Every Secretary participated along with a representative of the Bureau of Fiscal Affairs. Frequently, agency heads and their staffs from within the Secretariats were also called on to testify.

The Ways and Means Committee made whatever modifications it deemed necessary and then brought a full budget before the House for passage. This document contained the committee's total recommendations, and a final figure. Debate took place, amendments frequently were made from the floor, and ultimately the budget was passed.

After the budget had been passed by the House, it was sent to the Senate Ways and Means Committee for review. This committee made amendments to the bill, frequently of a fairly substantive nature, such as changes in appropriation levels, increases or decreases in personnel levels in programs, and occasionally the complete elimination of an expenditure item. Significant changes also could be made to the wording of the budget, such as the number of hours a teacher must work at a state-supported university, or specification that state funds could not be spent until federal reimbursement was received.

The Senate Ways and Means Committee sent its version of the budget to the full Senate, which also could make changes. Ultimately the Senate passed its version of the budget. Differences between the House and Senate versions were resolved in a conference committee, and a revised budget was returned to both houses. When the two houses reached agreement, the budget was sent to the Governor for signature. The Governor could line-item veto or line-item reduce whichever appropriation accounts² he wished, as well as veto the budget in its entirety. Generally, he made whatever line-item changes he wished and signed the budget into law.³

At this point the funds were appropriated to the Governor, and he in turn allotted them to the Secretariats through A&F. There were three allotments a year, each of which could contain whatever portion of the budget the Governor deemed appropriate, although each allotment ordinarily consisted of one-third of the budget. This process forced the Secretaries to conform to the cash flow schedule determined by A&F in that they were not allowed to spend more than their allotment for any four-month period. Additionally, with the exception of the state's public higher education institutions, which were fiscally autonomous agencies and were required to receive their entire appropriations, the Governor could refuse to allot the total amount appropriated if he deemed it necessary to do so.⁴

If, as the fiscal year progressed, the Governor determined that it was necessary to spend more than the legislature had appropriated, he could prepare a supplemental budget for the additional funds. This was submitted to the House, where it followed the same course as the original budget. There were two types of Supplemental budgets: Corrective and Deficiency. The Corrective Budget anticipated shortfalls in funding and attempted to deal with them before they occurred; the Deficiency Budget did not anticipate shortfalls, but rather dealt with them "after the bills had been received."

THE LAST THREE YEARS

The fiscal year (FY) 2008 budget was the first one submitted after the creation of the Secretariats. Since the budget was almost complete when most of the new Secretariats came into office, it was sent to the legislature without their input. Generally, the Secretaries used the FY 2008 as a basis for gaining a better understanding of the agencies under their jurisdiction.

The budget preparation process for FY 2009 and FY 2010⁵ was marked by a number of changes, including the introduction of the secretarial review procedure, which began in 2009, and the experiment with budget targets. The FY 2009 budget was prepared with each Secretary reviewing the budget for each of his or her agencies. In so doing, the Secretaries were operating under two mandates from the Governor: (1) to structure their budgets along the lines of the proposed reorganization plan for their secretariat, and (2) to maintain their budgets at specified target levels established by A&F.

The Secretaries and their staffs modified many of the agencies' requests and rearranged the accounts (including subsidiary accounts in some instances) according to each Secretary's proposed reorganization plan. Additionally, in preparing the budget for submission to the Legislature, the BOB omitted the column showing what each agency had requested, and included only the Secretaries' (Governor's) recommendations.

Two difficulties emerged from these actions. First, many of the agencies whose budgets had been cut at the secretariat level went directly to the House Ways and Means Committee saying that the budget recommended for them by the Governor was not enough. Second, the legislature indicated that since full state reorganization had not been approved, the budget in the form submitted was not acceptable. Not only did the legislature require the resubmission of the budget in the old

format, but it also increased the appropriations for many agencies above the Governor's recommendation and indicated that in the future it would not consider a budget that did not contain both requested and recommended amounts.

The FY 2010 budget was prepared under the supervision of the Office of Fiscal Affairs. The Deputy Secretary for Fiscal Affairs, Michael Edwards, and his staff worked closely with the Secretariats to define programs and priorities. No target figures were given to the Secretaries, however; instead they were asked to rank their requests in discrete programmatic packages, in priority order.

To bring the total budget figure in line with what the Governor wished to submit, the Fiscal Affairs staff then eliminated one or more low-priority programs. At that point, the Secretary of A&F, Charles Williamson, reviewed the policy requests of the Secretariats and decided himself on a number of priorities. He then sent letters to both the agencies and the Secretariats outlining his decisions. The Secretaries and agency heads were allowed to appeal any decisions they did not like, and Mr. Williamson made some changes as a result. He then prepared a formal letter outlining his final decisions and notifying the Secretaries that they could appeal his decisions to the Governor if they chose to do so.

Five Secretariats—Education, Human Services, Elder Affairs, Manpower, and Community Development—appealed Mr. Williamson's decisions. Of the \$125 million in dispute some \$80 million was conceded to the Secretariats by the Governor. Two documents emerged at the end of this effort: *The Budget in English*, which was a new document that presented the budget by major programs (appropriation accounts), and the standard line-item request sent to the legislature as HR1.

Exhibit 7 contains a complete breakdown of the FY 2010 budget. As it shows, some \$2.7 billion was requested by the Secretariats, of which about \$2.5 billion was recommended by the Governor. A \$2.4 billion budget finally was passed by the legislature (about \$61 million less than that recommended by the Governor).

FISCAL YEAR 2011

The FY 2010 budget went into effect in July 2009. As the Secretaries and agencies began to turn their attention toward preparation of the FY 2011 budget, they learned that A&F had established a slightly different set of requirements. The principal change was the return to target levels, but this time combined with the programmatic requests. Essentially, the Secretariats were being asked to specify which programs they would like to include if their total budget were 10 percent below that for FY 2010, and what they would do with a variety of increments above the target should additional funds be available.

Since the base level was set at an amount below the FY 2010 level, the Secretariats effectively were being forced to put some of their existing programs into the incremental levels. This change caused some concern on the part of some of the Secretariats and their staffs, particularly since many of them were not yet clear on the nature of the relationship between themselves, the Office of Fiscal Affairs, A&F, the BOB, and the Governor. In fact, a number of issues remained unresolved at this time that impaired the smooth functioning of the budget process.

OUTSTANDING ISSUES

There were six unresolved issues that related to the budget process: policy guidelines, target budgeting, the role of A&F, the role of the BOB, the role of the Legislature, and the use of the budget as a management tool. Much of Mr. Davidson's success in achieving a more effective budgetary system depended on how he resolved the issues that were under his control, and how he approached the constraints created by issues that he could not control.

Policy Guidelines

With regard to policy guidelines for use in budget preparation, many of the Secretaries felt that they received no clear direction from the Governor as to his priorities. David Johnson, Assistant Secretary for Manpower Affairs, described the problem from his perspective:

In the U.S. Government, the political priorities tend to get laid out early in the budget process. Programs that are necessary for political reasons and must be included in the budget are specified. Then you send the troops out to prepare the budget. Here we don't know what the Governor's political priorities are in any detail until after we've prepared the initial budget. Then we have to begin the process of reshuffling programs.

Thomas Stevenson, Special Assistant to the Governor, commented on the problem the Governor faced with his political priorities:

I realize the Secretaries may feel that they get no direction in the early stages of budget preparation, but I think they ignore the problem of the budget cycle in relation to the political cycle. [See Exhibit 2.] Currently [July 2009] the agencies are preparing their 2011 budgets, yet we're still in the middle of the 2009 legislative session. In the best of years, we're three months behind the agencies.

This is extremely important because many of the legislative proposals prepared by the agencies have massive fiscal implications. For example, the Department of Public Welfare wants to file legislation increasing the cost of living allowance for all Family Assistance Programs, which implies several million dollars of increased expenditures. Since we don't know what the Governor's legislative proposals will be prior to the time the agencies begin preparing their budgets, we tell them to plan to spend what they spent last year—we call this the zero-based budgeting approach. Effectively it deals with the problems of specifying priorities.

Harold Edmunson, Director of the Bureau of the Budget (BOB) added still another point of view:

The Governor does not outline his objectives to the various state agencies, which means that they can request just about anything they want. Then the Governor can cut their requests and go to the Legislature saying that he has cut the budget.

Steven Charles, the state's first Secretary of Administration and Finance, who had become a senior budget analyst with the state's Taxpayers' Foundations, added still another perspective:

The Secretaries' role in the budget process is one of working with their agencies to assure appropriate discipline. As things stand now there is little discipline either among the Secretaries or between the Secretaries and their agencies. The Governor has got to make his priorities known to the Secretaries in order to resolve the first problem, and the Secretaries need to develop a system that will prevent their separate agencies from promoting their programs without consideration for the Governor's overall fiscal plan.

As things stand now, the Executive Branch is not unified, and this lack of unity is best typified in the discrepancy between the two sets of figures in the budget: requested and recommended. The Legislature has required that two sets be submitted, but there is nothing to say that the two sets have to be different.

Mark Roberts, a staff assistant to Mr. Edwards, commented further on these issues:

You would think the Executive Branch would be a team—a rather collegial group of individuals working together for essentially the same ends. But that's not the case. Many Secretaries, for example, are rather closely allied with the legislature, which is like a sales manager going to the Board of Directors and saying "my boss says we don't need this money, but we really do." The situation is further complicated by the fact that the Governor is always in the position of trying to balance the conflicting demands of the electorate. His interest in fiscal matters consists of looking for ways to get the funds he needs to implement the programs he wants.

Target Budgeting

Mr. Edwards described his feelings about the target budgeting approach used in FY 2009:

In general I don't believe in the target system, and it was used in FY09 only for the sake of expediency, since Chuck Williamson and I came to the state in October 2007 and budgets were due in January 2008. The target system limits the choices available to the Governor by eliminating competition among the Secretaries for funds. On the other hand, a target system has the distinct advantage of forcing a Secretary to eliminate some programs in favor of others; this in turn creates some interest in cutting old programs and developing new ones.

For FY11 we are adding an element to the target approach that helps the Governor make policy decisions that are consistent with his views and the Secretaries' priorities. Each Secretary has a base budget figure as well as a number of increments which are to contain programs in priority order with dollar amounts attached. If the Governor wishes to add programs he can pick them according to the Secretaries' priorities, knowing how much each discrete package will cost. Since the base figure is set at an amount below the current budget level, the Secretaries are forced to put some of their current programs into the increments. Thus, they are forced to be very careful in working out their priorities, and the Governor is not locked into all of the existing programs.

Mr. Johnson outlined the way he, as an Assistant Secretary, viewed budget targets:

Budgeting is much easier with targets, but you have to recognize that the Secretariats make most of the budget allocation decisions within their Secretariat-wide budget targets, and A&F only really reviews the budgets at the margins.

Scale of operations is a very significant factor in this process, however. You cannot apply the same rules across the board—that's like saying that foot soldiers and fighter planes can be evaluated in the same way since they're both defense items. Our secretariat has only about \$14 million a year, while Human Services, for example, has about \$1.4 billion, about a half of the state's entire budget. It's relatively easy for me to say without consulting any of our agencies what the implications are of a 10 or 20 percent cut in funds. But in Human Services, the exercise is one of making complex tradeoffs. Thus, different sets of political "rules" for making budget decisions are applied to different areas of government.

Mr. Roberts added some perspective to the question of making tradeoffs within a target budget framework:

One problem with target budgeting, particularly when we talk about asking the Secretariats to come in with budgets below the level of the prior year, is that approximately two-third of the budget is non discretionary. It consists of pensions, retirement funds, certain welfare payments, and so forth, all of which must be included.

To resolve this problem, we excluded these sorts of items when we calculated the targets. But there's an even more serious problem, and one for which we could not correct when we calculated the targets: there are statutes on the books that require enforcement; that is, the Legislature has passed laws and expects us to enforce them. When we require agencies to come in at targets that are below their total budget levels of the prior year, we may be putting them in a position of deciding which laws to enforce and which to not. A good example is the Department of Public Utilities (DPU). Laws have been passed that require the DPU to analyze and review the fuel adjustment clause. But the DPU is sorely understaffed, and if they're to meet the statutory intent of the Legislature they must have sufficient funds in their budget to carry a larger staff. By forcing them to meet targets, we make this very difficult.

The Role of A&F

Owing to the changes that had taken place in the state over the past three years, the relationship between A&F (and its Office of Fiscal Affairs) and the other Secretariats was still evolving. Lionel Lewis a staff assistant to Mr. Edwards, commented on some of the directions being taken in that relationship:

It is paramount to understand what the Executive [i.e. the Governor and his staff] does. Without this understanding, it is difficult to comprehend the budget process. For example, in some states, the Governor meets regularly with his fiscal advisers to review budget priorities and requests. Any proposed new programs affecting the budget are always cleared with the fiscal staff.

In this state, the Governor doesn't deal with all of his Secretaries directly, although he occasionally uses them as inputs to his speeches. Most of the direct contact with Secretaries is handled through the Governor's staff—people like Tom Stevenson. Chuck Williamson could always contest a decision made by Tom Stevenson, but he didn't always win. Yet, win or lose, he was still responsible for balancing the budget.

In essence, then, the question is whether A&F should be a funnel for the budget or whether it should exist in a parallel relationship to other Secretariats. Currently the funnel approach is theoretically used, but the actual process is much more informal.

Mr. Charles put the situation in some historical perspective:

Part of the problem with all of this, as I see it, is that reorganization is not fully understood. Governor Vickers, [2002-04] who had the original idea, conceived of the Secretaries as members of a cabinet who were to be the Governor's representatives. But, in fact, the Secretariats have become advocates of the agencies under them, i.e. advocates of spending. Under the reorganization plan, there is really no strong central authority to look at the total budget and recognize that there are priorities outside each secretariat's own domain. As a result, too little emphasis has been placed on the budgetary problems faced by the Governor.

Mr. Edwards described the role of the Office of Fiscal Affairs, as he saw it, in relation to the Secretaries:

Our major effort should be in defining the programs where the state is spending its money, and in determining their success. We should identify major areas of possible cost savings, and I should help the Governor make major policy changes.

I think it's important to underscore the basic philosophy that underlies this approach. The first and most important point is that ultimately all executive power is the Governor's; not the Secretariats and not ours. Clearly, though, A&F has a fair amount of influence on what he does. Second, the Secretaries should not be program advocates, but rather an extension of the Governor.

Finally, the budgeting system should be one that focuses on discrete packages, i.e. programs, not on typewriters and pencils. We ought to be out of the day-to-day decisions of the Secretariats, and we shouldn't worry about whether the Department of Education for example, monitors schools over the telephone or by actually driving out to the school.

Once we have our base level or target system established and operating, we'll be able to get out of day-to-day decisions. Since the Secretaries will have assigned priorities and made the necessary tradeoffs to meet the base level target, I'm willing to assume that they will have thought about what's important.

Frank Harris, Assistant Secretary for Environmental Affairs, reacting to Mr. Edwards' ideas, emphasized his concern over the relationship between the Secretariats and the Office of Fiscal Affairs:

One of the major unresolved questions that faces us at the present is that of the role of the Secretary of A&F in relation to substantive program decisions within each of the Secretariats. Is it Mr. Edwards' business, for example, to tell me if I need more rinks and pools? Or should he make sure that I have assessed the need for rinks and pools adequately in light of other possible uses of funds? Or should he simply make sure that I know that the rinks and pools are well managed and cost effective?

While I can't speak for all other Secretariats, I can assure you that most of us had a very difficult time with the FY10 budget. Without target figures or policy guidance we were forced to go it alone. Mr. Edwards' analysts tried to get into the substance of our programs instead of setting fiscally sound standards and norms, and they got into lots of trouble. Since I wouldn't develop a priority ranking of my programs, Edwards' analysts tried to do so, and failed miserably.

When we reached the negotiation stage, we found that our budget was being reviewed by the Office of Fiscal Affairs for program policy and by the BOB for technical soundness. A split developed between the two groups and we made maximum use of it. We first resolved the technical issues with the BOB, leaving only policy issues. Then, when I would negotiate a policy issue with Edwards, I would tell my agency heads to work out the corresponding technical items with the BOB. Since communication was poor between the Office of Fiscal Affairs and the BOB, we were able to play one off against the other and generally I got everything I wanted.

William Burtons, Assistant Secretary in the Office of Educational Affairs, agreed with Mr. Harris' concerns, and added some of his own:

One of the most serious problems that we in the Secretariats must face is dealing with A&F, and they don't even know how to manage their own house. A&F has three layers in their budget review session: the Bureau of the Budget, Fiscal Affairs, and Personnel. Except for Fiscal Affairs, these are old bureaucracies with all sorts of traditional bureaucratic problems. The Bureau of the Budget does the routine green eyeshade work and has little power. Personnel counts noses and resists either cuts or increases in the number of employees. The Fiscal Affairs staff are all very competent, but they have been given the wrong assignments. They're trying to second-guess what I'm doing rather than identifying policy issues in the relationships between the various Secretariats.

In a nutshell, then, reorganization has given increased power to the Secretaries, but it has not led to increased efficiency, since policy has not really been decentralized. I can create all sorts of techniques to evaluate and establish policy, but I can't implement them because A&F can't deal with the concepts I'm using.

Mr. Johnson commented on some of the politics involved in the relationships:

I think it's important to recognize that there are some internal politics involved. Mike Edwards has introduced some excellent techniques, but he's still not part of the Governor's political decision-making process. The political decisions get made in the Governor's office by a relatively small group of people, and the Secretaries realize this. They will not take seriously anything Edwards says until the word comes from the Governor's Office. Finally, since there is no formal cabinet procedure, the Secretaries are really not part of the process either. All of this tends to inhibit the smooth operation of budgetary decision making.

Stan Kurtzman, a staff analyst in the Office of Fiscal Affairs, responded to some of the complaints:

When those of us on Mike's staff start questioning specific policies, such as whether a secretariat should increase a particular amount by 4 percent or 5 percent, that's wrong, unless we have clear criteria. But we should make judgments about whether an entity is efficient or not—that is our business. I should be asking the kinds of questions that will improve management and help me to understand if an agency is doing the right thing in the first place; that is, whether it has an established policy with performance measures established as well as workloads (i.e., efficiency and effectiveness measures). If they aren't doing the right thing, I should at least assure myself that they're doing the wrong thing well (i.e. efficient if not effective).

But my problem is how do I decide what's right and wrong? Without fully immersing myself in an agency's affairs, I don't have the ability to make this judgment, and I simply cannot answer Mike's questions about whether Agency A should have its budget increased at the expense of Agency B or C or whatever. Thus, I have taken the approach of insisting that the agencies for which I'm responsible establish measures of effectiveness and efficiency and routinely turn out reliable data that I can use to make judgments. So far I have seen little in the way of adequate information.

Objectivity is another issue that must be considered here. It's hard for a secretariat staff person to be objective since he's competing for money. But we on Mike's staff can be much more objective in our interagency comparisons as well as inter-secretariat comparisons. We can ask the right questions. We can insist that performance be measured so that we can determine if they're doing a good job. For a Secretary or his or her staff to answer questions of this sort is like trying to mix oil and water—they are in direct conflict. A Secretary is too often only an advocate or spokesman for his agency and not a hard-nosed agency overseer, and in this role we really can't and shouldn't expect him to spend a lot of time worrying about cost-effective ways of doing things. It would be fine if the Secretariats would fulfill this role, but unfortunately it must be our concern.

Finally, Mr. Edwards added his point of view:

The assistant Secretaries would like Fiscal Affairs to give them a target and let them make decisions within that target. But that begs the question of how the targets are decided—of how resources are allocated among Secretariats. Because resources are limited, the Governor cannot give each Secretary all he or she would like, and our job is to give them program data and staff backup to make these tradeoffs as rationally as possible. We pose the issue to the Governor as to whether he should have more rinks and pools or whether, in light of other possible uses of funds both within a given secretariat or between that secretariat and others. The problem is one of scarcity. Whenever we give one secretariat some funds we are effectively taking them away from others.

Role of the Bureau of the Budget

Historically, the BOB had had five responsibilities: (1) collecting agency budget requests, (2) reviewing the accuracy of agency calculations, (3) verifying agency estimates for expenditure such as food, fuel, and equipment, (4) reviewing allotments and accounting reports, and (5) preparing the budget document. Under reorganization, particularly with the creation of the Office of Fiscal Affairs, its role had changed considerably, and it had been placed under the Office of Fiscal Affairs (see Exhibit 1) to help coordinate policy decisions with budget preparation. Harold Edmunson, the BOB's Director, commented on some of the changes:

The role of the Bureau of the Budget is in a state of flux with reorganization. In the first place, the Governor of this state, unlike many other governors, is not particularly interested in the budget. I haven't talked to the Governor in the past five or six years, which is very different situation than in most states. Here the power is distributed to the Secretariats, with A&F in charge of fiscal affairs. In the past few years the Office of Fiscal Affairs has taken away many of the functions of BOB. In fact Secretary Williamson saw the BOB as a group of technicians who simply assemble the budget rather than perform any control functions.

Another observer commented on the implications of the change in structure:

The BOB not only used to be the executive agency that assured program compliance, but it also assured the Executive and Legislative branches that there was compliance with the appropriation amounts. Reorganization decentralized most of the budget preparation and practically all of the financial control procedures that were formerly under the BOB's jurisdiction. Now, the so-called control features of the Appropriation Acts are enforced by the various Secretaries. Thus, when the appropriate use of state funds is in question, the Legislature is supposed to deal with the related secretariat instead of the BOB.

The Role of the Legislature

In fulfilling its constitutional requirements of reviewing and approving the budget, the legislature exerted considerable influence over management of the Executive Branch. One observer described the general situation:

We are known as a strong legislative state, which is true. As a result, anything that tends to weaken the Legislature is opposed. The creation of the Secretariats was an attempt to put some additional strength in the Executive Branch of government. Probably the only reason that reorganization even got through the Legislature was the fact that the President of the Senate thought he was going to be Governor, but that didn't happen. As a result of the new potentially stronger Executive Branch, the Legislature frequently attempts to emasculate the Secretariats.

Mr. Harris expressed his concurrence, and added some further dimensions:

When the Legislature finally enacts the budget, it delegates power to the Ways and Means Committee to schedule certain items, such as personnel positions. While the Governor can line-item veto a particular account, he cannot veto subsidiary accounts; so when he accepts an account, he accepts it in whatever way the Ways and Means Committee establishes it. Further, nothing can happen until the Ways and Means Committee releases the schedules. Usually the budget is released in mid-June, but the schedules don't arrive until mid-August, after the Ways and Means Committee has decided which personnel positions to include. You can imagine the patronage that develops as a result of that process!

Mr. Johnson was also critical of the Legislature:

It's important to bear in mind that 80 to 90 percent of the state's budget is committed by statutory legislation. Laws are on the books that require enforcement, and funds are necessary for that enforcement. This situation exists owing to the philosophy of our Legislature—they bite off more than they can chew and let the administration digest it. For example, we administer the minimum wage law. While you can argue that we shouldn't enforce the law, since that is primarily the responsibility of the Federal Government, it is on the books here, too, and we really don't have much of a choice.

Additionally, the minute restrictions put on budget management by the Legislature make our job difficult, and needlessly so. The Legislature, by delegation to the Ways and Means Committee, controls the most minute details of personnel, leasing, consulting contracting, and a number of other important areas. Many of the requirements have only nuisance value, since the Legislature takes no action. In other areas, such as changing or creating position titles or descriptions, the Legislature insists on substituting its judgment for that of the Executive. Aside from being bad management, that's a clear violation of the separation of powers in the state's Constitution.

Mr. Roberts expressed some disagreement:

In analyzing the contrasting roles of the Legislature and the Executive, it's important to understand how the budget really works. First, most accounts consist almost entirely of personnel expenditures, so the capability to move funds between subsidiary accounts is not really too important. Second, although you theoretically cannot move funds between accounts, people are frequently paid out of one account and work in another, which really amounts to the same thing. For example, the Division of Insurance has insurance inspectors, but about all they ever inspect is a personal computer; this is necessary if we are to pay an experienced data-entry clerk appropriately. So even if the Legislature wants to set policy they really can't since they don't have the tools.

The Budget as a Management Tool

Mr. Roberts assessed the general way that budgeting affected management in the state:

In North Lincoln, the thrust of budgeting is the preservation of a base and arguing at the margins. The statutory language distinguishes between maintenance of existing programs and the creation of new programs, and it is new programs that both create the need for measures of effectiveness and occasionally lead to conflicts with existing programs. For example, deinstitutionalization has taken many mental health clients out of the large institutions and put them into smaller facilities in local communities. But, for political reasons, no employees have been fired from the institutions. A cost-effectiveness analysis would probably show that deinstitutionalization was highly desirable, but such an analysis does not include the cost of maintaining the institutions intact. So, the budget is really a management by exception approach, but in the most pejorative sense possible—old

programs keep going, while new ones are analyzed and implemented. The result is a patchwork of programs. If we knew about all the programs in the budget, we would say "My God, why are we spending money on that?!" But basically we don't know what's going on.

Probably the classic case of the control problem is the Welfare Administration account. This account consists of \$256 million which is used to deliver services, administer payments, handle food stamps, and a variety of other activities.⁶ We don't know how much it's costing to administer any of these programs individually, since all we know is position names, which doesn't really tell you what the person is doing. Nothing in the way of results is projected, so we have no idea of effectiveness either.

My personal feeling in response to this is that the Legislature doesn't really want to know about issues such as cost-effectiveness—it would be too much for them to deal with. Although they supposedly are the decision makers, they don't really have the time to dig into things. They focus on pet programs but don't see the big picture. The issue is visibility: convince the public that some changes are taking place by throwing dollars at a problem, regardless of how effective you are in actually dealing with it.

Mr. Edmunson agreed:

One of the fundamental problems with the current process is that budget hearings in the Legislature are not related to the big picture—the question of new or expanded programs and how we're going to pay for them are really not adequately addressed. For example, not one question was raised in the House Ways and Means Committee in its FY10 hearings about how the budget was going to be financed.

Mr. Burtons commented on the question of using the budget for planning and control:

There are two aspects to budgeting: planning and accounting. Accounting is essentially policing the level of expenditures after appropriation. But planning is far more important—it's the process of establishing a program budget, assigning priorities, and making the necessary tradeoffs. For a number of reasons, the current budgetary system does not allow for this. First of all, the Secretaries really don't have much power; the budget we submit to A&F can be revised and cut at will. Secondly, there is little planning competence in the civil service system, and while a cabinet system presumably should counteract mediocrity, the existing personnel policies do not allow us to weed out incompetent people. Finally, and perhaps most importantly, if planning is to be at all effective, a planner should be forced to make tradeoffs and live with his mistakes, but we are not forced to do this. Three budgetary bills are submitted a year: the appropriation, the corrective, and the deficiency. So if you make a mistake, you simply submit either a correction or a request for deficiency funds. Since the Legislature is always in session—a highly unusual situation in state government—you can have immediate action on a bill and get the funds you need.

Mr. Roberts substantiated Mr. Burtons' point, and added a further dimension:

The process of developing a budget that contains appropriation accounts, subsidiary accounts, and personnel schedules effectively locks the Secretaries in. It amounts to making a person responsible for certain items but not giving him the tools to manage them effectively. In sum, the whole scheduling process greatly inhibits effective management of the budget.

One of the principal changes giving the Secretariats increased power over budgets was incorporated in Chapter 1230 of the Acts of 2008. Chapter 1230 gave the Secretariats the authority, "in cases of emergency," to approve transfers between subsidiary account, except the 01 (direct hire personnel) subsidiary account. Harry James, Undersecretary for Administration and Finance, assessed the importance of Chapter 1230:

The change brought about by Chapter 1230 responded to the major complaint of the Secretaries. Effectively it made then into mini-A&Fs. They, of course, have no power to shift funds between accounts, and they

⁶ The account contained the following language: "For the Office of the Commissioner: Provided that the appropriations for the food commodity distribution program shall not be expended for certain rentals of space; provided further, that the commissioner shall report in writing to the Governor the total expenditures of the department for each month within 30 days after the end of each month, and said report shall be available to the public; provided further, that the consolidation of welfare service offices shall be subject to prior approval of the House and Senate Committees on Ways and Means; and provided further, that applications for all federal subventions and grants shall be subject to prior approval of the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means; including not more than 5,079 permanent positions. \$256,131,000".

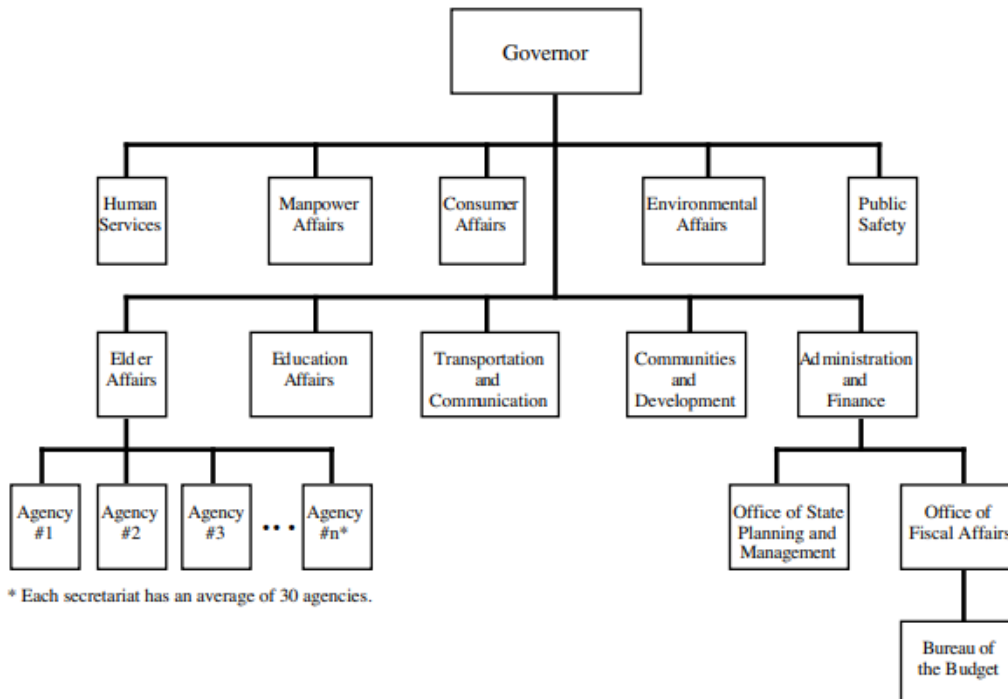
shouldn't—after all, when the Legislature appropriates funds to an account it is effectively saying “this is where we want the taxpayers' dollars spent” It wouldn't be right for a Secretary to have the power to change that. But at least they now have some flexibility within a given account.

Mr. Edmunson expressed a contrasting viewpoint:

Chapter 1230 took away more than it gave. It gave the Secretaries the ability to transfer funds between all subsidiaries except the 01 subsidiary account. Since 65 percent of the total budget is in the 01 subsidiary, little flexibility was gained.

Thus, as work began on the FY 2011 budget, the various participants in the budget process—the Governor and his staff, A&F, the other Secretariats, the agencies, the Office of Fiscal Affairs, the Bureau of the Budget, and the Legislature—had not yet developed well-defined roles either with respect to the budget or among themselves. Indeed, many observers felt that, until these roles were more adequately clarified, and the budget preparation process itself more streamlined, the effectiveness of budgeting as a tool for managing the state's affairs would be severely impaired.

NORTH LINCOLN
Exhibit 1. State Reorganization Chart



Individual interviewed from the above organizational units (in order of appearance):

Olin Thomas (Director, Office of State Planning and Management)
 Mark Davidson (Secretary, Administration and Finance)
 Michael Edwards (Deputy Secretary, Office of Fiscal Affairs)*
 Charles Williamson (former Secretary, Administration and Finance)
 David Johnson (Assistant Secretary, Manpower Affairs)
 Thomas Stevenson (Special Assistant to the Governor)
 Harold Edmunson (Director, Bureau of the Budget)*
 Steven Charles (first Secretary, Administration and Finance)
 Mark Roberts (Deputy Director of Program Evaluation, Office of Fiscal Affairs)*
 Lionel Lewis (Assistant Director of Program Evaluation, Office of Fiscal Affairs)*
 Frank Harris (Assistant Secretary, Environmental Affairs)
 William Burtons (Assistant Secretary, Educational Affairs)
 Stan Kurtzman Program Management Specialist, Office of Fiscal Affairs)*
 Harry James (Undersecretary for Administration and Finance)

* See Exhibit 6 for biographical information

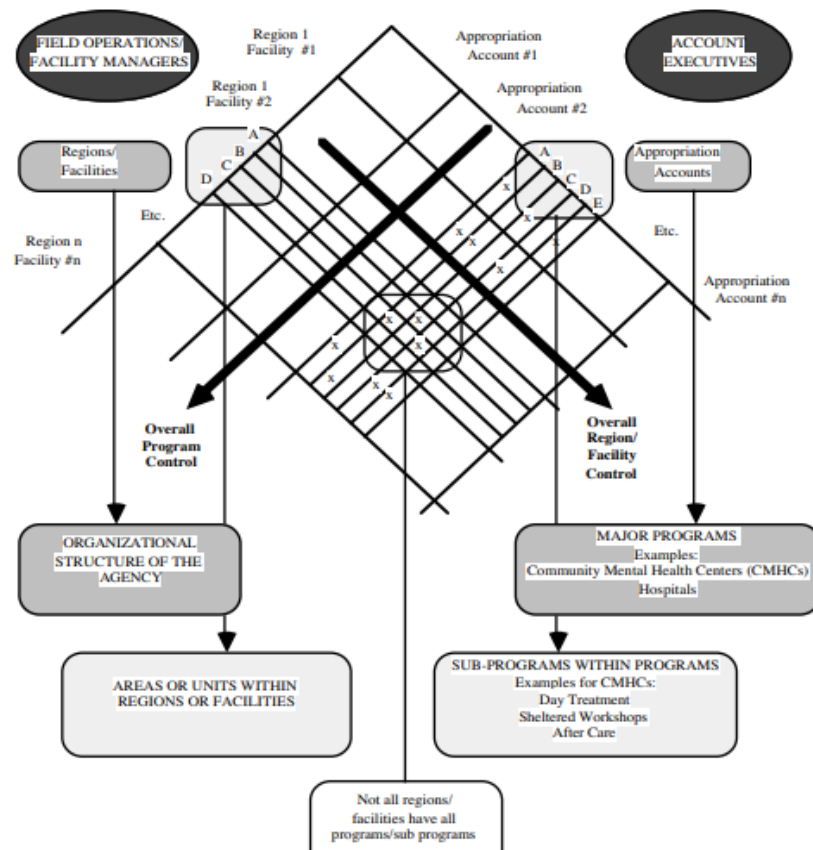
NORTH LINCOLN
Exhibit 2. Example of Budget Structure for a State Agency

Secretariat: Environment Affairs
Agency (1): Department of Natural Resource
Division (2): Forest and Parks
Appropriation Account (3): Maintenance of Sherwood Beach
Subsidiary Accounts (4)

- | | |
|---|--|
| 1 Salaries, permanent | 11 Advertising and printing |
| 2 Salaries, other (temporary, overtime) | 12 Maintenance and repairs |
| 3 Non-employee services (consultant, etc.) | 13 Special supplies and expenses |
| 4 Food | 14 Office and administrative expenses |
| 5 Clothing | 15 Equipment |
| 6 Housekeeping, supplies | 16 Rentals |
| 7 Laboratory and medical supplies (including welfare subsidies) | 17 State aid |
| 8 Heat and other plant operation | 18 Capital outlays |
| 9 Farm and grounds | 19 Debt service |
| 10 Travel and automotive expenses | 20 Pension, retirement allowances, annuities, and benefits |

1. Each agency had approximately 10 divisions.
2. Each division had approximately 10 appropriation accounts (or programs)
3. Some programs had subprograms (see Exhibit 3). On average a program had 5 subprograms
4. An appropriation account would not necessarily have all subsidiary accounts.

Exhibit 3. Organizational and Programmatic Structure, Department of Mental Health



NORTH LINCOLN

CALENDAR YEAR 2008 2008 Legislative Session										CALENDAR YEAR 2009 2009 Legislative Session														
... End of FY 2008					Fiscal year 2009					Beginning of FY 2010														
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct						
					Governor's staff reviews agencies' suggested legislative programs					Gubernatorial legislation for FY 2010 begun					Agencies submit proposed FY 2010 legislation directly to the Legislature					Gubernatorial legislation for FY 2010 completed				
										Agencies begin to prepare FY 2010 budget					Budget reviewed by A&F, and appeals instituted					Appeals process taken to Governor where necessary				
Legislative program activities															Governor submits proposed FY 2010 legislation to the Legislature					FY 2010 budget submitted to the Legislature				
					Budget formulation activities																			

NORTH LINCOLN
Exhibit 5. Responsibilities within the Secretariat of Administration and Finance
(As Defined by the Enabling Legislation)

Secretary of A&F

The Governor shall appoint a secretary of administration, who. . . shall be the executive and administrative head of the said office; and every division, bureau, section and other administrative unit and agency within the said office, other than the comptroller's division and the purchasing agent's division, shall be under his or her direction, control and supervision. . . S/he shall act as the executive officer of the Governor in all matters pertaining to the financial, administrative, planning and policy coordinating functions and affairs of the departments, commissions, offices, boards, divisions, institutions and other agencies within the executive department of the government. S/he shall inquire into the business affairs of the State and the laws governing them: shall supervise program planning and the coordination of the activities and programs of the State in his dealings with the federal government, and shall review and report to the Governor and the Legislature on all proposed legislation affecting the organization, structure, efficiency and administrative functions, services, procedures and practices of the departments, commissions, offices, boards, divisions, institutions and other agencies, or any of them. Under the executive department of the government, s/he shall conduct studies of the operations of the said agencies with a view to effecting improvements in administrative organization, procedures, and practices and to promoting economy, efficiency, and avoiding of useless labor and expenses in the said agencies: shall from time to time recommend to the Governor and the Legislature such changes as s/he shall deem desirable in the laws relating to the organization, structure, efficiency, or administrative functions, services, procedures and practices of any such agency or agencies. S/he shall have such other powers and duties as shall be assigned to him/her by statute and may from time to time be assigned to him/her by the Governor in accordance with law.

Source: General Laws Acts of 2009, Chapter 7, Section 3, p. 148.

Deputy Secretary for Fiscal Affairs

The executive office for administration and finance shall include. . . a fiscal affairs division headed by a deputy secretary for fiscal affairs. . . The deputy secretary. . . shall be appointed by the secretary with the prior written approval of the Governor, and shall serve at the pleasure of the secretary, shall be a person of ability and experience. Shall devote his/her entire time to the duties of his/her office, and shall perform such functions as the secretary shall from time to time assign to him/her.

Source: General Laws Acts of 2009, Chapter 7, Section 4A

Bureau of the Budget

There shall be within the fiscal affairs division a budget bureau, headed by a budget director. . . The said budget director. . . shall be appointed by the secretary, with the approval of the Governor, and may be removed, for cause, in like manner. S/he shall be a person of ability and experience, and shall devote his/her entire time to the duties of his office.

Source: General Laws Acts of 2009, Chapter 7, Section 3, p. 148.

The Bureau of the Budget has the following responsibilities: a collection and review of agency budget requests; preparation of the budget document; review of allotments; review of accounting reports; verification of agency estimates for objects of expenditure, such as food, fuel, and equipment; and review of the accuracy of agency calculations.

Source: North Lincoln Taxpayers' Foundation, Inc.

NORTH LINCOLN
Exhibit 6. Personnel in the Office of Fiscal Affairs and the Bureau of the Budget

<u>Name</u>	<u>Position</u>	<u>Years in Position</u>	<u>Years with State</u>	<u>Age</u>	<u>Education</u>
Office of Fiscal Affairs					
1. Mike Edwards	Deputy Secretary for Fiscal Affairs	2	2	34	Ph.D. Econ
2. Stan Kurtzman	Program Management Specialist	2	2	33	M.P.A.
3. Mark Roberts	Deputy Director of Program Evaluation	1	2	36	M.P.A.
4. Steve Allen	Director of Program Evaluation	2	2	33	M.P.A.
5. Lionel Lewis	Assistant Director of Program Evaluation	2	2	32	M.P.A.
Bureau of Budget					
1. Harold Edmunson	Budget Director	11	31	68	
2. Kenneth Jackson	Deputy Budget Director	3	24	57	
3. Milton Willard	Assistant to Budget Director	3	28	53	

NORTH LINCOLN
Exhibit 7. Summary of Fiscal Year 2010 Budget

	Requested Appropriation	Governor's Recommended Appropriation	Legislative Action
Legislature	\$15,910,078	\$15,910,078	\$16,010,760
Judiciary	21,649,759	18,309,317	18,084,833
Executive	7,609,177	6,568,359	6,428,544
Secretary of the Commonwealth	4,582,339	3,406,114	3,965,557
Treasurer and receiver general	63,563,394	63,397,105	63,424,820
Lottery Commission	9,655,866	9,655,866	9,655,866
Debt service	201,833,840	201,833,840	201,833,840
Auditor	2,997,257	2,651,570	2,868,187
Attorney General	3,811,272	3,061,179	3,067,409
<i>Subtotal</i>	<u>\$331,612,982</u>	<u>\$324,793,428</u>	<u>\$325,339,816</u>
Secretariats:			
Administration and Finance	\$175,896,369	\$143,057,823	\$118,559,931
Environmental Affairs	83,613,550	75,170,599	72,761,588
Community Development	51,946,255	49,526,185	50,240,270
Human Services	1,516,682,426	1,423,928,584	1,385,938,803
Transportation and Construction	117,007,556	114,606,533	113,182,632
Educational Affairs	622,915,859	575,195,431	588,408,119
Public Safety	57,389,366	43,587,219	42,347,348
Manpower Affairs	16,009,867	15,290,274	13,640,066
Elder Affairs	6,177,407	5,055,010	3,378,007
Consumer Affairs	15,147,704	13,224,281	13,742,638
<i>Subtotal</i>	<u>\$2,662,786,359</u>	<u>\$2,458,641,939</u>	<u>\$2,402,199,402</u>
Special requests	\$12,955,718	\$0	\$0
Prior year deficiencies	5,000,000	5,000,000	0
<i>Subtotal</i>	<u>\$17,955,718</u>	<u>\$5,000,000</u>	<u>\$0</u>
Total State	\$3,012,355,059	\$2,788,435,367	\$2,727,539,218