

State Level Program Budgeting Considerations

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•PROGRAM BUDGETING can be a valuable aid to management—but it also can be the cause of overoptimism by public administrators who see it as a panacea for their entire range of operating problems. It can also expose an organization's weaknesses and deficiencies and reveal whole new prerequisite tasks.

My objective here is to attempt to identify some of those factors that I believe could directly affect the degree of success that state governments or highway departments can expect from this management technique. Note that I have grouped state levels of government with highway departments for reasons that will be developed later. My orientation is from the considerations of an operating executive, rather than the budgeting or financial specialist.

I will express some pointed reservations. They are not intended to discourage, but to offer a more realistic assessment of the position that any governmental subdivision could find itself in when it chooses to entertain this concept. For then, having had the benefit of a thorough appraisal, the undertaking will be far more likely to command and receive top management's support, time, and resources. And these are essential not only from this level but down through at least middle-management echelons.

WHY INTRODUCE PROGRAM BUDGETING AT THE STATE LEVEL?

PPBS is a system aimed at helping any management make better decisions on the allocation of its resources to the best qualified among alternative ways of reaching objectives. It is more a top-management tool than a detailed control technique. Its essence is development and presentation of relevant information as to the implications of major alternative courses of action. Call this an application of systems analysis, if you wish. At the very least we should agree that this explicit definition of alternatives would seem to be a vast improvement over most present state level budget procedures.

Not only is the typical (line item) budget request lacking in alternative choices, but also there is not even available from it that kind of information that would allow judgment of the effect on a program of either a decrease or an increase in financing. This often results in superimposition of judgment by certain review level budget staffs over the judgments of those at least presumably more knowledgeable about their programs. The result often is those very arbitrary actions that we all deplore, and that sometimes lead even further into the directing of deleted funds into other programs, again without judgment as to effects.

Super budget staffs—and even legislative committees—when considering a line item budget often use previous expenditures as the base figure and concentrate their reviews solely on proposed increases. Program budgeting is a definite step toward a better solution, because it focuses on the entire budget of the agency and forces consideration of all existing operations.

RELATIONSHIP OF PRESENT METHODS TO PBS

Is planning-programming-budgeting revolutionary? No, probably more evolutionary. The planning part of this relationship would seem to be synonymous with systems anal-

ysis, and this certainly is not new. We know that program decisions resulting from application of systems analysis techniques more often than not result in better resource utilization. And here we must keep in mind that most highway department programs are not new, but rather are ongoing basic functional relationships that will require conversion to this new technique. The glamour of choice selection that goes with wholly new undertakings, such as a new federal program, is normally absent.

Systems analysis (defined as the identification and evaluation of the implications of alternative programs) serves to sharpen the judgment and intuition normally applied in the decision-making process, thus permitting less reliance on purely subjective methods. Pragmatically, PBS is not likely to replace those time-tested intuitive judgments that describe the political decision-making process. But I suggest that a budget that is presented with program values created by the systems approach will cause that political process to at least differently accomplish some of the dialogues between affected parties (definitely possible), perhaps result in some different actions (harder to prove), and render some better judgments (still more difficult to prove—a value judgment).

But what is the relationship between our present methods and the program budget? Despite a decade or so of discussing program budgeting, a large majority of state governments and highway departments have not been motivated to depart very far from their traditional line item or object budgets. While legislators have shown some receptivity to the PBS concept, it seems unlikely that they will move very rapidly to approve complete elimination of the line item budget in the immediate future. This means the old budget structure must co-exist with PBS, providing a dual look at an agency's needs.

This is probably a good procedure, for there is nothing incompatible between line item budgeting and program budgeting. A line item budget can be developed from a program budget and if the system is correctly designed the additional effort need not be excessive. A cautionary note, however: Budget planning must be in terms of objectives. Care must be exercised to ensure that managers do not revert to traditional methods—making projections on the basis of object class categories—and then structuring their programs to fit these predetermined "needs".

At this point one should ask himself if he really believes that those factors which in the past have not encouraged changes in public budgeting can be ignored by management now in considering program budgeting. Probably not, but one should also remember that familiar caution: "If we are now doing anything the way we always used to do it, we are probably employing an obsolete method."

Another frequently encountered state level condition is that work planning and programming frequently take place independently of the budget process. A common approach is to wait upon budget approval before deciding what will be done. In many organizations the concept that work planning and budgeting are related still may be foreign to their experience if not alien to their thinking.

A further limitation is that much of our forward planning today is relatively short-range. Professional administrators have long recognized the need for longer-range planning. But despite agreement on desirability it is slow in coming. Will PBS change this? Not very rapidly, I believe, although it is a step in the right direction.

RELATIONSHIP BETWEEN ORGANIZATION AND PROGRAM BUDGETING

Program budgets generally should be structured so program categories and sub-categories make sense from an operational viewpoint. It follows, for obvious reasons, that any program budgeting system could operate more efficiently to the extent that organizational structures relate to program structures.

At state levels and perhaps especially in highway departments there will always be those long-standing interrelationships that will continue to influence retention of some rather peculiar alignments between programs and organization. And when we decide to proceed with program budgeting some of those now-suppressed or ignored relationships will continue to pop up and have to be recognized.

But the main concern is that, if no thought is given to relating organization to program structures, a variety of dispersed operating units can be assigned implementation of a program (or subprograms that constitute a total program) and then coordination of these several units becomes the responsibility of a chief executive. This event, if it happens, has:

1. The potential for a highly centralized decision-making process during program execution. This is undesirable.
2. The requirement for sophisticated program management control systems that may be beyond the capabilities of the agency.
3. The probability of an excessive invasion of the time of the chief executive at the expense of his other managerial responsibilities. This would be unfortunate.
4. The capability of delaying the implementation process. This also would be undesirable.

These elements undoubtedly have been factors in our slow state level progress, both from the conceptual and the actual implementational viewpoints. But I must emphasize that this organizational relating is a secondary consideration that can come later.

The program budgeting effort in the Minnesota Department of Highways was preceded by (and linked to) an organizational study with PBS in mind. The goal was structuring of the department in such a way that it could then promote effective development and execution of its programs.

Does program budgeting imply or require centralization? Pre-PBS is really centralization at its worst. With little or inferior program-impact information, a review level budget staff is often compelled to involve itself in detailed decisions where it is inherently less capable of comprehending and deciding than the requestor.

Does this suggest perhaps that even legislative financial committees should add to their staff adequate supporting expertise to be able to look at program budgets from a "systems analysis" viewpoint? Would such a step embarrass or prod into greater effectiveness those review budget staffs who now peremptorily exercise such a highly centralized budgetary control? Some interesting possibilities could develop from this concept, for it is well known that at state levels there is little true "bargaining" on a budget request. The department is in the "asking" role, but a higher agency does the "deciding".

How do present information and control systems relate to program budgeting? Implicit in PBS is the idea that activities can be programmed, their results quantified, and progress toward goals measured. To do this an agency needs the capacity to collect, analyze, and report program information to its management. Traditional management reporting generally is late, incomplete, excessively voluminous, or totally nonexistent.

Thus, while we can accept the idea that program budgeting assumes the capacity to monitor and report on programs, in fact, the state of the art at state levels is not very far advanced. Development of an analytic capability is basic to support of the "planning" in PPBS, but this capability must be augmented by an information system that will provide both budget examiners and managers with information essential to decision-making. The development of the management information system thus becomes an integral element in the implementation of PBS and may prove to be its single greatest benefit. It follows then that any state or highway department undertaking program budgeting should be prepared to make a substantial investment in improving or at least revamping its reporting systems. This management information system need—plus the ability to automate it—will fully test management's attitude and likely be a difficult hurdle to jump. It could at least become a frustrating delay factor.

Do not overlook the necessity for individual departments and agencies at state levels to design their systems to be fully compatible with (and potentially a future part of) a particular state government's overall system. This is an essential factor and another potential limiting or delaying roadblock. Minnesota's State Planning Agency is setting guidelines for two- and six-year targets as well as a longer range 25- to 30-year set of goals. All state departments and agencies are (a) to inventory, and plan to contribute, information data into a State Information System (in category, sub-category for-

mat); (b) to prepare two- and six-year planning programs, based on goals; (c) to adopt a uniform state accounting system (this is being formulated now); (d) to move ahead on PBS as it can be kept compatible with overall state guidelines; and (e) to advance EDP efforts in these areas only as they can be kept compatible with statewide goals and objectives.

A PRE-PBS CHECKLIST

Objectives and Goals

All programs and sublevels of programs must fit into unit organizational goals at least to the extent that managers can measure whether program results are consistent with those intended. Despite opinions as to the merits of top-down vs down-up goal setting avenues, we find the forces involved tend to keep this process moving in a revolving pattern, with continuous refinement. And while specific identifications of goals usually are expected it is prudent to remember that at the higher governmental or agency levels more value sometimes results from not always being explicit in all objective descriptions.

Personnel

A major limiter to installing a program budgeting system can be the availability of experienced analytical people to accomplish the planning role in PPBS. These systems analysts are as important as EDP programmers. In today's market these two employment areas may be among the most vexing problems.

Data Processing

I have stressed the magnitude of the information and reporting requirements necessary to support a program budgeting effort. This suggests the next caution: Do not ignore the data processing capability of your agency. This point cannot be overemphasized.

Overall, state level agencies have not been leaders in embracing EDP nor have they established a particularly enviable record in the use of this technique. One can safely state that not many states or highway departments today are completely satisfied with their data processing capabilities nor could many of them readily undertake the development of a comprehensive automated reporting system that would be operative in a reasonable time span. Even with adequate hardware and resources, there is always that shortage of experienced and qualified personnel, plus salary structures usually not competitive with commercial enterprise.

Internal Communications

You will discover a need for some two-way cooperation, or at least some improvements, where you thought you had all elements already smoothly functioning. Some examples are the following:

1. Accountants must learn to speak or at least understand the language of the systems analyst if they are to input the best data into a program budgeting system;
2. Systems analysts must understand data processing systems and programming needs; and
3. EDP systems specialists must broaden their spectrums to see and understand the generalist analyst viewpoints.

Accounting Systems

Traditional governmental accounting procedures have been designed to check on the honesty or limit the discretionary power of agency administrators. It is unlikely that data obtained as a convenient by-product of such accounting systems will be adequate for the decision-oriented information requirements of program budgeting. Therefore, if your accounting and record keeping system needs modernizing—and it quite likely will

to accommodate program budgeting—then plan to do this first or at least concurrently with early stages of any PBS project. Again, any revision should be compatible with or made part of a statewide uniform accounting system.

Splinter Efforts

The whole subject of program budgeting is so broad and has had so much attention from so many sources that you may find one or more of your agency functional units starting off on its own on what I call a "splinter effort". This is both good and bad. These positive thrusts should never be totally blunted because they in themselves represent a certain advance in the "art". But at the same time, what will be their effect on your total approach?

You might find that such a "splinter effort" could (a) diffuse your already overtaxed EDP resources; (b) attempt a level of detail that could confuse or even discourage the total effort; (c) lose sight of top management's goal-oriented needs, or (d) be out of step with state level comprehensive planning.

Remember, there are dangers as well as opportunities in moving ahead too rapidly in applying any new management techniques—including the risk of discrediting them.

Management Environment

There is a very direct relationship between the management environment of an agency and the degree of implementation success possible. And introduction of new managing techniques such as program budgeting without a careful assessment of that environment could be unwise. Make certain that this examination is comprehensive at your top levels as well as at your financial control centers. And do not move into something as boat-rocking as PBS can be with key areas of management not only helping to rock your boat but also tampering with your seacocks.

Consultants

Assume you wish assistance both in expertise and to expedite implementation. You want to get a program budgeting system installed and functioning. Here is where the consultant can fill a role and assist. He brings objectivity, experience, analytical skills, and the ability to devote full-time attention to your project. He has access to the best in brainpower, and a unique broadness of exposure to the many facets of a problem. And, in the case of program budgeting, he can probably be credited with some of the pioneering efforts—certainly with maintenance of the momentum.

We know from experience and personal observations that even the most qualified firms appear to have personnel problems and you may find yourselves devoting considerable time to indoctrinating apprentices as part of the package. Consultants, too, have to study your organization and break down functional categories to the degree necessary. In our case this was highly overdone and resulted in a much greater effort and in more units of data than necessary. The consultant identified 4100 units of effort vs some 1400 that were finally selected. In fact, this phase expended contract resources that possibly shorted more significant professional contributions in the latter stages of the study. If the consultant is not highly skilled in the data processing area you might get a theoretically possible design that you could not begin to afford to implement. Or it might be totally impossible to program his effort within a reasonable time framework.

Progress in AASHO

AASHO is a prime example of an important management-level environment. PBS was recognized and assigned as a subject to the subcommittee on Uniform Accounting, which is 98 percent composed of financial managers. One could ask: Why was not this management-oriented subject placed, at least for first conceptual digestion, in a subcommittee such as Administrative Practices or Finance where more principal decision-making officials attend and confer? Revisors of the Uniform Acceptance Manual chapters proposed (quoting from a communication): "... at this time it is necessary only to

report that such a system is in existence and its primary use has been by the federal government." Or, quoting from a proposed manual paragraph addition: "Although PPBS has been installed as a term in the budgeting vocabulary, only time will tell, as the system is modified, whether it can or should take its place as a complete operating budgeting system."

At the 54th Annual Meeting in Minneapolis, a report on Project 19-1, "Budgeting for State Highway Departments," by Mr. Hinck of the firm of Ernst and Ernst, although scheduled for both the Uniform Accounting and Finance subcommittees, was given at the Finance committee session and drew a capacity audience. It revealed that the state of the art is just as most of us had anticipated, but it also quite confidently predicted that the principles of budgeting can be common to all highway departments with each department still choosing its own methods and procedures to be followed. The AASHO task force on program budgeting will be watching closely the progress of the Highway Research Board committee and the NCHRP research project 19-2.

SOME SATELLITE BENEFITS

Program budgeting will force people to re-think their roles, and their agency's role. It can expose hidden relationships and subliminal power structures. It may cause the "ship of state" to ship a little water—but it will not swamp the boat. This can be good.

It will open some managers' eyes for the first time to the tremendous value in controlling functions with this new budget concept. For the first time the manager will be capable of evaluating one of his programs vs another. And it could be his first realization of the costs of some of his functions.

In Minnesota this is happening, and it is significantly rewarding to note the receptivity and a desire to advance the momentum into more and more areas. In our Department program budgeting efforts so far have resulted in a marked advance in dialogue between peoples; a recognition that work planning and budgeting are homogeneous; the probability that some decisions have been better; and the likelihood that, having gone this far, it will not, by itself, just fade away.

Will PBS work? I think so. But the proper attitude of all of the players in the game is essential. If there is not a wholehearted resolve, the benefits will be marginal. Resistance can be expected from all of those comfortable ones who most resist change, and all whom they can rally to their side.

At this stage I am pointing a finger more at complacency among our financial accounting and processing people than at top management, although this does not excuse top managers who create or condone this situation. And one has but to examine the Project 19-1 draft report on the state of the art among highway departments or a progress report on the 5-5-5 projects to recognize that state level responses are generally slow in development.

My advice to state level managers is to be alert—not passive—to the possibility that some day someone may want to inject this program budgeting approach into your agency. If this happens it might be wiser to join in the effort than to dream that it will by itself fade away. Remember, it will be quite difficult to resist the logic behind systematically planned approaches to delineating programs based on the goals and objectives of your own organization.

I believe in PBS—yes, in PPBS. I predict that it will eventually infiltrate most of our states and highway organizations to some degree. I also believe that it will have greater impacts at state levels than its skeptics now are ready to admit.