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Harold I. Steinberg

James D. Carney

Recommended Citation

Steinberg, Harold I. and Carney, James D. (1974) "Halting a Rise in a Town's Tax Structure Through PPBS," *Management Adviser*: Vol. 11: No. 1, Article 2.
Available at: https://egrove.olemiss.edu/mgmtadviser/vol11/iss1/2

Program budgeting systems can be adapted to municipal departments as disparate as public works and recreation. Here's how it was done in one township—

HALTING A RISE IN A TOWN'S
TAX STRUCTURE THROUGH PPBS

by Harold I. Steinberg
Peat, Marwick, Mitchell & Co.

and James D. Carney
City of Yonkers, N.Y.

PPBS and program budgeting are two management systems that have been widely implemented in school districts in recent years (see MANAGEMENT ADVISER, "PPBS for a School District," March-April, 1972). The systems work well; the school districts are happy; the process seems far more effective than traditional school budgeting procedures have been.

Our firm has participated in many of these implementations, and one thing leads to another. Our colleagues and we had given long and serious thought to how these systems might work on a larger scale; in other words, what has to be done if we are concerned with a whole town or city budget rather than the somewhat limited and circumscribed area of a school district.

Concurrently, a suburb of a major metropolitan area was having some second thoughts about its budget. Budget requests from each of the departments kept rising every year, and the tax base, after all, had limitations. There was no immediate problem, but the Town Finance Board saw a point of no return approaching, a time when budget requests would outstrip tax revenues. What could they do about it?

The town, which had some knowledge of our work in school districts in a neighboring state, approached our firm as they did another large public accounting firm. Could we help?

We believed we could and so wrote a proposal letter, as did the other firm. After a short period, the town chose our group.

So we had to implement that which we had been formulating for some time. We had a whole modern municipality to work with. For our client—let's call it Anytown— while a suburb of a larger city, itself had more than 20,000 inhabitants, and it needed most of the services any city would require.

Anytown, like most towns, was a mixture at the governing and administrative level of professionals and laymen. Its governing body (see Chart on page 17) was the Town Meeting, composed completely of lay members. Also there were the Selectmen, and the Fi-

nance Board, appointed by the Town Meeting Moderator. The Selectmen had charge of certain departments, such as Police, Fire, and Health. Other departments were responsible to their own elected boards, although their budgets were reviewed and commented upon by the Finance Board and subject to approval by the Town Meeting: Schools, Libraries, Public Works, and Recreation were examples.

Scope of project

Since we could begin the project with either the town's entire governmental structure or a portion of it, and the lines of authority were most direct between the elected boards and the top professionals in those departments, e.g., the Board of Public Works and the Commissioner of Public Works, we decided with the town to work with the four "Board-responsible" departments first. If we could get four boards of lay people and four professionals as disparate in nature and outlook as schools, libraries, public works, and recreation to learn the principles of program budgeting, they in turn could serve as an example for the remaining groups in the town. Following is a brief summary of some of our experiences during the first year.

We found in working with these departments that there were wide differences in the level of understanding of modern budgeting. Most were looking at expenditures first, and not necessarily to the purpose of the expenditure, discussing for hours the purchase of one additional typewriter rather than finding out why— or whether— the program in which the typewriter was to be used was indeed needed.

We, of course, suggested program budgeting, an entirely different approach. We knew that

most ongoing programs would have to be maintained, at least until the community had a chance to evaluate the programs and their worth in terms of the money spent on them. On the other hand, something had to be done. Accordingly, we recommended that each department specify its programs, define the purpose of those programs, and suggest the appropriate levels of service for each—rather than seek an evaluation of the program's objectives or a detailed analysis of the line-by-line costs.

For example, we talked to recreation in terms of the usage of each of the activities and facilities. How many children joined the Touch Football League? How many people used the parks each day? At what costs? How many people availed themselves of the special bus tours to the nearby metropolis which included a visit to the museum at cut rates? The town did not have to pay for the museum, of course, but it did have to carry most of the overhead for arranging the transportation. How many people availed themselves of sports facilities right within the town?

In other words, a sort of cost-participation ratio was inaugurated as the basis for making budget recommendations. If it proved that a program cost $1,000 a year to administer, but only 20 citizens participated, obviously something was out .of phase. The program was not providing sufficient value to the entire town. Other programs were obviously worth a good deal, so much so that those who participated would be willing to pay for the privilege. Night sports fell into this category. Adults, seeking a diversion from their jobs in the city, were already paying for admission to private tennis courts and for golf instruction at the country club in the town. Why shouldn't they pay a modest sum

for the additional manpower required to operate the same program when it was sponsored by the town?

To take another example: public works. It was very different from recreation. Snow had to be removed when it fell; everyone would agree on that. But the schedule of snow removal could make a tremendous difference in the budget.
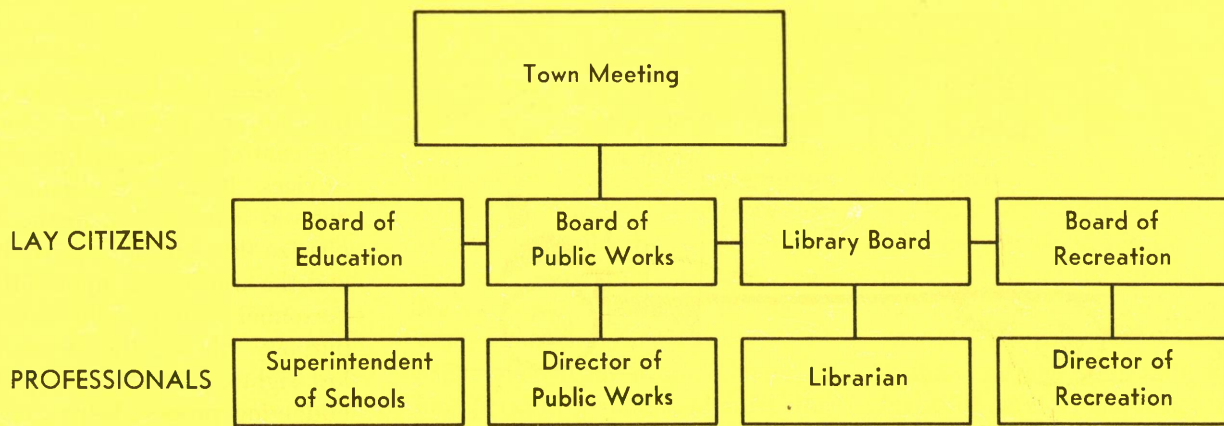
Basically, a community can follow two paths. It can schedule itself to move immediately and completely—and pay a considerable amount for this type of response. Or it can plan for snow removals on a staggered basis. Why not delay slightly before initiating operations—then clear the business districts first, then the school approaches, then the residential areas? That way less men and pieces of equipment would be needed and the cost would be lower than if everything was cleared immediately. Garbage collection can be speeded up immensely with a smaller work force if garbage is collected at curbside rather than at the householder's door.

Weighing alternatives

There are always choices to be made, alternatives to be weighed. The adequate service against the luxurious service, the snow being cleared immediately against the snow being cleared somewhat later.

Those choices are ultimately the citizens', but at least they know what it is they're deciding under a program budget. They were not simply voting for or against higher taxes without knowing what it would mean in terms of snow removal or garbage collection.

Similarly with libraries. Here we used a reversal of the technique we

Town Meeting

	Board of Education	Board of Public Works	Library Board	Board of Recreation
LAY CITIZENS	Board of Education	Board of Public Works	Library Board	Board of Recreation
PROFESSIONALS	Superintendent of Schools	Director of Public Works	Librarian	Director of Recreation

used in recreation. Instead of taking a census of the people using the libraries we suggested a tally of those who did not. Why not? What could the libraries offer that would make them more useful and more valuable to a greater percentage of the townspeople? For libraries' costs do not rise as dramatically as their effectiveness when they serve a greater number of people. Most of the costs are fixed. The library is there and must be maintained; the staff too is already there. But such things as varying the book purchases to match newly discovered tastes can make a tremendous difference in the utilization of the library system.

Not that we did not find areas of absolute possible savings. The library, for example, had been paying for years for a security system for its books. Yet a glance through the records showed that evidences of loss or theft from the town's libraries had been relatively minor for years. Would it not be worth it to try to do with a slightly less stringent security system and instead devote the monies to additional book purchases? If losses shot upwards, the security could always be reinstalled.

These things sound almost painfully simple. But they are not done unless people are acclimated to program budgeting or a similar more up-to-date approach. And most people involved in governmental units simply are not. We

were dealing with an entity that housed one of the nation's most prestigious institutions of higher learning, whose citizens commuted daily to one of the nation's most sophisticated cities. Yet in their capacity as citizens sitting on the town's boards and committees, they had never questioned why programs existed, what they cost in terms of the amount of service provided, whether in sum those programs and those amounts of service were worth it. In short, we were going to help these people use a budget, municipal or commercial, as it should be used: How to achieve what you want at a cost that is properly representative of desires, needs, total resources, other uses for the monies, etc.

As a matter of fact, given our previous school experience it was easy to deal with the school department and its budgeting process. Here we were dealing with an area in which there had been considerable thinking about program budgeting. Further, there were considerable financial and statistical records, there was an acceptance of testing and evaluation, there were records of attainment against local desires and national norms. It was like getting back to firm ground again after a long period on the ocean. We experienced all of the difficulties described in "PPBS for a School District," but at least they were known difficulties.

In brief then, program budgeting is a new approach to many people. It requires an entity (in this case, a department in a municipality) to identify each of its programs and the community purpose or need that program serves. This in itself often reveals programs that have been maintained for years where the need has long since vanished, or overlapping areas where other programs meet the needs more adequately. Then, and only then, do the departments establish budget guidelines which reflect the areas of priority for the

HAROLD I. STEINBERG, CPA, is a partner in the New York office of Peat, Marwick, Mitchell & Co. He is a member of the Municipal Finance Officers Association and the International City Management Association. Mr. Steinberg taught a course on "Planning, Programing, and Budgeting for Local Governments and Nonprofit Institutions" for the N.A.A. He is a graduate of Syracuse University and New York University.
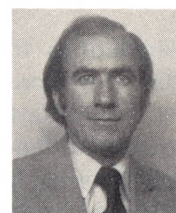
JAMES D. CARNEY is budget director of the City of Yonkers, N.Y. He previously served as a consultant with Peat, Marwick, Mitchell & Co. Mr. Carney is a faculty associate of the department of urban affairs and policy analysis at the New School for Social Research. He is a member of the Municipal Finance Officers Association and the International City Managers Association. Iona College awarded him a B.A. and the University of Massachusetts an M.A.
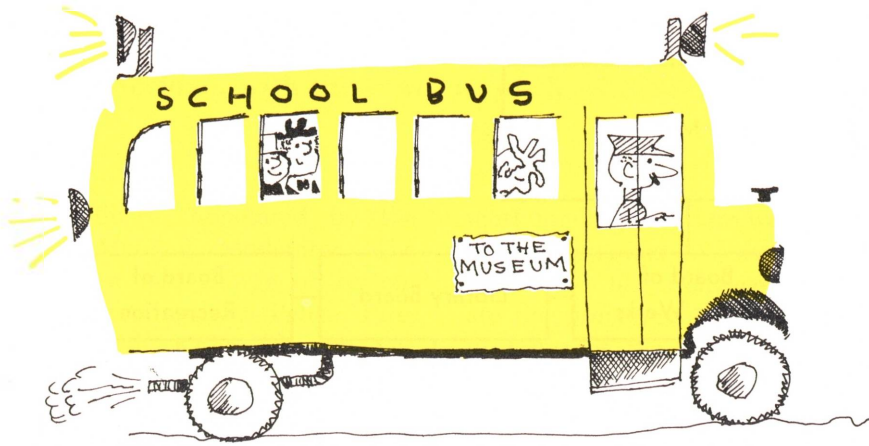
If a program costs $1,000 a year to administer, but only 20 citizens participate, something is wrong.

future. The departments set these priorities in light of the community's needs. They then make an estimate of the resources that will be needed to operate each program over the next several years. These data are compiled into a program budget format which includes the purpose of each program, a description of the services it provides, the benefits or service level expected from the program, and the costs anticipated for the next and future years.

When this has been done, the entire emphasis of the traditional budgeting process has been reversed. Now programs and levels-of-service come first and the cost of achieving them comes second. This might sound fiscally irresponsible but actually it is not. For the review of the department purposes almost always shows so many programs that are outdated, or not used, or in some other way irrelevant, that eliminating them frequently gives the department more money to work with in terms of previous years' budgets than it is used to having.

The process has similarities to zero-base budgeting but it is more gradual. As I say, we always start with an ongoing program and then by a series of refinements bring it closer and closer to the zero-base-budgeting ideal, where each part of each program is justified anew each year instead of merely being based on change in the previous year's budget. Obviously, that is

where program budgeting eventually leads. But we do not start out that way.

The benefits

The benefits of both the process and its product, the program budget, are extensive. First, for the government units that must monitor and review operating departments, program budgeting provides a better understanding of what each department is doing or trying to do. Moreover, because it lays out the purposes, anticipated outputs and costs of each program within the departments, it makes it possible to compare the costs and benefits of the various activities. Such information facilitates the tasks of choosing priorities, assessing the impact of required budget cuts, and developing overall budget recommendations. Decision-making is further improved by providing, through the multi-year

financial plans, an estimate of the long-term implications of new programs and program changes.

At the operating level, the process redirects administrative attention toward program output and the control of the quality of these services. Because traditional budget and management methods emphasize the control of expenditures and the use of the inputs (that is, personnel, equipment, etc.), the purposes of activities were easily lost sight of. Finally, the program budgeting process helps managers identify areas where needs are not being met, where services are duplicated, or where services are available yet not recognized by the community. Because departments are required to state their objectives, it creates a basis for departmental accountability.

For the members of the community who must ultimately bear the cost burden for municipal services, program budgeting offers a clearer picture of what their tax dollars are buying, and it provides numerous opportunities for the community to express its needs and desires to the various departments prior to and during the budget development process. Only too often does the traditional system of budget preparation entail simply adding a "reasonable" increase to last year's budget in order to arrive at the new budget request, thus usually failing to determine in any formal way whether the services are still needed by the community, or whether improvements are required.

Why shouldn't adults, willing to pay for private membership in golf and tennis clubs, be willing to pay a small fee for use of municipal facilities?

Introducing PPBS in a township or municipality is to a large extent an indoctrination job. Accordingly, there are a few things that should be spelled out first.

Implementation steps

A good implementation plan should provide the community with a functioning program budgeting system within the first year. This is desirable because the operating departments will be investing substantial time and attempting strange new procedures. They and the community should be rewarded with tangible results at the earliest possible date, even at the expense of elaborate analysis. The latter serves no purpose if the departments lose the desire to implement program budgeting before even the first program budget is produced.

Second, we think it is wise, when going into a new situation as we did in Anytown, to work with a small number of departments. When departments as disparate as recreation and public works are involved, life can become difficult enough; there's no point in complicating matters by taking on an inordinately large number of activities. Program budgeting is simple enough as a concept; it's the individual concerns of the different departments that represent the implementation problems.

With the above in mind, the following are the major steps for implementing a system of program budgeting:

• *Hold an orientation seminar.* A one-day orientation seminar should be conducted to acquaint those most affected by the new budgeting process with the basic principles, requirements, and techniques of program budgeting and a supporting program accounting system. During the session, specific exercises should be provided to give the participants a "hands on" feeling for the nature of the work.

• *Develop program structure.* In each department a small team of key personnel should identify the various departmental programs and group them into broad areas of need or purpose served. The identification and grouping of programs is called a *"program structure."* It forms the basis for planning and budgeting. After the initial structure is prepared it should be reviewed and modifications made, if necessary, to insure that the structure reflects the purposes served by the department. Also, as program budgeting must serve the town as well as the departments, the individual program structures should be aggregated, and all programs serving the same purpose identified. A single town-wide program structure composed of the different department structures should then be developed. A town-wide coordinator, whose role is discussed later, could spearhead this effort.

• *Define the goals of each program and describe the activities undertaken to achieve the goal.* For each program in the structure, a general statement should be prepared of the purpose the program serves in the community. This statement is frequently called a *"goal."* In addition, a description of the types of services provided by the program, as well as the volume and methods of providing the services should be developed.

• *Define statistical indicators and establish levels of service.* The department manager and the person responsible for such programs should determine what statistical indices are the best indicators of levels of service. Naturally, the selected indicators should be readily available. The levels of service presently achieved and those desired for the future should then be established.

• *Develop budget guidelines.* Overall guidance to department staff for preparing program budgets is provided by the budget guidelines. These identify the priority areas which should be emphasized in the coming year. In addition, they serve to highlight any assumptions or constraints which persons should realize as they develop the budget. The guidelines should be the result of a series of reviews and meetings with the departments' staff, their elected or appointed boards if they exist, and the community in general. At these meetings, all the suggestions and comments offered should be culled down to those which, in the department head's opinion, are most critical. As a last step, the guidelines should be submitted for approval to the department's board.

• *Recast current budget.* The con-

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ventional budget of the year preceding the program budget should be recast into a program budget. This recast is vital in that the amounts shown for each program are a valuable and necessary guide for the specification of the financial requirements of a program in the first year of program budgeting.

The recast technique requires the assignment of each line item object in the departments to the various program or programs for which the expenditures will be incurred. The line items are either assigned directly to a particular program or distributed to several programs on an agreed-upon allocation basis.

• *Design program budget worksheets.* While the statutory requirements for the budget process are already defined, it is not until this point that the kinds of information required to fulfill the community's decision-making and communications needs are crystallized. Therefore, the next step is to determine how extensive the budget preparation process should be in each department, and then to design the content and arrangement of the forms needed to develop the budget. These forms should provide for the insertion of at least a statement of purpose and description of the program, the appropriate financial and statistical data, an indication of any desired changes, and alternative ways to achieve these changes.

• *Conduct budget workshops.* Workshops should be held to explain in detail how the budget will be prepared and reviewed.

• *Develop program budget requests.* During the first year of program budgeting, at least two elements should be developed for each program by the program leader. The first is the resources required to meet indicated program goals within the framework of the budget guidelines; the second is desired program changes. For each change, the leader should define how the change would benefit the community, the ways he can measure the achievement of those bene-

fits, and alternative methods to accomplish the change. He should also project the costs of the change for at least three years.

• *Design program budget format.* The specific information and financial requests to be included in the department's program budget document should be decided upon. This would include, if appropriate, a budget message explaining why certain programs are emphasized, and also supporting schedules that permit a ready comparison of the budget request with that of the preceding year. This is particularly important in the first year of program budgeting when the transition could cause some confusion. The requests should then be compiled into the department's program budget.

• *Conduct review and approval process.* Once the department's program budget is compiled, it should be submitted to the various groups(that is, boards, committees; or selectmen) who must approve the budget before it is submitted to the town finance (or budget) committee. Whenever the reviews result in reductions, the program leaders should be required to redefine their requests to reflect the impact of the cut on the program.

• *Compile and schedulize budget requests.* On or before the specified submission date, the budgets should be submitted to the town's chief fiscal officer who then determines the total for all the budgets and calculates the impact of the aggregate requests on the tax rate. This information, together with the actual budgets, is then transmitted to the finance advisory committee.

• *Submit to finance committee for review.* The finance committee reviews should consider the impact of the total requests on what it considers an appropriate tax rate for the town's needs. To that end, the departments should be prepared to identify for the committee the program impact of additional costs, if any. Once the reviews are complete, the committee should present its recommendations to the town or village in program budget format.

• *Submit to town meeting for approval.* The format of the town meeting need not be changed. To the extent, however, that there are discussions over resolutions, the issues should be more program-oriented, and hopefully more community benefit-related.

• *Design and implement program information systems.* In each department, the accounting and statistical accumulation procedures should be modified so that program reports can be provided. These reports should contain information useful for monitoring and evaluating each program, both financially and in terms of program outputs. As indicated below, providing appropriate financial information may require the design of some new accounting reports, the development of a uniform chart of accounts to minimize the data processing requirements, the establishment of data input controls, and the modification of some current data processing systems. The appropriate statistical data can be gathered by designing and then implementing forms and procedures tailored to the collection and compilation needs.

Subsequent refinements

As stated previously, a soundly conceived implementation plan should enable the town or village to install a working program budgeting system within one year, with refinements to be made in succeeding years. Before any of these refinements are adopted, however, the value they add to the process should be carefully assessed, particularly as to costs and effort.

Those departments wishing to improve the process during the second year can conduct a survey of community needs. The purpose of the survey would be to obtain community comments on the effectiveness of services rendered, to identify any areas which need improvement, and to uncover needs which are not currently being met. This survey should form the basis for that year's budget guideline devel-
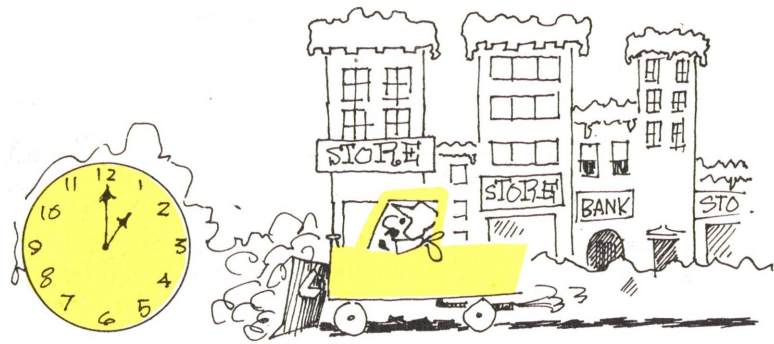
Snow had to be removed whenever it fell; everyone would agree on that. But a community can schedule itself to move immediately and completely—and pay a considerable amount for this type of response. Or it can plan for snow removals on a staggered basis, clearing the business district first, then the school approaches, then the residential areas.

An effective town-wide program budgeting system should provide for the appointment of a coordinator to help establish and maintain town-wide structures and act as a go-between among departments in order to bring the experiences of one department to the attention of all and to avoid duplication during the initial implementation period.

opment. In addition, during the second year, multi-year financial statements can be developed for each program in total, and not just the changes.

Also, a department can decide upon the criteria for evaluating the effectiveness of the programs it provides. Departments might set desired output levels for each program, and then check to see if these levels are being reached. If a program falls short of these objectives, alternative approaches might then be identified and evaluated in terms of cost and estimated effectiveness.

Finally, if, as suggested, not all the departments attempted program budgeting in the first year, another refinement would be to expand the system to the other departments.

Accounting support

Program accounting is an integral part of the program budgeting process. If the municipality does not keep track of spending by program, it will not know if any of the programs have cost more than intended. Also, departments will lack historical data to guide future planning efforts. The following steps can serve as the foundation of an effective program accounting system:

• The content and timing of the program accounting reports should be defined in each department, based on its management needs. The requirements will probably differ somewhat among the departments, the larger departments often requiring more financial data, more frequently, and in more summary form than the smaller units.

• A uniform coding structure for all departments should be developed to establish comparability among the departments.

• The methods required to charge costs to the proper programs in each department should be developed, based upon the operating practices and the program structures. For example, in some instances, salaries will be distributed based on pre-determined decisions as to where people work. In other departments where a staff member can work in several programs, a time-reporting system might be needed.

• Program accounting reports should be complemented by program statistical reports which might include such program data as the level of educational achievement, miles of streets cleaned, or the number of clientele served.

Conclusion

Two other ingredients are needed to successfully implement program budgeting—coordination and a combination of flexibility and maintenance of standards. An effective town-wide program budgeting system should provide for the appointment of a coordinator to help establish and maintain town-wide standards and act as a go-between among departments in order to bring the experiences of one department to the attention of all and to avoid duplications during the initial implementation period. He can also help to maintain momentum. Program budgeting is a new way of operating for many public officials, and until it is fully ingrained, there is always the possibility of a regression back to incremental budgeting. But perhaps the most important ingredient is to remember to allow the individual departments flexibility in terms of depth and scope, while insisting that a minimum standard of comprehensiveness and comparability be maintained.

Finally, it should be recognized that fiscal control represents but one essential feature of program budgeting. There are other substantial benefits yielded by that system, such as the opening up of the departments' program and fiscal management processes, and the consequent strengthening of community understanding and support. Any town that finds itself in that position will certainly be well prepared to handle the lean years ahead.