What is Budgeting?
- A budget is a plan for future spending that is built on certain income expectations
  - Implies a balance between revenues and expenditures
  - Requires a decision-making process to determine how resources should be allocated
  - Reflects choices about what government will and will not do
  - It allocates resources and implies a choice between potential expenditures - In other words it implies that there are priorities

Differences Between Budgeting in the Public and Private Sector
- Aims of national, state, and local governments are so diverse that there are continual conflicts over the use of limited funds
- Because of unforeseen conditions in society, government must adjust to sharp changes in spending and revenue
- By law government budgeting and spending must be an open process with key decisions made in the public arena
- Public money choices are subject to constraints imposed by law and political conditions outside of government
- Despite the tensions this can cause, like private enterprise, government tries to seek stability, control, and efficiency to give citizens the most service for their tax dollar

Functions/Purposes of a Budget
- Policy document that states what government will do and how resources will be allocated to those purposes. It also prioritizes resources among competing needs
- Raise revenues through taxes
- Stabilize economy through fiscal policy
- Hold agencies accountable for the efficient use of resources
- Control expenditures
- Mechanism to transfer funds among levels of government
- Mechanism for achieving social and economic goals
- Leverage and pressure agencies to manage programs in a prescribed way

Types of Budgets
- Line item
  - Simply lists the specific items that will be bought or spent
- Performance budget
  - Organized according to the objectives of each agency and the expenditures necessary to achieve them. They let managers and legislators to evaluate the efficiency of operations which line items do not
  - Lets officials learn how much each function costs overall
Program budget
- Often used to supplement the first two forms of budgets
- Organizes spending by broad purposes that the government serves, regardless of which agency spends the money

Current expenditure
- Covers all items to be funded during the current fiscal year: salaries, materials, and services necessary for the ongoing activities
- Typically required to be balanced year to year at the state and local level

Capital budgets
- Used widely in state and local governments
- Projects the cost of acquiring buildings, land, roads, and equipment that will have a life-span of more than 1 year
- Some financed with current revenue other is financed with long-term bonds

4 Phases of the Federal Budget Cycle

Formulation
- Start in spring 1990 for FY 1992. Federal fiscal year (FY) is named for the year in which it ends. The federal fiscal year begins October 1
- OMB initiates the process by preparing economic assumptions and forecasts. September - December period there is intense negotiation to establish spending ceilings
- Agencies naturally try and get as much money as they can or employ tactics such as cutting a favorite program

Legislative Review
- President presents his budget to Congress in mid-January or early February along with the budget message summarizing and justifying those figures
- Congress must pass a budget resolution which sets an overall spending limit (Usually by April 15)
- Congress then authorizes the expenditure of funds and pass 13 appropriations bills with the amount that will be spent (usually by June 30, but no later than October 1 the new fiscal year)
- Congress must also raise the debt ceiling to allow the government to borrow more money
- Congress may use its own forecasts in making revenue and expenditure projections (Congressional Budget Office)

Budget Execution
- Federal FY begins October 1, many states start on July 1

Auditing
- Ensure that obligations and outlays are in accordance with accounts

Key Terms/Concepts in Budgeting
- Decision-making process tends to be incremental
  - Accepts the current years spending level as a base which is not questioned unless there is a major failing in a program or a major change in circumstances
- Since you are attempting to control a future year’s spending, budgeting requires accurate forecasting
  - Forecasting the demand for spending and services, demand for servicing debt
The budgeting process is shared between executive and legislative branches of government which creates a strong political dynamic within the process.

Trust funds are separate accounts from a government's general fund (off budget)
- Example: Social Security

Line item veto
- The power of the president or a governor to delete or reduce specific spending items

Auditing
- Once money has been spent an audit determines what was spent for various purposes and whether these expenditures conformed to the law
- Financial audits determine whether financial records are complete and accurate and funds were spent appropriately
- Management audits inquire about the efficiency of expenditures (e.g., duplication of programs, inappropriate use of equipment, etc.)
- Program audits determine whether the broad objectives of a program are being met
- Performance audits are the most demanding of all. They are directed at most or all of the operations of an agency or department

Politics of Budgetary Process
- Legislature proposes to reduce the agency’s base
  - Propose a study
  - Propose to cut popular programs
  - Point out dire consequences of cut
  - All or nothing - Argue proposed cut destroys program
  - You pick - The agency is unable to choose
  - We are the experts - Argue the cutters don’t know impacts

Agency seeks to continue or augment the operations of an existing program
- Round up estimates to create slack resources
- Chrome it - appearance is reality
- Sprinkling - Lightly increase budget items
- Numbers game - Focus on outputs or program to direct attention away from spending request
- Backlog - Need the funds to get rid of the backlog

Agency seeks to get appropriations for a new program
- Repackage old program - Disguise old program as new program
- Foot in the door - Start small and grow overtime
- Pays for itself - Once started up program will pay for itself
- Spend and save - Expenditures will reduce costs in the future
- Crisis (emergency appropriations/supplemental budget requests)
- Mislabeling - Fold new program in with attractive program
- Blame it on others - Pick up the responsibility of other programs
- They made us do it - Say it is required by a mandate
- Match competition - Others are doing it, so should we
- Its so small - Not worth reviewing Variation on foot in the door)
Revenue Sources
- Personal income taxes
- Corporate income taxes
- Property taxes
- Estate, inheritance, and gift taxes
- Sales tax
- User charges
- Lottery and gambling revenues/Sin taxes (alcohol and tobacco
  - Pros
    - Big $
    - Easy to collect
    - Popular
  - Cons
    - Profit from others “sins”
    - Regressive
    - Could hit industries hard

Types of Taxes
- Regressive tax
  - Ratio of payments to income declines as incomes rise
  - More you earn, the lower the percentage of your income you pay in the tax
  - Examples: Sales tax, gasoline tax, sin taxes
- Progressive tax
  - Ratio of payments to income increases as incomes rise
  - Examples: Income tax, estate, inheritance, and gift taxes

Equity
- Horizontal equity
  - Treat people in similar economic circumstances equally
- Vertical equity
  - Treat different people, unequally
  - Taxes distributed in relation to their ability to pay