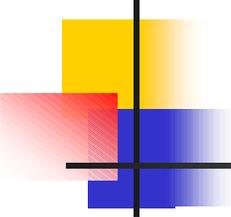


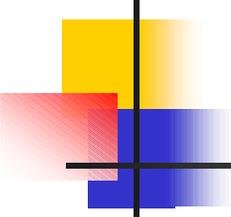
FEDERAL BUDGET PROCESS
Yes, It's a Mess, But . . .

Carl L. Moravitz
August 28, 2001



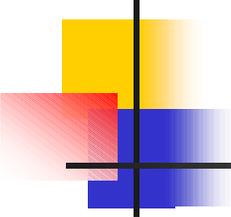
Yesterday's Rules Create Today's Management

- ***What are the changes in Federal budget process affecting funding and oversight.***
- ***What have been the changing profiles of Federal expenditures and policy implications.***
- ***How do you fit into Appropriations Process in Congress -- Do you have to manage different?***



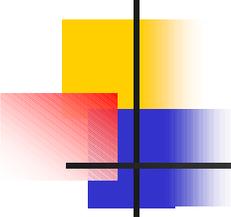
Evolution of Federal Budget Management

- **1921-1974:** *Establishing the “Tool Kit”*
- **1974-1985:** *Process Management*
- **1985-1990:** *Deficit Management*
- **1991-Present:** *Spending Management*



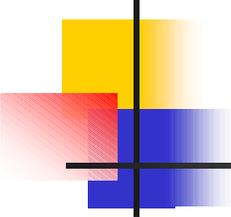
Background -- Budget Process

- Before 1870, no organized budget process
 - Agencies could write contracts and obligate gov't to payments not approved by Congress
 - Legally, contracts were binding, but, constitutionally, no payments could be made w/ appropriations from Congress.
- Anti-Deficiency Act in 1870
 - No obligations in excess of Appropriations
 - Practical Effect: Required Agencies to submit budgets to Congress for annual approval



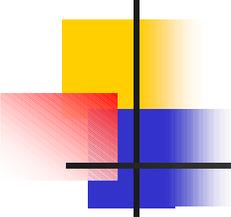
Background -- Budget Process

- 1870 - 1921:
 - Agencies submitted annual budgets . . .
 - Basic and with little information included
 - Failed to reflect full cost of long-term plans
 - Led to conflicts between President/Congress



Background -- Budget Process

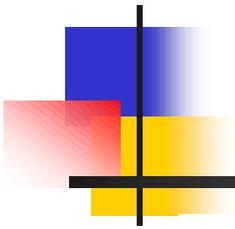
- Roosevelt -- Great White Fleet
 - When Teddy was President, Congress refused to appropriate funds to send Navy on around-the-world cruise to impress foreign nations
 - [Great White Fleet]
 - So, Roosevelt then used limited funds available to send fleet halfway around the globe.
 - Then, he sent Congress a request for enough funds to bring them home.

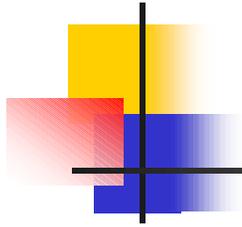


Background -- Budget Process

- 1921 -- Passage of Budget & Accounting Act
 - Congress added teeth to the accountability of Gov't operations
 - Established President's Budget Office (BOB/OMB)
 - Established the General Accounting Office
 - Established formal President's Budget submission agreed following review of Agency requests
 - Put in place operational guidelines for expenditure and reporting of government operations

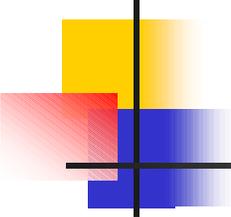
Understanding the Resource Environment





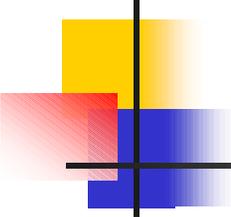
Federal Fund Receipts

	<i>1960</i>	<i>Today</i>
<i>% of Total Receipts</i>	<i>82%</i>	<i>66% (61)</i>
<i>% of Federal Spending</i>	<i>100%</i>	<i>101% (62)</i>



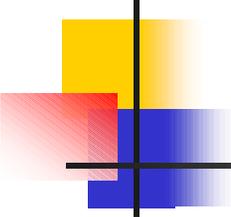
Interest Payments (as % of Federal Receipts)

	<i>1960</i>	<i>Today</i>
<i>Gross Interest</i>	<i>9%</i>	<i>21% (39)</i>
<i>Net Interest</i>	<i>7%</i>	<i>13% (26)</i>



Where the Gov't Gets its Money (2000)

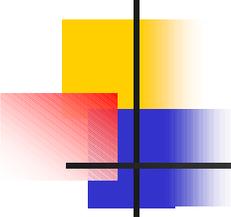
- *Taxes on citizens' cash flow (income & other taxes) 49%*
- *Taxes on citizens' payrolls (social sec. & medicare taxes) 34%*
- *Taxes on business oprs. (profits, (excise, customs, other taxes) 17%*
- *Borrowing (new debt) 0%*
 - *Surplus (4.4%)*



What are Entitlements?

Items like...

- *Social Security*
- *Medicare/Medicaid*
- *Welfare Payments (no cost to administer)*
- *Unemployment Compensation*
- *Retirement for Federal Employees*

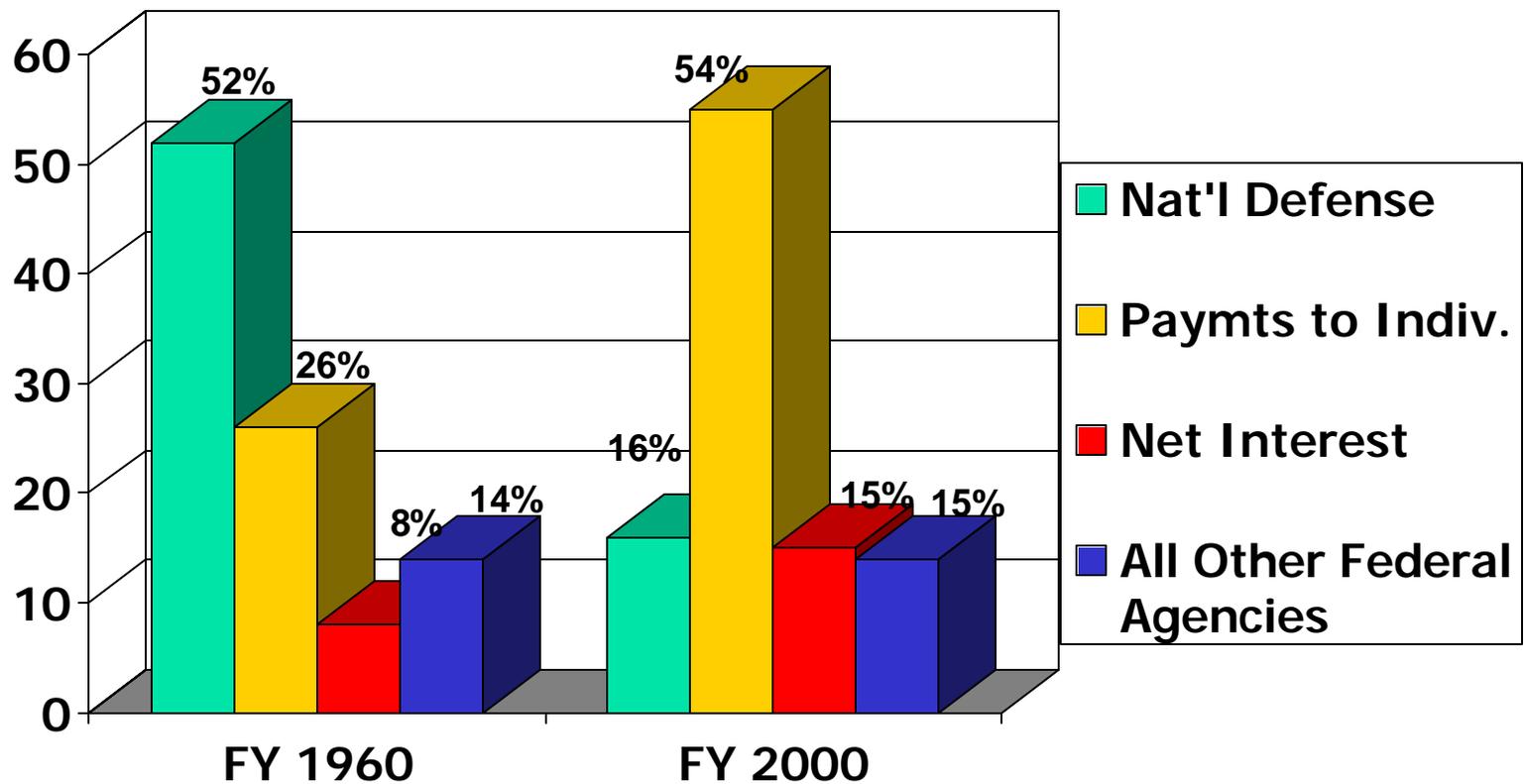


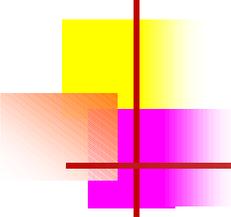
Where does \$2.0 Trillion in Taxes/Receipts Go for 2002?

■ <i>Social Security</i>	<i>\$ 452</i>
■ <i>Medicare/Medicaid Entitlements/Welfare/Veteran's Benefits</i>	<i>628</i>
■ <i>Defense</i>	<i>296</i>
■ <i>Interest on Public Debt</i>	<i>188</i>
■ <i>Other Gov't Agencies</i>	<i><u>397</u></i>
	<i>\$ 1,961</i>

Federal Budget Shares

(% of Total Government Spending)



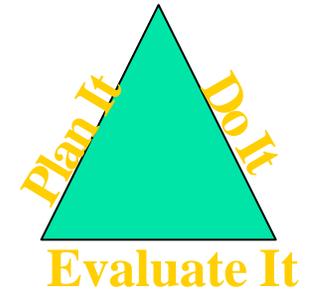


Spending for Discretionary and Entitlement Programs

(\$ in billions)

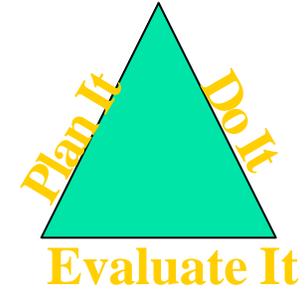
	<u>1991</u>	<u>2000</u>	<u>2004</u>
<i>ENTITLEMENTS/INTEREST</i>	\$791	\$1,193	\$1,337
<i>% of Total Spending</i>	59.7%	67.3%	68.5%
<i>DISCRETIONARY*</i>	533	579	615
<i>% of Total Spending</i>	40.3%	32.7%	31.5%
<i>TOTAL SPENDING</i>	\$1,324	\$1,772	\$1,952

THE FEDERAL BUDGET IS...



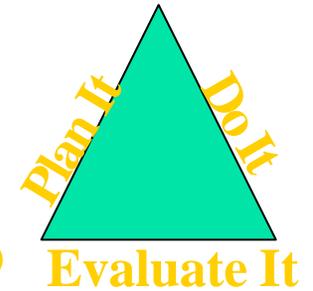
- Representation of government activities in monetary terms.
- Coordinated effort between President, Congress, Departments, and Agencies.
- Comprehensive statement of policy.
- Blueprint of projected plan over period of time.

THE FEDERAL BUDGET IS...



- Pattern for control over future operations.
- Estimate of future costs.
- Plan for allocating resources between competing demands.

MAJOR PHASES OF THE FEDERAL BUDGET PROCESS



**Before the
Fiscal Year**

**During the
Fiscal Year**

**After the
Fiscal Year**

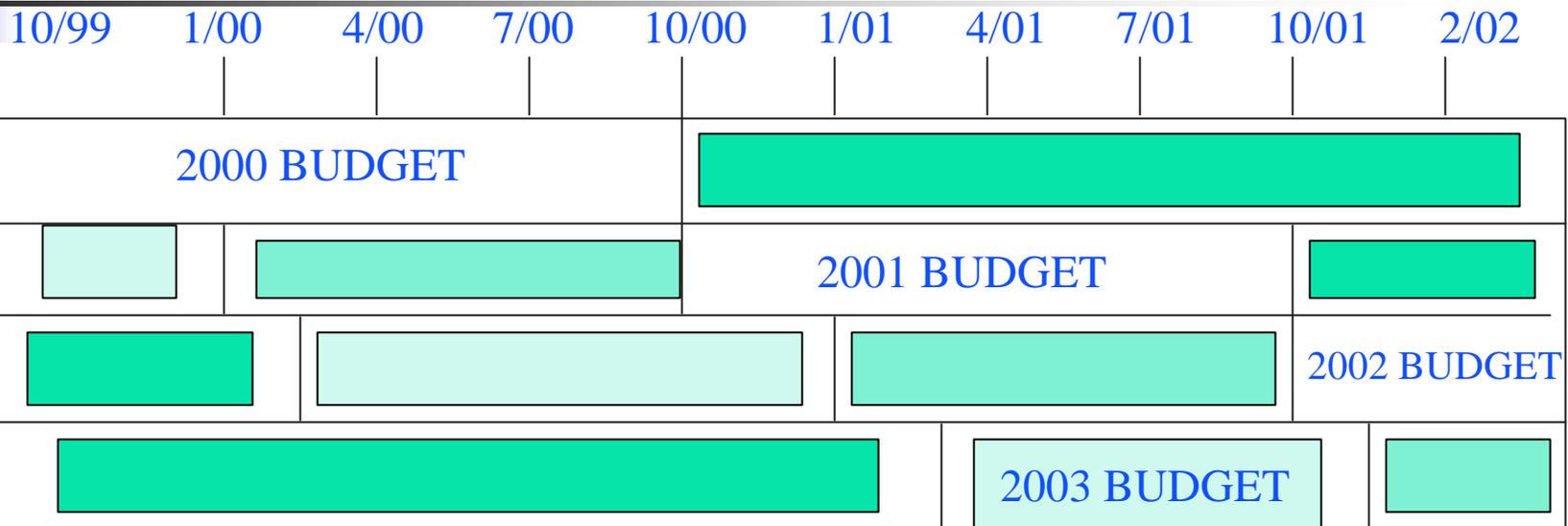
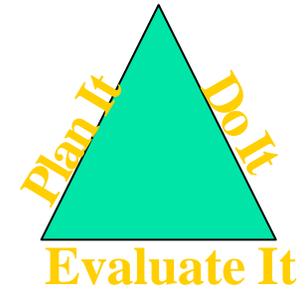
Formulate &
Plan

Management &
Operations

Review &
Evaluation

Congressional Action

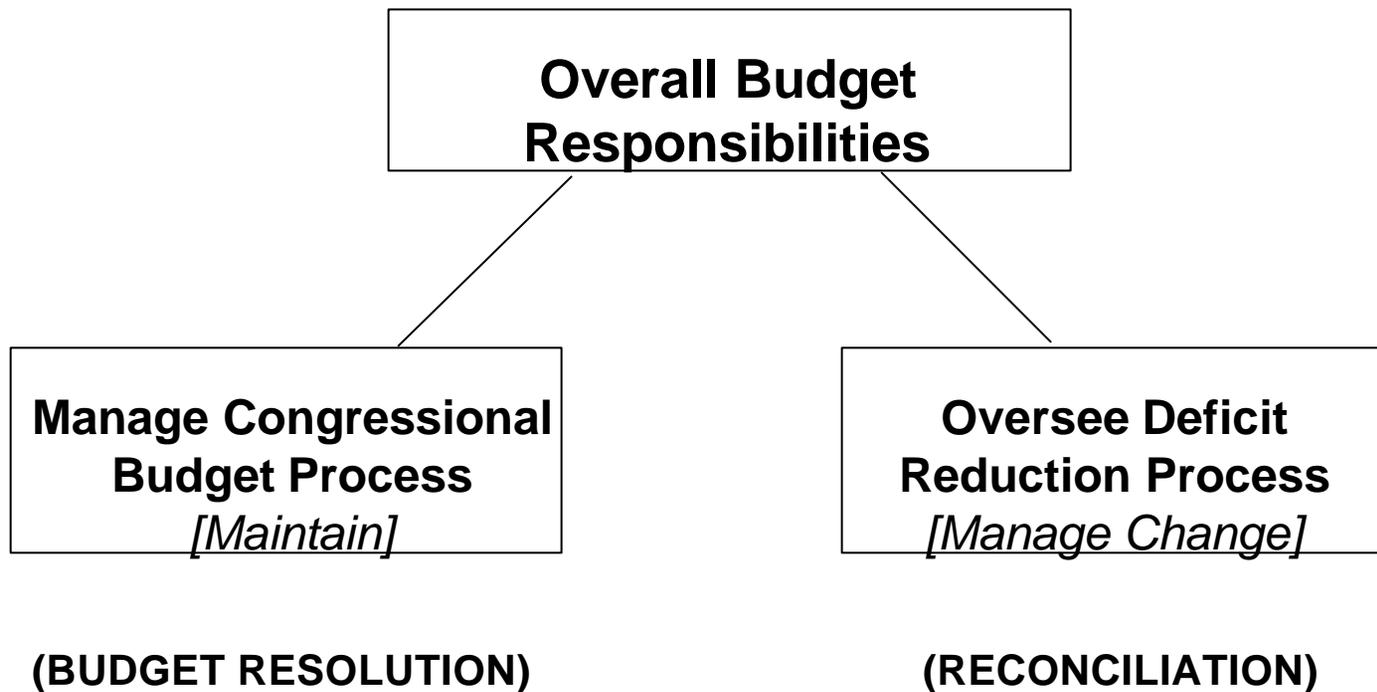
PHASES OF THE BUDGET PROCESS



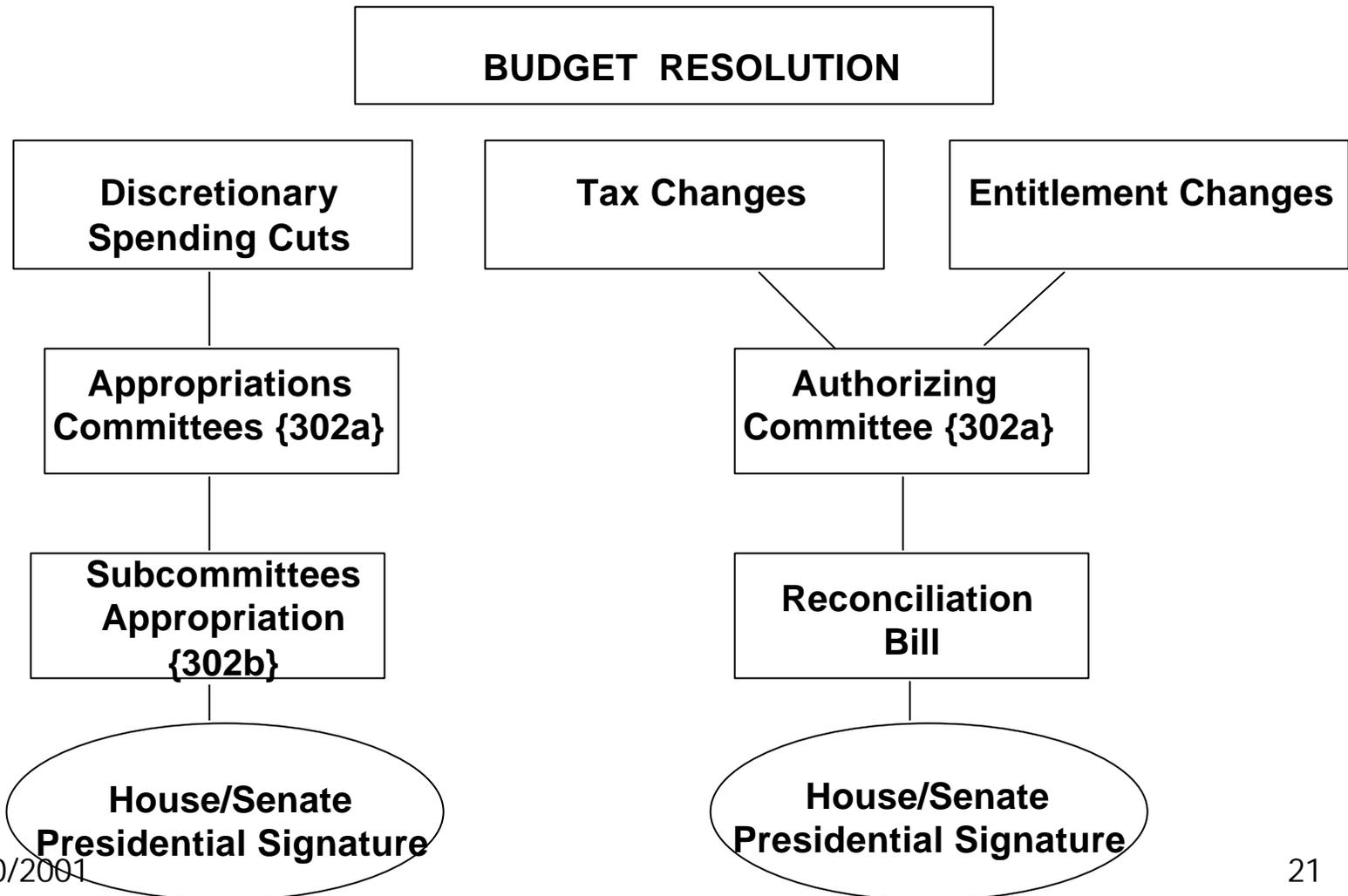
- BUDGET FORMULATION**
 - Agency Budgets Prepared
 - Dept. and OMB Review & Decide
- BUDGET EXECUTION**
 - Apportionment & Allotment of Funds
 - Deferral or Rescission Messages
 - Reports on Program/Financial Performance

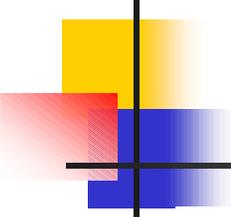
- CONGRESSIONAL ACTION**
 - President's Budget Presented to Congress
 - Agency Presentation to Appropriation Subcommittees
 - Congressional Enactment of Appropriations
 - Congressional Budget Direction for Federal Spending
- AUDIT AND REVIEW**
 - Agency Evaluation of Programs and Finances
 - GAO Conducts Audits; Prepares Reports

BUDGET PROCESS in Congress . . .



BUDGET PROCESS IN Congress . . . ?





Current Federal Budget Decision Framework (1990/1993/1997)

Total Budget = \$1.8 Trillion

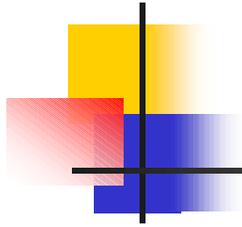
SPENDING MANAGEMENT

- o Statutorily defined in law, adjusted for:
 - Disaster Spending
 - Inflation Impacts
 - Special 1990 Rules (*Expired*)
- o Non-entitlement spending for all Federal agencies
- o \$560 billion in 2000 Outlay Authority

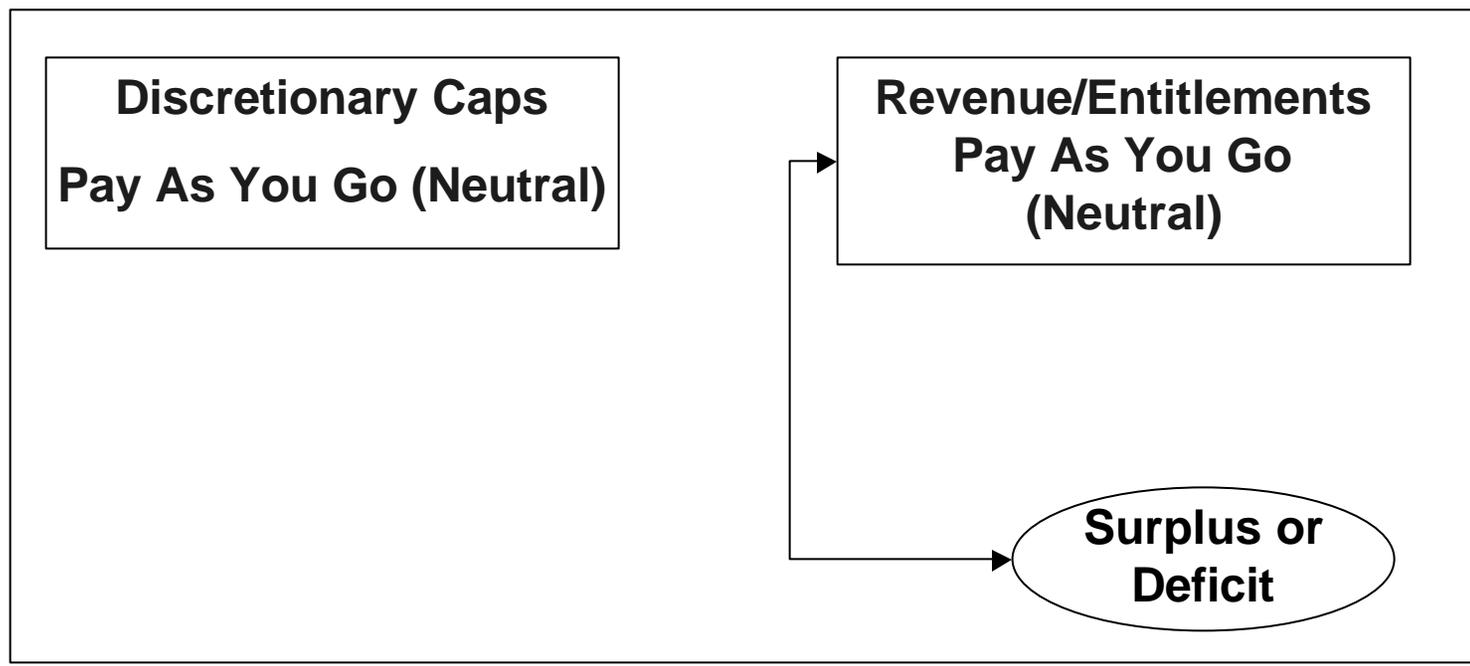
REVENUE & ENTITLEMENTS MANAGEMENT

- o Legislation/Executive actions must be revenue neutral (pay-as-you-go)
- o Legislation/Executive actions must be revenue neutral
- o Economic impacts across economy automatic
- o Demographic adjustments (age, economic status, etc) automatic

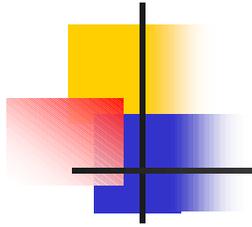
Federal Budget Decision Framework



OBJECTIVE
*Protect Tax and Revenue
Baseline*

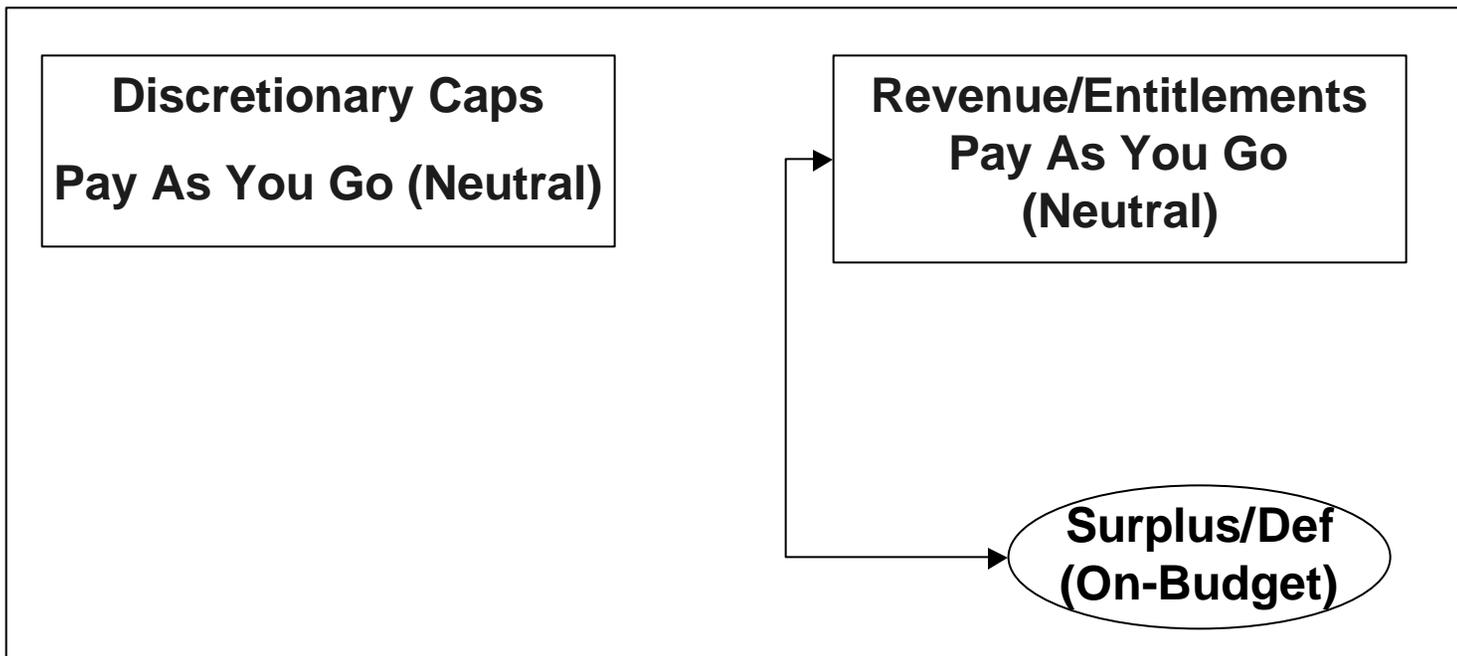


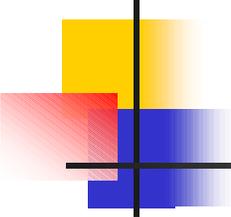
Federal Budget Decision Framework



OBJECTIVE
*Protecting the balance of
Social Security Trust Fund
exclusively*

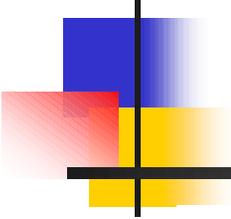
~~**OBJECTIVE**
*Protect Tax and Revenue
Baseline*~~



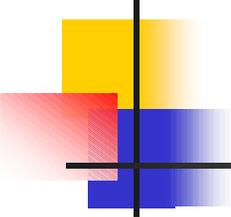


Bottom Line: Current Process in Congress . . .

- *Not a deficit reduction process, but it managed the deficit*
- *Discretionary spending managed by monitoring of "Cap" Limitations*
- *Taxes & Entitlements managed thru "Pay As You Go" Rules*

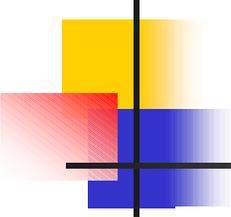


Roles and Expectations



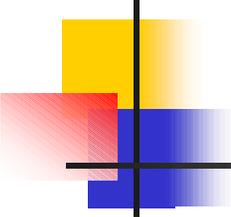
Budget Roles . . .

- Lots of opportunities & challenges
- One of managing budget alongside elaborate decision maze
- No process ever the same . . . No contact or decision yield same result when repeated
- Job of Managing Resources is never-ending



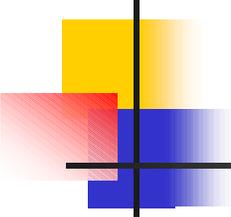
Budget Roles . . .

- Any connection to the Budget Process requires us to:
 - *Facilitate*
 - *Negotiate (Sometimes Compromise)*
- Also requires us to:
 - *Get to know programs*
 - *Engage and Know Agency's Policies & Priorities*
 - *Analyze Data for trends & concerns*
 - *Ensure consistency w/approved Policy/Priorities*



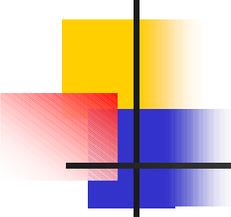
Budget Roles . . .

- Performance/Results now major piece of budgeting . . . Brings together:
 - *Manager*
 - *Worker*
 - *Stakeholder*
- Has begun to fundamentally change focus on Federal Management & Accountability



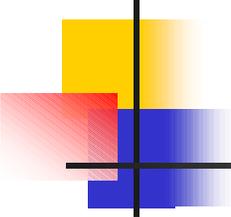
Budget Roles . . .

- Decision-makers rely on us to inform them of stakeholder concerns
- We try to empower ourselves as much as possible . . . *Makes those above more effective*



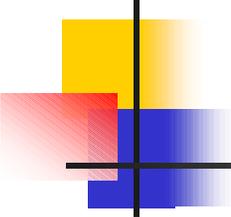
Budget Roles . . .

- Staying Current on all issues is most important . . . *Today's complexities make that a challenge*
- Roles Extend to:
 - Articulating Policy and Establishing Communication Links
 - Knowing when to Engage officials so they can be effective in timely manner w/ expertise & influence



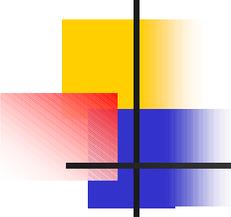
Budget Roles . . .

- Roles (cont'd)
 - Managing Communication for who are not familiar w/ broader perspectives of budget game
 - You become the lightening road on the effort to maintain a unified voice
 - Knowing when to engage and when to back off is important part of job



Budget Professional . . .

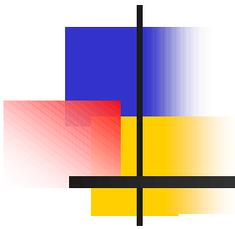
- Our jobs involve:
 - *Weighing decisions*
 - *Seizing opportunities when they come*
- Our expertise can make the difference between:
 - *Saying no, or*
 - *Finding creative ways to show others that the normally complex process can work for them*

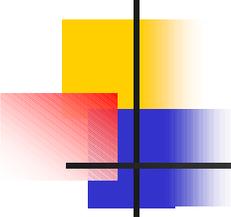


Budget Roles . . .

- All funding is resolved as part of a legislative agenda
- Success is dependent on your partnership with those who develop and work that agenda

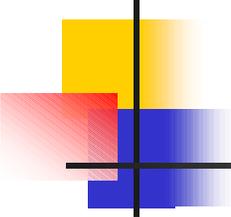
Linking Budget to Performance: The Performance Logic Model





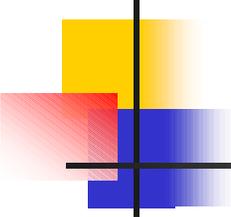
Opening Remarks: A Perspective

- Performance management is the future
- Budget is the engine of performance management
- Executives are increasingly engaged
- Executives not experienced in subtleties of budget/performance management
- Staff support/advise inadequate
- Oversight doesn't know how to use performance management in decision-making



Performance Management

- Dominant management tool of the organization – the prism through which all major issues are viewed
- Integrated processes
 - Strategic Planning
 - Strategic budgeting
 - Program Planning
 - Internal Resource Allocation
 - Performance Monitoring
 - Program Evaluation
- Reflects the critical thinking of all agency components



Performance Management Maturity Model

Level 5

Maturity

Level 4

Sustainment

Level 3

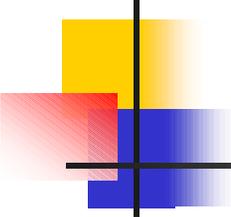
Critical mass

Level 2

Constructive engagement

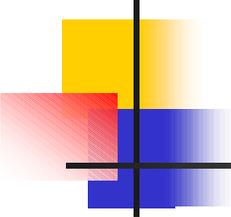
Level 1

Going through motions



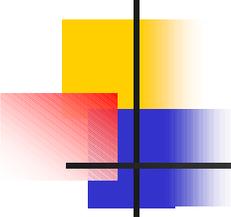
Operations Drive Everything





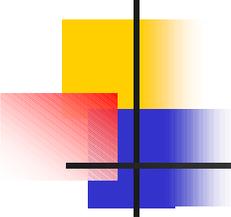
Resource Strategy

- **Provides strategic rationale for resource utilization**
- **Prioritized movement over time**
- **Identifies organizational resource vulnerability**
- **Presents alternate courses of action**
- **Forms the parameter for the Strategic Planning Process**



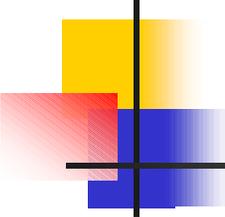
Resource Strategy: Requirements

- **Historical assessment**
- **Identification of essential funding requirements**
- **Identification of logical spending categories**
- **Identification of “acceptable limits”**



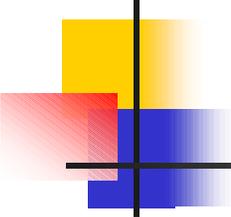
Requirements, continued

- **Development of full range of options; personnel, systems, space, contracts, equipment – all should be assessed against priority spending categories**
- **Clear linkage of resources to outcomes, not activities**
- **Decision and sustained commitment from management**
- **Priority on Strategic Planning Agenda**



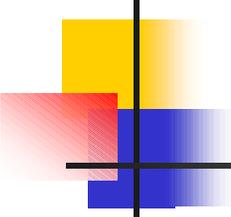
Elements of Resource Strategy

- 1) Identify strategic imperatives**
- 2) Prioritize, fence spending based on results-oriented criteria**
- 3) Determine optimal levels of funding**
- 4) Identify alternative strategies; eliminate the use of the term -- “mandatory”**
- 5) Determine “movement over time”**



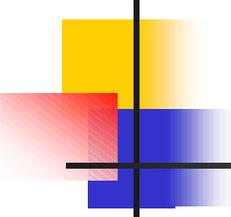
Resource Strategy: Benefits

- **Provides long-view for agency financial managers**
- **Provides agency managers with difficult, but real choices**
- **“Grounds” strategic planning exercises**



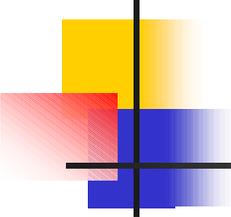
Benefits, continued

- **Facilitates organizational reengineering**
- **Provides better understanding to stakeholders, customers, and employees**



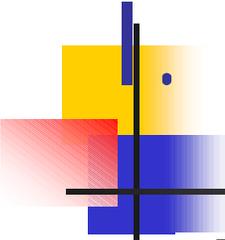
Bottom Line: “Pay As You Go”
Manages Taxes & Entitlements

*Prevented Legislated
Increases in Entitlement Spending*
AND
Prevented Losses in Revenues Gains



Planning/Performance Measurement Relationship

Planning Elements	Performance Measurement	Definition
Strategic Direction	Impact	Long-term focus, anticipated change
Strategic Goals	Outcomes	Direct Consequences
Operational Strategies	Outputs	Completed work
Management Strategies	Activities	Internal Priorities
Resources	Inputs	Critical requirements

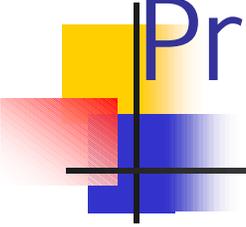


1. Performance Logic Model

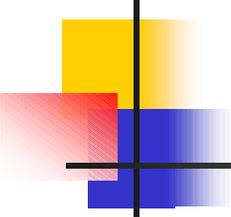
- Relates all performance measures to program priorities
- Specifically relates key planning elements to performance measurement levels
- Provides for clear and consistent thinking
- Provides vehicle for program management and oversight

Major benefit of strategic thinking is taking time to THINK about your mission!

Logic Models for Operational Programs



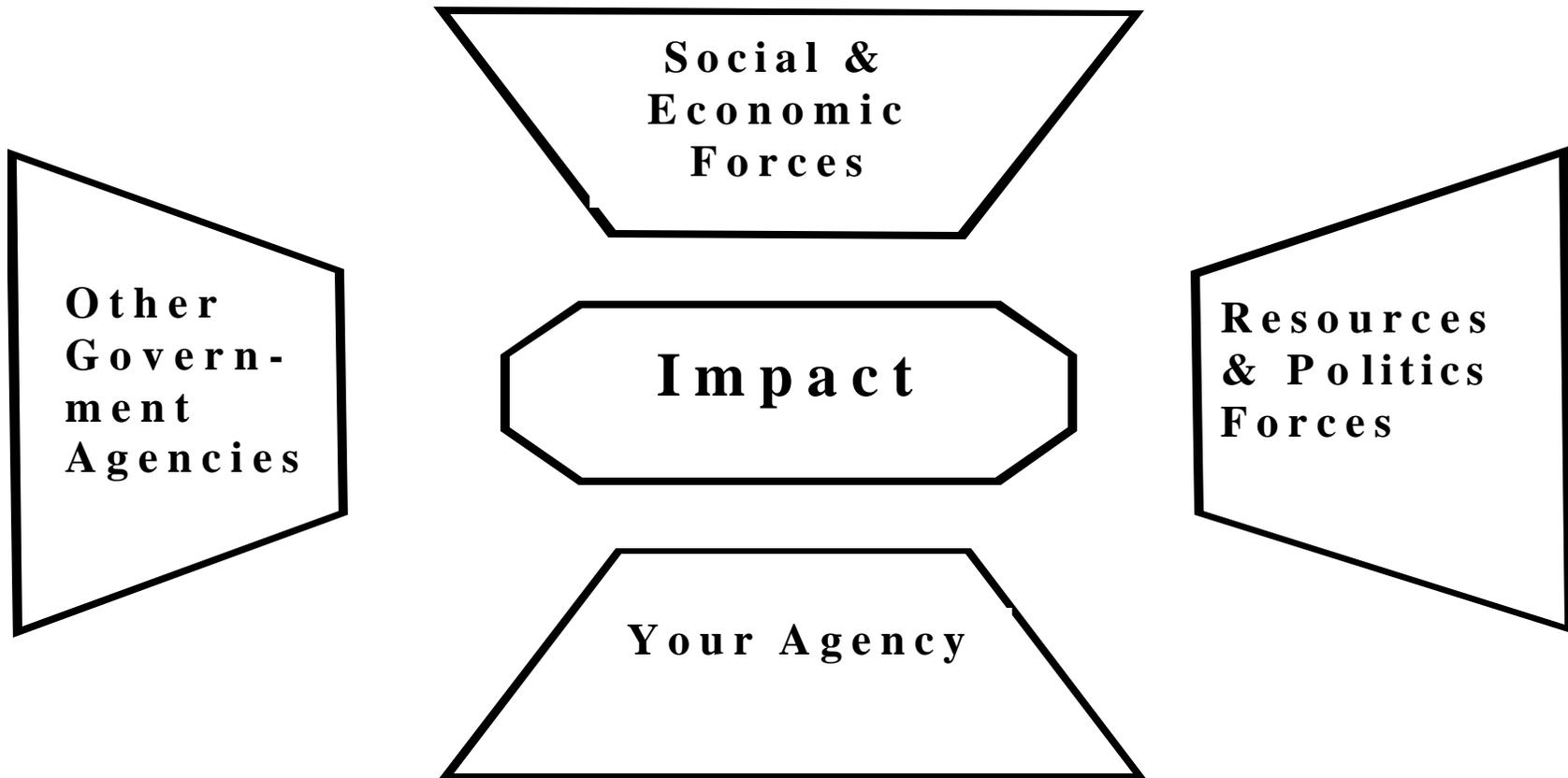
- Situational Assessment
- Strategic Direction/Vision
- Strategic Goals/Anticipated Outcomes
- Strategy
- Critical Success Factors
 - operational programs support programs
- Priority Activities
- Resource Issues
- ***Strategic Performance Measures***

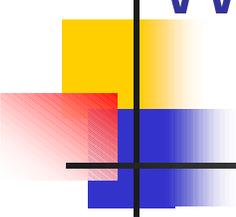


Logic Model for Support Programs

- Operational Priorities/Assumptions
- Strategic Objectives
- Strategy
- Critical Success Factors
- Priority Activities
- Resource Issues
- ***Strategic Performance Measures***

Impact: Contributing Factors





What Is Being Measured?

- Activities
 - number of files reviewed
- Outputs
 - number of reports issued
- Outcomes
 - number of jobs created
- Impact
 - number of lives saved

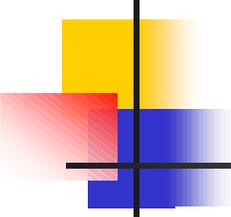


What Isn't Being Measured

The extent to which...

...program outputs are causing program outcomes that are associated with program impact

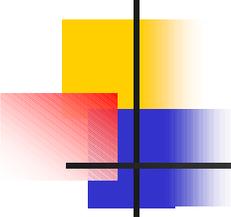
The Logic Model addresses causality or association



Level of Certainty

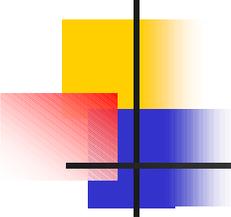
Imprecise measures of the right thing are of more value to the organization than precise measurement of irrelevant activities.

Measure	Level of Certainty
Activity	Reliable
Output	Reliable
Outcome	Arguably Valid
Impact	Plausible



Managing Logic Model

- Develop performance theory
- Identify key linkages among activities, outputs, and outcomes
- Project the impact of each level on performance
- Set achievable targets
- Periodic assessment, corrective action



Strategic Activities

Performance Target

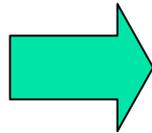
Activity 1/level of performance

Activity 2/level of performance

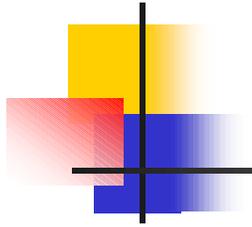
Activity 3/level of performance

Activity 4/level of performance

What must
happen to
achieve the
target

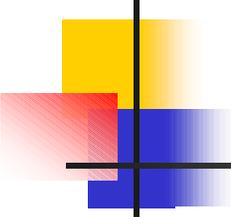






Uses

- Operational/Field Offices
- Program Manager
- Budget Office
- Department Oversight
- OMB
- Congress



Carl L. Moravitz

- M.S. in Economics from Virginia Tech
- Departmental Budget Director, Treasury
- Over 25 Years of Budget Experience – *Budget & Policy Leader at Both Agency & Departmental Levels*
- Visiting Professor, Virginia Tech & Central Michigan – *Budget Planning, Operations, & Federal Policy Landscape*
- Specialized Experience in: *Congressional Budgeting, Appropriations Law, “Scorekeeping,” Financial Mgmt*
- Knowledge of Funding Challenges in Broader Context of Gov’t-wide Budget Stewardship