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EXPENDITURE CONTROL AND TRADITIONAL BUDGETS: COMPARING TWO IMPLEMENTATIONS

Angela Lauria Gunnink, M.A.

Western Michigan University, 2001

My research will entail examining the budget processes of Kalamazoo, Michigan, and Fairfield, California. The difference between these two cities and their budgets is that Fairfield implemented an expenditure control budget, and Kalamazoo operates with a traditional budget. The purpose of this Master's Thesis is to compare and contrast Fairfield's performance with their expenditure control budget to Kalamazoo, a city of approximately the same size in terms of population, square mileage, and local governance as Fairfield, but operates with a traditional city budget.

This study revisits the empirical claims made by Osborne and Gaebler (1992), which illustrates Fairfield, California as a successful model for budget innovation and performance. This study promises to advance our empirical understanding of how these innovative budgets work and to extend theoretical approaches to reinventing government that have proliferated in public administration over the past 15 years. Much of the prior empirical work that this research project entails is anecdotal and limited. The research that I carry out permits a long-term test of some of the claims made about the effects of entrepreneurial budgeting - claims that were initially made with only a few years experience.

EXPENDITURE CONTROL AND TRADITIONAL BUDGETS:
COMPARING TWO IMPLEMENTATIONS

by

Angela Lauria Gunnink

A Thesis
Submitted to the
Faculty of The Graduate College
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Department of Political Science

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2001

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Angela Lauria Gunnink

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CHAPTER I

INTRODUCTION

Historical Background of Expenditure Control and Traditional Budgets

Fairfield, California: The Entrepreneurial City

In response to the many citizen complaints and protests that state and local taxes had been rising too rapidly for the services being provided, and that property taxes in particular had been steadily increasing, California voters passed Proposition 13 by nearly a two-thirds majority in 1978, which was detrimental to the state. This voter initiative: rolled back property tax assessments to their 1975 level; restricted increases in assessments to 2% per year as long as the property does not change ownership or undergo substantial improvement; prohibited property taxes in excess of property's full value; required a two-thirds majority of a jurisdiction's voters for local tax increases; and required a two-thirds majority of both houses of the state legislature for increases in state taxes (Galles, Long, & Sexton, 1995; 82). The large jumps in tax liabilities came without corresponding increases in taxpayers' ability to pay, which provided the motivation for the reassessment cap of two percent per year. Since Proposition 13, whenever a government-related problem has arisen in California, from street-repair to increased crime, its opponents have claimed that Proposition 13 caused it by decreasing government revenue (Galles, Long, & Sexton, 1995; 82).

Another possible factor in the passage of Proposition 13 was education finance reform. When educational funding was disconnected from local property taxes, the support for the property tax as a funding tool diminished, and a tax revolt involving substantial cuts in property taxes may have been inevitable (Sexton, Sheffrin, & O'Sullivan, 1999; 100).

In retrospect, the passage of Proposition 13 is not too surprising. In the late 1970s, the combination of rapidly rising property values and stable tax rates increased property taxes as a fraction of income. The share of property taxes directly levied on homeowners increased from 34 percent in 1970 to 44 percent in 1978. The state had accumulated a surplus that would have reached \$10 billion had Proposition 13 not passed. State and local governments did not respond to rising property values and tax revenue by cutting tax rates, so voters took matters into their own hands. In doing so, they did not expect reductions in government services, but believed that government could provide the same level of services with less money. Just before the election, 38 percent of the electorate believed that state and local governments could absorb a 40 percent cut in tax revenue without cutting services (Sexton, Sheffrin, & O'Sullivan, 1999; 100).

Proposition 13 left California cities with approximately 50% less revenue from property taxes, and thus, severely limited their spending power. Although California voters approved Proposition 13 in lieu of paying high property taxes, residents still desired high levels of services, regardless of the devastated city budget. This situation prompted Gale Wilson and Oscar Reyes to implement an expenditure control budget (ECB) in 1979, which enabled the City of Fairfield to depart from their traditional budget in order to continue to provide residents with services. Though the change in budget format was difficult at first to become familiar with, twenty-two years later, Fairfield's expenditure control budget is still implemented today.

Oscar Reyes, Assistant Finance Director, Orrin Wendling, former Finance

Director, and Gale Wilson, former City Manager of Fairfield, California, first implemented the expenditure control budget (ECB) in 1979, which drastically helped the City of Fairfield, California through the Proposition 13 crisis.

I developed the ECB concept and proposed it to Orrin Wendling, former Finance Director, as a response to the favored Proposition 13 proposal, which cut property taxes in California in 1979. After Proposition 13 passed, the City Manager accepted the ECB concept and the City Council approved it for fiscal year 1979-1980. Some of my observations prompted me to rethink the way Fairfield prepared and handled the budget. I proposed departmental budgets without line-items and making the Department Heads responsible for their respective budget. Their performances reviews and annual bonus allocation were based on how well they managed their budget and delivered public services within these budgets (Oscar Reyes, August 27, 2001).

The Proposition 13 crisis was severely detrimental to California, and Fairfield reacted in a way that serves as a catalyst for reinventing government, as they are considered the first entrepreneurial city in the United States. Generally speaking, in California, property tax, not sales tax, was the primary source of income for the municipal government and cities had control over their property tax rates without limitation up until about 1972. In 1972, some limits were placed that affected some jurisdictions and not others, and those were the rules that operated until 1978 when Proposition 13 was approved by voter initiative. At that point, California cities lost control over setting property tax rates. Everyone took a share of the property tax that was generated by a 1% rate on a restricted level of assessed value and then there were limitations placed on how fast value could grow in future years. So over time the property taxes diminished in importance as a revenue source and as the economy has evolved, sales tax has become far more important.

For example, we have more than twice as much sales tax now than we do property tax. We get about 1/3 of our total budget from the sales tax as we are looking at about 14 million dollars a year in sales tax versus almost 6 million in property tax. [And so] That will be a major difference as you look at various cities across the country as it relates to what flexibility cities have with property taxes (Leland, April 25, 2001).

There have been positive and controversial claims made by scholars in regards to the expenditure control budget that have proliferated in public administration over the past fifteen years, which will be discussed further throughout this Master's Thesis. Much of the prior empirical work that this research project entails is anecdotal and limited. The research that I carry out permits a long-term test of some of the claims made about the effects of entrepreneurial budgeting - claims that were initially made with only a few years experience. This Master's Thesis promises to advance our empirical understanding of how these innovative budgets work and to extend theoretical approaches to reinventing government that have proliferated in public administration over the past 15 years.

One of the most motivating yet controversial publications is *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* by David Osborne and Ted Gaebler (1992). It is in this book where I was first introduced to Fairfield and their entrepreneurial budget. It became apparent that the claims made this book needed to be empirically tested at the local government level. Understanding local government budgeting is important as the allocation of city funds and resources are critical for all city departments, regardless of the type of city budget that is implemented. In order to explain how performance is measured within a city is to understand their particular budget process and format, as the city budget is the

political and economic tool for performance evaluation. With the many reforms resulting from the traditional budget process, it is important for us to understand what shortcomings are associated with the traditional budget, and therefore, why many cities are seeking budget reform.

An Entrepreneurial Approach: The Expenditure Control Budget

An expenditure control budget (ECB) is an entrepreneurial approach to city budgeting which deviates from the traditional budget, or “bureaucratic budget”, as is coined by Osborne and Gaebler, (1992). Fairfield’s budget system is fundamentally the same as what is depicted in *Reinventing Government* (1992), except there are more aspects to it, such as the policies governing the budget. “I started here in 1985, that is when we started the long-term plans, and a couple years later, maybe 90-91 we formalized the budget policies” (Leland, April 24, 2001). The policies governing the budget were adopted by Resolution 91-186 on July 2, 1991. These policies are not goals for accomplishing a given project, but rather a series of financial management practices to be followed in preparing and implementing future budgets, in the context of a ten-year financial plan. Some policies shape the form the budget takes (ECB, long-term planning), while others set financial objectives, such as having general reserves at 20% of expenses, and a Loan Fund reserve of \$4 million. Other policies are performance-oriented, as the Community Services programs should cover a minimum of 33% of program costs with under-generated income, and other policies just describe sound practices, such as cash management, debt management, and economic development. “It gives us the ability to show the council how their policies

are being complied with over longer period” (Leland, April 25 2001). Fairfield’s City Manager, Kevin O’Rourke, added that using their ECB keeps “Fairfield positioned for positive and negative effects, but there are situations you cannot predict but try to.”

Since the publication of *Reinventing Government* (1992), Fairfield has had numerous contacts with agencies, other governments, and researchers alike as to how their entrepreneurial budget works, and how it measures performance. Leland explained that many different United States city and state governments have inquired about the ECB, while entertaining questions from Moscow’s City Council, as well as cities within Japan, Russia, Ukraine, Israel, Scandinavia, and Australia. Several cities within the United States have implemented part of the ECB; a common element is the ability to save money from fiscal year to fiscal year. Even if lump sum budgeting is not practiced within these cities, the ability to save all, or a percentage of savings is embraced.

Fairfield’s Budget Approval Process

As will be discussed in a moment, Fairfield’s ECB approval process is one that is less time and money consuming, but first it needs to be understood how and when the ECB approval takes place during the fiscal year. Typically, budget planning begins at mid-year (December-January) with completion of the audit for the fiscal year ending the prior June 30, and a review of the first six months of actual revenues and expenditures for the current fiscal year. In March and April, the departments provide updated information for the timing and current dollar cost of capital projects scheduled over the next ten-years, and projected future staffing levels. With

departmental assistance, the Finance staff projects expenses for the current and next eight fiscal years. Personnel costs are projected on a detailed position-by-position basis for the next four years. The impact on operations of capital projects, legislations and economic factors is reviewed.

A computer model is run to determine whether adequate funds exist to meet requests while maintaining adequate reserves over the ten-year period. All unfunded needs are documented. The forecast is reviewed by the department heads and City Manager to ensure consistency with City policies and priorities established by the City Council at their annual goal setting sessions usually held in January.

The budget document is usually released to the public in late May or early June. One or more public City Council study sessions are held to allow extended discussion on major issues, and the budget is normally adopted at a public meeting prior to the beginning of the new fiscal year on July 1st.

What Makes Fairfield's Expenditure Control Budget Distinctive?

There are three fundamental differences when comparing expenditure control and traditional budgets. First, the ECB approval process is less time and money consuming. Second, the ECB allows the city to save general fund money from fiscal year to fiscal year, which eliminates the motto "use it or lose it", commonly referred to under traditional budgets. Third, the ECB is mission-driven, rather than budget-driven.

The Expenditure Control Budget Approval Process

The ECB is less time and money consuming, as an ECB has this simple budget process: every department gets the same amount as last year, increased/decreased to account for inflation and population growth. When compared to the 6-8 month budget approval process of a traditional budget, an expenditure control budget is more decentralized by reducing the amount of time department heads devote to the budget approval process. The public or citizenry is invited when a new fiscal year budget is implemented, but the hassles of the traditional budget approval process are not relevant.

Likewise, the ECB eliminates the need for city council to approve line-items, as is done with the traditional budget. During the first stages of development, Fairfield began with a 2-3-page budget proposal that highlighted broad categories of spending. Though this was true when the city started out with the ECB, it is not now, as the city produces a budget that is much more than 2-3 pages. The city finds it imperative to have a thorough budget in order to educate their residents and to ensure fiscal stability. As the mechanics of the ECB are quite limited, Fairfield finds it critically important to educate the public by laying out the city's goals and objectives.

Gale Wilson used to say that we had a 2-page budget and technically that was true, because he would get the council to pass a resolution that usually was 2 pages in length, and that was basically the budget. There might be some text that accompanied it, but in the wake of the Proposition 13 crisis people were scrambling to put something together. From this 2-page budget we have spent a lot more time in the ensuing years documenting and updating the budget, which is a lot more than 2 pages, part of which is public education, and it solves a lot of different needs. The mechanics of the expenditure control budget are actually limited in nature, you do not need a lot to implement it, but a city would not want to stop there. They would want to educate the public

and take the opportunity to lay out their goals and objectives (Leland, April, 25, 2001).

As a result of the ECB, there is no need for the grueling hours that are entailed with the traditional budget approval process, as department heads are given block grants, or lump sum allocations, which demonstrate considerable trust in their judgement about their use of money and that allow a high level of autonomy in managing their departments. Managers of city departments still use line-items to track their expenditures departmentally, but the council never sees or votes on them. The Finance Department uses these departmental line-items in order to evaluate departmental and city performance.

The elimination of line-items does not help determine what services the city provides; the mission of the department, goals set by the city council, and the implementing direction that the city's Management Leadership Teams takes all help in determining what services the city will provide. It does not matter if Fairfield has line-items or not, as internally from an accounting stand-point, everything that gets spent goes against a line-item, it is just that the city does not budget on the basis of the amounts going into each of these line-items. Therefore, the city can always account for what they spend, but whether the city has the line-items in the budget or not, it does not determine which service they will provide. However, it does determine the level of effort that the council puts in on the budget, with how much second-guessing.

If Fairfield had line-items that did go before the City Council for review, there would probably be more discussion and angst on spending on particular items,

which is a complete waste of time. This is a main component of traditional budgets, as Gaebler and Osborne (1992) argue that this is one of the major problems with traditional budgets, as time and resources are wasted by determining how much money should be allocated for all the different line-items within the budget.

You lose complete sight of the mission, goals and objectives. Not worrying ahead of time that you have a budget that said you can only spend 'x' amount in this area and 'y' in this area, and as a result opportunities are lost. Opportunity costs in terms of doing something now in lieu of something else, and opportunity losses, for not being able to seize the time to go out now that will help you for the future. It is real easy in a line-item budget to say 'it is not my job' or 'I don't have the money set up for it' and 'it's too much of a hassle to try to get the approval to move the money around'. You can spend as much time talking about moving the money as just going out and doing it. When you have a lump sum budget, you can just do it, as long as it is consistent with your mission and authority to get the job done (Leland, April 25, 2001).

Fairfield's ECB process really places a premium on giving flexibility to the departments to manage the inputs in a way that they can best achieve the outputs desired. The city tries not to let the council micro-manage where staff are assigned or how each dollar is spent within the departments. With the lump sum allocation of general fund resources, it is up to the departments to decide whether they should contract services, hire new employees, invest it in capital items, or whether by doing some things they can save resources and get the job done more economically.

Those are all designed to give the department flexibility and to get the job done, because that is what you hired them to do; use their expertise, and to achieve their goals. [So] As long as they know what their goal is; the general goal from council, the specific priorities that are set by them each year, and then with your lump sum budget you go off and get that done. The departments have very often come up with initiatives that they feel can be handled with their budget that were not mandated by council but since there is a real sense of ownership, the budget process certainly saves money (Leland, April, 25 2001).

“Save it and Invest it”

Second, the ECB allows the city departments to save money from fiscal year to fiscal year, which eliminates the motto “use it or lose it”, commonly referred to under traditional budgets. Fairfield’s ECB has the incentive to save money, as any general fund money that remains unspent is saved and put back into the departments account to use for future services and for higher priority items in the new fiscal year. With traditional budgets, all must be spent at the end of the fiscal year or three things happen: they lose the money they have saved; they get less next year; and the budget director scolds them for requesting too much last year. In order to avoid such circumstances, department heads operating under a traditional budget will spend funds for lower priority items in order to diminish their account for the next fiscal year (Osborne and Gaebler, 1992).

Fairfield’s ECB gives staff much more accountability to respond to changing needs. The city finds it advantageous to be able to take opportunities as they present themselves during the fiscal year, instead of missing opportunities and garnering huge opportunity costs. The departments are able to do this because of the lump sum budget allocation, and having the ability to save unspent general revenue funds and apply these resources as deemed fit by department managers in order to effectively and efficiently pursue the mission of the city during the fiscal year.

In a given year, the budget may consist of, hypothetically, \$100 this year as part of the on-going budget, and you have \$50 saved from the past, so you have a total of \$150. If I spend \$125, that is 25% more than just my annual appropriation but I have this carry over to spend from, so after I spend \$125 I still have \$25 left for the next fiscal year. Then maybe this next fiscal year my annual appropriation will be \$105, so I will have \$130 as opposed to the \$150

I had last year. [But] It was worth it for me to achieve my mission and spend a little bit more money in that year. I could not wind up doing this every year or after awhile I will blow through my future budgets. [And] I cannot start spending at a rate that cannot be sustained over time. Sometimes there are one-time expenses that will have the effect of creating something good that will stay a number of years. Like maybe capital, or hiring people on a short-term basis to get a project done, and once it is done, you do not have to repeat it every year. Perhaps even, getting this job done is a bottleneck for other improvement for the future (Leland, April 25, 2001).

Mission-Driven Budget

The third fundamental difference is that Fairfield's ECB is mission-driven. As their ECB does not deal with dozens of separate line-items that are set to be spent with a certain dollar amount as with a traditional budget, the city is able then able to listen to their residents and their needs as they are presented during the fiscal year. As cities with traditional budgets are concerned with approving a budget 6-8 months before the next fiscal year, Fairfield's ECB is able to allocate money towards services as the need presents itself during that fiscal year. Based on the formula that every department gets what they received last year, increased/decreased for inflation and population growth, there are no drastic surprises on what an ECB department will get the upcoming year.

The traditional budget system in existence encourages higher costs of public service instead of demanding lower expenses for public services. This is the reasoning behind the CPI and population increase factors for the budgetary increases. Budget increases beyond the ECB index are allowed only for new and enhanced level of services (Oscar Reyes, August 9, 2001).

As Osborne and Gaebler point out (1992), traditional budgets are "budget-driven"; as a city that operates under this type of budget can only spend 'x' amount within a certain line-item, and a expenditure control budget is "mission-driven"; as a city

operating under an expenditure control budget is allowed to spend money based on the needs and desires of their residents.

The concept of Fairfield's mission-driven budget is that at its core, the city continues to achieve their mission even if the city needs to shift in different ways its focus from year to year. As much as anything else, Fairfield's budgeting system offers fewer distractions from the mission. Whereas certain other budgeting systems require the city to put so much energy in different ways and different years that it tends to distract the mission. The ability to achieve the city's mission is its #1 concern, and in order to do so, the city tries to have the least amount distractions as possible.

In other words, you reallocate your resources to most effectively continue to meet your mission. There are some departments and organizations that really are less focused on a mission and they are really living almost hand to mouth. Kinda like, ok, I got everything dumped in this particular line-item. The focus becomes that these people are only going to do this task in a certain way, and so they drop everything they are doing and do that, and if it takes us off into a completely different direction then what our main mission is, then so be it. They just kind of wander back and forth; it is like a car weaving down the road as opposed to going straighter down the road (Leland, April 25, 2001).

Fundamentally, the expenditure control budget empowers city governments and organizations to pursue their missions, unencumbered by the traditional budget impediments. As explained in Osborne and Gaebler (1992), there are seven advantages to mission-driven, Expenditure Control Budgets: (1) Mission-driven budgets give every employee an incentive to save money; (2) Mission-driven budgets free up resources to test new ideas; (3) Mission-driven budgets give managers the autonomy they need to respond to changing circumstances; (4) Mission-driven budgets create a predictable environment; (5) Mission-driven budgets simplify the

budget process enormously; (6) Mission-driven budgets save millions of dollars on auditors and budget officers; (7) Finally, mission-driven budgets free legislatures to focus on the important issues (Osborne and Gaebler, 1992; 122-124).

Kalamazoo, Michigan: A Traditional City

The traditional budget, often referred to as the executive or bureaucratic budget, is an everlasting budgetary approach, despite the movements of budgetary reform. The vision painted by Osborne and Gaebler (1992) is one that criticizes this type of budget, for many distinct reasons, but the most important aspect is that traditional government budgets encourage managers to waste money.

The budget approval process for the traditional budget, according to Osborne and Gaebler (1992), is one that is characterized with bureaucratic red tape. The budget season begins 6-8 months prior to the new fiscal year, where managers come up with their wish lists and submit them to the Finance office. The Finance Department then spends months cautiously reviewing wish lists, which eventually ends up in a mammoth budget to the city council. After months of deliberation, in which the city council has to say yes or no to hundreds of line-items and to powerful interest groups – a budget finally emerges. Within weeks, the departments then begin submitting budget amendments to cover unanticipated expenses – which are costly in terms of time, money and energy (Osborne and Gaebler, 1992; 123).

Kalamazoo has a similar budget process. The operating budget is based on the principle of financing current expenditures with current revenues or accumulated reserves. Budget preparation begins with the transmittal of a budget manual prepared

by the Budget and Evaluation Director which exhibits city-wide goals and objectives, budgeting guidelines for the operating and capital improvements program budgets, an overview of fiscal constraints, and resources available. The budget is prepared by line-item listing dollars budgeted for each expenditure category separately. Budgeted expenditures will reflect the city's perceived needs and desires of the community based on current surveys and long-range planning (2001 Budget City of Kalamazoo 35).

Kalamazoo's Traditional Budget Approval Process

Kalamazoo's budget process lasts a calendar year – January through December. Kalamazoo begins their budget process in June by having a planning session with their City Commission. During that planning session with the City Commission, the city hopes to get their priorities for the next budget cycle. Kalamazoo does that through using a strategic plan that they have developed, which will be discussed in detail in Chapter 4. After the City Commission accomplishes that, then they come back to the budget managers, explain to them what the City Manager, City Administration, and City Commission's priorities are, and then they give the budget managers any budget parameters that they might be facing. Then the Finance Department tells them to go forth and make a budget. This is typically done during the summer months. The budget unit managers along with the respective services groups prepare and submit their budget requests as instructed in order to make deadlines. Then in September, budget proposals from the various departments come back to Moore's office. She reviews them, and then she discusses any issues

that she may find with the departments, and then finally she makes a recommendation to the City Manager.

Kalamazoo has internal budget meetings for the City Manager to talk to the departments regarding what they are requesting. After internal reviews are completed, the City Manager finalizes his proposal, and proposes it to City Commission by December 1st of each year. Then during the months of December and January, the City Commission reviews the budget where they go through and get a good understanding of what the budget proposal is for that budget year. The City Commission adopts the budget with any changes that they would like to see on February 1st. Then the rest of the year is spent monitoring and reporting on the budget progress.

Just when you think this exhaustive budget process is over, it is time for budget amendments. The City Commission only grants permission for budget amendments. Budgets may be amended after adoption with approval of the City Commission if changes result in an increase in appropriation. Budget amendment requests must be made in writing and approved by the appropriate budget manager, the Budget and Evaluation Director and the City Manager, who then requests approval from the City Commission. The budget is routinely amended two times during the budget year (2001 Budget City of Kalamazoo: 42).

“Use it or Lose it”

Osborne and Gaebler further their argument by stating, “smart public managers spend every penny of every line item, whether they need to or not. This

explains why public organizations get so bloated: *our budget systems actually encourage every public manager to waste money*” (Osborne and Gaebler, 1992; 119). This is where the “use it or lose it” motto fits in, compared to the ‘save and invest it’ motto used with expenditure control budgets.

Patsy Moore, Finance Director of Kalamazoo for 6 years, responded to this claim by stating that unspent department general fund money goes back to the general fund balance, so in effect, they lose it, but we use it to fund the next year’s budget. The inability to save money really has not been a problem for the city. This will be further discussed in Chapter 4.

Spending sprees are not a concern for the city, though Moore admitted that she is sure some of that behavior goes on. Due to carry-forwards, Kalamazoo is not concerned with this issue. This will also be further discussed in Chapter 4.

Budget-Driven Government

Chapter 4 also demonstrates how Kalamazoo’s traditional budget is budget-driven. However, the city is taking steps in order to become more mission-driven, as the city realizes the many downfalls of their traditional city budget. It is because the city realizes that they are incapable to measuring city performance, that the City Manager, Pat DiGiovanni, and Finance Director, Patsy Moore, are providing leadership to change the city’s traditional budget format to a performance based budget.

Methodology

My research will entail examining the cities of Kalamazoo, Michigan, and Fairfield, California, by comparing and contrasting the use of their city budgets. The fundamental difference between these two cities and their budgets is that Fairfield implemented an expenditure control budget, and Kalamazoo operates with a traditional budget. The purpose of this thesis is to compare and contrast Fairfield's performance with their expenditure control budget to Kalamazoo, a city of approximately the same size in terms of population, square mileage, and local governance as Fairfield but has not implemented an expenditure control budget.

Focusing on Fairfield, CA, my research will empirically evaluate, through personal interviews, the use of their expenditure control budget as to its effectiveness and efficiencies and will advance our understanding of this entrepreneurial budgeting process. I will revisit the empirical claims about budgeting and city fiscal performance made by Osborne and Gaebler in a now classic work on public sector reform, *Reinventing Government* (1992), as well as other distinguished scholars that have researched this exciting, yet controversial budgetary system. This research will also assess the fiscal and budgetary performance of Fairfield, California as a successful model for budget innovation and performance.

My methodology includes interviews of government officials in Fairfield and Kalamazoo, specifically the Finance Department, City Manager's Office, Planning Department, Community Services Department (DPW, Parks and Recreation), and Police Department. My research will compare and contrast each budget format, and

give an account of what each city was able to do for their residents, because of their type of budget. On-site interviews were done in Fairfield and Kalamazoo, which enabled me to obtain detailed information from the principal budget officers in both cities and to learn about the effects of their budgets.

Expenditure Control and Traditional Budgets: Comparing Two Implementations

Traditional budgets are depicted by Osborne and Gaebler (1992) as wasting money, being “budget-driven”, and having a lengthy, cumbersome budget approval process that wastes time, money and energy. However, how valid is this, and does the traditional budget continue to last? Is it true that reform is needed with the traditional city budget, and if so, at what expense? As empirical work with comparing these two types of budgets is limited, this research promises to be influential and further our understanding of both types of budgets.

CHAPTER TWO

LITERATURE REVIEW

Budget Reform: From the Progressive Era

The Progressive Era

Political machines of the early nineteenth century may be responsible for the development of how we budget. These machines became very powerful due to a massive wave of immigration that lasted forty years, from 1880 to about 1920 (Tyler and Willand, 1997; 191). Schisel (1977) defined the budgeting of the nineteenth century as “a valuation of receipts and expenditures or a public balance sheet, and as a legislative act establishing and authorizing certain kinds of amounts of expenditures and taxation” (Schisel, 1977; 89). Tyler and Willand continue (1997) this argument by stating that there was a lack of control through the inattention of the expenditure side of budgeting, which was united with a dominant city council. The main problem was that city council was not legally bound to their estimates.

The idea of a budget as a control mechanism however, had been developing since the 1830’s but gained momentum after the Civil War with the growth of cities and the expansion of municipal services. By the end of the 1890’s, there were three basic forms of municipal budgeting. Some cities simply used a tax levy, an approach disliked by reformers due to the lack of control through inattention to the expenditure side of budgeting, coupled with dominance by the city council. Another approach

was a tax levy accompanied by detailed appropriations. Missing there, of course, were details regarding revenue estimates. Still others used a tax levy but preceded it with detailed estimates of receipts and expenditures, a practice that found favor with business and middle class reformers. However, city councils were not legally bound to adhere to these estimates (Tyler and Willand, 1997; 192).

The Progressive Era evolved with middle class reformers and business interests uniting to fight the urban political machines in a struggle to reform government, and thus the public administration movement was born in the 1880's with Woodrow Wilson taking a prominent place as a theorist for the new discipline (Tyler and Willand, 1997; 192). As with the reformers' emphasis on efficiency, the Progressive Era sought to find the one best way to budget, a philosophy that was appealing apolitical to reformers (Tyler and Willand, 1997; 193).

The Progressive Era illuminated the fact that corruption and inefficiency was evident at the federal, state, and local government budgetary levels, with the legislative branch dominating budgetary practices. Reformers sought to expand the power of the executive, as with the traditional budget, often there was not efficient supporting data included with departmental budgetary estimates and little oversight was practiced with departmental spending.

Budgetary practices at most levels of government in the United States were dominated by the legislative branch of government. As such, departmental budget estimates at the local level, in most states and the national government were submitted directly to the legislative body. Seldom was supporting data included with

estimates, and requests were usually lump sum. In fact, spending requests were not even related to revenue projections or overall spending. Moreover, little standardization existed in accounting. Thus, departments bargained with legislative appropriations committees directly, or city council member locally, and little central oversight existed of departmental spending (Tyler and Willand, 1997; 194).

As a result, Cleveland, Goodnow, and Willoughby were spokesmen for reform of the traditional budget (Tyler and Willand, 1997; 193). In 1910, President Taft initiated the Commission of Economy and Efficiency, and the Commission's report entitled 'The Need for a National Budget', was presented to Congress in 1912. The Taft Commission's recommendations became the basis for the Budget and Accounting Act in 1921, which established an executive budget at the national level in the United States and became the foundation for present day budgeting at the federal level (Tyler and Willand, 1997; 194). Though some claim this to be a revolution in terms of budget reform, it was not recognized at the time that local government was already headed in this direction.

The Goals of the Reformers During the Progressive Era

According to annuality, which is budgeting for one year, estimates, decisions, and accounts should be for one single year - and nothing more. This was the premise for budget reform. Annuality was seen as inefficient for reformers, and the business corporation model was sought in order to institute planning, specialization, quantitative measurement and standardization. Reformers wanted to promote administrative specialists who could not only administer public services without

regard to politics, but also in an efficient manner that would result in uniformity and responsibility in government finance. Tyler and Willand (1997) state:

Extremely important and influential actors in promoting municipal finance reform were activists in the rising professions of accounting, administration and social work. Chief among these was the New York Bureau of Municipal Research created in 1907. The Bureau highlighted poor fiscal procedures resulting in inefficiency. It worked to inject uniformity and responsibility in governmental finance. It deciphered how government operated and consequently recommended how to improve government. The New York Bureau of Municipal Research, like other reformers of the era, seized the business cooperation as the ideal model for bureaucratic organization, and promoted scientific management concepts that would promote planning, specialization, quantitative measurement and standardization- the ingredients of efficiency. Thus, the Bureau planted the seeds for training in public administration to produce a skilled pool of administrative technicians who could administer public services capably without regard to politics (Tyler and Willand, 1997; 193).

While many reformers were concerned to limit the growth of government and the access of special interests, it mattered to them how it was to be done (Rubin, 1990; 179). Irene Rubin (1990) described the reformers motives and aspirations:

They looked at the evolution of line-item controls that legislative bodies had devised to control machines, especially in New York City, and they argued that although effective in achieving their purpose, they hamstrung the executive and created less efficient government. It was not only spending control the reformers were after, but efficient government. They specifically rejected line item budgets and detailed appropriations in favor of lump sum appropriations that allowed better management (Rubin, 1990; 179).

As the goal of the reformers was to expand the power of the executive to formulate policy and review proposals, reformers also promoted new budget formats to illustrate decision-making information about programs to the legislature and the public for their review (Rubin, 1990; 179). Rubin (1990) also argues that the reformers saw public accountability as important theme, and it could only be achieved

by improving the quality of budget information and publicizing that information for all to view. She also contends that the reformers sought for legislature and public to completely understand what the government is doing and how much it was spending to achieve particular goals.

Reformers advocated that planning be explicitly linked to budgeting. Reformers argued that poor planning for growth and inadequate public services cost more money in the end and were inefficient (Rubin, 1990; 180). Reformers sought to envision the future, and through the use of the budget, adequate forecasting may be accomplished in order to plan for future capital and service spending.

Reformers also sought to provide the best services at the lowest possible cost. Rubin (1990) also contended that reformers did not argue that new services should not be included in the budget, only that these new services should be the lowest possible cost equal to the quality of services demanded (Rubin, 1990; 180). “They therefore advocated cost accounting (with its program budgeting implications) and detailed performance budgets based on unit costs. The assumption was that when such information was made public, there would be an outcry if one’s city park services cost more than another’s” (Rubin, 180; 1990).

Rubin (1990) also contends that the reformers were not advocates of departments asking for money out of the general fund in order to accomplish what they needed in the next fiscal year. Reformers sought budget planning, which meant choosing particular target levels of service by activity and figuring out in advance

what it would cost in personnel and supplies to accomplish specific goals (Rubin, 180; 1990).

The reformers rejected a model of budgeting that allowed the departments to ask for what they wanted instead of requesting what they needed to accomplish particular tasks. They were convinced that there was much waste in government and that expenditures could be cut back without losing much in the way of services. They did not think that changes could be implemented only in the margins. They told stories of cutting departmental budget in half while improving services (Rubin, 1990; 180).

Rubin (1990) also recognizes public economists, who advocated the same kind of reforms, but from a different theoretical perspective. Public economists based their arguments on rational choices and optimizing decision-making. Though budget reformers sought to run government more like a business, both the reformers and public economists saw the great need for reform.

While the budget reformers emphasized both the need to run government like a business and the constitutional basis for their reform, the public economists based their arguments on what they perceived as rational choices and optimization of decision making. Both groups emphasized the need to get the most for each dollar, but the public economists were less concerned with cost accounting and management and more concerned with choices between options, laying out the options carefully and choosing between them on carefully specified grounds (Rubin, 1990; 180).

As budget reform began in the United States with public administrators wanting to strengthen the executive, many different types of budgeting formats have been implemented to supplement the traditional budget, but not all have succeeded. Over the past years of budget reform, Rubin (1990) states that many of these past reforms have had nearly the same goals of the reformers of the 1900's. However, why does the traditional budget continue to last? As a foundation for this argument, Aaron Wildavsky (1978), has provided a classic explanation as to why this type of budget still endures today. Though his work is focused on federal level budgeting, it is relevant for discussion at the local level, which will be discussed below.

Why Does the Traditional Budget Last?

Bureaucracy. The inability to relinquish control, and allow for discretion. It is the way it has always been done. Too much time to educate staff. Resisting change. We are doing fine as we are. Do any of these sound familiar?

The traditional budget, often referred to as the executive or bureaucratic budget, has out-lived reform, despite reformers' attempts to create more efficient government. Aaron Wildavsky (1978) has served as a catalyst for many researchers who try to empirically evaluate the usefulness and performance of the traditional budget. Wildavsky explains that the usual answer to why the traditional budget has not been condemned is bureaucratic inertia, that the forces of conservatism within government resist change (Wildavsky, 1978; 501). Wildavsky (1978) acknowledges the fact that every criticism made against traditional budgeting is undoubtedly correct. "It is incremental rather than comprehensive; it does fragment decisions, usually

making them piecemeal; it is heavily historical looking backward more than forward; it is indifferent about objectives” (Wildavsky, 1978; 508). This being acknowledged, Wildavsky argues that the traditional budget has lasted because of the virtue of its defects and because it is simpler, easier, more controllable, more flexible than modern alternatives and indexed entitlements (Wildavsky, 1978; 501).

Traditional budgeting makes calculations easy precisely because it is not comprehensive. History provides a strong base on which to rest a case. The present is appropriated to the past, which may be known, instead of the future, which cannot be comprehended. Choices that might cause conflict are fragmented so that all difficulties need be faced at one time. Budgeters may have objectives, but the budget itself is organized around activities or functions. One can change objectives, then without challenging organization survival. Traditional budgeting does not demand analysis of policy but neither does it inhibit it. Because it is neutral in regard to policy, traditional budgeting is comparable with a variety of policies, all of which can be converted into line-items (Wildavsky, 1978; 508).

Wildavsky (1978) also argues that traditional budgeting has lasted due to its adaptability under all types of conditions. “It must perform under the unexpected – deficits, and surpluses, inflations and deflation, economic growth and economic stagnation ... It is not so much that the traditional budgeting succeeds brilliantly on every criterion, but that it does not entirely fail on any one that is responsible for its longevity” (Wildavsky, 1978; 508).

Another explanation Wildavsky (1978) poses for the survival of the traditional budget is that it also has the defects of its virtues. He argues that though traditional budgets look back, budgeters may not look back far enough to understand how and why they got to where they are (Wildavsky, 1978; 508).

Comparing this year with last year may not mean much if the past was a mistake and the future is likely to be a bigger one. Quick calculation may be

worse than none if it is grossly in error ...So why has it lasted? So far, no one has come up with another budgetary procedure that has the virtues of traditional budgeting but lacks its defects (Wildavsky, 1978; 508).

Wildavsky's (1978) argument for the continuation of the traditional budget is controversial, as many of these factors can be argued today as being misleading and false. Wildavsky states: "for sheer transparency, traditional budgeting is hard to beat" (Wildavsky, 1978; 509). Many scholars have argued that the traditional budget needs to be beat, as many problems exist to day with the traditional budget.

Problems with the Traditional Budget Today

Problems have always been present since the adoption of the traditional budget, whether they were recognized at the time or not. Many scholars have contended that the traditional budget is archaic and that budget reform is needed in order to take advantage of modern day information. Caiden (1982) argues that budgetary discontent arises from the fact that the annual budget process does not take into account the real role of government in contemporary America (Caiden, 1982; 516). Caiden (1978) also expresses how the accepted traditional budgetary practice is both formal and bureaucratic. Administrative control, as defined in specifically bureaucratic and centralized terms, she argues, may in fact be impeding, not strengthening accountability.

The budget period is too short for some purposes and too long for others. A decision process which centers on a single year cannot give adequate attention to the long range expenditures which now make up most of the budget. Conversely, the annual time frame is too rigid to allow prompt federal action to deal with seasonal economic trends and unexpected events, which require sudden shift in public spending patterns. What is required is a more flexible

instrument for economic policy direction and financial planning (Caiden, 1982; 516-517).

Caiden (1982) argues that the traditional budget handicaps contemporary America to run efficiently as it wastes time and resources. She suggests that it is time to move from change within the traditional budget to change of the budget itself. Caiden claims that “As the budget crisis deepens, budgetary concepts come to resemble myths, while the urgent issues of budgetary adaptation to a changing context remain ignored” (Caiden 1982; 519).

Caiden does acknowledge the traditional budget was initiated to correct the abuses of an earlier system, and it did so admirably (Caiden 1982; 523). However, she argues that the traditional budget worked back then primarily because given the state of technology and communications at the time it was probably the best means of achieving goals of financial management (Caiden 1982; 523).

In most Western countries it still suffices and works tolerably well, largely because executive monopoly of the budget resolves most problems. In the United States, however, where executive dominance of the budget is fiercely resisted, the budget crisis has become acute, spurring a fresh approach, whose potential for increasing budget capacity may far exceed that of annual budgeting. Freed from the constraints of the traditional framework, advantage may be taken of modern information and communications technology to improve accountability, forecasting, monitoring of funds and the linking of decentralized operations (Caiden 1982; 523).

Tyler and Willand (1997) also contend that the traditional budget has lasted due to its simplicity in understanding, but limitations of line-item budgets were recognized by some observers soon after their adoption. Tyler and Willand (1997) argue that line-items were to bring about more control over public spending, but with that there is nothing that enables public administrators to determine the value of their

activities that are provided to the public, nor is there a way to determine the efficiency and performance of such activities carried out. This serves as the catalyst of performance based budgeting, which will be discussed below.

In order to have a more efficient government, scholars contend that public administration practitioners and academic researchers initiate budgeting and accounting reforms. In order to study good government, reformers must come together to discuss the role that government is playing in our lives. Being cautious not to assume that one budget theory is superior is what Rubin (1990) argues, as they are different.

The relationship between budget theory and practice has been different, depending on whether one was looking at normative or descriptive theory. On the normative side, budget theory has generally been more successful than imagined; that is, it has set attractive goals that have often been a guide for behavior. On the side of descriptive theory or even predictive theory, budget theory has been much weaker, often unable to see the phenomena in plain view to theorize about their meaning (Rubin, 1990; 187).

Though a shift from a traditional budget is needed in some researchers and scholars' eyes, others are opponents of such a budgetary change. Over the past 15 years, there have been articles and publications about the pros and cons to budget reform. Though I have not incorporated all publications on this topic, I have included a handful that give a good representation about the positive and negative externalities associated with budget reform.

Advocates for Budget Reform: Expenditure Control Budgeting

Advocates for budget reform are optimistic that changing budget format will play an enormous role with evaluating city performance. In order to do so, scholars

contend, we need to reinvent government. When government officials are able to evaluate city performance by use of the budget, the budget becomes a tool that shapes the mission of the city, and consequently, reinvents government. Currently, with the use of the traditional budget, scholars contend that evaluating performance is nearly impossible, as with so many line-items and technicalities, government officials become consumed with the unimportant rather than what is important.

Local governments are leading the way with budget reform, with Fairfield, CA, one of the most successful in terms of implementing and operating with an entrepreneurial budget. Introduced to us by Osborne and Gaebler (1992), Fairfield successfully implemented an expenditure control budget. After Proposition 13 was passed by voter initiative in 1978, 42 states since then have Proposition 13-like measures, retaining among the citizenry vast sums that used to go to local, state, and county governments (Gaebler and Osborne, 1992; 4). Advocates of entrepreneurial budgets state that the end of the Roosevelt era calls for change:

The Roosevelt era started in 1932 and probably ended in 1976, characterized by citizens, not bureaucrats, asking the federal, states, and local governments to expand services. An increasing amount of GNP went toward government expenditures. In 1930, we spent as a nation on government about 20 percent of GNP. This figure had risen by 1976 to 38.1 percent, virtually doubling over the 44-year period. Now people are choosing not to launder their money through government (Gaebler and Osborne, 1992; 4-5).

The executive command and control model of the traditional budget is outdated, and in order to keep up with today's times, change or reform must occur. The Progressive Era was when society was much slower with centralized bureaucracies, hierarchy was used to control organizations, and when mass markets

were the keys to economic success. We are now experiencing almost the polar opposite (Lynch and Lynch, 1996; 263). No longer do hierarchical chains of command work well.

With the growing complexities over the past decades within budgeting, the command and control model is severely outdated, and government rules and regulations are perceived as an intrusion and a barrier to flexibility and competition (Lynch and Lynch, 1996; 264). Our current way of budgeting with the traditional budget encourages managers to waste money, as they are not considering the source of the revenue. As Lynch discusses, the public sector will require their civil servants to operate their governmental programs as entrepreneurs in a reasonably revenue-raising manner in order to maintain financial accountability (Lynch and Lynch, 1996; 264).

Osborne and Gaebler (1992) brought to light many facts about entrepreneurial budgeting. It is in this book where we are first introduced to Fairfield's expenditure control budget. Though many other concepts are introduced with Osborne and Gaebler (1992), Fairfield's expenditure control budget is a focal point in the book. Illustrating the success that Fairfield has had with their expenditure control budget, Osborne and Gaebler state:

By 1981, California had named Fairfield one of its four most fiscally sound cities. By 1992, the city's departments had spent \$6.1 million less than they were appropriated. The General Fund, then \$30.2 million, had spent \$28.8 million less than its revenues. This allowed the city to take care of several unfounded liabilities, to salt away an unrestricted reserve as a hedge against recession, and to build a \$20 million Intergovernmental Service Loan Fund, which makes start-up loans to new capital projects such as theater and sports complex (Osborne and Gaebler, 1992; 121).

Osborne and Gaebler (1992) also explain how Fairfield's expenditure control budget proved itself when sales and property tax revenues plummeted during the 1991 recession:

First the city decided to draw down half of its \$10 million in reserves over the next three years, to limit the spending cuts required. Whether state then transferred several revenue sources to the counties – deepening the city's fiscal hole – Fairfield simply changed its budget formula for the next three years. From July 1, 1991, through June 30, 1994, departments will receive no increase for inflation or population growth (Osborne and Gaebler, 1992; 121).

Arguing that traditional budgets give an incentive for managers to waste money rather than save it and invest it, Osborne and Gaebler's book serves as a catalyst for budget reform. "Spend it or lose it" has given way to "save it and invest it", they argue, as with the expenditure control budget, departments are able to retain general fund savings, or unspent money, where under the traditional budget departments lose these savings and the money goes back into the general fund, or the 'pot' to be redistributed.

As a result of the expenditure control budget, managers are faced with many possibilities, as they are not constrained with strict line-items that are made several months in advance. Therefore, managers are able to listen to their community and their needs as they arise during the fiscal year, and allocate money and resources to meet new needs and phase out obsolete activities. The high level of autonomy within the department suggests that managers are uncontrollable with their money, when they are not. The fundamental difference is that a city with an expenditure control budget allocates general fund monies to departments through the practice of lump

sum appropriations at the beginning of a new fiscal year. Managers best determine how funds will be spent, rather than having the city council determine how much they should spend on a given service.

With expenditure control budgeting, managers still keep track internally of how much they are spending on particular services, but the city council never votes on them. With the degree of autonomy managers are given, they are also encouraged to use much discretion. They are free to move money around within the department if they feel that the city's mission will be better pursued and that the department will work more efficiently.

Dan Cothran (1993) also argues the need for budget reform. Cothran contests Aaron Wildavsky's (1978) answer for the reason why the traditional budget lasts. Cothran states:

He (Wildavsky) argued that despite all the efforts to reform budgeting in the past few decades, it has remained essentially incremental and line-item. Although this may be true, efforts to reform budgeting occur with such regularity that the question could easily be turned around: Why are attacks on traditional budgeting so persistent? Some shortcomings must exist in budgeting for reforms to be proposed so regularly. Although none of these efforts, such as performance, program or zero-base budgeting, entirely supplanted incremental line item budgeting, elements of these reforms endure in the budgeting process of many governments. Now a new challenge to traditional budgeting has appeared (Cothran, 1993; 446).

Cothran also argues that the purpose of expenditure control budgeting is to get top policy makers to focus on the big picture, not the details. In doing this, the council tries to determine what citizens want their city government to do, and from this information and their own preferences, the council member set the overall policy direction (Cothran, 1993; 446).

Cothran also recognized the significant incentive underlining the expenditure control budget: the ability to retain savings from fiscal year to fiscal year. “Along with the general increase in discretion over the use of funds, it is supposed to improve both management and morale by giving more discretion to those who actually administer the program. The more decentralized approach gives managers the flexibility to manage their resources in more creative ways and to respond to changing conditions” (Cothran, 1993: 447).

Moving away from bureaucratic power, flexibility is the key to expenditure control budgeting. As an example, Cothran (1993) focuses on three cities in his article, one of which is Fairfield, CA. He illustrated Fairfield as a leader in entrepreneurial government, and claims that the decentralized approach makes managers more responsible, reduces inter-departmental conflict at budget time, and encourages thrift and efficiency in operations (Cothran, 1993; 448).

One must be careful not to assume that ‘thrift’ means being cheap and not getting good quality of services. “Thrift” simply means getting the best services for the least amount of cost. It does not mean however, to go with the cheapest for the worst service. With the ability to save funds from fiscal year to fiscal year, managers are given the incentive to be “thrifty” about their spending, because they can retain their savings. With traditional budgets, departments should use the amount appropriated for a certain service, because the incentive is not there to spend any differently in order to save. If they do not “use it”, they “lose it”. The dynamics have

changed with Fairfield's expenditure control budget, to "save it and invest it" (Osborne and Gaebler, 1992; 120).

Thus, the expansion of power with the expenditure control budget is very apparent. Fairfield's department managers utilize their discretion in accordance with the city's mission, and subordinates have more power to do their job more effectively.

As stated by Dan Cothran (1993):

Thus, entrepreneurial budgeting, and decentralized management in general, can lead to an expansion of power, rather than to a redistribution of power. If entrepreneurial budgeting works as claimed, policy makers should have more of the power that is relevant to their task and subordinates should have more of the power that is relevant to their jobs. In short, it could enhance governmental capacity, rather than redistribute governmental authority (Cothran, 1993; 451).

Likewise, Cothran (1993) contends that budget reform will not likely be the "salvation of modern government" as it tries to provide the benefits that people expect while staying within fiscal constraints that voters have imposed (Cothran 1993, 451).

Dan Cothran continues by stating:

However, this reform may have even more effect than the others because it actually involves less, not more, work by most participants and it is in keeping with the findings of research on organizational behavior in recent decades. If it fails, it probably will not do much damage, but if it succeeds, it could contribute to the creation of a new entrepreneurial management culture on public administration (Cothran, 1993; 451).

Indeed, Fairfield's expenditure control budget, implemented 22 years ago, is turning heads in favor of budget reform.

Gerald Caiden, amongst his many publications on government reform (1994), writes about how Big Government fails to perform satisfactorily, and the evidence of public mismanagement and misadministration accumulates (Caiden,

1994; 123). He claims, that:

To turn Big Government around, an unhappy public rely largely on experts who are supposed to know about such things. Sometimes, the public administration professionals do not hear or do not care to respond until threatened with purges, retrenchments, budget cuts, and other deprivations. Then they jump (or claim to jump) into action to reorganize, reconstruct, reform, and reinvent, thereby hoping to reassure everybody that all is back on track and not further actions are required (Caiden, 1994; 123).

Caiden (1994) contends that the United States has been ignoring what has been happening elsewhere in reshaping the administrative state. However, one fundamental difference that Caiden (1994) suggests is that “the emphasis is not on reinventing government but on reforming it by making the budget process more flexible, streamlining procurement, and loosening personnel procedures to eliminate needless red tape and free public managers to manage economically, efficiently, creatively, and efficiently. Rigid, inflexible bureaucracy must go” (Caiden, 1994; 124).

The Expenditure Control Budget gives every employee an incentive to save money. It radically simplifies the budget process. It saves millions of dollars on auditors and budget officers. Perhaps most important, it frees city council and state legislatures to focus on the real issues. Rather than debating the minutiae of thousands of line-items, they can spend their time on the problems they were elected to solve (Osborne, 1992; 69).

Opponents of Budget Reform: Anti-Reinventing Government

Ronald Moe (1994) asks the common question posed by many opponents of budget reform, “Is it possible, by chance, that the entrepreneurial paradigm constitutes a faulty paradigm for public administration and that its adoption in place of the administrative management paradigm is a mistake?” (Moe, 1994; 112). Moe (1994)

questions the replacement of the bureaucratic paradigm that has lasted over 200 years, and is the focal point of his article. Moe's (1994) article concentrates Osborne and Gaebler (1992) and how President Bill Clinton was receptive towards Osborne and Gaebler's concepts depicted in their book. Concentrating on The Gore Report, Moe (1994) states:

The report is seeking to break the public law basis of an agency's mission and replace it with an 'outcomes' mission orientation as defined by the agency's political chief. If an agency chief wants to meet with other agency chiefs to come up with a new and presumably larger mission for their respective agencies, all the better. These new, agency initiated missions may be entrepreneurial management at its best, but considers congressional concern, if at all, only as an afterthought. Congress is not likely to take kindly this obfuscation of its mission assignment process to agencies ... The report further recommends that there be established a process whereby agencies can easily obtain waivers from regulations opposed by other agencies ... Finally, interagency committees, while they may appear at first glance to strengthen the hand of the President and the department vis-à-vis Congress, ultimately work to the disadvantage of both the President and Congress. This is the case because accountability is necessarily dispersed and there emerges a disconnect between statutory authority and institutional capacity (Moe, 1994; 117-118).

Likewise, The Gore Report promised to save money, increase efficiency, and reduce the size of bureaucracy.

The most difficult to explain, defend, and effectuate is the promise that it will 'save' \$108 billion, money, presumably, that would have been spent but for the implemented recommendations of the report. The attack on this statistical saving figure was immediate and has continued, but this has not stopped Congress from, in effect, calling the President bluff and assigning some of these savings as funding for new legislative initiatives (Moe, 1994; 114).

Moe (1994) concludes three main things from The Gore Report and Osborne and Gaebler (1992). First, that the "root cause of problems afflicting the federal government today will not be solved by the 'four bedrock principles' of entrepreneurial government or 'cascading' behavioral modification sessions" (Moe,

1994; 118). Second, that the problem is an institutional and legal problem and must be addressed at that level. Finally, that the long-term renewal of the federal government will come about only through a proper understanding and use of the administrative management paradigm (Moe, 1994; 118).

Peter Kibrak (1996) intensely claims that reinventing government poses critical problems for public administration, as well as an agenda that is too limited to capture the social responsibilities facing public administrators today (Kibrak, 1996; 205). Where advocate claims that change is good, opponents argue that change is superficial, as there is no guarantee for success. Perhaps the biggest problem, according to Kibrak (1996), is that the reinventing government model does not in and of itself constitute a model of governance. Kibrak (1996) argues that the reinventing government is perhaps better viewed as only a half model, or more accurately as yet another management methodology to which the existing bureaucratic model can and should adapt (Kibrak, 1996; 206). Kibrak states that Osborne and Gaebler's (1992) neglect to take into account the recurring realities of bureaucratic life have distorted such performance management (Kibrak 1996; 207).

Kibrak's (1996) argument is a broad criticism of the argument posed by Osborne and Gaebler (1992), but in terms of budget reform, Kibrak does not discuss the expenditure control budget that serves as the catalyst for reinventing government. He does states that "reinventing government threatens to destroy the whole governmental structure in the effort to reform it" (Kibrak, 1996; 264). However,

budget reform is entirely missing from this article, which is critically important in understanding the positive and negative externalities of reinventing government.

Charles Fox (1996) states that reinventing government “violates the (modern) enlightenment canon of rationality/consistency that is still the governing norm for the academic guild” (Fox 1996; 257). “No dissertation committee on which I have served would approve it because it has no consistent theory that string together the little pearls of uplifting stories that it recounts” (Fox, 1996; 257). A strong argument that Fox (1996) makes in response to *Reinventing Government* is in regards to replacing citizens for ‘customer’, as it marginalizes the idea of citizenship (Fox, 1996; 260). “Those with reverence for the Constitution are not aesthetically pleased with the crass sound of ‘We the customers of the United States of America’” (Fox, 1996; 260).

Wildavsky (1961) contends that there are three significant implications when considering budget reform. The first is influencing the budget through basic political changes, as the budget is inextricably linked to the political system. The second implication is that budget reform cannot happen without affecting the political process. The third implication is that one cannot speak of a better form of budget without considering who benefits and who loses or demonstrating that no one loses (Wildavsky 1992; 597). Wildavsky contends that a better form of budgeting may lead to a cloak of hidden policy preferences. Even with his follow-up 1992 publication, he contends that this is true even then. Wildavsky’s point in his 1992 article is to continue to argue that “Until we develop more adequate descriptive theory about budgeting, until we know something about the ‘existential situation’ in which the

participants find themselves under our political system, proposals for major reform must be based on woefully inadequate understanding (Wildavsky, 1992; 598).

Though Wildavsky considers budget reform at the federal level, his research is also relevant at the local level, as local level traditional budgeting exhibits these characteristics. My research with the City of Kalamazoo's traditional budget illustrates Wildavsky's claims, though at the local level, as budget reform is underway in Kalamazoo because of what Wildavsky states to be why the traditional budget lasts. Indeed, as will be explained in Chapter 4, the traditional budget does have problems, and does not last.

Richard Kearney and Steven Hays (1998) also illustrate the problems with budget reform. Launching an attack on bureaucratic power, Kearney and Hays argue what is supposed to convince public employees to become risk takers? Change is uncertain as it is, and the authors argue about what sorts of incentives will be effective for reform? Most importantly, what is there to guarantee that these incentives will be effective?

Kearney and Hays also argue that the implementation of reinventing government principles may tend to increase the power and authority of central branch agencies, contrary to the pronouncements by proponents of reinvention who extol the virtues of debureaucratization and empowerment. Broad discretionary power clashes with the need for political control and responsibility over government policy" (Kearney and Hays, 1998; 50). Entrepreneurial budgeting, the authors contend, will be chaotic, as "who will prevent favoritism and the politics of self-interest from

determining the allocation of public services? If customer demands drive service provision, who will balance the needs and wishes of multiple customers with divergent interests” (Kearney and Hays, 1998; 51)? The fact that bureaucrats have done a poor job of monitoring and supervising the exchange process, Kearney contends, does not justify to eliminate them from the equation (Kearney and Hays, 50; 1998).

Rubin (1990) also states that there are shortcomings to budget reform. She contends that what budget reform has not yet achieved at the local level is good cost accounting and good performance budgeting (Rubin, 1990; 183). Likewise, another problem she identifies is that reform proposals have not kept up with the increased complexity of the federal budget over the years (Rubin, 1990; 183). Rubin states that the budget reform cannot make up politicians’ minds, and because of this, four improvements must be made.

First, a better understanding is needed of what the budget process and format an and cannot do so that reform proposals will be realistic ... 2) reconsideration is needed to what accountability means and how to achieve it in budgets that allocate multiple resources on a multiple year basis ... 3) Third, indicators are needed to give early warning when various processes or interests are getting out of balance, with potentially serious and unwanted consequences on the budget ... 4) Balance needs to be struck between precontrols and postcontrols in budget implementation (Rubin, 1990; 184-185).

Above all, Rubin states, “If reform can be reconceptualized, reaching for a new set of ideals beyond reducing the deficit and even beyond traditional goals if increased efficiency and fiscal control, budgeters will have a better chance of affecting the future of budget practice” (Rubin, 1990; 185).

Conclusion

This chapter has brought to light the main arguments over budget reform. Advocates state that budget reform is needed in order to evaluate city performance, and in order to do so, we need to reinvent government. On the other hand, opponents suggest that reinventing government is a faulty paradigm for public administrators, and that it is mistake to replace a 200-year-old budgeting system.

The traditional city budget is a political tool that is hard to change, but not impossible. Advocates see this change as allowing the city to be more productive and efficient, as outcomes will be able to be measured. Autonomy and debureaucratization are encouraged with budget reform, as departmental managers are able to utilize their discretion. Opponents argue that outcomes are measured with the traditional budget, and that autonomy and debureaucratization is bound for corruption. I return to this claim in Chapter 5.

CHAPTER 3

FAIRFIELD, CALIFORNIA

Expenditure Control Budgeting

Background

Fairfield is located in northern California, situated between the San Francisco Bay Area and the Sacramento metropolitan region. Founded in 1856, and incorporated in 1903, Fairfield prides itself as “A Progressive City with a Vision”. With a population of 95,327, ranking 63rd of 475 California cities, and 36.7 square miles in size, Fairfield is the county seat of Solano County. Operating with a Council-Manager form of government, each council member is elected at large to staggered four-year terms, with the Mayor elected separately. Fairfield is a full-service city, offering services ranging from police and fire to water and street repair (2000/01 Budget and Ten Year Financial Plan).

Fairfield’s Expenditure Control Budget

Fairfield’s expenditure control budget (ECB) is properly continued each year based on the city council’s overall budget policies. The ECB changes the basic role of the City Council in the budgeting process by focusing attention on the major policy questions, such as service levels. According to Robert Leland, Director of Finance of Fairfield California:

Within these general parameters, the City Council sets service levels, or goals. When we put together the budget each year, we are demonstrating to them that we are able to meet those general goals, and then the departments come up with specific objectives that they want to obtain in the coming year. The council has goal setting sessions at the beginning of the year, so we have a chance to get 'in sync' before we put the budget together. The council will tell us that they would like to see more of an effort on specific services, and it gives us an opportunity to work with the departments before the budget comes out try to respond to the councils needs, consistent with what our resources are (Leland, April 25, 2001).

In the case of the city council, it is not enough for the department to say they do not want the city council to micromanage and not get involved. The city council has to be productively channeled, and to believe that their best role is in saying we want better youth programs, reduce the crime rate, etc., all of which requires a commitment of resources. The city council makes it clear to the departments about what they want and then the departments have to go out and accomplish it. The City Council needs to be channeled in that way and to feel like the system will be accountable, because when the City Council feels like the system is not accountable, that is when they start micromanaging. A city council that places trust into their entire staff is what is essential with the ECB.

Critics of the ECB argue that the city has the possibility to be cheap, as with the lump sum budget and the ability to save at the end of the fiscal year, what is to prevent the city departments from being cheap and not accomplish what people want? The check on that are the goal setting sessions held by City Council, which serves as a structure to continue quality service and meeting the goals and objectives of the city. The goal setting process is important, as this is where it is expected that certain things will be achieved for the upcoming fiscal year.

You cannot get so cheap that you can't get anything accomplished. You need to have countervailing human incentives. One is that you can save money, and on the other hand, there is the incentive to achieve these goals. Otherwise, you can have this perverse incentive that the more money we save the better. That is not really what we are out to do. What we are out to do is provide a good quality level of service. If you take it in a broader context, the importance of customer service and meeting goals and objectives is what Fairfield is out to accomplish with the ECB (Leland, April 25, 2001).

The Expenditure Control Budget Approval Process and the Elimination of Line-Items

As mentioned in Chapter 1, Fairfield's ECB is unique as it incorporates lump-sum budgeting. With the budget approval process that every department gets the same as last year, increased/decreased for inflation and population growth, department managers are able to utilize their discretion as to where to allocate funds within the department. The city tries not to let the council micro-manage where staff are assigned and how each dollar is spent.

The City of Fairfield believes that what gets measured gets done. However, the elimination of line-items with the ECB does not help determine which services the city provides. The mission of the department, the goals set by city council, and implementation direction of their Management Leadership Team takes helps determine what services the city will provide. Internally, everything that gets spent goes against a line-item; it is just that Fairfield does not vote on the basis of the amount going to each of those line-items. "If you look closely, you will find a line-item budget within the departments" (De Lorenzo, April 25, 2001).

The city's auditors do track expenses during the fiscal year, so one should not assume that departments are unaware of how much they are spending, or where there

budget is during the fiscal year. With the elimination of line-items, the Finance Department becomes the check-point that regulates a monthly summary of each departments' expenditures and revenues. Without this system, there would be chaos, but Leland works with each department so those departments will not over-spend during the fiscal year. As the elimination of line-items does not provide what a department should spend on a given service during the year, the department manager uses his expertise, goals set by the City Council, and long-term planning and forecasting as to what to allocate for that service. The department head then checks with Leland who then provides his advice.

Once a month the Finance Department sends around a report that shows by line-item and by month the amounts that have been recorded for each department. With each succeeding month, another column is filled, so the departments can see at a glance, what the amounts that have been recorded in terms of revenues and expenses.

They (the reports) have the year to date totals, and then it compares it to the same time-period the prior year to date, so this year vs. last year. They can likewise, compare this year with the budget for this year, and also, compare the last two actual years here. We use a computerized generated trend. Each month that we get new information, the trend recalculates based on prior years in history and this gives, for instance, all the line-items for expense, and any department revenues, it shows what is happening there. It also gives an expense summary and a cost recovery summary. In the case the department has multiple programs, it breaks that down (Leland, April 25, 2001).

The two line-item reports that the departments see are at budget planning time and monthly they get a report. Therefore, even though the ECB eliminates line-items, they do exist departmentally and are worked with by the city in order to keep track of

expenditures and revenues. It is just that city council does not see or approve line-items with Fairfield's ECB.

Departmental managers have to decide what inputs will lead to the best outputs. Fairfield believes that more discussion angst over spending makes you lose complete sight of the mission, goals and objectives. The ECB is much more flexible to respond to needs in a given year, due to the elimination of line-items, as departments are able to spend as needed on line-items within the department, given their appropriation. "The biggest plus for me is when we have position vacancies, we can spend that money for equipment and technology and we are not locked into a line-item that was allocated for salaries" (Renner, April 25, 2001).

Leland expressed his concern with the traditional budget, as he feels that there is a problem with the approval of individual line-items by council. Fairfield is given the flexibility to put the money where the need is. "The ECB served us well in terms of being entrepreneurial, as you have carry-over and the ability shift money around, so you don't miss out on opportunities that come your way" (De Lorenzo, April 25, 2001).

Monica Finigan, Assistant Director of the Department of Planning and Development in Fairfield, also acknowledges the freedom with ECB with the ability to use funds as demanded during the fiscal year. Finigan explained how currently the Department had enough in their carry-over to buy furniture, and add two extra positions. The department is able to buy this furniture because they had saved enough money and are able to just go out and buy it, as permission is not needed, as long as

the money is in the budget, they can do it. The elimination of line-items and the ability to carry-over “gives our department head all kinds of flexibility in terms of making our programs run efficiently and helping our staff do their jobs” (Finigan, April 25, 2001).

The Expenditure Control Budget and Carry-Over: “Save it and Invest It”

Fairfield’s ECB allows city departments to save general fund money from fiscal year to fiscal year, which eliminates the motto “use it or lose it”. This unspent money is used for future services and for higher priority items in the new fiscal year. Fairfield’s ECB’s departmental carry-over, or savings, varies from year to year, but in any event, the department is able to stretch resources, as there is the incentive to save.

The annual ritual of spending departmental budget surplus before the year-end was unproductive and made no sense to me. These actions were done to secure higher budget allocation next fiscal year, which result to higher costs of public service. To encourage expense control, the departments are able to carry-over to the next year any unspent budget surplus they generate. These factors help the city handle the fiscal impact of Proposition 13. For several years now the Fairfield General Fund reserve ranges from 15%-20% of annual operating budget compared to the local government norm of 5% (Oscar Reyes, August 9, 2001).

Carry-over has been immense for the different city departments, with each varying from year to year, and from department to department.

Carry over varies considerably from Human Resources, which has about a \$50,000 in carry-over, to the Public Works Department, which has almost \$2 million dollars in carry-over. The grand total of carry-over as of last year’s budget, we are projecting \$4.8 million dollars. That is the cumulative amount of money departments were allowed to spend in prior years, but did not (Leland, April 25, 2001).

It is hard to put a finger on what specifically each department has done with their carry-over, as there is not a specific account for department carry-over.

Carry-over, the way we handle it, is not sitting in a specific account and you do not go to that account and write a check against that. It is simply a part of the city's overall budget. Any time a city department spends more than they were authorized to spend in a given year, and they draw on their carry-over, that can happen because they have decided they could add another position. Once in while somebody will decide that though they were authorized to spend \$5 million dollars this year, and have \$500,000 in carry-over, they will decide to spend \$200,000 on computer equipment. What ends up happening is that they will spend \$5,200,000 and they diminish their carry-over by \$200,000. Sometimes you can point to an individual item like that, but sometimes certain departments have recurring expenses every few years, like Human Resources, they spend more in years when they have to renegotiate labor contracts. Therefore, they will overspend in these years. The process just allows the department to take the budgetary world into account, because sometimes things just happen (Leland, April 25, 2001).

Fairfield does not put the departmental carry-over in a separate account, though some cities may do so. Fairfield uses it more as a cushion, or stabilizer, that can be dipped into sometimes, and added to in other times. The carry-over is important to Fairfield in order to stay flexible and take advantage of opportunities when they arise during the fiscal year. The ECB and the carry-over eliminate the notion of the traditional budget, which focuses just what happens during a discrete 12 months period.

The carry-over has had positive impacts at Fairfield's Police Department. "If you spend the money you know there is a benefit, you can, but you know that you don't have too and that you will realize the benefit next year. You will not lose it. There is not a false motivation to spend it because you won't see it again" (Renner, April 25, 2001). A concrete example that Fairfield's Police Department has done

with their carry-over was buying new police vehicles for every officer in 1993. The department had to buy triple the cars, and they did so out of prior year savings. The motivation behind this was so that the cars would last longer, and the assigned vehicle program sparked a 'pride of ownership', as officers maintain their vehicles themselves, and were allowed to park them in their driveway when not in use. With the cars not being driven all shifts, the cars lasted 8-10 years, with 100,000+ miles, instead of the vehicles falling apart with costly maintenance expenses in much shorter time with significantly less miles. "The city estimates that we save over \$71,000 a year due to the assigned vehicle program" (Renner, April 25, 2001).

This is a main comment throughout Fairfield, as carry-over is extremely important to the department, especially when it comes to grant monies. There are a couple ways the ECB interacts and accommodates well with grants.

Many grants require a local match, and having the ECB means that you have the flexibility because you are not tied into individual line-items, that if an opportunity for a grant comes up that requires a local match, you can accommodate that pretty easily through the budget. The other advantage will allow you to take an existing expense that you are paying for out of your general fund and it will enable you to push that expense off to the special earmarked funds, which is not a forever kind of thing, but it might be for the year or so, to the extent that you can temporarily divert an expense from the general fund. That means more savings within your general fund and that savings carries over to your benefit in your future (Leland, April 25, 2001).

The carry-over encourages managers to be better fiscal managers, as there is not only a strong incentive to save money, but to generate revenue, due to the ability to retain savings. "We developed our own internal control mechanisms and monitoring system. Finance sends out a monthly statement that shows you where you are in different areas. The ECB and carry-over's benefits far outweigh the negatives.

It's the best budgeting system I have ever worked with" (De Lorenzo, April 25, 2001).

Achievements within the Community Services Department due to the ECB have been tremendous. When De Lorenzo started working in Fairfield, about 15 years ago, the department was generating around \$300,000 in revenue. Today the Community Services Department generates around \$1.9 million in revenue.

We have been able to plow that extra money into increased programs; we have more than doubled our program services, like in the area of youth and teen services. We have expanded our youth program greatly. We have put money back into our senior center. We are able to bolster our theater and performing arts program. Now that people are coming to these shows and participating in our other program services, we are able to reinvest that revenue for other services for the community in the future (De Lorenzo, April 25, 2001).

The Expenditure Control Budget: Mission-Driven Rather Than Budget-Driven

With Fairfield's budget approval process, the city saves time as they do not deal with line-item approval. There is a high degree of decentralization in Fairfield, compared to other cities. Most of the purchasing decisions are made within each department, with department heads given a wide degree of latitude in carrying out their programs. "I think we have less bureaucracy and delays, and more timely service in tune with department needs" (Leland, October 30, 2001).

It is because lump-sum budgeting is practiced and discretion is granted to department heads that each department can listen to their residents needs during the fiscal year. If a need presents itself during the fiscal year, Fairfield's department managers are able to reallocate resources to most effectively continue to meet their mission. This is in contrast to the traditional city budget, as line-items are approved on 6-8 months prior to the next fiscal year, which makes the city less focused on their

mission, which results in missed opportunities and takes them in a completely different direction than what their mission is. As much as anything else, Fairfield's budgeting system offers fewer distractions from the mission.

Measuring Performance

Fairfield measures performance in three main ways. The first is with the annual goal setting sessions held by council. As long as the council is pleased with how things went the preceding year, Fairfield's performance level is high. "That's kind of a qualitative performance measure, but believe me it's the most important for any city" (Leland, April 25, 2001). The ability to show improvement to Fairfield's residents is very important. Second, clearly as long as Fairfield maintains financial health, given the circumstances they have to deal with, performance is measured by fiscal health and stability through long-term planning and forecasting. Thirdly, the city conducts resident polls bi-annually.

Measuring Performance: Fairfield's Annual Goal Setting Sessions

There are thousands of cities that use more of much more quantitative system of measuring performance, but Fairfield does not find that going to this extreme detailed system is important. As long as the City Council is pleased with how things went the preceding year, then Fairfield's performance level is high.

Other cities may go to the extreme with a very detailed system, such as Sunnyvale, where it has a very detailed system where it takes numbers of people all year to implement and input data so that the system can operate. However, it is a very management by objectives kind of plan that even takes pay levels of employees and has engaged whether certain objectives were met

and whether certain numerical standards fall in certain ranges. You can go to that extreme, but we don't (Leland, April 25, 2001).

The effort that it takes to implement this type of budgeting is very costly, and it places such a great faith in setting in advance certain numeric parameters. Being that precise is not that important to Fairfield, but being able to talk to departments and City Council about how things are going, is very important. However, this way of measuring performance may change in the future.

That could change in the future. People might want to become more precise with how performance is measured, but right now it works for us to have this annual session and being able to recap what we have done and where we are going. In fact, if the city council is not happy, we hear about it way before the annual session (Leland, April 25, 2001).

Fairfield's performance measurement is one that is both qualitative and quantitative, focusing more on the qualitative side. With the theft from the state due to Proposition 13 in 1978, sales tax has replaced property tax in terms of revenue. Each department has three ways to spend during the fiscal year: revenues by the department, sales and property tax money (general fund), and carry-over from preceding years.

Measuring Performance: Long-Term Planning and Forecasting

Second, performance is also measured through the ECB with their long-term planning and forecasting which makes adjustments and keeps services stable year to year. One of the main components of Fairfield's ECB is the ability to do long-term planning and forecasting. Given everything that has happened since 1979 with personal computers, Fairfield is able facilitate long-range planning forecasting, as it is

hard to do just the ECB by itself. There is a degree of comfort as with the ECB, the city is able to know where resources are going to go in the future and what things are going to look like. Adopting the ECB with the overall budget policies are important, as well as the goal setting session by the city council and feedback from residents. The city projects 10 years out, which has tremendous advantages.

The key advantage to me is that we can forecast out in amount of accuracy that gives me enough comfort to strongly recommend different policy directions to the City Council. If you looking at your budget as a 12-month snapshot, you can really be deceiving yourself and your community as to what the real fiscal health of the city is. With a ten-year look, Fairfield better prepared itself for the 1990's recession. We did freeze positions, pay freezes, and rollbacks, but we did not lay anybody off, or shut down or reduce any section of the city. The key to the recession was city's ability to properly forecast and predict what was going to happen (Kevin O'Rourke, April 25, 2001).

With the weakening economy, Fairfield is better able to forecast the impacts brought by fewer revenues as the city has accurate retrospective funds. Some things Fairfield admits that they cannot plan or predict, but Fairfield tries to take the unpredictable and work it into the budget formula. As with sales tax over the internet, Fairfield projected a 10% loss, as that was the best they could read since there was no way to capture internet sales tax. Fairfield has yet to see any slippage, but it may be there, as it may not of taken a hold yet to where they can understand it. It is because Fairfield is adjusted to the long-term view, that the 'x' amount of loss in their budget due to sales tax over the internet has not been felt yet. "Fairfield accepted the fact of the loss of sales tax revenues and made a proper course adjustments and reduced the budget by what we thought the impact may be over the next few years. Then you move on" (O'Rourke, April 25, 2001).

If I were in a line-item budget, it would be very difficult for me to go out and educate the community and the Council the need to take a longer-range view. The current revenue situation is probably the most positive it has been in our history, yet, we know as the economy continues to slow down, our impacts will be felt 12- 24 months out. With out system, we have staff, council and community trained to look beyond the single year and forecasting to the longer view due to the ECB financial projection approach that we take (O'Rourke, April 25, 2001).

Not one person was laid off during 1990 recession, due to long-term forecasting. "As the level of resources changes, it is not 'panic city', because these resource changes were already anticipated and budgeted for in their projected budget. When you live hand to mouth, such as with a traditional budget, you are not able to invest resources and pay dividends, but Fairfield does, due to their performance in long-term forecasting" (Leland, April 25, 2001). Likewise, there is a citywide reserve that each department pays into each year. Performance is measured by departments in need of retirement funds, radio systems, computers, vehicles, on revolving fund basis, that is planned 10-years or more. When resources are diminishing, it is more important than ever to keep up to date capable equipment, and performance is measured with the amount in reserves, which is currently as a historic high for the city. There is fiscal discipline in setting aside reserves as you "Try to have all your bases covered, and you will be better prepared. With the resources accumulated in reserves, there is no need for 'panic mode' and your field of vision is not narrowing" (Leland, April 25, 2001).

Measuring Performance: Resident Feedback

Third, performance is evaluated by Fairfield's residents, through residential

polls, forums, and study sessions. Fairfield's residents have a low awareness about the city's entrepreneurial budget, despite all the publications where Fairfield has been cited. It is obvious that a change in budget format is something that residents are not concerned with.

It's not that we hide it, but it's kind of the general rule that citizens are less interested in the budget as a process, than they are in specific issues. Typically, when the budget is adopted, the least amount of people attend. If they had a problem, they told you during the year and they are not going to return. There is a saying that 'prophets have not honor in their own land'. Sometimes your reputation goes farther a field than it does people locally (Leland, April 25, 2001).

Fairfield does try to reach out in a variety of ways to their residents. Fairfield has tried different things at different times. They offered Budgeting 101, which was a series of classes that talked about how the budget works. Other times they had public meetings where they passed out summaries of the budget. Of course the website serves as a tool to access the city budget. Likewise, annual reports are mailed to everybody in the city. It is not a budget report per se, but it is an overview of what the city did in the year 2000. The city realizes that not everybody wants a civic lesson, but they try to package it in something that is easier to digest. "Perhaps it's a measure of our performance that people are generally not too upset about things, they don't come down and tell us that we need to have changes in the way that we do business. Silence gives consent" (Leland, April 25, 2001).

Fairfield has goal setting sessions that are open to the public. In these sessions, the public is encouraged to voice their opinion regarding the budget, before it is implemented. Fairfield is also looking to have more study session before the budget,

so that decisions are primarily made in advance of the budget being adopted.

We tried a number of different forums in terms of reaching out and we are going to have more study sessions in advance of the budget. We tend to have sessions like these where the public can come in and talk before the budget is prepared, there are also public hearings and the budget is on the web. It is not the overall budget itself where there are concerns, but mainly individual things that the budget may pay for. People concerned with different aspects of the budget are participating in these forums and when the budget itself is adopted, it is a kind of pro forma type of action as all the decisions are made in advance (Leland, April 25, 2001).

Who is Ultimately Accountable with an Expenditure Control Budget?

The City Council is ultimately accountable. They hire the City Manager and he is accountable to them, and the City Manager hires the rest of the staff. The goal setting sessions help make the accountability open to the public, as they are all welcome to attend the goal setting sessions. Fairfield has started having more study sessions in advance of the budget, so that residents may be more actively involved before the budget is approved. Different interest groups have created many different forums. “For example, there are many residents interested in a skate park. That will be funded in the budget but there are a lot to activities that are going on independent of that; fund raising activities, planning, and so you wouldn’t call them budget, but the people want to be heard on the skate park are all participating in these forums (Leland, April 25, 2001). As study sessions involve the residents to help make decisions before the budget is approved, the city is proactive rather than reactive.

Because of the accountability with the ECB, the city is very accessible to the residents. “You are going to always have people at any one point in time saying the ultimate accountability is to vote these people out of office, but the next election is in

two years. Today, it seems like the staff is running things” (Leland, April 25, 2001). In fact, Fairfield is embarking on a proactive basis where they have divided the city up into 8 areas, in which they have task forces that meet to discuss the residents’ concerns. This is where many issues arise, and the task force representatives bring the information back to city council. Otherwise, the city does not hear from the residents unless there is a planning issue. Fairfield does have as many avenues of communication open as possible, such neighborhood meetings, calls, e-mail, and ‘City Hall at the Mall’. This is how flexible the city is, not the budget, but the budget has a hand in this accessibility, as all these need to be funded through the budget.

As long as council is engaged and setting the tone, there is not a serious concern by the council. ECB is an effective budgeting system that gets you where you want to go faster, due to autonomy. The ECB is not an attack on bureaucratic power, nor does it give too much power to elected city officials. This is not the case in Fairfield, as the council votes and changes the system when necessary, as they are defining what the job is.

The ECB generates and keeps the council in the policy making arena, as the ECB pushes the Council members to stay engaged in policy, or dealing with the macro, and not the micro. Fairfield believes that the City Council members are professionals and to let them administer, not micromanage. The ECB has produced a positive culture with dialogue between Council, staff, and the community at a level where the line-item budget does not. “I think the line-item budget tends to set the Council and the staff up for this ‘scab picking’ micromanaging approach to local

government. One of the blessings of here is that this city has not allowed itself to get into that” (O’Rourke, April 25, 2001).

Fairfield’s Expenditure Control Budget and Personal Incentives

Many have “wrongly assumed that the pay of the city managers and department heads is somehow related to how much money is saved, but that is not true at all. The city has never allowed to take home a percentage of savings, nor any type of pay for performance” (Leland, April 25, 2001). What Fairfield does have are awards that ‘pat you on the back’, recognizing you for good work where you may receive a little gift, but Fairfield employees are not designated to take home a percentage of the departmental savings. The city does not pay for performance as it is destructive and sets co-workers against each other, which creates resentment of who gets the acknowledgement, and even embarrassment by those who would rather not be recognized.

Human nature being what it is, no good deed goes unpunished. We might leave somebody out and they will feel bad, as I had part of the idea too, and this will create controversy. The biggest reward within Fairfield is the ability to run your operation and not be micromanaged and be second-guessed by other people. That means a lot to managers especially brought into the organization, because if they have a choice between working here where there is a lot of autonomy in their jobs and somewhere else where there is very little autonomy and they are always being second-guessed and having to follow bureaucratic procedures, they will think that the autonomy will be less stressful which in itself is a reward. Some people might argue that the incentive to save money is because your salary goes up and as a result your performing less on behalf of the residents. We have never had a problem like that (Leland, April 25, 2001).

John De Lorenzo, Director of Community Services, also expressed his personal incentive for working with the city as one that is pleasurable, as Bob Leland

and his Finance staff really work well with the city departments. This compatibility assures city workers of a less stressful, more pleasurable job, as fighting over resources does not occur, or at least has not in Fairfield since the adoption of the ECB.

Bob and his staff are of the attitude ‘you guys tell us what your needs are, and we will try to find way to make it work’. They will look at all the different scenarios and options and work with you to try to make it work. My previous experiences with Finance Directors and people of the budget, is to try to make you save and try to justify every single penny, and then they are give you a hard time about it, by asking ‘why do we really need this’, etc. However, Bob and his staff are great, and if they cannot make it work, they will tell you how far you can go, but they will defiantly exhaust all the possibilities and try to support what your needs are. I really appreciate that (De Lorenzo, April 25, 2001).

As with Brehm and Gates (1997), defection and compliance are functions of the payoffs of current or future interactions between subordinates and supervisors (Brehm and Gates, 1997; 152). Likewise, Brehm and Gates (1997) conclude that the degree to which subordinates are interconnected affects their propensity to work (Brehm and Gates, 1997; 133). Shirking and sabotage are not apparent with Fairfield’s ECB due to the fact that every staff member has a degree of ownership with ECB. Fairfield’s Finance staff does not hassle their staff with the irrelevant, but allows departmental managers to use their discretion in order to achieve the best desired outcome, as “learning by intimidation can lead agents to behave in ways which are contrary to their initial preferences” (Brehm and Gates, 1997; 64).

Gary Miller (1992) also emphasized the need for ownership in the workplace. A successful hierarchy, he contends, is one that consists of actors, which find numerous convincing ways to demonstrate their continued commitment to

cooperation (Miller, 1992; 196). Fairfield's ECB is an illustration of this continued commitment to cooperation, as all staff are given the opportunity to adhere to less rules, in order to demonstrate different ways of cooperation. Fairfield's staff is highly educated about the ECB, and for twenty-two years, there have not been any problems with the autonomy given to departmental managers. As Fairfield has great communication between the residents, City Council, and departments, this has built trustworthiness, as "the communication process can greatly increase the ability of a leader to build a reputation of trustworthiness" (Miller, 1992; 224).

Miller (1992) also points out that "the key to success in high-commitment work groups is a credible commitment by plant manager to group autonomy" (Miller, 1992; 228). This is also evident with Fairfield due to their ECB, as the traditional supervisory style has been thrown out in order to allow for departmental autonomy in the way that they spend their funds, in context with the City Council's budget policies and goals.

Why Other Cities Do Not Implement an Expenditure Control Budget

Fairfield realizes that their ECB is unconventional, and that there are critics as to the 'loss of control' and 'attack on bureaucratic power' that has been argued as being associated with the ECB. In my interview with Bob Leland, Finance Director of Fairfield, he admitted that the ECB is unconventional, and when he came to Fairfield in 1985, he first thought maybe he should convince the city council to rethink the ECB. However, Leland became a quick convert once he saw just how effective the ECB really was.

Kevin O'Rourke, Fairfield City Manager, explained how the city wants to make the ECB more understandable to its critics:

We want to make the ECB process less monolithic or daunting, and want to make it more understandable to the critics. Anybody that's a city critic has pointed to the ECB as being smoke in mirrors as to keep the community from really knowing of how the money is being spent. It is also argued that it gives too much flexibility to the bureaucrats to move money around without council permission. By being sure that the City Council and community are invited in to understand the budget process, we constantly educate the community, with executive summaries, budget in brief, having the budget on the internet (one of few cities in CA), and have the budget on CD ROM. Making the budget available and accessible is extremely important (O'Rourke, April 25, 2001).

Some critics, such as Moe (1994), argue that the ECB operates in a "black-box", and that things are being done to the residents, as opposed to them participating. This is not true at all, as Fairfield has many ways to educate the public about its entrepreneurial budget. The "black-box" assumes that the ECB is on "automatic pilot", when it is not. Residents do have a say in the budget process, and are invited to participate.

Critics like Fox (1996) also assume that with the ECB, the "black-box" and "automatic pilot" do not respond to the need for raised service levels in upcoming years. This is also a false assumption, as the City Council is actively involved with the setting of city policy, which creates healthy discussions regarding service levels.

If the council did not accept its role in setting policy, then you would get into this static allocation of resources and keep repeating it year after year, and not responding to changing needs. Budget needs to be flexibly in that regard. If a department has an additional expense that is not in the budget, you have to talk to department and see if you need to boost up the base allocation, so that they can absorb those costs on an on-going basis. The risk is that somehow you do not have those discussions. This is not a problem in Fairfield, as the departments are not shy if they have an additional need, and the council is not shy about saying that their perception needs more of an effort in one area than

another. The risks are dealt with through goal setting sessions. The budget is more than the ECB; it is an effort to communicate at all different levels. Nobody feels like we lost control (Leland, April 25, 2001).

Adjustments that are needed by departments are done at the beginning of the next fiscal year. Often times it is one particular service within the department that needs to be allocated more money, other times there are many services that are need of more funding. The only time there was a mid-year adjustment was right in the middle of the 1990 recession, as services levels required more money. The mid-year review that is still held is more to give a mid-term check-up, or status report. “There generally is not the need in the middle of the year for more allocation” (Leland, April 25, 2001).

Opponents, such as Kearney and Hays (1998) may also point to competition for additional resources at the beginning of the next fiscal year. Every time new employees come in, Fairfield has to acclimate them to their system. Sometimes Fairfield has the problem that more than one department needs additional money, and there is only so much to go around. “What saves the situation, is that we have had good stability of senior policy makers and decision makers, so the staff members work well together and know what is going on. We do not have departments pulling rank; or saying ‘I don’t care about the rest of you, this is what I am asking for and that’s it’. That could happen, but it hasn’t” (Leland, April 25, 2001). Fairfield has had this system for so many years, there is ownership in the budget, and for cities just starting out, competition for extra funds could be a problem. If this problem did arise in Fairfield, management heads do understand and will work together to resolve the

situation.

When a problem does evolve, Fairfield's department heads are able to come up with a creative solution, and work together. Nothing is too much of a surprise due to the long-term forecasting Fairfield has, but when there is competition for resources, Fairfield's staff is educated to work together.

It's not just the ECB alone, it's all the other stuff that comes with it. To make to work well, you have to have staff that works well together; the manager has to trust his department heads. That is an imperative. You can't just drop this system into a city that is not ready (Leland, April 25, 2001).

Deflating across the board has never been a real issue in Fairfield, despite critics' arguments. There was a time during the 1990 recession that Fairfield froze the index growth (0%) across the board, and the following year it was a decline, but some departments got hit a little more than others. The City Manger recommended this to the City Council, and it was a group effort, as everybody knows that you have to protect police and fire the most you can. "Deflating is just a fall back if council is placed in a political position where it cannot agree, and the stalemate went on for months. It is an unrealistic concern. Nevertheless, it is there just as a fall back. We haven't really deflated at all" (Leland, April 25, 2001).

Critics such as Wildavsky, also argue that inflating the budget could be corrupt. Fairfield inflates budgets by using their formula CPI + community growth.

The way we measure CPI we used to measure just the bay area, as we're close to it, it's gotten to be biased, by the incredible house price increases relative to what's happening here in Solano County. We came up with a revision, which is now a weighted average of bay area western cities in the US. The community growth has always been the percent addition of new housing units (Leland, April 25, 2001).

De Lorenzo also expressed his concern during the 1990 recession when the ECB inflator did not keep up with the cost of doing business, which it is supposed to do in theory. The Community Services Department had to cut back during those years, around 8% one year. As they cut back on the youth theater program, basically putting that on hold one year, and unfortunately for them, the town next door just opened a theater and began focusing on youth, and they lost their youth to that, and they still haven't gotten them all back.

Fairfield stands firm against critics and advocates their ECB to all who will listen. The ECB cannot be implemented just anywhere, as the ECB has to operate with plenty of communication between council, staff and the community. One cannot just decide to implement this entrepreneurial budget, as it requires mind-sets to be changed from the traditional way of budgeting to an entrepreneurial form that has been successful in Fairfield, but has had tremendous consequences in such cities as Visalia, CA, where the ECB was implemented 6 months after Fairfield by then City Manager Ted Gaebler.

Visalia's city-owned Radisson Hotel project initially was supposed to cost no more than \$4 million, the cost to buy the land, however, taxpayers have put in \$20 million in either actual spending or debt (Gurwitt, 1994; 37). Don Duckworth, Ted Gaebler's successor as City Manager, joined forces in 1988 with a San Francisco developer named William Courtney to put up the hotel that would lease the land from the city. However, Courtney proved chronically incapable of securing funding, and the city negotiated new loan guarantees in return for an even bigger cut of the

prospective profits (Gurwitt, 1994; 37). “So, in the spring of 1992, the city council agreed to buy the hotel, assuming debts of \$12 million in addition to some \$8 million it had already spent or committed” (Gurwitt, 1994; 37).

Visalia found out that the changes Ted Gaebler set in motion prior to him leaving Visalia with the ECB lead to trouble. Autonomy lead to disaster with the city’s ECB, and the entrepreneurial spirit began to wind down tremendously. “Faced with declining revenues – along with every other city in California- the city council has demanded much tighter control over the budget, going so far as to reintroduce line-items, which is anathema to the entrepreneurial philosophy” (Gurwitt, 1994; 40). Gurwitt (1994) argues that the people of Visalia now complain that their city government is stifled under the new regime. The Radisson is successful today, but entrepreneurial government is nowhere to be found. “Under Gaebler and Duckworth, power clearly rested with a City Manger’s office that was staffed by a cadre of young, well-educated professional managers” (Gurwitt, 1994; 40). The balance of power has shifted with a strong City Council, which came in as a backlash (Gurwitt, 1994; 40). If nothing else, Visalia’s experience suggests that building a good political will is not just a minor nuisance for public administrators who hope to ensure change within their organizations; it needs constant care and attention, or else a shift in the political wind can knock the pins for under even the best-intentioned plans (Gurwitt, 1994; 37).

Conclusion: Fairfield’s Ability to Remain in Control

The ability to carry-over and eliminate line-item approval by council saves

Fairfield time and money that is often wasted under the traditional budget. The City Council does not feel like they are losing control as long as they are plugged into the process and feels like they have a staff that is responsive to their needs.

Fairfield encourages departments to let Leland know if they want changes in the format of the monthly reports. So far, departments have appreciated the format of the monthly reports. “It’s real important, no matter what type of budget system you have, the users in the system have to be comfortable with the level of information out there. If there is a concern that there isn’t enough information, they need to make it known” (Leland, April 25, 2001).

There is no question as to where the city is hiding the money, as with goal setting sessions, and monthly reports, the city staff and the community has full access to the budget and where money is being spent.

Any day, you can look at the on-line budget system and right up to the minute, anything that gets recorded in the system, there it is by line-item. There is not any more level of information you can get than that; the entire accounting system of the city you can look at on-line. That is available everyday. Once a month we put out a credit version, which is pretty thick, and we send the part which pertains to each department to that department, in which they can look at it in a more summarized version (Leland, April 25, 2001).

The ability to relinquish control to department managers has reaped tremendous advantages for Fairfield. However, one needs to keep two things in perspective when control is delegated within the city budget. The first, is to be sure that every department knows what they are spending and earning in revenues as the fiscal year is going along. The second comes at budget time, on how to plan for the

upcoming year, and Fairfield does this by doing their projections and long-term planning and forecasting with accurate retrospective funds.

Many may think that the delegation of control and authority would be hazardous, such as in Visalia, and it would be if your city or organization were not properly educated and willing to work with this entrepreneurial budget system. Many cities are command and control oriented do not like idea of something flexible. However, the ECB cannot operate in a vacuum, because all need to be active or the system will fail.

The ability to measure performance is highly utilized with the ECB, and this entrepreneurial budget manages resources in a very visible way. The ECB gets rid of the “use it or lose it” philosophy and replaces it with “save it and invest it”. The ECB also stretches resources with the ability to carry-over funds from fiscal year to fiscal year. With the traditional budget, resources can be wasted, as at the end of the fiscal year, departments will go on a spending spree, as the incentive to save is not utilized under this budget format.

Fairfield may be an exception to the rule, as this city is highly innovative and measures performance on a daily basis. The main compliment from the department heads I interviewed was to Bob Leland, as his leadership as Finance Director and his Finance staff make this entrepreneurial budget one that is possible. Leland is very approachable by all city departments, and works well with the City Council. As it is Fairfield’s continued philosophy to educate and communicate with not only all staff

members, but Fairfield's residents as well, Fairfield's ECB has endured, and will continue to do so.

CHAPTER 4

KALAMAZOO, MICHIGAN

Traditional Budgeting

Background

Kalamazoo is located in southwestern Michigan, where it is populated with approximately 80,277 people. Kalamazoo is one mile east of being exactly midway between Chicago and Detroit. With 26 square miles, the city is the county seat of Kalamazoo County (2001 Budget City of Kalamazoo, 32).

Established and incorporated in 1884, Kalamazoo operates with a City Commission-City Manager form of government. As required by City Charter, the entire City Commission is elected on an at-large, nonpartisan basis every two years. The individual receiving the highest number of votes serves as Mayor, and the person with the second highest number of votes serves as Vice-Mayor (2001 Budget City of Kalamazoo, 82). The City Commission appoints the City Manager.

The City of Kalamazoo prides itself with their mission statement: “Doing the best work today and every day to make Kalamazoo the best city it can be tomorrow” (2001 Budget City of Kalamazoo, cover). The city is a full service city as well, and as we will find out, Kalamazoo is definitely living up to their mission statement, as the city progresses into being a more performance based city.

Kalamazoo's Traditional Budget

Kalamazoo's traditional budget is one that is quite different from the normal depiction of the traditional budget, though the city refers to their budget as a traditional budget. The one normal characteristic of Kalamazoo's traditional budget is the budget approval process, which was explained in detail in Chapter 1. This long and cumbersome process is a key component of traditional budgets. The city has always operated with their traditional budget, but as we will see, this will soon be changed. Kalamazoo is seeking to improve their budget, as the traditional budget they operate with has seen its limitations.

There are two main differences that Kalamazoo's traditional budget exhibits that are not normally associated with the traditional budget. First, the city uses line-items, but the city commission does not vote on all the individual line-items. This is in stark contrast to the depiction of the normal budget, as line-item approval is normally a necessary occurrence. Along with this, budget managers within each department have the authority to move funds from these line-items within each budget unit. However, the departments do need permission from the city commission to move funds between budget units. Second, Kalamazoo's traditional budget does allow for carry-forwards. Departments who have projects currently in operation use carry-forwards, as the entire allocation of funds for that project during the fiscal year has not been exhausted. Carry-forwards allow that department to carry-forward that money to the fiscal year, instead of being stripped of that money come the next fiscal

year. Departments can only use carry-forwards when a project has not been completed.

Kalamazoo's Budget Approval Process and the Use of Line-Items

Kalamazoo's traditional budget approval process is extensive, and lasts all fiscal year. Departmental managers are not given lump-sum budgets, but instead are given budgetary parameters. Requests are submitted by department managers to Moore's office, who discusses any issues she may find. Finally, she makes a recommendation to the City Manager, who then submits the budget to the City Commission. After adoption, the budget is amended two times during the fiscal year.

Kalamazoo's City Commission does not vote on line-items, which is a key contrast to traditional budgets. The City Commission does request a line-item budget be presented to them supplemental to the budget that the departments do present, which is just a summary of the different budgetary categories or units. The Kalamazoo City Commission adopts a budget based on these budget units. The line-item budget is provided as a justification as to why each department is requesting the amount within each budget unit.

Each budget manager has the discretion to transfer funds between the line-items and within each budget unit, upon approval from Patsy Moore, Finance Director. There are two reasons why departments would have to go to the City Commission. First, is if they are requesting additional appropriations. Second, if they are requesting funding for new capital projects or items that were not included in the budget.

We typically have a mid-year budget amendment. During that mid-year budget amendment, I will ask the departments how their budget is looking, and what has changed since the budget adoption that we need to look at. Usually we get a few departments who need adjustments as new services may have popped up during the year, or a new initiative that the city commission requested. So, we'll take them to the City Commission for additional funding in June or July (Moore, June 13, 2001).

"Use it or Lose it"

If departments do not use all that they are allocated during the fiscal year, they do indeed lose their general fund savings and the money goes back into the general fund for next fiscal year. However, they are able to retain revenues, which will help fund departmental capital and services for the next fiscal year. The inability to retain general fund savings at the end of the fiscal year is a key component to the traditional budget, and Kalamazoo does not differ when it comes to this. "We feel that unspent money should go back to the pot and be re-allocated and re-evaluated" (Moore, June 13, 2001). There has not been a problem with losing the money at the end of the fiscal year, though occasionally they have departments who want to retain what they have not spent, and they feel like the general fund is taking away their money. "But is really just goes back into the pot and get reallocated so, it's not a real problem" (Moore, June 13, 2001).

If departments do not use all that they were allocated for the fiscal year, Moore looks at that and takes it into consideration for the next fiscal year appropriations. "We look at the year indent, and compare that, as well as the current year, and what your are asking for. We will question that amount, and occasionally we do reduce the budget request because of expenditure trends" (Moore, June 13, 2001).

Spending sprees are not too apparent for Kalamazoo, though the city does admit that it goes on, but not a lot. Typically, departments come in 1-2% under budget at the end of the fiscal year. The ability to carry-forward money for projects currently in progress helps eliminate spending spree's. Though carry-forwards are valuable to departments, it does not totally eliminate spending sprees.

Competition for funds between departments is not too much of a problem for Kalamazoo. They do have some grumbling, especially about the Public Safety Departments, as they have a \$27 million dollar budget, and often times other city departments feel like they 'hog' the resources. In the end though, departments understand the important of the Public Safety department, so really there are not any problems.

With the inability to retain savings, the city departments have strict purchasing policies that dictate the city to go out for a competitive bid. Purchasing policies keep departments in line, so that they do not develop the mentality 'we can't save it so why not spend it'?

The Parks and Recreation Department, according to the Director, Frances Jewell, does not have much money, if any, left at the end of the fiscal year, so the inability to save money really is not an issue for the department. "We have to be fiscally responsible with how we spend our money; if we have money left over it's amazing. We don't have a lot of excess funds, as they are real specific" (Jewell, June 20, 2001).

The lack of concern about the inability to save general fund dollars at the end of the fiscal year is also evident with Public Works. The Public Works department does not have any big projects that would benefit from saving money anyway. The department sees the money going back into the general fund at the end of the fiscal year a good thing in order to appropriate funds for the next fiscal year.

Richard Goff, Economic Development and Planning Director for the City of Kalamazoo, was also unconcerned about the inability to carry-over general revenue funds. On the operating side, it is not issue with the department, due to carry-forwards. Most of their money is spent by the end of the fiscal year, so saving money is not a real concern.

City Manager, Pat DiGiovanni, said that over the history, they have always had projections that have exceeded departments' spending. "Over the last 3 years, we have been more deliberate with having our managers budget closer to reality" (DiGiovanni, August 31, 2001). Generally, departmental budgets are conservative, with 90% being spent at the end of the year.

Does it happen? I am sure that individually it may occur. They say hey, let's spend the money on this because next year we're not going to be getting that money, or it will be too hard to make the case to substantiate to get it back, so let's spend it. I am sure that happens. Now, because we mandated a closer to the bone budget, there is not a lot of excess fund balance. We had to do that for other needs as well (DiGiovanni, August 31, 2001).

Carry-Forwards

The ability to carry-forward funds for projects not completed is highly utilized by Kalamazoo's city departments which typically is not a component of traditional

budgets. “We have contracts and some of it’s due to grants that we get and the grant year is straddling our fiscal year so the project or contract will not be completed, so we carry those forward. Typically, capital projects are multi-year, so we have a lot of carry-forwards” (Moore, June 13, 2001).

Though the departments are able to carry-forward funds for projects in progress, they cannot ask for additional funds during the next fiscal year, if the project or service has been fully funded. However, if the project has been expanded for some reason, or planned for a multi-year expenditure, where you only ask for 1/3 or so for the current budget, the departments can carry-forward that third, and also receive their additional appropriations for the next fiscal year.

Faye Dorr, Financial Services Supervisor of the Department of Public Safety for the city of Kalamazoo claimed that the Department uses general fund carry-forwards very little. Dorr, as well as all the other department heads I interviewed, said that the bulk of the money that is turned back into the general fund at the end of the fiscal year is in salaries. “There is not really too many projects that do not get completed. We’re very good at getting projects started and completed on time” (Dorr, June 20, 2001).

Kalamazoo’s Traditional Budget: Budget-Driven Rather Than Mission-Driven

Moore admitted that with the traditional budget, Kalamazoo is budget-driven, instead of mission-driven. “Unfortunately we are, but we are getting away from that” (Moore, June 13, 2001). Mary Ann Ambersee, Public Works Administrative Coordinator for the city, stated that if a resident has a justified request for street

repair, etc., typically what happens is that something is dropped from their budget in order to adhere to the new request. “We don’t have the money to add more money to the budget. Either we have to drop something or they will do an evaluation of current expenditures” (Ambersee, June 20, 2001).

Ambersee also stated that the city tries to be responsive within reason, as what has been planned to be done within the fiscal year is what they want to see accomplished. When there is a special request, most of the time Public Works already knows about it. “We do respond, but we don’t drop everything and go running for everybody that calls, otherwise we won’t get anything done” (Ambersee, June 20 2001).

Jewell commented that the challenge with their traditional budget is that there are only so many general fund dollars. “It creates challenges for us in terms of getting proper funding in order to do what we have to do” (Jewell, June 20, 2001). Jewell also added that though this is a challenge, it challenges staff too in order to be more creative in allocating funds, especially if there is a new demand by the public for a new service during the fiscal year. “We would have to see what the most economical way is to provide this new service, or we will wait until next fiscal year” (Jewell, June 20, 2001).

Dorr acknowledged that the City Commission does try to work with the public when a need arises during the fiscal year. Recently, there was a Citizens Action Committee that the City Manager set up, as there were some allegations from the public regarding services that the public safety department provides. In order to

cooperate with the community, the Citizens Actions Committee made some recommendations, one of which was in-car video. The idea came up in fiscal year 2000, but the city did not use 2000 dollars on that. “We planned for it in 2001, as we changed what we used to in order to plan on that” (Dorr, June 20, 2001). The City has recently purchased 26 in-car video cameras, out of 58 cars.

87.5% of our budget is stone, as it represents people (salary, benefits). A budget is a plan, but that part of the budget has your hands tied. Our \$2 million dollar operational budget is used for gas, supplies, everything you need to run 327 employees is only in \$2 million dollars, which is not a lot. But we do listen and make recommendations to change the plan for the upcoming year (Dorr, June 20, 2001).

Moore also stated that the traditional budget is not explicitly tied to the mission of the city. Right now, there are basic service levels the city knows they have to provide, but that is about as far as the traditional budget incorporates as far as the city’s mission is concerned. However, the city has just went through a strategic planning process where they used a lot of citizen feedback in developing the mission of the organization, and now the mission is tied to the strategic plan, which is tied to the budget. This will be further discussed below.

The Inability to Measure City Performance with Kalamazoo’s Traditional Budget

Moore admitted that the city does not measure performance very well, if at all, in some cases. The only real way that they measure performance is in terms of dollars, by staying within their budgetary parameters for each fiscal year. Each

department has some indicator of how they are doing and how they decide to do what they are doing, but the city wants it to be tied to the dollars that they invest.

Performance measures and indicators, really what we have learned is that most of folks do that for the budget presentation. We want our managers to manage by their performance and objectives, not just put something together and put it in the budget books. I think that is pretty much what we have with a lot of those now. As you will see they are not very good, and they are the same from last year's budget, just the page number changes. They really do not look at those again until next budget year. We want them to really manage by these objectives that they have set out for the budget year, in order to evaluate performance (Moore, June 13, 2001).

This is the fundamental problem with their traditional budget as performance is evaluated solely by their budgetary parameters.

How Kalamazoo Tries to Measure Performance with their Traditional Budget

One way Kalamazoo tries to measure city performance is with funding capital projects, with their street program and facility improvements being the #1 issues. "Because of the way we budget, with the money going back into the general fund, if it gets to a certain level, we maintain 15% of our operating revenues as a fund balance reserve. Anything above that goes to fund our capital program" (Moore, June 13, 2001).

Moore also added that because of their traditional budget, they have been able to recently fund two new initiatives, which helps them measure performance. "We have also been able to fund new initiatives that have been identified by the City Commission as high priority. Economic development and our Brown Field Redevelopment come to mind. Kalamazoo has been able to put a large sum of money into these two initiatives during the budget cycle" (Moore, June 13, 2001).

Jewell explained how the Parks Department measures performance. Basically, the department measures performance by the numbers of people involved with their programs, revenues, and satisfaction on resident surveys. Goff explained that the Economic and Planning Department tries to measure performance by obtaining grant money, private investment leverage to buy investment of city funds, and jobs created and maintained by projects.

Ambersee claimed that the Public Works department tries to measure performance basically the same way, with staying within their budgetary parameters, citizen feedback, and departmental revenues. Ambersee expressed her concern with special events, which she ultimately handles, and how performance is currently evaluated with the city's traditional budget:

If someone wants to have a special event in Bronson Park, they first contact the City Clerk's Office, then they will need street closures, which is Engineering, they will need Public Safety, then approval to use the park, which comes to us, and the risk manager has to say if they need insurance or not. There are a lot of people that are involved with this special event, but who is responsible for it? Who is going to budget for it and how? I do that work here, and that is just absorbed through Public Services and Public Works. I do not specifically charge to a special event code, so it is going to be really difficult for us to do that, as there are big umbrellas that cover a lot of things (Ambersee, June 20, 2001).

Kalamazoo's Traditional Budget is the Source of Inaccurate Information

City Manager DiGiovanni sees the budget in different ways, in ways that communicate different information. From the traditional budgeting standpoint, accurate communication is lost due to lack of information. "I'm not sure it really touches on the policy issues of the commission or the larger programmatic issues that

we need to articulate and communicate to not only to the City Commission but to the general public. It just doesn't ring true to the kind of essence that we want to communicate to the City Commission" (DiGiovanni, August 31, 2001).

DiGiovanni also stated that right now they measure more outputs with the traditional budget than anything else. The city targets the number of services they provide on an annual basis, and the numbers are set by the department heads for each year.

Our traditional budget does not really speak to outcomes. We need to measure outcomes, as that is what the City Commission cares about. While it is nice to know we perform 3000 inspections, we need to know how many violations occurred; those are the kinds of things we need to articulate and measure to follow progress (DiGiovanni, August 31, 2001).

DiGiovanni felt over the years that measuring performance was not happening with their traditional budget. He raised the question, 'Do we have a good understanding of what services and programs the city provides?' Everyone within the organization knows what they are doing and what needs to be done, but he argued that the city does not capture it in a way in understanding true costs and being able to evaluate city performance in order to know if a program or service should be continued.

We could not get satisfied here, and ultimately could not satisfy the City Commission. However, with performance based budgeting, we will be able to recognize and evaluate duplication in a particular service area, or even why we are providing certain services. You need to understand that everything we do has a constituency base that appreciates why we do something. But we've reached a point in our history, that financially we just cannot afford everything, and are really lapsing on things that we must do, things that we are mandated to do, or no that no other government will do for us (DiGiovanni, August 31, 2001).

Realizing Alternatives: Performance Based Budgeting

Kalamazoo is more than considering changing their traditional mode of budgeting to program/service based budgeting for a number of reasons. The idea came up in 1998, as Moore and Kalamazoo's City Manager, Pat DiGiovanni, wanted the budget to be more of a planning document rather than a financial document. Meetings with the Government Finance Association Conference in Philadelphia led Kalamazoo down this new path, as there are many municipalities trying to change from the traditional budget to performance based budgeting all over the nation. Moore explained that this trend is relatively new, and cannot evaluate a success rate of these cities trying to change, as there are some that successfully change, and others that are having a difficult time. Without any track records to look at, Kalamazoo is proceeding slowly, in order to be successful at transitioning the budget format. Moore explained that there are cities that have linked performance measures to their budget, but there are few, as cities are struggling all over the nation to achieve this goal.

City Manager DiGiovanni explained that the reason why he wanted to change to performance based budgeting is to break down the organizational silos, as the city calls them.

We really want to keep competition to a minimum, as we are here to serve the public, and one person's gain in budget should not come at another person's loss in their budget. However, in order to make those decisions we have to kind of trade off resources depending on City Commission's priorities and where they want to take the community. I have worked in this organization ten years and I have seen a great deal of 'silo or turf protection' on a lot of things, and the idea here is that we are going to try to break through that mentality and really take a look at issues and programs we offer the

community and how each of us have a part in it. That is the transition rationale. We will see how well it works (DiGiovanni, August 31, 2001).

At the present time, the city has put together a trial run of this new budget format, for implementation fiscal year 2003, called *Blueprint For Action: 2001-2003*. Moore and the city officials are mainly concerned about the level of information that is not being conveyed to the city commission. Currently, and in the past, the city commission has not had complete information about what service costs actually are.

We want to give the city commissioners better information to make their budgetary decisions. We feel that with the way we currently budget, that the city commission does not have good or thorough information to make informed decisions upon level of services. We do not want the city commission to have to say ‘you need to cut 10% across the board’. We want the city commission to say we want to reduce or add service at this level. And until we can tell what that service level costs, that they will not be able to do that (Moore, June 13, 2001).

A detailed example that Moore gave me was in inspection services for the city. The city currently has many budget departments throughout the city, which have a hand in delivering this service. When the City Commission wants to know how much it costs to provide inspection services to the community, the Finance Department gave the city commission the total amount that it costs just for the department that is called Inspection Services, which is not a true cost of that service, because all the other departments who handle any type of inspection services, from fire inspections to waste water inspections, need to be added together.

The way Kalamazoo budgets, now, even the Public Services Department knows how much it costs to provide that service. “We want to get the

departments organizing their budgets so that they can say ‘we spend ‘x’% of our time doing inspections. And that ‘x’% of time equates to be ‘y’ % of our budget. Right now you can ask them how much it costs to provide inspection services, and they won’t really know” (Moore, June 13, 2001).

This problem arises because there is not a service called ‘inspections’ within each departmental budget. There are budget units, which range from salaries to supplies, with a lump sum that is needed within each of these budget units. However, these budget units are not broken down into direct services that the departments provide. For example, the public safety department is broken down into 5 divisions, but the public safety department actually provides over 34 different services to the city of Kalamazoo. With the traditional budget, Kalamazoo keeps track of services by having personnel assigned to divisions, and whatever they do they account for running the operations division. However, the city does not know what it costs for the operations division to perform the numerous services it provides to the city.

If we want to reduce the budget for the public safety department, we will want to say ‘we no longer want to provide this service, or can’t afford to’, and just by eliminating that service you will reduce the budget. We do not want across the board cuts, which will lead to an outcome you did not desire to have. With performance based budgeting, we are identifying outcomes, the service we provide, and the outcome we want from the investment that we make. These will be the performance measures that will tell us if we are achieving our desired outcome (Moore, June 13, 2001).

How the city of Kalamazoo plans on being able to evaluate true costs of city programs and services is by doing away with their traditional budget budgetary units, and instead work with organizational units within their performance based budget. These organizational units will have services listed underneath, and consequently line-items will be under each service that will roll up service costs into the

organizational units. It sounds more complicated than what it is. For example, each department will be called an organizational unit, and depending on how complex and diverse that department is, will determine how many organizational units their budget has. She gave the example of Public Safety, which itself is an organizational unit (for total sum of services), but there will be other organizational units, such as operations, underneath Public Safety, as the department provides numerous operational services. As the department is so complex, organizational units are needed in order to break down services, which are justified by the further breaking down by line-items. Other departments such as Planning and Economic Development, are not as complex, as they perform only a certain number of services. As a result, the Planning and Economic Department will be the organizational unit, and underneath will be their services, again justified by line-items, that tally together to account for their services, which add together to justify the whole Planning and Economic Department organizational unit. Jewell does acknowledge that service profiling within the performance based budget will greatly help in evaluating the Parks and Recreation Department's performance.

One thing to be careful of is not calling the services underneath each organizational units line-items. They are not! They are the services provided by organizational units, which in turn are broken down further into line-items.

With performance based budgeting, Kalamazoo's City Commission will be able to look at the measures and determine if the city is achieving the desired

outcome. If the city is not achieving the desired outcome, the City Commission may decide to allocate more money towards certain services, or eliminate it.

With the breaking-down of organizational units into services, or service profiling, Moore says it wouldn't decrease the level of line-items, because at some point you will need to know how many supplies you need, cars, etc. Once Kalamazoo has this performance based budgeting format in place, they will be able to translate a portion of the line-items by formula, to the service costs.

City Manager DiGiovanni explained that the city provides 5,000 different activities and between 200-300 programs. The city is in pursuit of accounting of all of these with service profiling. "Knowing how many paper clips is really minutia to me. We need to capture the costs of all activities and programs is what the city is targeting" (DiGiovanni, August 31, 2001).

Another example of the inability to pin costs onto services is due to the way the city currently budgets. Public Safety has a fleet, as well as Metro Transit, Public Works, and Inspections Services. All departments maintain their fleet, but under the traditional budget, Kalamazoo does not know how much it costs to operate all fleets. "If we wanted to know how much the city spends on vehicle maintenance on any given year, we need to be able to evaluate the cost of the service in order to determine if it would be better to out-source that. We would need to know how much total. In the new budget, we will see a service called vehicle maintenance, which will include all the fleet maintenance costs" (Moore, June 13, 2001).

With the traditional budget, departments just know how much to ask for, but they have no idea how that breaks down by every service. This is the major problem with Kalamazoo's traditional budget, as it is just subjective. Department managers know how much to ask for based on last year's allocation, and are given inflator numbers by the Finance Department in order to calculate for inflation. Really, Kalamazoo's budget is just an estimate from year to year what departments think they really need, but in order to eliminate or add to a service Kalamazoo needs to know how much they are spending on each service. Being able to evaluate these services is critical to the city, and this is why performance based budgeting is being implemented in Kalamazoo. "When we transform this budget, we are going to measure performance in the terms of whether we have achieved our identified outcomes" (Moore, June 13, 2001).

On the Move: Kalamazoo's Blueprint for Action: 2001-2003

Though it is a slow transition, Moore stated that changing attitudes and minds from the traditional to performance based budgeting are slowly coming around. As already discussed, the city has been through a strategic planning process where they used a lot of citizen feedback in developing the mission of the organization, and now the mission is tied to the strategic plan, which is tied to the budget. The strategic plan, called *Blueprint for Action: 2001-2003*, has enabled the city to identify several focus areas and also identify goals and objectives to be accomplished with performance based budgeting. The city has also identified several program areas, such as Community Development, so now as the city funds the Community

Development Program, they are linking them with the objectives set in the strategic plan. That is one major reason the city is moving to performance based budgeting, so that program areas and services can be definitely tied to the budget and the mission. “We want to be able to look at our mission in deciding on the delivery of a new service, and whether it fits within our mission” (Moore, June 26, 2001).

The city has made this strategic plan available to the public for a small fee to cover printing, and in it are some very impressive goals and objectives. Designed to assess the city’s current condition, and determine what the Kalamazoo community wants to achieve and how to realistically get there, the strategic plan provides a guideline for prioritizing city actions and allocating resources (*Blueprint for Action: 2001-2003*, 5). The important city goals for the strategic planning process included engaging the community in shared decision-making, expanding the community’s capacity for collaboration and shared responsibility, and enhancing relationships between city government and residents – and among residents themselves (*Blueprint for Action: 2001-2003*, 5-6). “For me the strategic plan is in many ways a much more important document, as it sets the tone, direction and guidance for the City Commission as to what is important to them that they need to see come out of that budget document” (DiGiovanni, August 31, 2001).

Development of *Blueprint for Action: 2001-2003* involved a three-phase process.

First, the current economic, demographic, civic, and social conditions of the city were assessed through the preparation of a Community Sketch. Since public involvement was key to the Plan’s development, the second part of the process focused on obtaining input from the citizens. Through surveys and

roundtable meetings, a set of community values was developed. These values provide a standard against which we can measure how well the city is achieving its vision ... In the third phase, the city's management team used the community's input as well as their own professional judgement to develop recommended strategic objectives for the strategic goals for the City commission's consideration (*Blueprint for Action: 2001-2003*, 6).

The citizens identified or ranked priority goals from a list of 60 city goals. During the summer of 2000, the City Commission reviewed the Community Sketch and input from the community regarding what citizens believe to be the fifteen highest priority strategic goals, and endorsed that set of strategic goals, and added three to the list (ultimately two goals were combined, resulting in a total of seventeen strategic goals for *Blueprint for Action: 2001-2003*). The strategic goals were then grouped under five strategic focus areas for convenience (*Blueprint for Action: 2001-2003*, 6).

During the September 2000 budget retreat, the City Commission evaluated the strategic focus areas, strategic goals, and recommended strategic objectives. From their evaluation, they identified nine priority strategic objectives to provide direction to the administration for the preparation of the draft of the 2001 budget (*Blueprint for Action: 2001-2003*, 6). Currently, Kalamazoo is in an 'Ongoing Implementation Stage', as the City organization and budget are annually evaluated and adjusted to best achieve the goals identified by residents as needing the most immediate attention, in order to adopt the Annual Action Plan within their performance based budget by February, 1, 2003. "The Annual Action Plan should dove-tail nicely into the budget" (DiGiovanni, August 31, 2001). The city is looking to have a parallel budget for 2002, and 2003 is when the city looks to change entirely.

DiGiovanni did state that there are things not necessarily high priority in the strategic plan that they still make priority in the budget.

Let's say, for instance, Public Safety Patrol, did not show up as a high priority, does not mean that it is not a high priority in the community. It just means that we do it really well and not looking to add resources to that. One of the things we heard more of through the strategic plan connector meetings is more community policing. So, the Commission is prioritized by the evaluation of our community policing efforts. Right now, that is limited to our neighborhood liaison officers, where there are around 10, which work in primarily in the community block neighborhoods that have formal and informal relationships with the community. So the only way to evaluate that program is to be expanded. That is a strategic goal and objective, and my job now is to deliver an Action Plan, a budget, that will address this strategic focus and objective, and typically that is done through not only human resources but also financial resources in order to enhance our community policing effort in Kalamazoo (DiGiovanni, August 31, 2001).

Kalamazoo's City Departments and Performance Based Budgeting

Jewell, Parks and Recreation Director of Kalamazoo, commented that working under the traditional budget has been fine, but she can see the need for program based budgeting. Jewell discussed how the Parks Department charges services provided to cost codes so that the correct amount is deducted within each budget unit. "It's a little complicated on how people do their time-cards. When a Parks staff is working on the cemetery for 20 hours, I have to be sure that we charge the cemetery code, so that their wages, and salary comes out of that," (Jewell, June 20, 2001).

What is interesting is that Parks and the Recreation Department have been two separate departments since around 1984-1985. Now, the 2000 strategic plan recommends that the two departments come back together again, which is a challenge in itself. Combining the two budgets together will be a tedious task, and on top of

this implementing performance based budgeting will add to the reform. “How is it going to work at the end of this year with a combined budget, I am not sure,” Jewell, June 20, 2001). What is sure is that the performance based budgeting will drastically help these departments with charging services against budget units, as there will be an allocated amount for every service provided by these departments. There will be no more guesswork as to where to charge services, as service profiling will have already constructed cost centers for all services in order to evaluate performance.

Mary Ann Ambersee also expressed the complicated task of figuring out the budget merger with Parks. “We want our Parks people to look a certain way, so they better be doing Parks work. We really have found out that a lot of things that we do are not recognized by people, or get credit for, so it takes us away those core services that we try to provide” (Ambersee, June 20, 2001).

Ambersee sees the performance based budgeting as nearly guesswork, at least right now. With Public Works, she expressed her concern about how to budget for snow removal etc, when she does not know how much snow will fall for the upcoming fiscal year? Of course there are emergency and contingency funds, but she would rather not dip into these. Ambersee has been with the city for 25 years, and she claimed that it would be easier to budget by budget unit, rather than breaking it down into activities.

It would be easier to say we have \$2 million dollars to spend on major street activities. It is easy because if I need more money in repair, typically if they are not working on snow then they are patching potholes. One is repair, the other maintenance. I am going to have enough money to pay those people regardless of where they work because I have the totals that I need. I guess I am so familiar with it that the traditional budget has developed into an easy

tool. The biggest problem with the service profiling is that there is a lot of change and unknowns, but it is good for us because other people will understand what we do. Throwing a dollar amount at nature's conditions is very difficult. The Public Works Department will look like a nightmare if we have to be so thorough with service profiling. (Ambersee, June 20, 2001).

An example Ambersee gave was with trees. The many tasks it takes to care for a tree take time, with trimming the tree, removing the tree, inspecting, watering, planting, mulching, and purchasing the tree. There are so many little things that fall into Forestry that Public Works does not budget for now, and now with service profiling an expense needs to be tagged to these services. "That kind of information will be years in coming. Because we are so governed by the weather we may never reach actual costs" (Ambersee, June 20, 2001). Ambersee contends that there are so many variables when it comes to expenses in Public Works that "If we do figure out how much we do spend, I'll be too old to appreciate it" (Ambersee, June 20, 2001).

Rick Goff also expressed his concern about putting a dollar amount on redevelopment. "Sometimes we don't know what we are getting into when we take on a redevelopment site, the amount of expense, staff time; these change from site to site" (Goff, June 20, 2001). Goff also said it would be difficult to estimate how many tax abatements they will receive. The implemented state tax abatement program, pretty much works in a reactive way. Requests come to them, and some companies use it over and over again. Goff is uncertain that the switch in budget format will drastically help in evaluating performance, due to service profiling. "I haven't seen anything yet that compels me, but I don't want to slam the door on it, as it could be a good management tool" (Goff, June 20, 2001).

We do not really know at the beginning of the year the volume of requests we are going to get. A lot of it is dictated by the health of economy, because you apply for a tax abatement when you are making a new investment. Personally, I am happy the more tax abatement requests we get because that means companies are reinvesting in our community. But at the beginning I cannot predict how many we will have (Goff, June 20, 2001).

Goff stated that he will budget down the middle of the road with service profiling, and be ready to do things ‘on the fly’ when and if the City Manager wants a new initiative, or if a state grant opportunity comes up. “The point I am trying to make is that this is an area is it awful hard to predict, and I guess to be held on comparison from year to year on some things you can’t control or things that just change because of the nature of work we do, seems problematic to me. Maybe there is a way of addressing that that I am not aware of, or maybe it has already been dealt with” (Goff, June 20, 2001).

Goff also expressed his concern about finding the exact level of costs for services as one being a ‘nightmare’. “We’re going to have to hire more staff members to keep track of revenues and expenditures” (Goff, June 20, 2001). As Ambersee stated as well, finding near exact revenues and expenditures is going to be very difficult.

City Manager DiGiovanni countered this argument by saying that it will be difficult to forecast costs, especially starting out. DiGiovanni explained that for the more unpredictable services, such as what Ambersee and Goff discussed, that departments take the average and then try to keep reserves in place, as this is what the city has done with street funds and capital.

Nevertheless, I look at budgeting as a general approximation of what we are going to need to spend. Some items will be more concrete, such as payroll, which is a big portion of our budget. It is the intangibles and natural events that you never know how to budget for. We have been looking at having budget stabilization funds, or rainy day funds. We typically budget for that normal snowfall, and hopefully have reserve is in place to deal with the unexpected. I think that is the best you can do in those situations, as we are in a reactive mode. We cannot stop plowing the street because we have had our normal snowfall for the year. So, try to take the highs and low's out, and average, and keep reserves in place, so that you can dip below the target, but yet keep a sound financial status to our funds. You need that flexibility (DiGiovanni, August 31, 2001).

Dorr explained that with service profiling, the total appropriated amount has not changed from the traditional budget. The Public Safety Department was able to break down their services into personnel, and percent of time spent with this service. "I don't think that the performance based budgeting will have a huge effect with this department" (Dorr, June 20, 2001). Though early in its stages, service profiling has helped Dorr to be able to see how the \$27 million is being spent, it is just that she does not foresee any drastic changes with the services being provided for the city due to a new budget format. 87.5% of their budget (total budget \$27 million) is in the salary range area. "Service based budgeting is ok, but if they want to cut costs, the big picture of salaries and fringes has to stay because contractually we have to comply with the state" (Dorr, June 20, 2001).

Moore countered Dorr's claim, as she said that the Public Safety Department will feel the effects of performance based budgeting. "I'm sure you're going to get that from a number of the budget units" (Moore, June 26, 2001). Many over-lapping services need to be ironed out. Because this budget format is so new to budget managers, impacts are not fully understood. "There is some hesitation about moving

toward this performance based budgeting, because they don't really understand it yet, and can't really see the benefit from it" (Moore, June 26, 2001).

Public Safety has over 100 different activities that they provide in performing a number of different services, and it cannot all be defined by criminal investigations and operations. The goal for the city is to get down to each service level and to know the impacts by either cutting or expanding upon these service levels.

Kalamazoo and Long-Term Forecasting

Five-year forecasts are done in city departments with Kalamazoo's Finance Department extrapolating their forecasts into ten-year projections. With the traditional budget, the city looks at where they are, adjusts for a certain amount of inflation, and looks at any new services and new positions that they will provide, or if they will be downsizing. The city also looks at upcoming equipment needs and looks at their revenue stream. How this will change with performance based budgeting is uncertain at this point. "I guess it will involve more planning, again looking at the outcomes we achieved within this 5 year period, and seeing if there is a trend that will lead us (Finance Department) to adding/eliminating services in order to achieve our outcomes. So again, it's really going back to the outcomes and going back to the planning and seeing what it is really going to take" (Moore, June 26, 2001).

What is certain is that Kalamazoo's forecasting and long-term planning is inaccurate due to their traditional budget, but with performance based budgeting, the city will be able to more accurately project ten-years out due to service profiling. "Our traditional budget is an inaccurate tool to do forecasting and long-term planning.

Our performance based budget will be much more helpful and accurate in order to prepare for difficult times” (Moore, June 13, 2001).

When asked how Kalamazoo plans ahead with their traditional budget, such as in the case of a recession, Moore said it goes back to making adjustments to their expenditures in their current budget, and because the traditional budget is unable to evaluate these costs, performance based budgeting will be critical to prepare the city for difficult times. In the mid 1990’s, the city had to reduce the budget by \$4 million dollars without any layoffs. “That was a painful exercise for us” (Moore, June 26, 2001).

The city’s goal was to cut \$2 million dollars from the general fund, and they reduced it to \$1.6 million, and the other funds, which were enterprise funds, was achieved by reducing by \$2 million. There were no city layoffs. “We do not have in informed way of making those decisions right now. With this new budget, as difficult times come, we will be able to look at the services we offer, and decide which are mandatory services and which are discretionary. We need to be able to make more informed decisions” (Moore, June 26, 2001).

Kalamazoo’s deficit is going to be what it is, as the performance based budget will not have any immediate reductions. However, the new budgeting system will make better use of the funds that the city does have, and it will elude them into performance measures, as well as performance efficiencies that we have not been able to identify to this point, so in that way it will help them with the city’s deficit in that way.

Since Moore has been the Finance Director, she has not seen any deflating across the board. What the city traditionally does, is look at where we are, and there is usually a gap between the revenues and expenditures, so we go back to the departments and tell them to look at their budgets and give the Finance Department a dollar amount of percentage that they could reduce their budget, if needed. “We try not to do that, because most are departments are tight as it is” (Moore, June 26, 2001).

With the new budget format, the city anticipates that deflating across the board will not be practiced. As the city commission will have will be able to make informed decisions, they will be able to tell departments which specific services they would like to see reduced, rather than just giving the departments a dollar amount or percentage that their entire budget needs to be reduced by.

DiGiovanni stated that the city has not done a good job under the traditional budget with long-term forecasting. He wants to be able to take the census and be able to use the city’s *Forecasting Model Trend Analysis of Revenues and Expenditures*, which will forecast 10 years out. This model will be introduced with the performance based budgeting, which will enable to city to change services and programs as the age of the community gets older. “As we get closer to that happening, we need to adjust our services and programs accordingly, otherwise we will lose them, for other reasons other than the weather” (DiGiovanni, August 31, 2001).

Likewise, DiGiovanni finds it important to be able to cater to the Hispanic population, as it has doubled in Kalamazoo. Being able to use the census with long-

term forecasting will enable the city to recognize the Hispanic population, and have Spanish city forms and translators available.

Long-term forecasting will have huge effect upon the city, as of now all the city does is take last year's lump sum and increase it for inflation. However these lump sums are not accurate, which will translate into an inaccurate forecast. DiGiovanni expressed his concern about other trends that have an impact on the budget, but first the city has to capture how much services and projects cost, and watch these services over time in order to know how to forecast expenditures. With the implementation of the city's service profiling within performance based budgeting, and *Forecasting Model Trend Analysis of Revenues and Expenditures*, the city will be much better prepared for the bumps in the road. "It will make us much smarter" (DiGiovanni, August 31, 2001).

Performance Based Budgeting: New Budget Cycle?

The lengthy and cumbersome budget approval process that is practiced with Kalamazoo's budget looks to be reduced. With the six months that the city spends preparing and approving the budget, Moore and the city would like to see that drastically reduced, but not at the cost of eliminating planning, monitoring, and evaluating.

I am not sure if that will happen just because we are changing to performance based budgeting. I am not making any promises about the time being reduced, as we get complaints from departments that we spend too much time on budget. We need to spend that time planning, monitoring and evaluating, as it's not about throwing some numbers on a page, and having to redo them, it's really about thinking about what you are going to be doing, realizing the

impact, and figuring out what happens when you don't do what you thought you were going to do (Moore, June 26, 2001).

City Manager DiGiovanni was also unsure if there was going to be any changes within the budget approval process. He explained that it has not been discussed, but there is obviously going to be educational transition, as the City Commission is used to a certain format, and breaking them out of that and into a new format will be difficult. "We'll probably keep the same tentative approval process, so the City Commission gets comfortable with the information, as ultimately it is about getting them comfortable with the information and understanding why we should look at it this way, as opposed to understanding just what the department spends, as the budget format will be much more comprehensive with service profiling" (DiGiovanni, August 31, 2001).

Accountability and Flexibility

As with the traditional budget, the performance based budget will empower the city commission as being ultimately accountable for the city budget. Though the citizenry is invited to help make decisions within the budget, the City Manager puts together the budget proposal and submits it the city commission for approval. "It's their budget. They really have to determine how the dollars are being spent" (Moore, June 26, 2001).

There is not a whole lot of flexibility within the traditional budget, as Dorr explained with in-car video cameras. When Public Safety's issue of in-car cameras came up, the city had to start looking for grants and other funding sources as their

budget was already established, and that was not part of the budget. The only options is for the city to wait until the next fiscal year, receive a grant, or put something else off in order to act on a new issue that was not budgeted for during the fiscal year, as the city's reserves are really small, about \$100,000.

Typically, it does wait until the next budget year. Residents do not always understand why problems cannot be solved now. We handle it by explaining it, and if it is a priority that has risen to the top, we try to explain that it will be part of our planning for the next fiscal year, or if it such a top priority, that the city commission has determined it has to be funded this year, we will find the funds, by delaying something that is not as high of priority as the new issue. It does not happen a lot (Moore, June 26, 2001).

Mid-year budget amendments are very important for city departments. After the audit is done, which is normally a quarter into the new fiscal year, usually there is a positive variance, or surplus funds from the previous fiscal year that the Finance Department did not plan on. At the mid-year amendment, the Finance Department normally has a pot of funds that they can appropriate for new projects that were not adopted with the current budget.

Moore stated that this process will not change with the performance-based budget. The city will still have to determine if a service has to be enhanced at the mid-year budget amendment. What is important during this time, and especially with the performance based budget, is being able to recognize up-coming costs, and determining if a service or project would be cheaper now, then waiting.

If we find out it costs us \$100,000 to heat this building, and it is going to cost us \$100,000 to replace the windows, but when we do so, that \$100,000 heating bill drops to \$80,000, that is a \$20,000 savings. Now the five year pay back will pay for those windows and anything after that is gravy, unless energy costs go up, but even then it is a cost avoidance. But either way, if you pay \$100,000 today to avoid spending \$120,000 tomorrow on new windows,

even if we don't save money because they boost up rates of energy, we're better managing our assets and resources (DiGiovanni, August 31, 2001).

Kalamazoo and its Residents

Kalamazoo does engage in surveys every other year to their residents in order to know how they are doing. Feedback is very important to Kalamazoo, as it is a source of evaluating performance. However, as with Fairfield, the residents do not fully understand the budget and its process. Kalamazoo's residents are not concerned with the budget format, just so that their services are being provided. However, the city finds it important to change the budget format in order to tell the residents and city commission just how exactly these services are being met, by pinning a dollar amount on every service and project.

I do not think that the residents understand the budget process. I do not think they understand the type of budgeting, or even aware of how we go about developing the budget, how decisions are made about what to cut and where. To the citizens, it is just whether or not if their service level is being met. I do not think that they have a concern about the type of budgeting. But in order to better serve the citizens, we feel we have to go to a service based budget, so we can answer those questions about whether or not those services are being met (Moore, June 26, 2001).

Some citizens complain that not enough money is being put in this or that, and now with the performance based budget they will know how to respond better to residents requesting additional service. There are often suggestions to simplify the budget document by Kalamazoo's residents, and Moore explained the performance based budget will be much easier to understand as it will be in narrative form so that the residents can look at a service and see the dollar amount that is being budgeted for that service, the thereby understand what it takes to deliver that service. "I do feel it

will greatly feel that the new document will be much more friendly” (Moore, June 26, 2001).

Kalamazoo and Personal Incentives

Kalamazoo’s budget allows for a discretionary bonus. If an individual is responsible for a huge grant or is highly innovative in saving money for the department, the City Manager has the discretion to give a discretionary award. Moore said that she has not seen any competitiveness or unfair treatment with this discretionary award, because it really is up to the City Manager. If the discretionary award was a large amount, which it is not, Moore said there might be some competitiveness and complaints, but it really is not an issue. As with Kalamazoo’s traditional budget, this award system will be practiced with the performance based budget.

Kalamazoo on Expenditure Control Budgeting

Though Kalamazoo is moving away from traditional budgeting, foreseeing an ECB in their future is a stretch. Kalamazoo’s resources are so scarce, that Moore says that city commissioners would not want to see an ECB within the city. Moore does believe that the city will get into gains-sharing, where you have been able to reduce your expenditure by ‘x’ amount, and you can keep that amount to purchase equipment or pay bonuses. “Gains-sharing has some merit” (Moore, June 26, 2001).

Our entire city commission is elected every 2-years, and Moore says that it would be extremely difficult to adjust new members, where there could possibly be 7, to an ECB. “They are going to want to see some details” (Moore, June 26, 2001).

Moore also stated that with the ECB, the city would not have the opportunity to reevaluate or redistribute the resources, which would greatly affect their capital fund.

Rick Goff was intrigued by Fairfield's ECB, and said it sounded like an interesting approach.

The part that intrigues me is about saving money from year to year. There seems to be here a chronic annual shortage of capital improvement money. I think that there would be a debate at the political levels about carrying over money vs. pooling it in dealing with capital improvement projects (Goff, June 20, 2001).

Goff continued by explaining that this has an impact on Kalamazoo directly because not having modern infrastructure limits our ability to attract and maintain businesses within the city. However, the ECB is "too radical for Kalamazoo" (Goff, June 20, 2001).

DiGiovanni also brought up the critical need of funds for capital improvement projects when I asked about allowing departments to save money at the end of the fiscal year. He did not think that retaining savings would be helpful, as their capital need is critical, and comes out of the savings from departmental operating budgets that come back to the 'pot' when the fiscal year is done. "We have unmet capital needs, and so we do take whatever savings from the operating budgets to help support that, at the end of the year. It helps us basically plan our next year's capital" (DiGiovanni, August 31, 2001). The city has also taken money 'off the top' to support the capital program.

We've done calculations that say we are going to take care of our capital needs, at least our base line capital needs, and debts we have, and then obviously fund our operating budgets. That has worked to some extent, but has still left an unfunded capital program. Any excess dollars we find become

very important to our capital needs (DiGiovanni, August 31, 2001).

DiGiovanni stated that an ECB is not too far off; at least not in the way money is appropriated. The city has recently been through a reorganization of 4 super departments to 9 smaller departments. The reason for this is to have a flatter organization, where there is a focus on detail.

We have very capable managers that can work under the ECB, where they allocate lump sum budgets based on population and inflation and let them manager their resources. I think we can get there, but over a multi-step process. We first need to understand what we do and why we do it, understand the break down of services and programs into costs, and making sure that the department heads are 'in-sync; with where the City Commission and I want to go, and of course the priorities in the community (DiGiovanni, August 31, 2001).

Why the Traditional Budget Does Not Last

Both Moore and DiGiovanni stated that it is time for change. The traditional budget has components that drastically limit the ability of city officials to determine and measure city performance. As it was with the traditional budget, Kalamazoo's department heads and Finance Director responded that performance was measured by resident feedback and not overspending, or spending within their budgetary parameters. The city has found out that this is a handicap for determining and measuring city performance, as no real measure has been set. With the performance based budgeting, Kalamazoo will distinctly change its focus and be able to city measure performance, as this new budget format will allow departments to determine an amount for each service provided, and propose it to the city commission. No longer will the city commission be in the dark about how much 'inspection services'

really cost the city, as all departments will have that service accounted for through service profiling. When tallied up, the cost will reflect the true cost for the city.

Line-items do not determine what services the city will provide, which is another reason why the traditional budget is on the way out of the city. “They just dictate where the resources should go, they do not determine the service level” (Moore, June 26, 2001). With the inability to determine the service level, line-items are a hindrance, but on the other hand, line-items are helpful to evaluate costs. Kalamazoo is changing the hindrance of line-items as used with the traditional budget by implementing service profiling which will drastically help in determining service levels.

City Manager DiGiovanni said that the traditional budget is limiting because it does not capture true costs. Service profiling is drastically needed in order to do so. “Going through the service profiling effort will give us a better chance at measuring the true costs of a service being provided, and that should help us with benchmarking with other communities” (DiGiovanni, August 31, 2001).

Conclusion: The Future of Kalamazoo

Kalamazoo is trotting on unknown territory, but is willing to do so in order to evaluate performance within their budget. As one can see, change within the city is not easy, but it is accomplishable, and needed. Many budget policies are being revisited in order to evaluate their importance. The atmosphere within city staff is one of uncertainty, but fueled with courage, as the traditional budget has proven to be a great hindrance in evaluating city performance.

City Manager, Pat DiGiovanni looks at serving the public not as serving customers, but as citizens. The analogy of acting like a business is very difficult for him to sell, as he wants to be business-like, running an efficient and productive operation, with a citizenry being treated fairly. With customers, you start to get classes, and treatment of people varies, he argued. Kalamazoo faces the challenge of creating an environment as one that is more citizen driven government, rather than being bureaucratic driven. “It’s their government, their community. We’re only here to accomplish what they want to have done” (DiGiovanni, August 31, 2001).

CHAPTER FIVE

CONCLUSION

The Need for Traditional Budget Reform

Review

For the purpose of this Master's Thesis, the question was 'How do Fairfield and Kalamazoo measure performance with their expenditure control and traditional budgets?' It is true that reform may be needed with the traditional budget, but at what expense? One must be careful not to assume that one budget theory or format is superior over the rest, as what works for one municipal government may not be the best idea for another. This is true with Fairfield and Kalamazoo.

Although other publications are available for review, I have included the most influential and controversial on budget reform. Advocates argue that bureaucratic power is out of hand, and that to reform their behavior, one must start with the budget. Successes with budget reform are few, but yet there are successes, and this is the point advocates are trying to get across. Proponent's argue that these few successes at the local government level is not enough to implement reform. Budget reform may work for city 'x', but who is to say that it is a wise move for city 'y'?

Fairfield and Kalamazoo are cities of approximately the same size in terms of population, square mileage, and local governance, but have two fundamentally different budgeting processes and formats. The question is, ‘Would it be a good idea to institute an ECB in Kalamazoo’? As will be further discussed below, we cannot jump to immediate conclusions, but can speculate for now.

Budget Approval Processes: Expenditure Control vs. Traditional

Fairfield’s budget approval process is one that is simplified and less time and money consuming. Bureaucracy is decentralized, as department heads are given the autonomy and discretion to use departmental funds as they see fit during the fiscal year. Lump-sum budget allocation is also practiced within Fairfield, as the City Council does not see line-items or service profiling per dollar amount necessary. Fairfield’s staff’s opinion on performance based budgeting is one as being less focused on the city’s mission, as this type of budgeting is too concerned about the dollar amount per service, which can distract from pursuing the city’s mission. However, Kalamazoo is using their service profiling budgeting system as a tool to become closer to their mission.

One may argue that giving departmental managers discretion with their departmental budgets is making the bureaucracy more horizontal rather than vertical, and this could create problems. Fairfield has not had any problems with this, as the city prides itself with less bureaucratic delays and more timely service in tune with department needs. Fairfield has found that giving ownership to departmental heads leads departmental managers to continuously pursue the city and departments’

mission.

Kalamazoo's traditional budget approval process is one that is long and exhaustive. Even with the change in budget format, from traditional to performance based, there is uncertainty if the budget approval process will be different. Lump-sum budgeting will not be practiced, as in Fairfield. Kalamazoo will still retain a centralized bureaucracy with the City Commission, Budget Director Patsy Moore, and City Manager DiGiovanni approving and allocating resources. Discretion will not be granted to department heads either with the change in budget format. More money and time is spent with Kalamazoo's budget approval process, and it can be argued that even more will be required with the change in budget format, as Goff argued in chapter 4. Though the city is not focused on approving particular line-items with their traditional budget, the city now has to focus on service profiling with performance based budgeting, which will be very time and money consuming.

As department heads will not be able to utilize discretion, Moore's approval is still needed for all changes within and between budget units with their traditional budget. Likewise, departmental approval by Moore will still be needed with their performance based budget with any changes between and within organizational units and line-items. Therefore, centralized bureaucracy will still exist in Kalamazoo.

The argument can be made that Kalamazoo's performance based budget will not necessarily get them closer to their mission, as this type of budget is still centralized which will limit the ability of departments to listen to their residents needs. Though the *Blueprint for Action: 2001-2003* provides the method to take for

implementing change, the budget will still be very centralized bureaucracy. If a need presents itself during the fiscal year, the performance based budget will not necessarily change the fact that Kalamazoo's city departments will have to wait until next fiscal year for funding in order to provide new and requested services for their residents. It will only change the fact that due to service profiling, each department will be able to see where the funds are being spent, and as a result, what services can be decreased in funding in order to fund the new initiative for the next fiscal year.

“Save it and Invest It” vs. “Use it or Lose it”

Fairfield certainly has brought to light that giving city departments the ability to save money at the end of the fiscal year has its benefits. Many new services, projects, and local grant matches were able to be paid for with these departmental savings. Fairfield prides itself with being one of only a few cities in the United States who practice departmental savings carry-over.

One could argue that Fairfield is able to save because they bloat their city departments' budgets every fiscal year, instead of budgeting to the bone, as is done and will be continued to be practiced in Kalamazoo. Fairfield feels that departments are not over budgeted, because the full-year cost of all budgeted employees, plus inflation on other costs, is generally greater than the ECB appropriation of each department. “Departments have to manage vacancies for some savings, and find other ways during the year to reduce costs, if they are to add to, rather than subtract from, prior year carry-over amounts” (Leland, October 30, 2001).

Kalamazoo's practice of carry-forwards of projects in progress is not highly utilized by departments, as department heads I spoke to try to get projects done during the fiscal year. Department heads did acknowledge that it is nice to know that they are able to carry-forward funds of work in progress if the need presents itself at the end of the fiscal year.

The argument I need to make is concerning the inability of Kalamazoo to carry-over savings from fiscal year to fiscal year, as is practiced in Fairfield. The department heads I spoke to said that there are very rarely any funds to save at the end of the fiscal year, as they 'budget to the bone', coming in 1-2% under budget at the end of the fiscal year. The inability to carry-over unspent general funds monies did not seem to be a concern of anybody that I interviewed in Kalamazoo. However, one has to wonder how valid this would be if they had the incentive to save? One can always say that there is not any money left to save at the end of the fiscal year, but given the incentive to save, would their actions change with their spending, which would generate savings?

City Manager DiGiovanni did not think that retaining savings would be helpful, as their capital need is critical, and comes out of the savings from departmental operating budgets that come back to the 'pot' when the fiscal year is done. I do agree that departmental savings coming back to the 'pot' are critical for Kalamazoo's capital fund, as the way the city's budget is set up, this money ensures the funding of capital projects. However, this is in stark contrast with Fairfield and how they use general fund monies. In order for Kalamazoo's city departments to save

money at the end of the fiscal year and not effect the general fund, the city would have to change the way general fund monies are used. As Fairfield does not use general fund monies or departmental funds to pay for capital projects, such as new parks and public facilities, this explains why Fairfield can provide the incentive to departments to save, or carry-forward, unused general fund monies.

Why Fairfield is Able to "Save it and Invest it"

The citywide reserve in Fairfield, or internal service funds (ISF), pays for replacement and maintenance of vehicles, phones/radio/computers, workers compensation and insurance, and the civic center. Other internal service funds cover mail, printing, and energy costs. Each city department pays contributes to these funds each year which ensures that departments pay their fair share of internal city operation costs, and that adequate reserves exist to pay claims, replace vehicles, etc., on a timely basis. This does not mean that departments are given bigger appropriations to account for money being paid into the reserve for capital projects, as with the ECB there is not an excess or additional source of funding, as it comes out of their ECB appropriation.

Any expenditure for capital outlay, such as equipment, that a department may need, comes from their existing ECB appropriation or carry-over. The type of capital projects such as new parks, street repair, public facilities, etc. doesn't come from the general fund or department budgets. These typically are paid for by development fees, state gas tax revenues, water utility, etc., as appropriate (Leland, October 30, 2001).

Mission-Driven vs. Budget-Driven

Fairfield's ECB focuses on the city's mission by being decentralized and allowing for departmental discretion. Kalamazoo however, admits to being budget-driven with their traditional budget, however, how much will this really change with their performance based budget? Though the city has used their strategic plan to help tie the city's budget and mission together, Kalamazoo will still have a centralized bureaucracy, focused on how much they spend on their services with service profiling. As Moore stated in chapter 4, the city is going to measure performance with their performance based budget on the foundation on whether they have achieved their identified outcomes. However, these outcomes are identified 6-8 months in advance of the next fiscal year, so what about situations and concerns that arise during the fiscal year? Will these become identified for next fiscal year, as they were not identified for the current fiscal year? This is the main concern I have as far as Kalamazoo still being budget-driven, even with the change in budget format. With service profiling, funds are allocated earmarked for particular services, which still does not entirely make them mission-driven, because they are so focused on dollars, and still limits the city in listening to their residents during the fiscal year.

Measuring Performance with Fairfield's Expenditure Control Budget

As was empirically evaluated in this Master's thesis, Dan Cothran's (1993) hypothesis is correct. Fairfield's ECB is in the hands of the City Council, and departments have more power to efficiently and effectively run their departments. Governmental capacity is enhanced with Fairfield's ECB.

If entrepreneurial budgeting works as claimed, policy makers should have more of the power that is relevant to their task and subordinates should have more of the power that is relevant to their jobs. In short, it could enhance governmental capacity, rather than redistribute governmental authority (Cothran, 1993; 451).

Fairfield measures performance in three main ways. First, as long as Fairfield's City Council is pleased with how things went the preceding year at their annual goal setting session, Fairfield performance level is high. Second, Fairfield's long-term planning and forecasting which makes adjustments and keeps services stable year to year is a tool used to measure city performance. Finally, Fairfield's residents, through residential poles, forums, and study sessions, evaluate city performance, which provides feedback to the city.

Fairfield's performance measurement is one that is both qualitative and quantitative, focusing more on the qualitative side. Fairfield emphasizes communication between departments and City Council, while maintaining autonomy, in order for departmental managers to use their expertise and discretion with department funds. Many cities would find Fairfield's ECB as a 'disaster waiting to happen', but Fairfield has been able to maintain this entrepreneurial budget due to a well educated and trusted city staff.

Performance is also measured by departments in need of retirement funds, radio systems, computers, vehicles, on revolving fund basis, that is planned 10-years or more. When resources are diminishing, it is more important than ever to keep up to date capable equipment, and performance is measured with the amount in reserves, which is currently as a historic high for the city.

Measuring Performance with Kalamazoo's Traditional Budget

Caiden argues “As the budget crisis deepens, budgetary concepts come to resemble myths, while the urgent issues of budgetary adaptation to a changing context remain ignored” (Caiden 1982; 519). This is apparent in Kalamazoo where actual costs for services are not totally accounted for with their traditional budget, thereby relying on myths, or unrealistic costs of services, that are interrupted into their annual budget. As in the inspection services example, Kalamazoo does not tally up the total cost from each department that performs inspection services, but instead gives the City Commission the total amount that it costs just for the department that is called Inspection Services, which is not a true cost of that service, and as a result, this cost is a myth.

After review of Kalamazoo's inability to measure departmental performance with a dollar amount, one can see why this city is in the pursuit of implementing a performance/service based budgeting system. This budgeting system will be a much more thorough tool in which to measure city performance per dollar amount, but it is far from being an ECB.

Kalamazoo's traditional budget really does not measure performance in any real way but by staying within their budgetary parameters, citizen feedback, and departmental revenues with their traditional budget. This will soon change with their performance based budgeting system, as the city will evaluate performance based on how much they spend on services, due to service profiling. With performance based budgeting, Kalamazoo's City Commission will be able to look at the measures and

determine if the city is achieving the desired outcome. If the city is not achieving the desired outcome, the City Commission may decide to allocate more money towards certain services, or eliminate it. However, the argument remains, that Kalamazoo's change in budget format will be great in terms of evaluating performance in terms of dollars, but what about in the terms of the city's mission? I realize that Kalamazoo's performance based budget is tied to the city's strategic plan, which is suppose to unite the city budget and mission, but what about concerns and requests made during the fiscal year? As these may not have identified 6-8 months prior to the adoption of the budget, how will these outcomes be measured? Such as Public Safety's video camera request, will the performance based budget allow the city use of the current fiscal years funds or make residents wait until next fiscal year, when the concern or problem can be identified, and the outcome measured? The later is just like their traditional budget, except outcomes were not measured as precisely. It is doubtful that concern and problems, given that they are not extreme, will be acted upon during the current fiscal year, as dollar amounts have already been posted to each service, so as with their traditional budget, residents will have to wait until next fiscal year for any progress.

Traditional Budget Reform: Why it is Needed

Fairfield's ECB is a tool that successfully evaluates city performance, and is called a 'salvation of modern government' by Fairfield city staff. Though Kalamazoo is struggling right now with the change in budget format, their performance based budgeting will be much more thorough than their traditional budget due to service

profiling. Outcomes are not measured currently, as Kalamazoo's traditional budget is subjective, as it is just an estimate from year to year what departments think they really need. Being able to evaluate performance based on outcomes due to service profiling is what Kalamazoo is seeking, and this is why performance based budgeting is being implemented in Kalamazoo

However, a performance based budgeting is still far from being an ECB, or being entrepreneurial, due to the fact that lump-sum budgeting will not be practiced, nor will carry-over of unspent general revenue funds. Along with these differences, Kalamazoo's performance based budget still puts the City Commission, Finance Department, and City Manager in charge of allocating funds for each department, and how they will be spent, due to their service profiling. Any funds that need to be switched between organizational units and line-items still needs to be approved by Moore, in order to eliminate a potential 'free-for-all.' Thus, departmental heads are not given any autonomy or able to utilize their discretion when it comes to general revenue funds, and as a result, still be budget-driven.

With an ECB, departmental managers are given lump sum budgets, and as long as they know the goals of the City Council at their annual goal setting session and the mission of the department, departmental managers use their expertise and discretion in how to allocate general funds to their services provided. Fairfield's City Council is not as concerned with how much each department has spent on a given service, but rather if the City Council's goals were satisfied during the fiscal year. The Finance Department keeps track of how much has been spent on each service,

and incoming revenues, but the City Council does not explicitly ask for detailed costs for all services within the city. Only in the event of a department or departments not meeting the City Council's goals or consistent resident complaints would the Fairfield City Council get involved with departmental spending on services.

Kalamazoo's performance based budget will still illustrate the problem of reducing the focus on quality, and instead focus on costs. For instance, Fairfield's ECB focuses on housing quality, not the number and cost of housing inspections. Though Fairfield has this information, they are less concerned with setting a cost and evaluating performance based on how close they come to this cost at the end of the fiscal year, than they are on quality.

It can be argued that Kalamazoo will still have the problem of micro-managing, as the City Commission will still tell the City Manager and Finance Department how much they would like to see spent within each department, and on what services. The City Commission will still be highly involved with departmental spending, but as I found out, will not be concerned, as in the past, with how many pencils are purchased within the department.

The overall environment within the city of Kalamazoo is filled with anticipation and uncertainty. There were many times where my questions regarding their performance based budgeting were hard to answer, as the new budget still needs to be evolved. What is certain is that city departmental staff of Kalamazoo are confused, and seem to be very little educated about the new proposed budget format, which breeds almost resentment, as was apparent in my interviews.

Fairfield and Kalamazoo: Two Different Ways of Accomplishing the Same Goal

Fairfield accepts risk with their ECB, as risk is involved when giving departmental autonomy and discretion to departmental heads with their lump-sum budgets. However, by assuming this risk, Fairfield is able to accomplish their goal of being mission-driven and decentralized. Fairfield is less concerned with how much they spend on services and more concerned on performance and service.

Kalamazoo, on the other hand, is risk-averse, as they are still retaining a centralized bureaucracy in the hope of being more mission and performance driven. The city is more focused on how much they spend on services in order to measure performance and service. What may be needed is a ‘shake-up’ within Kalamazoo, such as Proposition 13 in California, which will ultimately force the City Commission to look at departmental savings, and thus the way the city budgets for capital projects.

Fairfield is focused on performance and service in achieving the city’s mission, and while Kalamazoo is trying to reach this goal, the two cities are taking two very different ways to get there. Fairfield sees autonomy, discretion, and decentralization as the method of achieving a mission-driven government and measuring performance. Kalamazoo envisions a centralized, bureaucratic method in order to be mission-driven and to measure performance, which directly parallels their traditional budget, except for their service profiling.

Continuity of Staff: Why it is Important with an Expenditure Control Budget

There is one main key point that stands out as being most significant when comparing these two cities budget processes and formats, and it is regards to how and when the City Commission/Council is elected. As already mention, Fairfield's elections for City Council are in November of odd-numbered years, with two of the four at-large Council seats up each election, and a separately-elected Mayor every four years. In Kalamazoo, as required by City Charter, the entire City Commission is elected on an at-large, nonpartisan basis every two years. The individual receiving the highest number of votes serves as Mayor, and the person with the second highest number of votes serves as Vice-Mayor. This is important, because as Moore pointed out, Kalamazoo's City Commission can change every two years, with either no new members, or entirely a new City Commission with 7 new members. The likelihood of educating a new City Commission about an ECB every two years would be exhaustive, and this is one of the reasons the city keeps a budget that requires line-items be present when the budget is approved, though they are not voted on.

On the other hand, Fairfield's elections are set up so that only 2 of the 4 Council seats are up each election, thereby maintaining Council members as possible new Council members are added. The ECB is able to maintain because there is not a total 'across the board' elections, which allows for continuity of Council members from fiscal year to fiscal year.

It should also be recognized that because Kalamazoo is moving from the traditional city budget to a performance based budget, the traditional budget does not

last, despite proponents claims, such as Moe (1994), Kobrak (1996), Fox (1996), Kearney (1998) and of course, Wildavsky (1961, 1992). Many complications and imperfections exist with the traditional city budget, and to change budget format is extremely challenging. Though Kalamazoo may be micro-managed with their new budget, at least they are acknowledging the immense problems of evaluating performance with their traditional budget.

Advocates of budget reform, such as Caiden (1982), Lynch (1996) Osborne and Gaebler (1992), Cothran (1993), Tyler and Willand (1997), and Caiden (1994) all argue that the traditional budget handicaps all who implement this type of budget, due to primarily the inability to evaluate performance. My findings with Kalamazoo prove this valid, as Kalamazoo has illustrated the type of city that has problems with their traditional budget, which primarily rest on the inability to evaluate city performance.

Budget Reform Needs to be Cautiously Implemented

As these case-studies suggest, traditional budget reform is needed within city governments. However, one cannot generalize to the point that Fairfield's ECB is better than all budgets in existence, as an ECB has proven disastrous for some, such as Visalia. An ECB is not meant to be implemented everywhere, as it is not logical to assume that this budget format is superior to the rest, as a lot of factors need to be considered before the implementation of an ECB, or any other type of budget reform.

The question arises: If residents complain about the city budget, does that mean the city should change the budget format? Not necessarily. Budget reform is a

long process, and before embarking on budget reform, a city should do as Kalamazoo did, which is to set out their goals and priorities in a strategic plan. However, I say should develop a strategic plan, because Fairfield didn't do this, as they had to change budget format nearly overnight with the Proposition 13 crisis. What's the difference between the two? Fairfield was forced to change budget format, from their traditional budget to their ECB, as Proposition 13 imposed drastic cuts in government revenue. In order to survive, Fairfield implemented the ECB in order to survive. This is why a 'shake up' will unfortunately have to happen in most cities in order for budget reform to occur, as change is not looked upon favorably if everything is going smoothly. Kalamazoo's traditional budget has been going smoothly for a long time, but now budget reform is being implemented over a 3-year period as the city realizes the impediments they have been facing all these years with their traditional budget. If a city does not look for these impediments, and goes along as normal, of course the traditional budget will last because change is difficult, and nobody looks for change if it isn't warranted. It is only when there is leadership by the City Manager, Finance Director, and City Commission that reform can be imposed, as they are the centralized bureaucracy holding all the inaccurate budgetary information

But what about Visalia, California? Indeed they implemented the ECB under the same circumstances 6-months after Fairfield, but failed miserably. Why? Because of mismanagement. This is why the continuity of staff is so important in implementing an ECB. Ted Gaebler brought the ECB to Visalia, and the city became renown for their ECB. However, Gaebler departed from his City Manager position a

few years later, and Don Duckworth resumed the position. Duckworth carried the entrepreneurial notion of administrative flexibility further than many citizens even know, as Duckworth's involvement with city-owned Radisson Hotel destroyed the whole ECB concept due to mismanagement. Today, entrepreneurialism is not even looked at in Visalia. The transition of staff during this critical time of Visalia, California history proved to be disastrous, as when Ted Gaebler left, so did the knowledge and the whole proper ECB philosophy.

Gaebler, for his part, believes that this is an "aberration, a fluke result of a couple of elections and some personal idiosyncrasies on the council. It has nothing to do with Visalia", he insists, "or with innovation or with entrepreneurship" (Gurwitt, 1994; 35).

Fairfield, on the other hand, still has most of the same influential leaders working for the city that did during the Proposition 13 crisis, such as Oscar Reyes. It's hard to say what will happen when the pioneers of the ECB retire or leave Fairfield. However, I have little doubt that the city staff that Leland and Reyes have trained and have started their tenure in Fairfield, will have any problems retaining the city's ECB.

Conclusion: Fairfield and Kalamazoo

What we can conclude from this master's thesis is that, 1) Kalamazoo's traditional budget has proven to be a faulty tool to evaluate city performance, and thus their performance based budget is to be implemented to help correct the errors and problems generated with their traditional budget, and; 2) Fairfield's ECB is far better at evaluating city performance than Kalamazoo's traditional budget. Though

Kalamazoo's performance based budget will still invite micro-management, and a centralized bureaucracy, it will still be better than their traditional budget as they will be able to evaluate outcomes based on their service profiling done in conjunction with their performance based budget. I commend them for their efforts.

However, an ECB is just too entrepreneurial for Kalamazoo at this time, though City Manager Pat DiGiovanni is optimistic. Perhaps when the city has their performance based budgeting system in place and is operating successfully, will the city consider other budgeting formats. Until then, Fairfield's ECB should stay in Fairfield for now, and not be implemented in Kalamazoo.

This research has proven to be significant in the efforts for traditional budget reform. Though the argument will still stand as to replacing a 200-year-old budgetary system and assuming so much risk with change, it is apparent from this research that budget reform is drastically needed. Fairfield's ECB is as strong as ever, and they definitely deserve recognition for being the first to implement this entrepreneurial budget, and for continuing such a remarkable budgeting system. As this research reveals, budget reform is apparent and realized in Kalamazoo. Trust, courage, accountability, competence, continuity, and a well educated staff have to be exhibited in order for political changes to come at all levels within the city for budget reform to be successful.

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