

Toward a Better Budget: Assessing the Use and Value of Recommended Budgeting Guidelines

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Outline

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 - NACSLB Budgeting Practices
 - Scope of the Research
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Introduction

- Public administration has long been defined by efforts to increase organizational effectiveness and efficiency.
 - Principles of public administration (Gulick 1937)
 - Best practices, guidelines, prescriptions, and advisories, etc.
 - Significant role for professional organizations in development and promotion.



Introduction

- Public budgeting and financial management has been the focus of these efforts as well.
 - GFOA, ICMA
 - National Advisory Council on State and Local Budgeting (NACSLB)
- Governments can only gain the benefits if the practices actually are used in practice.



Research Questions

- 1. To what degree do the budgeting and financial practices of local government correspond to established recommendations?*
- 2. Why do the current practices of certain local governments correspond to established recommendations while the practices of others do not?*
- 3. To what degree, if any, does use of best practices correlate with fiscal performance?*



Public Budgeting and Finance Recommendations

- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (1998)*
 - Developed by the NACSLB, composed of the GFOA and other stakeholders.
 - The framework consists of broad statements that are supported by increasingly specific and actionable practices and guidelines.



NACSLB Budgeting Framework

- *Establish Broad Goals to Guide Government Decision Making*
 1. Assess community needs, priorities, challenges and opportunities
 2. Identify opportunities and challenges for government services, capital assets, and management
 3. Develop and disseminate broad goals
- *Develop Approaches to Achieve Goals*
 4. Adopt financial policies
 5. Develop programmatic, operating, and capital policies and plans
 6. Develop programs and services that are consistent with policies and plans
 7. Develop management strategies
- *Develop a Budget Consistent with Approaches to Achieve Goals*
 8. Develop a process for preparing and adopting a budget
 9. Develop and evaluate financial options
 10. Make choices necessary to adopt a budget
- *Evaluate Performance and Make Adjustments*
 11. Monitor, measure, and evaluate performance
 12. Make adjustments as needed



Scope of the Research

4. Adopt Financial Policies

- Includes 17 specific, actionable practices (output statements)
- Handout: Table 1

9. Develop and Evaluate Financial Options

- Includes 21 specific, actionable practices (output statements)
- Handout: Table 2



Research Design and Method

- National survey of local government budget and finance officials conducted in 2011.
 - Respondent choices: agree, somewhat agree, somewhat disagree, disagree, don't know
- Submitted to 1,000 local governments with populations above 10,000.
- 278 local governments responded ($\approx 28\%$)
 - Average population=56,414



Results

- 1. To what degree do the budgeting and financial practices of local government correspond to established recommendations?*



Use of Budgeting Recommendations

- Overall, many current practices correspond to the guidelines; there are significant variations, however.
- Variation across the two elements.
 - Current practices correspond to Element 9 recommendations at higher rates than Element 4 recommendations.
 - Local governments are more likely to engage in specific activities (e.g., projections, analyses, etc.) than to adopt and implement specific policies.



Use of Budgeting Recommendations

- Variation across individual recommendations
 - Debt policies are relatively common while knowledge of stabilization policies is somewhat limited (Table 1)
 - Activities associated with revenues are completed regularly while those associated with expenditures occur less often (Table 2).



Use of Budgeting Recommendations

- More variation regarding the entire framework.
 - Handout: Table 3
- Use of practices that correlate with the recommendations and the larger framework increase with population.
 - Handout: Table 4



Implications

- Awareness and familiarity do not always translate into use.
- Greater attention is given to the completion of particular tasks rather than the development of policy.
 - Time and resource constraints are important.
- There tends to be a focus on debt related policies and revenue related practices.
 - This makes sense given the controversial nature of debt and the importance of revenue.



Results

- 2. Why do the current practices of certain local governments correspond to established recommendations while the practices of others do not?*



Explaining Use

- Pressure
 - Pressure to not adopt recommended practices
- Knowledge
 - Familiarity with the framework/recommendations
- Networking
 - Discussion of the recommendations with other professionals
- Respondent GFOA membership
- Number of staff GFOA memberships
- Recipient of a GFOA budgeting award



Explaining Use

- Population
- Wealth (per capita income)
- Presence of a professional administrator
- Municipal status
 - Unincorporated; incorporated
- Number of budget/finance employees
- Region
 - Non south; south
- State popular initiative
 - Not available; available



Explaining Use

- Governments more likely to use practices that correspond with NACSLB recommendations have:
 - Knowledgeable and connected leadership
 - Larger populations
 - Greater wealth (e.g., per capita income)
 - Higher levels of professionalism (e.g., professional administrator, incorporated status)
 - Less state level restrictions



Implications

- The knowledge and interest of administrative leaders (e.g., finance directors) and general professionalism matters a lot.
 - Hiring criteria
 - Improve administrative capacity if possible
- Community characteristics also are important.
 - Necessity and resources can encourage or discourage use.
- Formal connections to professional organizations are less important.



Results

- 3. To what degree, if any, does use of best practices correlate with fiscal performance?*



Fiscal Performance

- Three measures of fiscal performance were examined.
 - Unreserved fund balances
 - Bond ratings (when available)
 - Per capita revenue



Fiscal Performance

- Local governments with **larger unreserved fund balances** have
 - Smaller populations
 - Greater wealth
 - A location in the Northeast*
 - Practices that correlate with certain NACSLB recommendations—general financial planning (Element 9)



Fiscal Performance

- Local governments with **higher bond ratings** have
 - Larger populations
 - Greater wealth
 - A location in the Midwest and South*
 - Diverse opinions regarding the use of best practices
 - An unincorporated status
 - Practices that correlate with certain NACSLB recommendations—long-term financial planning (Element 9) and financial policies (Element 4)



Fiscal Performance

- Local governments with **higher per capita revenue** have
 - Finance directors that are members of the GFOA
 - Greater wealth
 - A professional administrator
 - An incorporated municipal status
 - A larger number of staff members dedicated to budgeting and financial management
 - A location in the Northeast*
 - Practices that correlate with NACSLB recommendations across both elements



Implications

- There is some evidence that the use of practices that correspond to NACSLB recommendations is associated with better fiscal conditions.
 - The need for greater attention to best practices?
- The actual use of recommended practices and policies has a greater impact than a basic membership in a professional organization.
 - Obtaining benefits requires use.
- Additional research is required.



Conclusions

- Best practices and recommendations play an important role in the budgeting and financial management process.
 - Use is not universal, nor should it be.
 - There are important implications, however.
- There continues to be an important role for professional organizations such as the GFOA.
- It is important to systematically assess the value of recommendations.
 - Time and resource challenges continue to necessitate supportive evidence.



Questions?



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