ADVANCE BUDGETING: A REPORT TO THE CONGRESS

A Compilation of Technical Background Papers

March 1977

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C.

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PREFACE

On February 24, 1977, the Congressional Budget Office sent to the Congress its formal report required by Section 502(c) of the Congressional Budget Act of 1974. Four technical papers were prepared in the course of developing the final report. These papers are here printed to support the analysis and conclusions presented in Advance Budgeting: A Report to the Congress.

Alice M. Rivlin
Director

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INTRODUCTION

Section 502(c) of the Congressional Budget Act of 1974 required the Director of the Congressional Budget Office to study, reach conclusions, and make recommendations on the feasibility and advisability of advancing all budget decisions, or some of them, so that instead of making them just before the start of a fiscal year, they would be made at least 12 months earlier.

On February 24, 1977, CBO sent to the Congress its formal report in which it recommended:

- That the two Budget Committees formulate and the Congress adopt a plan for stating and voting on advance budget targets, with the eventual goal of annually adopting targets for the budget year and the four following years;

- That the Appropriations Committees evaluate present federal programs for funding state and local activities, using criteria stated in the report, to determine whether any not now funded a year or more in advance should be so funded;

- That the Congress consider (a) fashioning a rule for completing reauthorization action of federal-state-local programs a year before expiration of the authorization, and (b) extending the practice of fixing firm statutory deadlines for federal agency action on submitted state and local applications; and

- That the Appropriations Committees establish standards acceptable to themselves for the identification of programs amenable to a two-year appropriations cycle, and assign to a legislative agency, in conjunction with the Office of Management and Budget, the task of preparing a list of programs so amenable, and a plan for shifting them to two-year appropriations, to be submitted to the Congress for its consideration.

CBO's approach to the study of the advisability and feasibility of advance budgeting was shaped by the language of section 502(c) and by its legislative history. The language separates advance budgeting into two actions: "submitting the Budget or portions thereof" one year early, and "enacting new budget authority or portions thereof" one year early. This separation mirrors two concerns expressed during the hearings on the Congressional Budget Act:

(1) a concern that the Congress could effect major shifts in priorities only by planning further into the future; and

(2) a concern that annual appropriations introduce uncertainty and constraints into the operation of government, especially into grant programs for state and local governments. These constraints and uncertainties are alleged to have caused decreased program effectiveness.

Four questions defining the principal avenues of CBO's inquiry into advance budgeting arose out of these concerns.

First, <u>what procedures would permit Congress to undertake a longer-range perspective on the budget, in both its targeting and spending aspects</u>? Obviously, a study of the feasibility of advance budgeting needed to consider the new procedural mechanisms and how they fit into the existing Congressional processes.

discusses the effects that the adoption of advance budget targets and advance appropriations would have on the schedule of the federal budget process.

The second paper, Budget Control and Fiscal Policy, describes how fiscal policy is usually assumed to affect the economy. It then relates this conventional view of fiscal policy to several different notions of budget control.

The third paper, A History of the Use of Advance Appropriations, chronicles the use of advance appropriations since 1962, when they were first granted for federal airport aid construction. In addition to advance appropriations for airport aid and other construction programs, the paper surveys the experiences with advance appropriations for education aid programs and for the Corporation for Public Broadcasting.

The final paper, The Effects of Advanced Federal Budgeting upon State and Local Program Delivery, was prepared for CBO by Peat, Marwick, Mitchell & Co. Due to the lack of readily available data on the relationship of the timing of federal grants and program effectiveness, CBO contracted for this study and formed a review panel of state and local officials to advise it during the course of the study. The report focuses on the difficulties experienced by program administrators in the recent past with federal grant programs and reflects their informed opinions of the possible advantages and disadvantages of advance budgeting procedures for grant programs.

Second, what would be the constraints on such new procedures due to the requirements or demands of fiscal policy? In addition to its role in resource allocation and priority-setting, the federal budget has a fiscal policy role: to stabilize the economy and provide for balanced growth. Contemplating changes to improve the allocative efficiency of the budget required that the impacts of such changes on its fiscal policy role also be considered.

Third, in what instances in the past have advance appropriations -- the most commonly considered advance budgeting procedure -- been used? Before considering the advisability and feasibility of advance appropriations, as directed by section 502(c), it was useful to know what past experience with this procedure had been.

Finally, what would be the effects of the adoption of advance budgeting procedures on the operation of grants to state and local governments? A principal concern motivating the study requirement was that state and local governments are being hampered in their administration of federally aided programs by uncertainties and delays in federal funding. It seemed appropriate to attempt to assess the extent to which this is true, and the effects advance budgeting procedures may have on ameliorating the situation.

To answer these questions CBO staff undertook development of various background papers. Four of these papers are printed in this volume to support the analysis and conclusions set forth in CBO's formal report under Section 502(c), Advance Budgeting: A Report to the Congress. Three of these papers were prepared internally by CBO staff; one was contracted with a private accounting-consulting firm.

The first paper, The Impact of Advance Budgeting Procedures on the Scheduling of the Budget Process,

THE IMPACT OF ADVANCE BUDGETING PROCEDURES ON THE SCHEDULING OF THE BUDGET PROCESS

MARCH 1977

The Congress of the United States
Congressional Budget Office
Washington, D.C.

PREFACE

This paper discusses the effects that the adoption of advance budgeting procedures would have on the schedule of the federal budget process. The first chapter presents a brief description of the current budget process. The second and third chapters discuss the changes to that schedule that would result from the adoption of advance targeting and advance spending procedures, respectively. The discussion in all three chapters is presented in terms of the fiscal year 1979 budget cycle to permit the construction of an agenda of actions the Congress and the President would have to take in the near future (and should have taken in the recent past) to implement a form of advance budgeting for fiscal year 1979.

This paper was prepared by John D. Shillingburg of CBO's Budget Process Unit, under the supervision of Richard P. Emery, Jr. and Robert D. Harris. Susan L. Bailey and Nancy E. Wenzel typed the various drafts. Patricia H. Johnston and Katharine T. Bateman provided editorial assistance.

Alice M. Rivlin
Director

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For the purposes of this paper, the federal budget process is divided into four parts: preparation of the President's Budget by the Office of Management and Budget (OMB), determination of targets and ceilings in the concurrent resolutions on the budget, authorization of programs in authorization acts, and appropriation of funds by the Congress. Congressional action on the federal budget for a fiscal year represents the summation of Congressional target-setting, authorizing, and appropriating decisions. Most decisions about the size and allocation of the federal budget for a fiscal year are made in a 17-month period, from May 1977 until September 1978 for fiscal year 1979. Figure 1 (attached to the inside back cover of this volume) displays the typical sequence of events for the federal budget process.

PREPARATION OF THE PRESIDENT'S BUDGET BY OMB

Figure 1 shows the approximate calendar of activities in the preparation of the President's budget for a fiscal year. The Office of Management and Budget begins its preparation of the fiscal year 1979 Budget in May 1977, 17 months before the beginning of the fiscal year. Not shown in Figure 1, however, is the preliminary planning for each budget done by OMB during the preparation of earlier budgets. First projections of the size of the fiscal year 1979 budget were made in 1973 as part of the five-year projections accompanying the fiscal year 1975 budget; these were reestimated each year thereafter as part of the planning for the fiscal years 1976-1978 budgets. (Similarly, the fiscal year 1979 budget will contain projections for fiscal years 1980-1983). Nor does Figure 1 show any preliminary planning by agency budget offices in anticipation of the formal instructions by OMB. This planning may begin as early as the previous November or December (1976 in this instance).

Decision-making on the President's fiscal year 1979 budget is essentially completed in January 1978 when the budget is submitted to the Congress. The estimates contained in the January budget are updated, however, in April and July of each year to reflect changed economic assumptions and revised legislative proposals. Also, after the beginning of fiscal year 1979 (on October 1, 1978) the President will be sending proposals to the Congress for supplemental appropriations and rescissions or deferrals of budget authority for fiscal year 1979.

The January budget each year has been the traditional vehicle used by Presidents to transmit to the Congress both basic budgetary data and policy recommendations for the next fiscal year. Certain data are required to be included in the budget by the Budget and Accounting Act of 1921, as amended. The President is free, however, in this budget message to set out a program for the nation. The Congressional Budget Act of 1974 has created two additional Presidential budget transmissions: the Current Services Estimates and the section 607 year-ahead requests for authorizations of new budget authority. As shown in Figure 1, both of these messages are in addition to the President's January budget, its subsequent reestimates, and amendments. Preparation of the Current Services Estimates and the section 607 requests have been "layered" onto the present budget preparation cycle.

The nature of the Current Services Estimates and section 607 requests so far has been that of basic data transmission to the Congress. The Current Services Estimates are certainly viewed in that light as the Introduction to the 1977 Estimates noted:

> The current services estimates are neither recommended amounts not estimates as to what the figures for 1977 will actually turn out to be. They are designed to provide a neutral base from which various alternatives may be judged. 1/

OMB has issued detailed instructions to the agencies, establishing timetables for submission of legislative proposals in time to meet the May 15 deadline imposed in section 607. 2/ Instead of a single message listing proposed reauthorizations, OMB has sent draft bills to Congress for introduction and referral to the appropriate committees. OMB made substantial efforts to comply for the first time in May, 1976; it estimates that 90 percent of the requested reauthorizations for fiscal year 1978 were transmitted to the Congress in draft bill form by May 15. Three classes of reauthorizations, however, were not requested by the May 15 deadline:

- Announcement of new initiatives which the President wants timed with the release of the January budget;
- A small number of programs authorized through fiscal year 1977 for which the President requested no fiscal

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1/ OMB, Current Services Estimates for Fiscal Year 1977, November 10, 1975, p. 5 (emphasis in original).

2/ OMB Bulletin No. 76-7, November 12, 1975 for the 2nd session of the 94th Congress.

year 1977 funding (making it illogical to request reauthorization for fiscal year 1978); and

- o Programs in which reauthorization involves significant unresolved issues.

In the third case OMB believes that a final decision on requests for reauthorization should not be made before the fall agency budget reviews. Generally, OMB has expressed concern that the present timing of actions for compliance with the section 607 May 15 deadline forces the President to consider decisions on requested reauthorizations for a fiscal year prior to the first budget planning for that fiscal year. Given these responses by OMB, the likely compliance with section 607 will be that only the most routine and noncontroversial reauthorizations will be included in the May 15 requests each year.

CONSIDERATION OF THE BUDGET BY THE CONGRESS

Congressional consideration of the fiscal year 1979 budget will consist of three phases. The first phase begins with the release of the President's budget in January and lasts until the adoption of the first concurrent resolution on the budget by May 15. The second phase begins after May 15 and lasts until September 15, the passage of the second required concurrent resolution on the budget. A third phase -- encompassing any necessary reconciliation process -- lasts from September 15 until the October 1 beginning of the new fiscal year.

During the first phase the target-setting, authorizing, and appropriating activities proceed more or less separately but simultaneously, with the Budget, Authorizing, and Appropriations Committees producing their respective bills and resolutions. Congress as a whole then passes the first concurrent resolution on the budget, setting the targets for the Congressional budget. In the second phase, Congress as a whole enacts the spending and authorizing bills which make up the Congressional budget. During the third phase, if needed, the Congress would reconcile its spending decisions with the ceilings set in the second required concurrent resolution.

Preparation of the Congressional Budget Targets: First Phase

The House and Senate Budget Committees are the primary forces in preparing the concurrent resolutions on the budget. In their preparation, however, the two Budget Committees interact with the other Congressional committees and the executive branch. They also rely on the following information in putting together the concurrent resolution:

- o The President's Current Services Estimates for fiscal year 1979, to be released by OMB on or about November 10, 1977;
- o The Congressional Budget Office's Five-Year Projections Report, to be released by CBO in December 1977;
- o The economic evaluation of the Current Services Estimates by the Joint Economic Committee, due December 31, 1977;
- o The President's January budget, released by OMB the 15th day after Congress convenes;
- o The Economic Report of the President;
- o Testimony of administration, Congressional, and public witnesses;
- o The views and estimates reports of the standing committees, due March 15, 1978; and
- o The CBO Annual Report, due on or before April 1, 1978.

By April 15 each budget committee reports to its house a proposed first concurrent resolution on the budget. Within one month, the two houses must pass and reconcile their versions of the concurrent resolution; the reconciled version becomes the target for the Congressional budget.

Preparation of the Appropriation Bills: First Phase

Preparation of the appropriations bills begins with overview hearings on the economy and the budget by each full committee in January, as shown in Figure 1. After that the primary work is done by the subcommittees, which first hold hearings and then mark up their individual bills. After subcommittee markups, the full committees mark up each bill. Section 307 of the Congressional Budget Act of 1974 imposes an additional requirement on the House Appropriations Committee: to the extent practicable, the Committee is to complete its markups on all its bills and prepare a summary report of its recommendations for the House just prior to reporting its first bill. Effectively this means that the House Appropriations Committee must complete all its markups around June 1. Because there is no similar provision in the Senate and because of the tradition of allowing the House to act first on spending bills, the Senate Appropriations Committee generally has an additional three to four weeks to complete its markups.

In addition to preparing the appropriations bills themselves, the Appropriations Committees must prepare for their respective budget committees their views and estimates of the budget authority which should be provided in their bills. As shown in Figure 1, deliberations by the subcommittees and then the full committees on these reports for the Budget Committees come just as the appropriations hearings have begun.

Preparation of the Authorizing Bills: First Phase

This process begins about May 15 of the year before the year in which the fiscal year begins. (For fiscal year 1979, this would be May 15, 1977.) At that time the President sends to Congress his year-ahead requests for authorizations of budget authority for a fiscal year, as required by section 607 of the Congressional Budget Act. The conferees on the Budget Act added this provision to give Congressional committees one year to deliberate on Presidential proposals for authorizations before the required reporting date of May 15 of the year in which the fiscal year begins (May 15, 1978 for fiscal year 1979) instead of only the five months that would be available if the requests for authorizations came, as before, with the President's January budget. As noted earlier, however, it is possible that the most controversial requests for reauthorizations will be delayed for release with the President's budget. Also, at the beginning of each new Congress, in contrast to the second session of a Congress, all bills must be introduced anew. Especially on those occasions when there has been significant turnover, a new Congress may be unable to benefit from work done in the last session of the previous Congress on authorizations for the fiscal year beginning that October. Thus, the effectiveness of section 607 has yet to be proven. In any case, all authorizations for the fiscal year beginning October 1 of any year must be reported by May 15 of that year.

In addition, section 301 of the Congressional Budget Act requires the authorizing committees to provide the Budget Committees by March 15 estimates of the new budget authority and resulting outlays to be authorized in all bills the committees intend to be effective during fiscal year 1979. This provision allows the authorizing committees to alert the Budget Committees to build these programs into their targets for the first concurrent resolution.

CONSIDERATION OF THE BUDGET BY THE CONGRESS: SECOND PHASE

After May 15 of each year the Congressional budget process moves into its second phase: Congress as a whole acts on the bills that make up the Congressional budget -- authorizations, appropriations, and other spending bills. During this phase the products of the individual deliberations by the Budget, Appropriations, and Authorizing Committees are the basis for Congressional action:

- o The first concurrent resolution on the budget sets the targets for Congressional action for each functional category and for the budget as a whole.
- o In the conference report on the first concurrent resolution, the Budget Committees allocate new budget authority and outlays to each committee reporting bills providing budget or spending authority. These committees in turn make allocations to their subcommittees or to major programs.
- o By May 15 the authorizing committees of each house must have reported their authorizing bills.
- o After May 15 the Appropriations Committees may bring their bills to the floor, as may those authorizing committees whose bills provide new spending authority.

As the various spending bills are considered by each house, they will be compared to the respective committee allocations in the conference report on the first resolution.

The second phase of the Congressional budget process comes to a close in September, just prior to the beginning of the new fiscal year. Congress must complete all action on its spending bills by the seventh day after Labor Day in order to pass a second required concurrent resolution on the budget by September 15. The second resolution affirms or revises the targeted levels of budget authority, outlays, revenues, and limit on the public debt set in the first concurrent resolution. Revisions would be based on new information, changed economic circumstances, and Congress' spending actions.

Congress may not adjourn sine die until it has adopted the second resolution and any subsequent reconciliation process.

A THIRD PHASE: RECONCILIATION

The second concurrent resolution may require changes in the spending and revenue decisions made by the Congress during the summer to conform to the levels of total budget authority, outlays, and revenues. The resolution may require the committees with jurisdiction over the recommended changes to determine and recommend such changes to their respective house. The changes might include rescinding or amending appropriations or other spending legislation, raising or lowering revenues, or making adjustment in the public debt limit. By September 25 Congress must complete action on any necessary reconciliation bill or resolution.

After adoption of the second resolution and any required reconciliation legislation, it is not in order in either house to consider any new spending legislation that would exceed the budget authority or outlay ceilings in the second resolution or to consider legislation that would decrease revenues below the specified resolution level. The Congress may, however, revise its most recent concurrent resolution at any time during the fiscal year. Such additional resolutions may be made necessary by supplemental appropriations or by sharp revisions in revenue or spending estimates caused by economic fluctuations or other factors. The recent Third Concurrent Resolution on the Budget for Fiscal Year 1977 is an example of such action.

THE NEW CONGRESSIONAL BUDGET PROCESS: THE EXPERIENCE OF THE FIRST FULL YEAR

So far this discussion has focused on the way in which the Congressional budget process is supposed to work. This process has just finished its first year of full implementation. What does that year's experience provide in terms of insights about the present schedule of the budget process?

First and foremost, the schedule works: the deadlines can be met and the decisions can be made. Of the 14 regular appropriations bills for fiscal year 1977, all had been approved by the Congress by September 22, 1976, with the exception of the Foreign Assistance bill which was approved September 28, 1976. By October 1, 1976, the beginning of fiscal year 1977, all 14 appropriation bills had been enacted into law, although four were not signed until October 1, and one -- Labor - HEW -- was passed over Presidential veto September 30.

Meeting the schedule, however, has caused some adjustments in the way the Congress does its business, which leads to the second major observation: the congestion of appropriations and authorizing bills that require action in the early summer creates a potentially severe problem. The short time period between the May 15 deadline for reporting all authorizing legislation and the House's full-time consideration of appropriations bills in mid-June does not permit either house to consider all the authorizing bills reported just before the deadline, prior to taking up the appropriations. In the House nearly 40 authorizing bills were reported on May 14 and 15; in the Senate Majority Leader Mike Mansfield announced on May 17 that there were 94 legislative bills on the calendar. As a result, the House was forced either to lay aside items in the appropriations bills for which authorizations were lacking, or seek rules waiving points of order against appropriations without authorizations.

A worsening of these conditions could cause a breakdown in the schedule. Asked how this problem could be avoided, Chairman George Mahon of the Committee on Appropriations in the House responded:

> I believe that the other committees of the Congress must start in January to bring those authorization bills out in a timely way. Further, I am hoping that we can begin to get authorizations a year in advance or authorizations that extend over a 2-year period so we will not get ourselves in this box. 1/

The Appropriations Committee warned the House of the need for timeliness of authorizations in its March 15, 1976, report of views and estimates to the House Budget Committee:

> Obviously, if authorizing committees wait to report legislation until the deadline of May 15, it will have a minimal impact or no impact on appropriation bill mark-ups which must be concluded by May 7. 2/

A final observation is that in addition to the workload created by the new budget process, the committees of Congress have the added and continuous task of reviewing Presidential requests for supplemental budget authority, or rescissions or deferrals of budget authority. As of January 7, 1977 (only three months into the new fiscal year), there had been four rescission proposals totalling $99.1 million and 44 deferral propsoals totalling $6.7 billion of fiscal year 1977 budget authority transmitted to the Congress. 3/ For the most part, these requests are referred to the Appropriations Committee in the House, and the Appropriations and Budget Committees in the Senate; these committees must consider them in addition to their other responsibilities. Amended and supplemental requests for budget authority also pose a substantial workload. The fiscal year 1978 budget listed 77 such requests for fiscal year 1977 that had been transmitted by the President

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1/ Remarks of Honorable George Mahon, Congressional Record (daily edition), June 17, 1976, p. H6060.

2/ House Committee on Appropriations, Views and Estimates on the Budget Proposed for Fiscal Year 1977, p. 3.

3/ Federal Register, Vol. 42, No. 9 (January 13, 1977), p. 2916.

during calendar year 1976 after submission of the fiscal year 1977 budget. 1/ These annually result in an additional six to eight supplemental appropriation bills.

1/ OMB, The Budget of the United States Government, Fiscal Year 1978 Appendix, p. 922.

Although the Congress annually struggles through the federal budget process, for any fiscal year it actually makes the controlling, legal decisions on only about one-fourth of the total budget outlays for that year ($128.6 billion for fiscal year 1978 1/). Thus, for three-fourths of the budget the relevant spending decisions were made at least twelve months, if not longer, before the beginning of the fiscal year.

By and large these advance spending decisions are for some form of backdoor spending authority -- that is, legislation enacted outside of the appropriations process that permits the obligation of funds. For example, when the Congress grants a program contract authority for several years, it is making commitments of federal resources several years into the future. 2/ Likewise, when the Congress sets up an open-ended entitlement program or a permanent appropriation, it is committing future resources, sometimes for an indefinite period. Examples of such backdoor spending decisions in the second session of the 94th Congress include:

- o contract authority granted through fiscal year 1980 in the Airport and Airway Development Act Amendments of 1976 (PL 94-353);

1/ OMB, Fiscal Year 1978 Budget Revisions, February 1977, p. 91

2/ Since March 5, 1975, the effective date of section 401(a) of the Congressional Budget Act of 1974, contract authority enacted by the Congress is effective only in amounts provided in appropriations acts. Thus, the "backdoor" has been closed on contract authority with the exception the exemptions specified

- o increases in certain veterans pensions mandated by the Veterans and Survivors Pension Adjustment Act of 1976 (PL 94-432) -- entitlement requiring subsequent appropriations;

- o extension of the revenue-sharing programs for 3 3/4 years (through fiscal year 1980) in the 1976 amendments to the State and Local Fiscal Assistance Act of 1972 (PL 94-488) -- entitlement requiring subsequent appropriations; and

- o contract authority granted through fiscal year 1978 in the Federal Aid Highway Act of 1976 (PL 94-280).

To make these individual spending decisions in the context of a total budget, the Congress should debate overall priorities before making any spending decisions. This it now does for annual appropriations and the first year of multiyear authorities in the concurrent resolutions on the budget. The one-year budget resolutions, however, are not long-term enough for adequate planning for multiyear backdoor spending authorities. To encompass those decisions in the priority-setting debates, Congress would have to move the target-setting resolutions forward in time.

The earlier that the resolutions are debated relative to the beginning of the fiscal year, the better the planning that may be done in the budget resolutions for multiyear spending authority. Targets set in advance will have to be revised each year, however, to reflect changing policies and economic conditions. Coupling the planning process with an amending process would allow the Congress to retain sufficient flexibility to meet changes in economic situation or changes in policy.

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in section 401(d), such as contract authority provided from trust funds 90 percent or more self-financed. The contract authority examples cited in this paragraph both fall within this exemption, contained in section 401(d)(1)(B).

The mechanism for setting multiyear budget targets, revising them, and extending them forward in time each year may be called rolling or advance targeting. Setting targets for one fiscal year beyond the budget year constitutes rolling two-year targets; most proponents of the advance targets concept argue for cycles longer than two years -- three, four, or five years, or even longer.

PROCEDURES FOR ADVANCE TARGETING ALREADY IN PLACE

Much of the procedural framework for advance targeting is already in place. All that is required is a decision to use it for that purpose.

Outyear Projections

The new Congressional budget process already provides for outyear projections. Section 603 of the Congressional Budget Act of 1974 amended the Budget and Accounting Act of 1921 to require the President to submit in his budget projections for the four fiscal years beyond the budget year under consideration. Similarly, section 301(d)(6) of the 1974 act requires the Budget Committees to include projections for five fiscal years in their reports on each year's first concurrent resolution. Finally, section 308(c) requires the Congressional Budget Office to project budget totals for five fiscal years as soon as practicable after the beginning of each fiscal year.

These projections are not intended to be statements of future policy or budgetary decisions, as can be seen by the way they are qualified by OMB, the Budget Committees, and CBO. Each emphasizes that the projections are neither forecasts nor recommendations, but are simply illustrations of what the budgetary situation would be, given certain economic assumptions and no changes in spending or revenue policies. 1/ These projections are not recommendations of the President; nor are they decisions by the Congress. Thus, they do not represent decisions about future directions for the federal budget. Longer-term budget targets would, however, require such policy decisions; they would be attempts to direct budget priorities.

Informal Targets

During deliberations on the fiscal year 1977 budget Chairman Brock Adams of the House Budget Committee provided a good example of a multiyear targeted budget and the role it could play in the decision-making process. In a speech on the floor of the House of Representatives February 18, 1976, Adams unveiled a proposal to achieve full employment, reasonable price stability, restrain uncontrolled growth in federal spending, and produce funds for new initiatives during the five fiscal years 1977-1981. Adams said that such a multiyear approach was needed because the built-in commitments of existing programs make it difficult to change basic federal policy in one year. Without the multiyear approach, the chances of shifting budget priorities sufficiently to release funds for new initiatives is very slim.

Adams offered his proposals to stimulate debate on longer-range budget priorities. Throughout his speech he reiterated this theme:

> As we face decisions on the budget for fiscal year 1977, it is clear

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1/ See OMB, *The Budget of the United States Government, Fiscal Year 1977*, p. 27; House Committee on the Budget, *First Concurrent Resolution on the Budget -- Fiscal Year 1977*, Report No. 94-1030 to accompany H. Con. Res. 611, p. 92; Congressional Budget Office, *Five-Year Budget Projections: Fiscal Years 1978-1982*, p. 1.

> that we can easily make these decisions without thinking ahead.... We can continue to make commitments to automatic cost escalations in the future years without knowing whether and how these commitments can be fulfilled....
>
> I want us to avoid such a piecemeal decision-making process.... It is time that Congress recognize that planning can, and usually does, result in better decisions. Just as we can no longer separate decisions on one function from those on another, we cannot separate decisions on this year's spending from next year's. 1/

In his final budget, President Ford also recognized the necessity of focusing further ahead. In most tables in the fiscal year 1978 budget, fiscal year 1979 estimates are given also. Furthermore, "these 1979 figures reflect, insofaras practicable, not only the 1979 effects of the 1978 budget, but anticipated 1979 initiatives as well." 2/

It is CBO's understanding that both Budget Committees plan to adopt a five-year context for committee markups of the First Concurrent Resolutions on the Budget for Fiscal Year 1978. These five-year markup figures, reflecting as they do the policy directions incorporated in the target-setting first resolutions, can then serve as the five-year projections required in the reports on the resolutions.

1/ Congressional Record, (daily edition), February 18, 1976, pp. H1125-1126.

2/ OMB, The Budget of the United States Government, Fiscal Year 1978, p. 3.

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IMPLEMENTING ADVANCE TARGETS

In Advance Budgeting: A Report to the Congress, CBO suggests a phased implementation schedule leading to rolling five-year targets by calendar year 1979. For calendar year 1977 the schedule suggests that functional targets for fiscal year 1979 be stated in the reports by the Budget Committees accompanying the Concurrent Budget Resolutions for Fiscal Year 1978. For calendar year 1978 the Congress would prepare and vote on targets for three years -- fiscal years 1979, 1980, 1981. Then in calendar year 1979 the Congress would extend the process to the fourth and fifth years out, setting targets for fiscal years 1980-1984.

Calendar Year 1977 -- Dry Run

As the previous section demonstrated, the major elements for extending the targeting process to fiscal year 1979 are already in place:

- The President's budget (Ford) provided recommendations for fiscal year 1979 as well as 1978.

- The Congressional Budget Office report, Five-Year Budget Projections: Fiscal Years 1978-1982, provides a current-policy baseline against which the Ford and Carter proposals can be compared.

To assist the Budget Committees in the preparation of fiscal year 1979 functional targets for inclusion in their reports, the authorizing and Appropriations Committees in each house need to broaden the scope of their views and estimates reports, required by section 301 of Public Law 93-344, to include fiscal year 1979.

Advancing the target-setting process one year means that the authorizing committees must identify further in advance for the Budget Committees the major initiatives for which they will request funding, so that provision may be made for them in the functional targets. This, in turn means that the committees will need earlier notification of Presidential intentions to request reauthorizations for a program. The President's requests for reauthorization under section 607 of PL 93-344 will be too late if transmitted by May 15, 1977, as specified by section 607. However, these requests need not have been advanced one full year (to May 15, 1976); they could have been transmitted in the January budget or its subsequent revisions.

Note that this would only require the authorizing committees to commit themselves on the outlines of major new initiatives one year early. The details and specifics of the authorization could be worked on until the current May 15 deadline for reporting authorizations. Thus, the committees would identify major new initiatives and their approximate magnitude in March 1977, while the complete bill need not be reported until May 15, 1978.

The Appropriations Committees also face the requirement of submitting their views and estimates for an additional year, if fiscal year 1979 targets are to be first set one year earlier. They could base their report either on President Ford's fiscal year 1979 estimates in the 1978 budget or on a five-year projected current-policy baseline. In either case their report will identify the committee's anticipated increases or decreases to the base.

In summary, these advance fiscal year 1979 targets, although not explicitly adopted by the Congress, would serve as guidelines for legislation affecting fiscal year 1979 spending. By so doing Congress, and the federal government as a whole, would be able to plan for two years in a policy framework. More lead time would be available for planning, at the federal level by the executive and the various Congressional Committees, and at the state and local levels by those agencies implementing federal programs. It is clear that the proposed consideration of one-year advance budget targets will entail more work for all actors in the budget process. Instead of one year's data, everyone would be concerned with numbers for two budget years: the targets being currently set for fiscal year 1978, and the targets currently being debated for the fiscal year beginning during the next session of Congress.

Aside from the additional workload of manipulating the second year's data, advancing the targets one year would not require additional data that would be difficult to generate. The five-year section 308 cost estimates attached to spending bills, the five-year current policy projections by CBO, and the current services projections by OMB provide much of the data that would be needed for the deliberations on targets for the second year.

Calendar Year 1978 and Beyond: Rolling Three- and Five-Year Targets

As Congress wishes to take a longer-run view into the future than two years (one year in advance), it could choose to adopt targets for three to five years on a rolling basis. Rolling the targets simply means that each year targets would be set one year further out and the targets for the intervening years revised as necessary. In essence, the one-year advance targets described in the previous section constitute two-year rolling targets. This option would simply extend the time horizon an additional one to three years.

Impact on the Budget Process: A Longer-term View. Basically, rolling three-year budget targets do not have a significantly different impact on the current budget procedures than do rolling two-year budget targets. The first budget resolution for fiscal year 1979, which will be passed in May 1978, would also establish targets for fiscal years 1980 and 1981, according to CBO's suggested implementation plan. In May 1979 the cycle would be extended to five years, setting targets for fiscal years

1980-1984. The CBO current policy projections could provide a neutral starting point for Budget Committee markups of multiyear targets.

Like the one-year advance targets described above, these multiyear targets would establish a budgetary framework for the upcoming years. The extended planning horizon associated with multiyear targets, however, would allow the Congress to set long-range macro-economic and policy goals, goals such as a balanced budget, 4 percent unemployment, national health insurance, or reduction of the public debt. These long-range goals can only be reached by planning several years into the future, especially for major initiatives like national health insurance, which require much advance preparation and which build up to full cost only over a period of years. Furthermore, the long-range targets would serve as guidelines for the consideration of legislation with future spending impact. The CBO five-year cost estimates for authorizing and spending bills, provided under sections 403 and 308 of the Congressional Budget Act, could then be considered in the context of the budget as a whole for each year of the period. Also, progress toward the targets could be tracked through expanded scorekeeping reports to the Congress.

The annual cycle established in the budget act would continue to apply to the current fiscal year, including its various reporting requirements. The concurrent resolution setting budget ceilings for the current budget year would be passed each year as currently scheduled, just prior to the beginning of the fiscal year. Revisions would be made in the advance targets as economic circumstances changed, as the President proposed new programs, or as Congressional priorities shifted or became more clearly specified.

Both the authorizing and Appropriations Committees would need to broaden the scope of their views and estimates reports for the Budget Committees. The authorizing committees would need some indication both of the programs they have authorized that will expire during the three or five year cycle and whether or not the President intends to request their reauthorizations. It might be difficult to get accurate Presidential projections especially toward the end of each administration when Presidents might be hesitant to call for reauthorization of programs in the next term. The Appropriations Committees almost certainly would not have account-level data for the President's budget, but would have to rely on a current policy baseline projection and proposed Presidential initiatives.

Making the Rolling Budget Targets Credible. For rolling budget targets to work successfully, the outyear targets must be credible -- that is, they must be believable and they must be accepted by decision-makers at all levels. At the federal level the targets must be accepted as planning guidance by the executive agencies, OMB, and even the Congressional authorizing committees, as they draft new programs. At other levels, state and local officials planning for federal grants must have faith that the targets represent *bona fide* planning decisions at the federal level. One way the Congress could demonstrate its intentions to abide by its targets would be to expand its scorekeeping process from the current one-year framework to a multiyear framework, encompassing the major multiyear spending decisions.

In addition to setting its budget targets earlier, the Congress can make earlier spending decisions. As noted in the previous chapter, the Congress already makes many advance spending decisions: permanent appropriations, contract authority, entitlements requiring subsequent appropriations, and advance appropriations, to name a few. In practice, outlays from spending decisions such as these and the outlays required by prior-year contracts and obligations constitute about three-fourths of the federal budget outlays annually. These precommitments of federal resources represent Congressional responses either as a matter of convenience or as a matter of common sense, to the fact that in our complex society the federal government cannot decide one year at a time everything it is going to do and spend during the next twelve months.

Pressures for additional advance spending decisions, beyond those already made, focus on advance appropriations -- appropriations provided one or more years in advance of the fiscal year in which the funds will be obligated. Advance appropriations are particularly advocated for grants to state and local governments, which could benefit from more lead time and certainty in the receipt of federal funds.

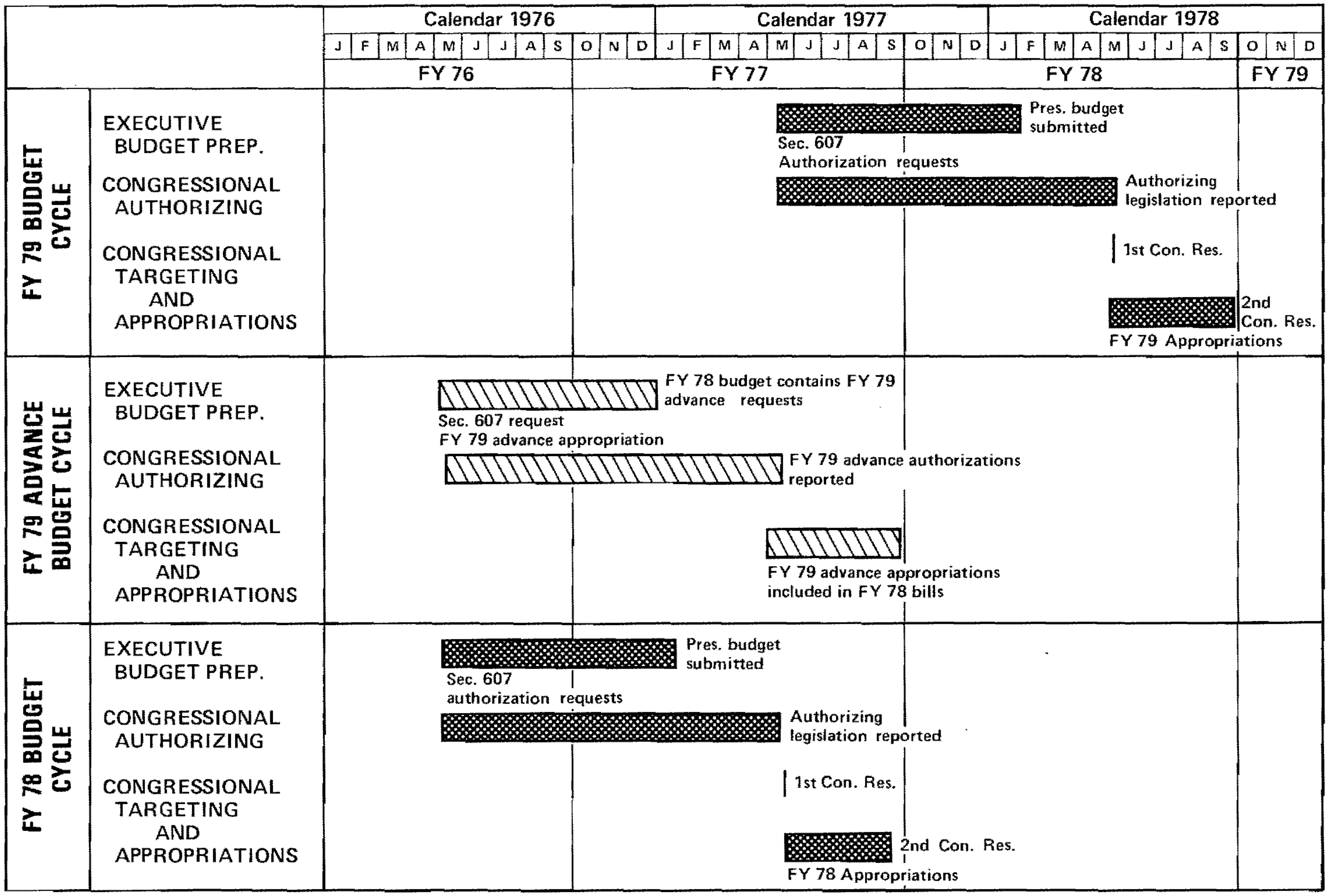
ADVANCE APPROPRIATIONS

Advance appropriatons do not affect the scheduling of the regular budget process. Instead, budget decisions for the advance year are superimposed on the normal budget cycle for the fiscal year beginning during the current session of the Congress. Figure 2 illustrates this layering of the advance appropriations cycle onto the normal budget cycle for the preceding fiscal year.

Impact on the Executive Budget Process

Increasing the use of advance appropriations increases the extent to which the executive branch must do preliminary

Figure 2. Advance Appropriations for Fiscal Year 1979



fiscal year 1979 planning during its fiscal year 1978 budget preparation cycle: the greater the use of advance appropriations, the more detailed the fiscal year 1979 planning. This has the effect of pushing forward the first executive actions on the fiscal year 1979 budget from 17 months prior to the beginning of the fiscal year (May 1977) to 29 months before the beginning of the fiscal year (May 1976).

In addition to the advance planning required, the President must also request, where necessary, the authorizations in advance for those programs for which he will request advance appropriations. To fulfill the intent of section 607 -- that the authorizing committees should have one year to study and prepare authorizing bills -- Presidential requests for advance authorizations would be due May 15 two years before the year in which the fiscal year begins, i.e., May 15, 1976, for an advance authorization for advance appropriations for fiscal year 1979.

Impact on the Appropriations Process

The Congressional Budget Act of 1974 provides that the Congress may not consider any bill providing budget authority for a fiscal year prior to the passage of the first concurrent resolution on the budget for that fiscal year (section 303(a)). This provision was designed to ensure that the Congress would consider its spending bills only after it had set its overall targets and priorities. Section 303(b) provides an exception to this general rule for advance appropriations; it permits the consideration of bills providing budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution specified in section 303(a) applies. In other words, prior to the adoption of the first budget resolution for fiscal year 1978 (scheduled for May 15, 1977), the Congress could not consider any revenue, spending, or debt bills for fiscal year 1978, although it could consider such measures for fiscal year 1979.

The act does not specify when the exemption allowed by section 303(b) ceases to apply and when, therefore, the Congress is barred by section 303(a) from considering spending or revenue bills before the adoption of the first budget resolution. For example, is an appropriation passed in December for a fiscal year beginning the following October 1 an advance appropriation under section 303(b) or a violation of section 303(a)?

In the implementation reports for the second concurrent resolution for fiscal year 1976, the Budget Committees noted that all actions for the budget of a fiscal year must be completed before the start of that fiscal year, i.e., they must be completed in the preceding fiscal year. Therefore, appropriations considered during that preceding fiscal year are not advance appropriations; rather they are part of the regular budget process. Thus, an advance appropriation must be enacted one full fiscal year in advance of the fiscal year in which the funds are to be obligated. 1/

In practice, the Appropriations Committees include advance appropriations for a fiscal year in their regular appropriations bills for the preceding fiscal year. Thus, the advance appropriations become subject to the schedule of the budget process for that fiscal year; this eliminates the need to hold separate hearings and produce separate bills.

Impact on the Authorizing Process

Advance appropriations, like regular appropriations, must be authorized by law. The authorization does not have to specify that appropriations may be made in advance. Many programs which have received advance appropriations did not have such a specific authorization. The two timing requirements to be met are that the authorization be enacted before the appropriation, and that it authorize appropriations for the period in which the funds are to be obligated.

As noted above, advance appropriations could be included in the regular appropriations bills for the fiscal year. Thus, authorizations for advance appropriations

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1/ See Implementation of New Congressional Budget Procedures for Fiscal Year 1976 -- Timetable for the Second Budget Resolution and Reconciliation Process, H. Rept. 94-547 (1975), p. 4 and (same title), S. Rept. 94-122 (1975), p. 5.

must be enacted by early June of that year's budget cycle, or about sixteen months prior to the beginning of the fiscal year in which the appropriations will be available. To the extent that authorizations for advance appropriations are included in the authorizations for the preceding fiscal year, they will be subject to the May 15 reporting deadline of section 402 of the Congressional Budget Act of 1974.

ALTERNATIVES TO ADVANCE APPROPRIATIONS

There are several alternatives to advance appropriations, that do not affect the schedule of the budget process but do increase certainty for program operators.

Forward Funding

Forward funding is the practice of obligating funds in one fiscal year for programs that are to operate in subsequent fiscal years. For example, student aid grants are obligated by the Office of Education during the spring each year, in the latter portion of the fiscal year. The monies are intended to cover the costs of the school year that begins in the fall and runs into the next fiscal year. Thus, grants for the school year September 1, 1977, to June 1, 1978, will be obligated by the Office of Education in the spring of 1977 out of fiscal year 1977 budget authority; most of the outlays will occur, however, in fiscal year 1978.

Forward funding became particularly pertinent to education programs after the changing of the fiscal year from July 1 - June 30 to October 1 - September 30. The new fiscal year cuts the school year into two parts. Traditional advance appropriations, which may not be obligated until the October first beginning of the fiscal year, would still provide school districts lead time for planning, but leave them in a difficult position in terms of cash flow for the months of August and September, when the teachers start working and classes begin. Therefore, it was decided to forward fund the education programs.

The fiscal year 1977 Labor-HEW appropriations provided $2.3 billion for Title I of the Elementary and Secondary Education Act (ESEA) to be obligated after July 1, 1977, for the 1977-78 school year.

Carry-over Provisions

Carry-over provisions allow officials to retain obligational authority beyond the end of the fiscal year for which the funds were appropriated. This authority has been provided for a limited number of programs to avoid the end of fiscal year rush to obligate funds. Without this provision funds not obligated by the end of the fiscal year revert to the Treasury and are no longer available for the purposes of the program. Carry-over provisions are intended to result in more rational program administration and to serve as a hedge against uncertain federal appropriations. An example of a carry-over provision is the so-called Tydings amendment, section 412(b) of the General Education Provisions Act of 1968:

> . . . any funds . . . which are not obligated and expended prior to the beginning of a fiscal year succeeding the fiscal year for which such funds were appropriated shall remain available for obligation and expenditure during such succeeding fiscal year. (P.L. 90-247, section 405(b); amended by P.L. 93-380 and redesignated section 412(b).)

State and local officials surveyed by CBO expressed a desire that all grant programs have similar provisions in order to avoid the wasteful decisions and poorly-conceived projects that result from the rush to spend monies about to revert to the Treasury. 1/

Carry-over provisions do not affect the timing of either the target-setting or appropriations processes. They do, however, potentially change the timing of program

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1/ See The Effect of Advanced Federal Budgeting upon State and Local Program Delivery in this volume.

execution. Program operators given the flexibility to carry over funds may be inclined to slip program funding from one year to the next, i.e., creating two-year funds out of one year's appropriation. This flexibility may be desirable in the first years of a new program. For other programs, it may frustrate objectives of the Congress. For example, grant programs whose objective is the injection of stimulus into a sluggish economy, such as countercyclical public service employment grants, should spend out quickly. The effect of carry-over authority in such situations can be deleterious, contributing to outlay shortfalls at a time when the Congress through its budget resolutions is attempting to stimulate the economy.

Hold-harmless Provisions

Hold-harmless provisions are restrictions on alternative formula distributions or project grant designations. The most frequent application of hold-harmless provisions has been during the transition from one formula allocation to another. Allocations change either as a result of legislative changes in the formulas or shifts in the formula determinants, such as the number of children from low-income families in the formula for Title I, ESEA. The hold-harmless provision functions either by guaranteeing the existing allocation for a specified period of time or by guaranteeing a percent of the current allocation. Hold-harmless provisions are subject to appropriations being made available, of course.

Hold-harmless provisions do not affect the timing of the target-setting or appropriations processes. They are included in authorization bills in order to give program operators greater certainty about funding levels.

Those state and local officials who have experienced hold-harmless provisions, such as in the Community Development Block Grant program, generally agree that this mechanism is helpful in planning the phasedown of a program over a period of years. Most state and local officials believe that hold-harmless provisions that would provide protection from reduction of grant levels in future years, such as assurances that they would receive at least 80 to 90 percent of current year funding, would be very helpful. This is particularly true if they have the flexibility to determine what portion of the program will have priority for available funds. 1/

BIENNIAL BUDGETING AND TWO-YEAR APPROPRIATIONS

Another form of advance spending decision, biennial or two-year appropriations, combines current appropriations with appropriations one year in advance. Appropriations can be provided two years at a time for the entire budget -- biennial budgeting -- or for only part of the budget. Two-year appropriations merit consideration for their potential to decrease the annual budget workload.

Biennial Budgeting

Twenty-one states use biennial budgets -- a budget made once every two years for the two-year period following (biennium). Most of these states do so because the state legislature is constitutionally limited to one regular session for each biennium.

The Congress could adopt the biennial budget: adopting biennial budget targets during the pring of the first session of each term, passing two-year appropriations bills during the summer, and concluding its work on the budget for the two fiscal years beginning October 1. This would leave the second session of each term of the Congress free to deal with other legislation. The annual workload of annual authorizations and appropriations would be eliminated every second year by the biennial budget.

Alternatively the Congress could give itself even more time for its budgetary process by changing the fiscal year from October 1 through September 30 to January 1 through December 31. Then the Congress could consider and enact a two-year budget during its first session for the biennium beginning January 1 of the second session and lasting until December 31 of the first session of the

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1/ See The Effect of Advanced Federal Budgeting upon State and Local Program Delivery in this volume.

following term. This would have the advantage of lengthening the time for Congressional deliberation on the budget from nine months to twelve months. The additional three months could be well used; the current schedule is terribly constraining for the Appropriations Committees. They must hold their hearings, markups, and report their bills to the floor by around June 1, which gives them less than six months in which to prepare fourteen regular appropriations bills each year.

Despite these gains in easing the Congressional workload, the biennial budget process has two drawbacks. First, while it provides extra lead time and certainty of federal funding every second year, during the other years -- each year the biennial budget is being prepared and acted on -- the lead time is constrained to that of the current annual process. Second, a biennial budget is unsuited for annual fiscal policy adjustments. Fiscal policy adjustments during the second, or off-year, would have to be made via supplementals, rescissions, or deferrals.

Staggered Two-year Budgeting

An alternative to biennial budgeting -- enacting the entire budget for a two-year period once every two years -- is staggered two-year budgeting. Under this approach a portion of the budget (for convenience say, one-half) is appropriated for two years during each session of the Congress.

The division of the budget into two parts could be done by function, by committee workload, or by any other criterion which produces two reasonably equal halves of the budget. By considering only half of the budget each year, presumably the Congress could devote greater time to scrutinizing individual programs during the appropriations process. In addition, such a schedule might provide new opportunities for oversight. During the off-year for each phase, there will be requests for supplemental appropriations and rescissions or deferrals. The appropriate committees might wish to include in their deliberations on these requests such data as the first-year allocations by OMB, revised outlay estimates, or initial program performance data. The agencies and OMB might be better able to collect this data because they would not be preparing appropriations requests for that portion of the budget for transmittal to the Congress. An additional benefit for the Congress might be relief from the congestion of appropriations and authorizing bills during the summer months of each session; with only half the budget being considered each year, there would be fewer bills to be passed by the deadline of the budget process.

Two-year Appropriations

Every year the two Appropriations Committees recommend annual appropriations for about 1,500 line items. These recommendations follow an immense amount of toil by the committees themselves, and by scores of thousands of men and women (mainly in the executive branch) charged with developing, typing, reviewing, coordinating, compiling, justifying, correcting, approving, and reproducing budget documents of stupefying variety and unbelievable quantity.

Some federal programs deserve and receive intense budget scrutiny every year. But it is probable that for a host of federal activities an annual scrutiny (which may range from intense to cursory) is justified only by habit; they could as well receive their funds and their scrutiny two years at a time. Examples of such programs include the U.S. Tax Court, the Bureau of Prisons and other activities of the Justice Department, the Bureau of the Mint, and the International Boundary Commission, to name a few. All these programs do about the same thing, at more or less the same program level, from one year to the next. They are not subject to large fluctuations in workload or changing policy circumstances. It seems reasonable to suppose that their managers, and the managers of hundreds of other such programs, could prepare and justify a budget request for two years of funding, and live with the resulting appropriation, with no harm whatsoever to the public good, but with a gratifying reduction in their own paperwork and in the burden on the Appropriations Committees and their staffs.

The arguments against two-year appropriations center around the potential diminution of Appropriations Committee oversight and the difficulties of forecasting a program's warranted level of resources for 24 months ahead, compared to only 12 months ahead for annual appropriations. Addressing the forecasting concern first, it should be noted that the point is to select for two-year appropriations only those programs with missions involving little or no change from one year to the next. For these, supplementals made necessary by extraordinary or unforeseen circumstances could be handled easily, as are the pay supplementals for these same programs now. Furthermore, the number of additional amended budget requests or supplementals is not liable to be a major extra burden on the Appropriations Committees, given the already substantial numbers of these actions in the current annual process. 1/

Neither are two-year appropriations likely to diminish the oversight which may be exercised by the Appropriations Committees. First, in dollar terms, these programs will not be large. Second, these programs will not be those for which oversight is important. Programs of major policy importance, such as defense spending, or of a fiscal policy nature, such as countercyclical stimulus and employment programs, clearly should be reviewed annually. Also, programs subject to volatility of workload or changing policies, such as food stamps, should receive an annual scrutiny. On the other hand, programs with a proven record of scandal-free, efficient performance could probably be as effectively scrutinized once every two years as annually. Moreover, the Appropriations Committees will not be foregoing any opportunities for oversight; if it appears that irregularities are developing in a program, the Committees could call agency representatives in at any time for hearings.

1/ See page 21 above.

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BUDGET CONTROL AND FISCAL POLICY

March 1977

The Congress of the United States
Congressional Budget Office
Washington, D.C.

PREFACE

The pervasive effects of the federal budget on the nation's economy make it desirable to evaluate contemplated changes in the budget process in terms of their effects on policymakers' ability to control variations in the budget and stabilize the economy. Thus, a major concern in CBO's study of the feasibility of advance budgeting was the relationship of fiscal policy to budget control.

Marvin Phaup of CBO's Fiscal Analysis Division wrote this paper on budget control and fiscal policy. It was typed by Dorothy J. Kornegay and Susan L. Bailey. Patricia H. Johnston provided editorial assistance.

Alice M. Rivlin
Director

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CHAPTER I INTRODUCTION

Variations in the size and composition of the federal budget affect production, employment, prices, and interest rates. The rationale of fiscal policy is to control variations in the budget in order to exert a stabilizing influence on economic behavior. From a fiscal policy perspective, therefore, it is desirable when contemplating changes in a budget process to evaluate those changes in terms of their effect on policy-makers' ability to control the budget and influence the economy.

For two reasons, an evaluative analysis of this type is not as straightforward as it might seem. First, the degree and the process by which fiscal policy influences the economy is not completely understood and disagreement exists over the extent to which knowledge is incomplete or wrong. The less confident an analyst is about human knowledge of how fiscal policy works, the less he will value control in the sense of the power to make large and quick changes in the budget. Second, budget control is an ambiguous term, frequently used with different implied meanings. A change in a budget process may strengthen budget control defined one way and weaken it in another.

Before the fiscal implications of advance budgeting can be determined, budget control must be defined and the significance of control loss indicated under different assumptions about our knowledge of how fiscal policy works. This paper attempts to do so in three steps. First, it describes how fiscal policy is usually assumed to affect the economy. Second, several meanings of "uncontrollable" are considered and the implications of each are related to the conventional view of the fiscal policy process. Third, the consequences of uncertainty in the understanding of fiscal policy are explained.

Several conclusions are suggested by the results. Under the assumption that the "conventional" fiscal policy paradigm is correct and precise:

- o Automatic stabilizers, such as the income tax and unemployment compensation, constitute a type of control loss that improves the timing of fiscal policy.

- o Long-term budgetary commitments constitute a type of control loss that is likely to make the anti-inflation objective more difficult to achieve through short-run fiscal measures.

- o The failure to take account of the effect of the budget on the economy constitutes a type of control loss that can result in destabilizing fiscal policy by default.

Under the alternative assumption that knowledge about fiscal policy is uncertain and imprecise:

- o Changes in fiscal policy should be made more cautiously than would be the case with precise knowledge. The Congress now seems to possess ample power to make these cautious changes and advance budgeting would not weaken that power.

- o The Congress requires budget control in the sense of being able to offset pressures for large and swift changes in spending. Advance budgeting would tend to strengthen this type of control.

CHAPTER II A COMMON VIEW OF FISCAL POLICY

Fiscal policy refers to government budgetary decisions made with the intent of stabilizing economic conditions. The rule for fiscal policy is that recessions caused by insufficient amounts of spending can and should be countered with tax cuts and accelerated government spending, whereas inflationary booms caused by too much spending can and should be dampened by tax increases and a slowing in the growth of government outlays.

A tax cut may be used as a substitute for accelerated spending or both may be used in tandem. The amount of each is chosen so that the net effect of the expansive "package" exactly offsets the weakness in private spending causing the recession. Similarly during inflation, tax increases may be used with or without slowing the growth of government expenditures. If outlays are not restricted as a part of an anti-inflationary fiscal policy, taxes will have to be raised more than would be necessary with a tandem approach involving both taxes and expenditures.

Timing is important in effective stabilization policy. When private sector spending weakens or accelerates, the policy response should be quick to minimize the adverse effects of the disturbance. The delay inherent in legislating countercyclical tax and spending changes argues strongly for the use of "automatic stabilizers," fiscal responses triggered by changes in economic conditions. Unemployment compensation and the income tax structure are two examples of automatic stabilizers. As unemployment rises and incomes decline during a recession, outlays to meet unemployment insurance claims increase and tax collections slow. The budget position therefore swings appropriately toward a smaller surplus or a larger deficit, without legislative action. As the recession ends, the expansive policy automatically turns itself off when unemployment declines and taxable incomes rise.

Although automatic stabilizers play an important role in the United States, discretionary fiscal policy in the form of legislated tax and spending responses to economic changes is also important. To its detriment, discretionary fiscal policy has sometimes suffered from poor timing in that the stimulus or restrictive effect occurs only after the economy is in a different phase of the business cycle. The timing of fiscal policy, therefore, may be improved by increasing the use of automatic stabilizers.

The statement that "the federal budget is out of control" does not convey much information. The Congress determines the size, composition, and financing of the budget. How can it be uncontrolled?

One of the following meanings is usually implied: uncontrolled in terms of economic feedback, advance spending decisions, macro-economic impact, or public choice.

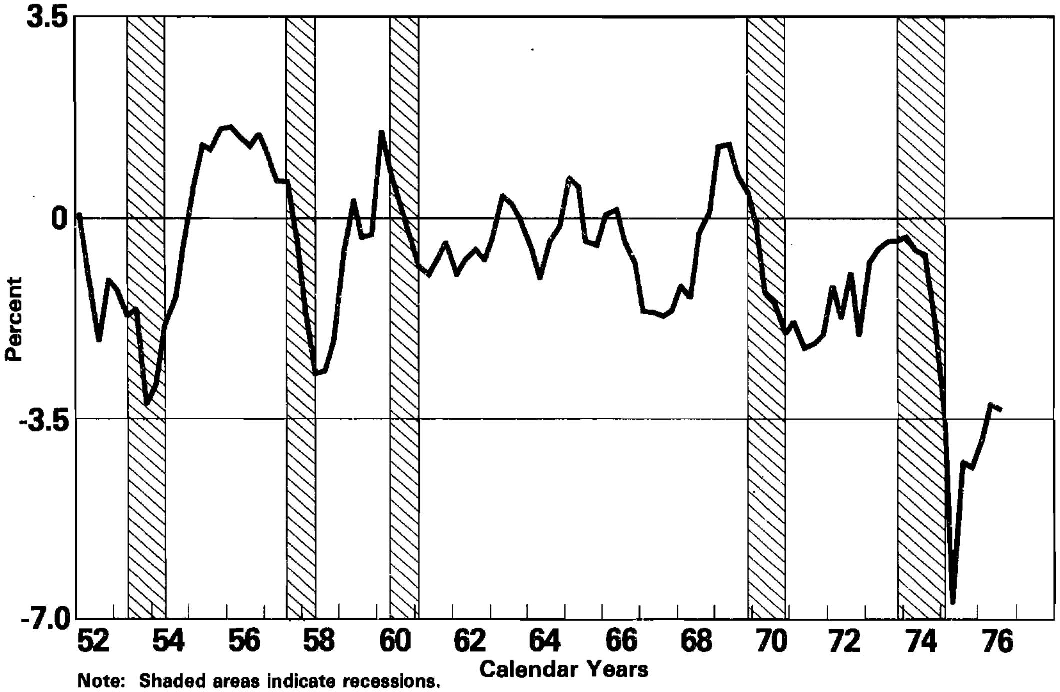
ECONOMIC FEEDBACK

The actual budget position (revenues, expenditures and the surplus/deficit) is affected by current economic conditions as well as by current-year Congressional budgetary decisions and is, therefore, "uncontrolled." As emphasized in the discussion of automatic stabilizers and as may be seen in Figure 1, a recession pushes the budget toward deficit while a recovery has the opposite effect. 1/

An expansion of the role of automatic stabilizers would strengthen economic feedback to the budget and would also reduce short-run Congressional control of the budget. But, the greater the control loss due to automatic stabilizers, the more responsive current fiscal policy would be to current economic conditions.

1/ Some of the economic feedback visible in the figure may be due to legislated anticyclical measures rather than automatic stabilizers.

Figure 1
Federal Government Budget Surplus Or Deficit (NIA basis) as a Percent of GNP, 1952-76



Note: Shaded areas indicate recessions.

SOURCE: U.S. Department of Commerce.

ADVANCE SPENDING DECISIONS

The largest single influence on the actual current budget position consists of budgetary decisions made in the past. Prior spending decisions are especially troublesome for budget control in cases in which large, long-range commitments are made that subsequently become the basis for individuals' long-term plans. Examples include social security, federal retirement, food stamps, medicare, and revenue sharing. Figure 2 shows the increasing share of the federal budget that is absorbed by payments to or in behalf of individuals (bottom solid line) in discharge of these commitments. Payments for individuals increased from 25 percent of total outlays in 1965 to 47 percent in 1976. In addition to payments for individuals, the executive branch includes the following expenditures in its definition of "relatively uncontrollable" outlays (a category intended to capture the present effects on the budget of earlier decisions): net interest on the debt (shown in Figure 2 as the difference between the bottom solid and middle broken lines), other open-ended programs and fixed costs, and outlays arising from prior-year contracts and obligations. As shown by the solid top line in Figure 2, outlays classified as "relatively uncontrollable" under present law, now account for about 75 percent of the total budget. The larger the proportion of the budget devoted to fulfilling previous commitments, the more uncontrolled the budget is in terms of current decisions. 2/

The consequences of prior spending decisions for current control do not constitute a very persuasive argument *per se* for reneging on previous commitments, though they do argue for a careful weighing of the consequences before making future commitments. Continuity in government

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2/ The influence of economic feedback and the persistent effect of prior decisions on the current budget may be expressed as: current budget expenditures (E_t) and tax receipts (R_t) are functions of lagged values of (E) and (R), the inflation rate (P_t), the unemployment rate (U_t), and a disturbance term (e_t).

Using quarterly data (1948:1 to 1976:2) to estimate these relationships yields the following

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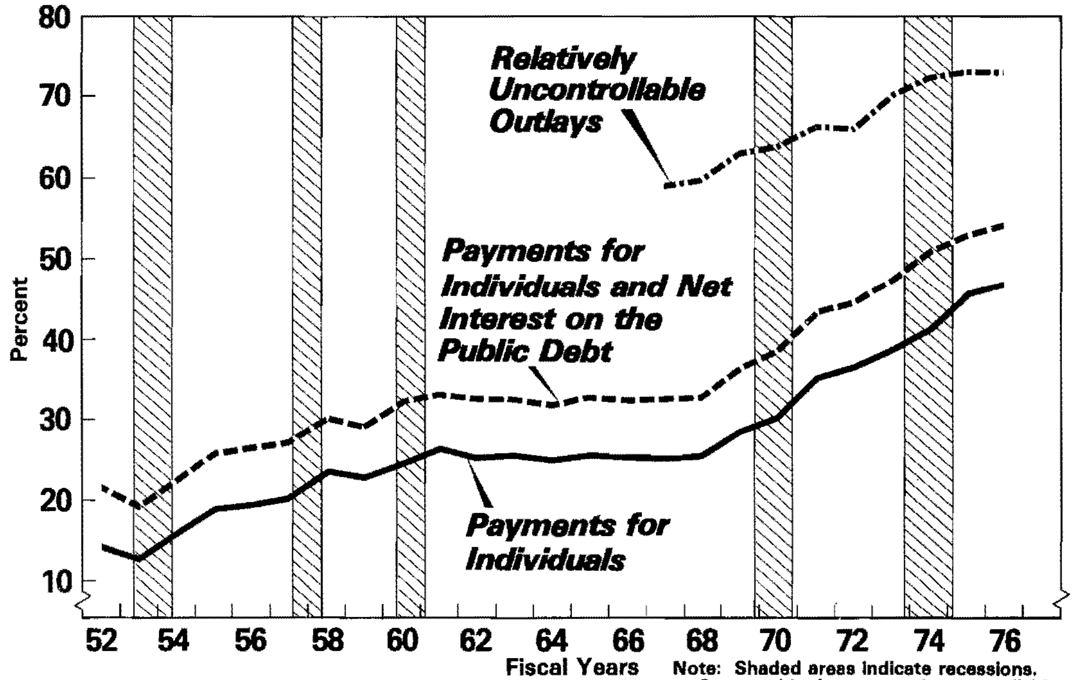
Figure 2

Composition of Federal Budget Outlays by OMB "Controllability" Classification as a Percent of Total Budget Outlays, 1952-76



Note: Shaded areas indicate recessions. Comparable data on total uncontrollables are not available prior to 1967.

SOURCE: Office of Management and Budget.

policy has the desirable feature of enabling people to plan their futures and to realize their plans without disruption from capricious government actions. By making long-term commitments, the Congress assures the public that the range of uncertainty about what government will do has been narrowed. The Congress does retain the authority, however, to modify a long-run commitment if the cost turns out to be much higher than expected or if the commitment produces substantial, undesired side effects.

Loss of current control due to prior commitments probably does not affect the ease with which an expansive fiscal policy may be adopted but does make a restrictive policy more difficult to implement. If, for example, an anti-recession policy is required, taxes may be reduced and new spending programs added to previous ones. But, if a restrictive policy is required, attempts to slow the growth of spending may be frustrated by previous commitments to the public and to government agencies. Even those outlays classified by the Office of Management and Budget as "relatively controllable," including most national defense expenditures, government wages and salaries, and other general government costs, are not

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(standard errors in parentheses, dependent variable in billions of dollars):

$$E_t = \underset{(3.46)}{-6.35} + \underset{(.02)}{1.12}E_{t-4} + \underset{(.34)}{.04}P_t + \underset{(.73)}{.57}U$$

$$R^2 = .99 \quad SEE = 9.19$$

$$R_t = \underset{(3.94)}{10.53} + \underset{(.02)}{1.08}R_{t-4} + \underset{(.39)}{1.07}P_t - \underset{(.83)}{2.88}U_t$$

$$R^2 = .98 \quad SEE = 10.50$$

These results indicate that about 98 percent of the variation in outlays and receipts since 1948 may be explained by economic conditions (unemployment and inflation) and by prior budget positions. This suggests that current budget decisions have only a small impact on the current year budget.

readily amenable to short-term, countercyclical curbs. At best, only the incremental changes in the real levels of these outlays are subject to such control. 3/

The anti-inflation effort of fiscal policy, therefore, will have to be carried in large part by tax increases, some of which will occur automatically as inflation pushes incomes into higher tax brackets. But important difficulties remain. If taxes are already absorbing a share of national income considered to be appropriate by much of the electorate, resistance to higher taxes will be strong. A temporary tax increase may be more acceptable, but the available evidence is that temporary taxes on incomes are not very effective in reducing private spending. 4/ Although excise and expenditure taxes are not presently a very significant part of the federal tax structure, an explicitly temporary, general excise tax might be effective.

In sum, a budget out of control in the sense that previous spending commitments require an increasing share of national resources will constrain the choice of policy instruments and reduce the likelihood of an effective, conventional, anti-inflationary fiscal policy.

3/ For balance, it should be noted that some small share of the incremental growth in relatively uncontrollables is also controllable. A discretionary increase in social security, veterans' benefits, or other payments to individuals is shown in the budget as in increase in relatively uncontrollables.

4/ See, for example, William L. Springer, "Did the 1968 Surcharge Really Work?," American Economic Review, 65, 4 (September 1975), pp. 644-659.

MACRO-ECONOMIC IMPACT

A budget may be said to be uncontrolled if budget decisions do not take into account the predictable and adverse (from the policymakers' viewpoint) macro-economic impact of the budget. For example, a decision to pay off the national debt quickly or to finance a major expenditure program by increasing the national debt, if made independently of the implied macro-economic consequences, could be considered evidence of an uncontrolled budget.

A commonly cited example of this type of control loss is the 1966-68 period during which outlays for the Great Society and the Vietnam buildup caused federal spending to increase sharply. 5/ (See Figure 3.) Although an income tax surcharge was proposed in 1967, the tax was not adopted until 1968.

Of course, everyone need not accept the classification of 1966-68 as a period in which the budget was out of macro-economic control. Some policymakers might recall that they knew the fiscal policy implications of the budget, but considered these unimportant relative to other objectives. Alternatively, 1966-68 might be considered a period when a number of domestic and international commitments came due at the same time that there was strong resistance to higher taxes.

The 1971-72 period of the New Economic Policy also occasionally cited as a case in which the budget

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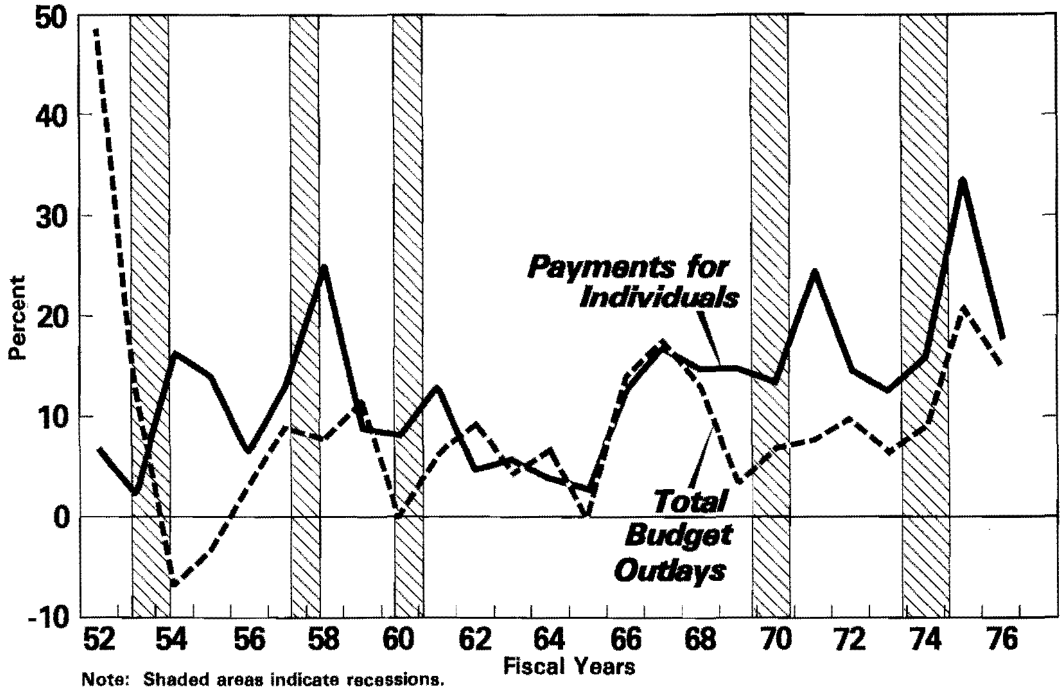
5/ The residuals (actual minus predicted values) for the expenditure equation shown in footnote 2 are all positive from 1965:4 through 1967:4. This implies that spending rose at an unusually rapid rate during the period.

Figure 3

Annual Percent Change in Total Budget Outlays and in Payments for Individuals 1952-76



Note: Shaded areas indicate recessions.

SOURCE: Office of Management and Budget.

went out of control in terms of macro-economic impact. The price freeze and other "phases" are thought to have misled policymakers about the true rate of inflation. A tax cut was enacted in December 1971 and, as may be seen in Figure 3, total budget outlays increased nearly 10 percent in 1972.

When the budget is uncontrolled with respect to macro-economic impact, the other side of fiscal policy becomes visible. If budget policy has the potential to stabilize, it also has the potential to become a major source of economic instability. Some of the motivation for the Congressional Budget Act of 1974 was a desire to develop a budget process that would make better use of existing knowledge about the effect of the budget on the economy so as to reduce the chances of destabilizing fiscal policy.

PUBLIC CHOICE

Outlays are uncontrolled in a public choice sense if a public referendum on each joint spending and financing decision would result in a different level of outlays than results from the current budget process. Specifically, it has been argued that public expenditures are larger today than would be the case if modern communications technology were used to conduct a continuous popular vote on all budgetary decisions. The case has been advanced that outlays are more likely to exceed public choice levels the more benefit considerations are separated from cost considerations and the more expenditure decisions are separated from taxing decisions. If, for example, one group of legislators is assigned the responsibility of considering in detail whether an outlay should be made, most attention is apt to be given to the expected benefits. If the benefits seem substantial, the group may strongly recommend the outlay to their colleagues. If a separate group is assigned responsibility for recommending a means of financing the approved outlay, attention in this group is most likely to be concentrated on a search for the best financing technique. Such a division of labor between expenditures and taxes effectively separates considerations of cost and benefit.

Giving the same individuals responsibility for recommending both outlays and the taxes to support that particular category of outlays or requiring that all spending authorizations must provide for their own financing would, it is argued, ensure a more careful weighing of benefits against costs and reduce the level of expenditures.

Loss of control in a public choice sense, as in the macro-economic impact sense, implies a failure to use existing information in the budget process. While the absence of public choice control has important long-run effects, when it occurs, it is of little consequence for short-run stabilization policy.

SUMMING UP: A CONVENTIONAL VIEW OF FISCAL POLICY AND BUDGET CONTROL

From a narrow, conventional fiscal policy viewpoint, it would appear that automatic stabilizers are too little used at present. Hence, there is, in this sense, too much short-run control of the budget. More congressionally instituted, automatic feedback from the economy to the budget would be desirable. Further, the Congressional Budget Act of 1974 provides a mechanism for increased control in both macro-economic impact and prior commitment senses. The Congress now has an improved capability to assess the future cost of present commitments and to assess the macro-economic effects of honoring past and presently considered commitments.

CHAPTER IV UNCERTAINTIES AND MISGIVINGS ABOUT FISCAL POLICY

Acceptance of the conventional, elementary view of fiscal policy facilitates coming to grips with the issue of budget control. Yet, some emphasis must be given to the substantial doubts that exist about the validity of this theory of fiscal policy.

For example, almost all economists would agree that fiscal policy effects occur with lags. 6/ Not all the impact of a tax or spending change is felt immediately on enactment. Some (how much and when is in dispute) will come later, say, up to a year after enactment. Economists are also agreed that forecasts of the economy 12 months in the future, are often subject to large error. Therefore, fiscal policy decisions must inevitably be made under uncertainty about the magnitude and timing of the impact and about the state of the economy when the final impact is felt. Some economists argue that the lagged effects of policy, coupled with an inability to foresee economic developments, means that an active fiscal policy is just as likely to be destabilizing as it is to be stabilizing. For example, an expansive policy adopted during a recession may have its effect after a recovery is already underway. The following boom will, therefore, be greater than it would have been. At a minimum, uncertainty

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6/ Arguments have been made that fiscal policy has perverse effects; that is, an expansionary fiscal policy causes income to decline. See, for example, Robert J. Barro, "Are Government Bonds Net Wealth?," Journal of Political Economy (November/December 1974), pp. 1095-1117. Others have argued that the issue of government debt is equivalent to taxation and that expansionary fiscal policies have no effect. See, for example, Levis Kochin, "Are Future Taxes Anticipated by Consumers?," Journal of Money, Credit, and Banking (November 1970), pp. 473-85.

about fiscal effects argues for more caution in the use of instruments with unknown effects than would be recommended with complete knowledge. Great leaps in fiscal policy are to be avoided.

Those who emphasize the uncertainty inherent in using fiscal policy would conclude that the Congress does not require -- from a fiscal policy viewpoint -- control of the sort that would enable it to change the stance of fiscal policy drastically and frequently. The Congress already has the power to initiate the cautious changes which may be called for on occasion.

There is, however, one kind of budget control which the Congress needs under the view emphasizing the uncertainty of fiscal policy. The Congress needs to be able to control or offset large or sudden changes in spending arising from factors other than the state of the economy. A new initiative which will greatly boost outlays for several years must be offset either through tax increases or other spending reductions so that it does not overheat the economy. Similarly, a major reduction in outlays needs to be compensated for so that it does not weaken the economy. The new budget procedures, with their emphasis on the impact of the budget on the economy, provide a mechanism for strengthening this type of control.

A HISTORY OF THE USE OF ADVANCE APPROPRIATIONS

March 1977

The Congress of the United States
Congressional Budget Office
Washington, D.C.

PREFACE

Consideration of the use of advance appropriations for additional federal programs should be based on knowledge of previous experience with this funding mechanism. This paper chronicles the use of advance appropriations in federal programs since 1962, when advance appropriations were first granted for federal airport aid construction. It ends with the debate in 1975 and 1976 over a long-term financing mechanism for the Corporation for Public Broadcasting.

This paper was prepared by Barbara J. Gluckstern, an intern in CBO's Budget Process Unit during the summer of 1976, with the assistance of John D. Shillingburg. Richard P. Emery, Jr. and Robert D. Harris supervised the project. Patricia H. Johnston edited the paper and Susan L. Bailey typed the various drafts. Questions on the paper should be directed to John Shillingburg in the Budget Process Unit.

Alice M. Rivlin
Director

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CHAPTER I INTRODUCTION

Appropriations for a fiscal year are conventionally provided during the session of the Congress in which that fiscal year begins. In some instances, the Congress has provided programs appropriations one or more years in advance of the fiscal year in which the funds will be obligated. This funding mechanism is called advance appropriations. While the Congress retains control over the amounts funded by initiating the funding action, program administrators are certain of funding levels further in advance. The longer lead time for planning and administration is intended to result in improved program operations.

Advance appropriations have been used in three program areas. In 1962 advance appropriations were enacted to replace the expiring contract authority of the grants-in-aid for airport construction. Later advance appropriations were extended to other construction programs: urban renewal, mass transportation, and the Washington subway system. Authority to advance appropriate education programs was provided in the General Education Provisions Act of 1968; however, except for an isolated instance in 1969, education programs did not begin to receive funding in advance until fiscal year 1976. The most recent program for which advance appropriations have been provided is the Corporation for Public Broadcasting, which received advance appropriations for fiscal years 1978 and 1979.

The purpose of this report is to describe the experience of these programs with advance appropriations. It should be noted, however, that advance appropriations is just one of several advance spending decisions the Congress makes. Others include:

- o <u>Contract authority</u>, which provides planning and administrative lead time by authorizing the government to enter into contracts in advance of the actual appropriations;

- Borrowing authority, which authorizes obligations out of borrowed moneys;

- Entitlements, which provide for payments to any person or unit of government which meets the requirements established by law;

- Permanent appropriations, which establish budget authority in an amount determined by previously enacted legislation; and

- Forward funding, which obligates funds in one fiscal year for programs that are to operate in a subsequent year.

This paper does not advocate use of advance appropriations over other funding mechanisms. Since it is only a history of advance appropriations, it does not provide information from which any comparative conclusions can be drawn. In addition, the paper does not develop arguments against advance appropriations. This is not because advance appropriations are unassailable, but rather because the history of advance appropriations has not seen the development of organized opposition to the rather selective use made of this mechanism.

This report employs a specific interpretation of the term advance appropriations: appropriations provided one fiscal year or more before any of the money can be obligated. The literature on this subject confuses the terminology in two ways. First, advance appropriations are often referred to by other names. The term most commonly used synonymously is forward funding. The second area of confusion results when advance appropriations is used to refer to multiyear appropriations. Multiyear appropriations provide funds which are available for obligation in several fiscal years, but not in specified amounts for each year in the period.

CHAPTER II CONSTRUCTION PROGRAMS

Advance appropriations have been granted in four construction programs during the past 15 years. These construction programs did not have specific statutory authority for advance appropriations, but this mechanism evolved as an accepted operating policy as a means of meeting common needs for greater lead time for planning and administration. In two cases advance appropriations replaced contract authority; in one case each the advance appropriations were themselves replaced by contract authority and by a trust fund financing mechanism, as the Congress sought solutions to various problems of effective control and oversight.

ADVANCE APPROPRIATIONS FOR AIRPORT CONSTRUCTION

The Federal Airport Act of 1946 authorized grants-in-aid to airport authorities operated by state and local governments to assist them in the construction of airport facilities approved as part of a national airport development plan. The program was first annually appropriated; then it received contract authority, before the Congress began advance appropriating the funds in 1962. Finally, in 1970 the Congress set up a trust fund to finance the program. The use of advance appropriations will be described in the context of this progression of financing mechanisms.

Dissatisfaction with Annual Appropriations: 1946-1955

As a result of the experience of administering airport construction programs on an annual appropriations basis from 1946 through 1955, local airport authorities appealed to the Congress for relief from what they considered an inadequate funding process. 1/* Their objections included the following:

* Source reference footnotes appear at the end of this paper.

- <u>Annual appropriations precluded states and localities from receiving the maximum amount of federally authorized matching funds.</u> The Federal Airport Act of 1946 authorized annual appropriations to pay the federal share (up to 50 percent) of approved airport construction projects. The act authorized appropriations for fiscal years 1947-1953, with the appropriation for any single year limited to $100 million, and the aggregate for the seven years limited to $520 million. Subsequent legislation extended the period of availability to 12 years. Because of the substantial lead times necessary to get approval for bond issues or other means of raising the local share of the project costs, many airport authorities were unable to participate during the first year of the program. As a result only $42,750,000 was appropriated by the Congress. The airport authorities anticipated that as they completed their financing and planning arrangements, and thus would be ready to participate, the appropriations in subsequent years would increase. In actuality, however, subsequent appropriations did not even match the level of the first year. Thus, the annual appropriations process both created constraints on the ability of state and local airport authorities to raise matching funds, and created self-fulfilling expectations of relatively low requirements annually for federal matching funds. During the first seven years of annual appropriations, localities were able to match only $212,628,000 of the $520 million authorized. 2/

- <u>Annual appropriations provided inadequate lead time.</u> Airport authorities claimed that airport construction projects require extensive planning and preliminary work, necessitating a substantial commitment be made significantly in advance of expenditures. Frank S. Pittenger, President, American Association of Airport Executives, noted:

> The time element involved in making the preliminary design, in establishing cost estimates, in organizing bond issues, in obtaining land, and in meeting the many other details is substantial; these steps cannot intelligently be accomplished on short notice. 3/

- Annual appropriations hampered rational decision-making. The tremendous commitment of funds and resources for a time span of more than a year, the authorities argued, necessitated advance funding to aid intelligent decisions. Atlanta Mayor William B. Hartsfield testified:

> Long-term continuity is absolutely essential if we are to have an orderly, efficient, and economic development of our national airport system. We cannot move ahead in fits and starts. We cannot continue to plan long-term programs and then have to postpone or abandon them because of the uncertainty of federal financing. 4/

Contract Authority -- 1955-1961

In 1955 local airport authorities asked the Congress "to establish a long-range program, setting out definitely the amount of federal aid to be made available over a period of years." 5/

That year the Congress amended the Federal Airport Act (P.L. 84-211) to grant four-year contract authority in the federal aid to airport programs. In 1959 P.L. 86-72 extended this authority for two additional years. Contract authority permitted airport administrators to enter into agreements before actually receiving the appropriated funds, and therefore, fulfilled the need for advance funding. According to House Report 728 (87th Congress) the six years of contract authority was "approved" by airport administrators. 6/

Advance Appropriations -- 1962-1969

In 1961 the contract authority expired and the Congress refused to extend it "on the grounds that it was contrary to sound policy and fiscal procedures." 7/ Instead the Congress enacted an apparently unprecedented combination of multiyear authorizations and advance appropriations (P.L. 87-255). This plan provided authorization of appropriations for three years (multiyear authorizations) and recommended appropriating the funds in the year before they would be obligated. Thus the fiscal year 1962 appropriations bill provided $150 million: $75 million for fiscal year 1962 and $75 million for fiscal year 1963. The three-year authorizations with advance appropriations continued virtually unchanged until 1969.*

In the 1969 reauthorization hearings, the primary concern expressed by airport administrators was not the timing of funding, but rather the level. They claimed that federal funding was inadequate considering the rapid growth of the airport industry. J. Donald Reilly, the Executive Vice President of Airport Operators Council International, explained in hearings before the House Ways and Means Committee:

*Fiscal year 1965 funds were not advance appropriated in fiscal year 1964 because legislation extending the multiyear authorization was not passed in time for the advance appropriations to be included in the fiscal year 1964 Appropriations Act.

> The problem is money. The financing needs of the Nation's airport system are great. The time remaining to find needed new resources is short, and, without quick and imaginative new programs of assistance, aviation growth and technological progress may be strangled by congestion, delay, and the lack of new airport facilities. 8/

Airport and Airways Trust Fund -- 1970 to Present

In light of the claims of the airport industry, the Congress enacted the Airport and Airway Development and Revenue Act of 1970 (P.L. 91-258). The act proposed new and increased taxes for added revenue and established a trust fund to provide funding for all future federal support for airport construction. The trust fund was modeled after the existing federal highway trust fund.

The airport trust fund purported to ensure federal funding by earmarking the revenue collected from airport users for airport construction. This belief, according to Congressman Joel Broyhill, was "based on the successful experience that we have had in financing our highway needs through the Highway Trust Fund." 9/

Other Congressman,* however, argued that the trust fund mechanism was inadequate in that it continued the uncertainty inherent in annual funding and ignored the long-term financing needs still present. In separate views included in the House Report on H.R. 14465 (which was enacted as P.L. 91-258), they claimed that "[n]o city, municipality, or local airport sponsor can do its financial planning on this kind of uncertainty." 10/

*Samuel N. Friedel, John E. Moss, Lionel Van Deerlin, J.J. Pickle, Fred B. Rooney, Brock Adams, Richard Ottinger, W.S. (Bill) Stuckey, Jr., Peter N. Kyros, and Robert O. Tiernan.

Congressman Adams suggested that the long-term financing needs could be resolved as they are in the highway trust fund by funding on a revolving basis.

> I think some type of language is necessary to be certain the Secretary, when he is allocating these funds, can say to a local airport: "if you need to have money over a 3- or 4-year basis, this can be worked out, so it can be done."
>
> In the highway program this is done on a revolving basis by saying there will be so much money this year, and so much money the next year, and so much the following year, so the States can plan to extend their highway system in this fashion. 11/

Despite these concerns, no long-term financing was provided; the trust fund mechanism was adopted and has since provided the funds for grants-in-aid for airport construction.

ADVANCE APPROPRIATIONS FOR URBAN RENEWAL

Advance appropriations have been granted in two urban development programs -- urban renewal and urban mass transportation. Advance appropriations for these programs were granted in fiscal year 1966 for fiscal year 1967, though they encountered much greater opposition in urban renewal than in urban mass transportation.

The Urban Renewal Administration had been funded by contract authority prior to fiscal year 1966. As was true with the airport programs, this authority was strongly favored by program administrators. Increasing concern over the lack of Congressional control of the contract authority led the Congress to refuse to extend the authority. Instead it provided appropriations for fiscal year 1966 and advance appropriations for fiscal year 1967. The House Appropriations Committee determined that this would in no way damage the program because the appropriations exactly matched the agency's budget request. In addition the use of appropriations would "recapture ... control at a time when the program is picking up momentum and the need for closer supervision by the Congress becomes more and more evident." 12/ The Administration and the Department of Housing and Urban Development (HUD) were dissatisfied with the change, however, and proposed a return to contract authority financing in the fiscal year 1967 request for 1968. In the Appropriations hearings, HUD Secretary Weaver claimed that urban renewal programs were moving away from a project approach to a city-wide approach and therefore warranted four-year rather than two-year funding. 13/ The Congress refused the request and advance appropriated $750 million for fiscal year 1968.

In the House Report on the fiscal year 1967 appropriations bill the Appropriations Committee "again advised the Bureau of the Budget of the Committee's policy and position that [urban renewal] programs should be financed by direct appropriations." 14/

In the course of the fiscal year 1968 appropriations hearings, the principle of advance appropriations became established policy. HUD Secretary Weaver admitted having lost the fight for contract authority but was promised yearly advance appropriations in order not to hinder or impede the urban renewal programs. 15/ Accordingly, advance appropriations of $750 million per year were granted for fiscal years 1969 and 1970.

Advance appropriations for urban renewal programs ended in 1970. The advance appropriations request for fiscal year 1971 was denied by the House Appropriations Committee. The Committee's report recommended curtailing advance funding because "urban renewal projects were being converted from full funding ... to neighborhood development programs ... and required funding for shorter periods of time." 16/

ADVANCE APPROPRIATIONS FOR MASS TRANSPORTATION

Federal aid for urban mass transportation programs began in fiscal year 1966, and was from the start advance appropriated. For fiscal year 1966, two years of funding were provided to begin the program; in each subsequent year advance appropriations were provided according to an agreement between HUD and the House Appropriations Committee. 17/ That agreement continued unchallenged and unaltered until fiscal year 1970.

During the hearings on the fiscal year 1970 appropriations, program administrators did not request advance appropriations because proposed public transportation legislation would grant contract authority. The Congress, predicting that it would not enact any new transportation program during that session, again granted advance appropriations.

More than a year later the Urban Mass Transportation Assistance Act of 1970 passed, granting the contract authority previously denied. The adopted provisions required greater control of the contract authority than was originally proposed; therefore, they were not opposed by the Appropriations Committee. The new contract authority provided for executive-congressional control of the obligations, including statutory limits on liquidation of obligations, biennial review and extension of authorizations, biennial review of schedule of liquidations and budgetary controls. 18/

ADVANCE APPROPRIATIONS FOR THE WASHINGTON SUBWAY

The Washington Metropolitan Area Transit Authority (WMATA) first requested advance appropriations for fiscal year 1972, based on the experience of previous construction programs. Program administrators successfully argued that advance appropriations for the federal matching share were especially warranted in the Washington area because matching funds came from so many different local governments. The Congress approved advance appropriations in that year, as well as every year thereafter. As the hearings on the appropriations bill for fiscal year 1976 indicated, advance funding had become operating policy. 19/

OTHER PROGRAMS

Advance appropriations were requested for fiscal year 1971 for two other construction programs: Appalachian Regional Development and Model Cities. Although advocates invoked the same arguments that had been applied to the major construction programs to justify advance appropriations, neither program received them.

Appalachian Regional Development Program

Advance appropriations were proposed in the fiscal year 1970 budget for the fiscal year 1971 highway portion of the Appalachian Regional Development Program. By 1969, beneficial results were beginning to be seen in the trade school, hospital, health center, and other facilities programs, but the major objectives of the highway portion of the development program were still unrealized. The House Appropriations Committee approved $175 million for fiscal year 1971 in its fiscal year 1970 HUD appropriations bill to provide continuity of funding and to expedite progress in this area. Between House passage and Senate consideration of the HUD bill, however, the Congress passed the Appalachian Regional Development Act Amendments of 1969.

The effect of these amendments was to substitute contract authority for appropriations authority in the highway program. In its subsequent action on the HUD bill, the Senate Appropriations Committee deleted the fiscal year 1971 advance appropriations.

Model Cities Program

The Model Cities Program administrators requested $1.25 billion in advance appropriations for fiscal year 1971. The House Appropriations Committee concluded that the Model Cities Program had sufficient unobligated funds, given the status of the program, to make advance appropriations unnecessary. In its report, the Committee stated:

> Some cities are taking longer than originally anticipated to develop sound plans. There is also a substantial unobligated balance from 1969 that will be available for obligation in this program in 1970. 20/

Federal education programs have received the largest percent of all federal funds advance appropriated -- 98 percent in fiscal year 1975 and 97 percent in fiscal year 1976. Even in fiscal year 1969, when only one education program received an advance appropriation, in contrast to three construction programs, the education program received over half of the advanced funds. But the importance of advance appropriations in education (47 percent of all funds for elementary and secondary education in fiscal year 1977) goes beyond these programs: advance appropriations in education served as a precedent for other social programs that have subsequently had provisions for advance appropriations included in their authorizing legislation.

ANNUAL APPROPRIATIONS CONFLICT WITH PROGRAM OPERATIONS

The timing of the annual appropriations process does not coincide with school district operations. Though the fiscal year does not require enactment of federal appropriations until October first (July first before the Congressional Budget Act of 1974), major program decisions for a school year beginning in September are made the preceding spring. As a result, even federal appropriations enacted before the beginning of the fiscal year do not provide a timely and certain level of funds for educators. This late and uncertain federal education funding creates several problems:

- It frustrates effective planning. Planning effectiveness requires reasonably firm knowledge and assurance during the planning process of available fiscal resources. "However, because of late funding, this planning often takes place in a vacuum or is so truncated that it is ineffective." 21/

- It reduces the ability of state and local educators to coordinate federally and nonfederally funded programs. Without early knowledge of the amount of federal funds, state and local education agencies are unable to coordinate their programs with the federally funded programs. Late funding can result in many school districts having separate but similar federally, state, and locally funded programs. 22/

- It impairs hiring and retention of staff. Staff contracts for teachers are usually renewed in the spring preceding the next school year. When the level of federal funds is unknown, school districts are forced either to make tentative commitments without the guarantee of federal funds or to forego the rehiring of staff. These problems are particularly acute for specialized staffs in limited supply, such as speech therapists, reading specialists, teachers of the educationally handicapped, and vocational education instructors. 23/

- It emphasizes equipment expenditures. When appropriations are late, last minute decisions on spending for educational programs may be necessary. These decisions may vary from implementing new programs to purchasing additional equipment. Late funding can result in more decisions such as purchases of equipment than ones such as implementation of a new program because the equipment purchasing decisions are easier. 24/

A number of studies and educational organizations supported the concept of advance funding. In 1966 President Johnson urged the Congress and Secretary of HEW to develop an education funding system to permit schools and colleges to plan effectively. Several ensuing studies recommended various advance funding mechanisms. 25/ Among the educational organizations supporting advance funding were the Council of Great City Schools, Council of Chief State School Officers, and the National Education Association.

LEGISLATIVE DEVELOPMENT OF ADVANCE APPROPRIATIONS AUTHORITY IN EDUCATION

General Education Provisions Act

The passage of the Elementary and Secondary Education Act (ESEA) of 1965 (P.L. 89-10, April 11, 1965) established the first large federal grant programs to aid state and local education agencies nationwide. Funds for these grant programs were annually appropriated by Congress; however, Congressional appropriations timing did not mesh with the school year calendar. Typically the education appropriations were not enacted until long after planning for school year had been concluded. In some cases the appropriations were not enacted until after the school year had begun.

The Elementary and Secondary Education Amendments of 1967 (P.L. 90-247, January 2, 1968) included provisions for forward funding, carryovers, and advance appropriations in an attempt to address this problem. The provision authorizing advance appropriations for education programs stated:

> To the end of affording the responsible State, local and federal officers concerned adequate notice of available Federal financial assistance for education, appropriations for grants, contracts, or other payments under any Act referred to in Section 401 are authorized to be included in the appropriation Act for the fiscal year preceding the fiscal year for which they are available for obligation. (Section 403, P.L. 90-247)

Subsequent legislation broadened this provision to all federal education programs. First, the Vocational Education Amendments of 1968 broadened the coverage of the advance appropriations authorization to "any program for which the Commissioner of Education has responsibility for administration." (Section 401, P.L. 90-247, as amended by Section 301(a), P.L. 90-576, the Vocational Education Amendments of 1968)

In 1970 the provisions of Title IV of ESEA were amended and redesignated as the General Education Provisions Act. At this time Section 403 was amended by striking out "Act referred to in Section 401" and inserting "applicable program." (Section 403, General Education Provisions Act, as amended by Section 401(a)(4), P.L. 91-230 amending and extending the Elementary and Secondary Education Act of 1965.) As a result advance appropriations were authorized for all federal education programs.

1969 Advance Appropriations

Advance appropriations in education were first provided shortly after passage of the 1967 amendments (P.L. 90-247). The fiscal year 1969 budget included a request for $1 billion for Title I to fund the fiscal year 1970 program. The House Appropriations Committee recognized the need for advance funds, but also the "difficulty in forecasting program needs and the Federal fiscal situation even one year in advance." Their proposal was to advance appropriate for fiscal year 1970 90 percent of the 1969 appropriations level as a base and then in the next session of Congress "review the program needs and the Federal capability for further financial support, and supplement [the] amount ... to the extent that supplementation appears to be in order." 26/ This resulted in advance appropriations of $1.011 billion and supplementation in the fiscal year 1970 appropriations act of $386,160,700. Although the Administration requested advance appropriations of $1.226 billion for fiscal year 1971 and of $1.339 billion for fiscal year 1972 for Title I, the Congress did not approve the requests. The Appropriations Committee reported that it had:

> not seen any persuasive evidence that an advance appropriation was really helpful to the States and school districts if it was not known whether there will be additional appropriations for the same purpose in the next session of Congress. The Committee was of the opinion that the enactment early in each session of Congress of a regular education appropriations bill would help the schools a great deal more than advance appropriations. 27/

Educators cited administrative inexperience as the reason for the failure of the advance appropriations. 28/ The advance appropriations authority was not used for fiscal year 1971 or fiscal year 1972 and remained unexercised until 1974 when it became "mandated national policy."

Education Amendments of 1974

In 1974 major education revisions were enacted, including a section establishing a national policy for advance appropriations for education programs..

> The Congress declares it to be the policy of the United States to implement immediately and continually Section 411 of the General Education Provisions Act relating to advance funding for education programs, so as to afford responsible State, local, and Federal

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officers adequate notice of available Federal financial assistance for education authorized under this and other Acts of Congress. (P.L. 93-380), Sec. 802, Education Amendments of 1974. Note: Section 403 of the General Education Provisions Act had been renumbered Section 411 by P.L. 92-318, Education Amendments of 1972.)

This declaration of policy was neither a part of the House bill nor of the Senate bill as reported out of committee. It was an amendment offered on the floor by Senator McGovern. He sought to declare advance appropriations as a national policy in order to mandate their implementation.

> Forward funding* is a concept that everyone has endorsed. It has been studied for years. The Congress has authorized it, the last three Presidents have called for it, and educators have made a compelling case for it. So, I am hopeful that we can at last implement it. 29/

The amendment passed with unanimous consent following a statement by Senator Pell, Chairman of the Senate Subcommittee on Education, claiming that the amendment "restates as a matter of policy what was in (his) view already a matter of law." 30/

The Education Provisions of 1974 contained an additional section relating to advance funding. Under two of

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* Though Senator McGovern used the phrase "forward funding," he was referring to his own amendment that mandated advance appropriations as national policy.

the subsections no funds are authorized to be appropriated during any fiscal year unless:

> the sums appropriated pursuant to this subsection are included in an Act making appropriations for the fiscal year prior to the fiscal year in which sums will be obligated, and are made available for expenditure prior to the beginning of such fiscal year.*

This restriction prohibits the appropriation of funds for these programs unless they are covered by some form of advance funding. The first part of the restriction appears to require advance appropriations. The last clause appears to require forward funding.

Advance Appropriations for Fiscal Year 1976 and Fiscal Year 1977

To implement McGovern's amendment as well as several other provisions of the Education Amendments of 1974 (P.L. 93-380) the Congress passed a supplemental appropriations act for fiscal year 1975. In that act $2.4 billion of advance appropriations were approved for three education programs: (1) certain grants in elementary and secondary education, especially for education of the disadvantaged, (2) state formula grants in educational programs for the handicapped, and (3) adult education.

The following year grants to states for school libraries and instructional resources also received advance appropriations. Also, according to the hearings on fiscal

* The restrictions are for two Title IV grant programs, Library, Learning Resources, and Education Innovation, and Support.

year 1975 supplemental appropriations, legislation was under development that proposed advance funding for vocational education in state grant programs. Though these activities suggested a trend toward increased use of advance appropriations, no additional programs requested or received advance appropriations. In fiscal year 1976, $2.65 billion was appropriated for fiscal year 1977 for the four education programs.

Appropriations for Fiscal Year 1978

The change in the beginning of the federal fiscal year from July 1 to October 1 affected the funding procedure of education programs. Had education programs shifted their funding cycle to the new fiscal year, they would have received funds for a year beginning October 1 and ending September 30. If this appropriation were made in advance, educators would know the funding level by the preceding fall (in order to aid planning), but they would not be able to obligate funds till after the school year began.

As a result of the change in fiscal year, the funding of education programs was shifted to a 15-month obligational period, beginning on July 1 and ending 15 months later on September 30. Thus, in the fiscal year 1977 appropriation bill, funds were appropriated to be available for obligation on July 1, 1977 until September 30, 1978.

This appropriation is forward funding, not advance appropriation. Funds are appropriated for fiscal year 1978 programs, but the funds are made available for obligation before the beginning of that fiscal year. The budget authority is counted in the fiscal year 1977 totals, not the fiscal year 1978 totals.

OTHER LEGISLATIVE AUTHORITY FOR ADVANCE APPROPRIATIONS

The passage of the Elementary and Secondary Education Amendments of 1967 marked the first statutory authorization for advance appropriations in education. This prompted the House Committee on Education and Labor and the Senate Committee on Labor and Public Welfare to incorporate provisions in program legislation authorizing advance appropriations in related areas.

Vocational Education Amendments of 1968

As noted earlier, Section 301(a) of the Vocational Education Amendments of 1968 (P.L. 90-576) amended Section 401 of the Elementary and Secondary Education Amendments of 1967 to include the new programs in vocational education in the authorization for advance appropriations contained in Section 403. 31/ According to House Report 1647 of the 90th Congress, the provision was prompted by the recommendation of the National Advisory Council on Vocational Education.

Economic Opportunity Amendments of 1969

A similar provision was included in the Economic Opportunity Amendments of 1969. (Section 622 of the Economic Opportunity Act of 1964, as added by Section 111(a) of the Economic Opportunity Amendments of 1969, P.L. 91-177) The Senate Labor and Public Welfare Committee heard unanimous testimony in favor of the advance funding authority. Judge David Huber of the National Association for Community Development stated that advance appropriations were "a requisite to substantially improving the quality of antipoverty planning and program management practices." 32/

The Economic Opportunity Amendments set a precedent for advance appropriations in individual human development programs. In 1973 the Older Americans Act of 1965 was amended to provide advance appropriations authority to "aid State and local agencies in planning their programs." (Section 210(a), Older Americans Act of 1965, as amended by Section 201(a) P.L. 93-29, Older Americans Comprehensive Services Amendments of 1973) A year later the Congress passed the Headstart, Economic Opportunity, and Community Partnership Act of 1974. (P.L. 93-644) In that act advance appropriations were authorized "for the purpose of affording adequate notice of funding available" for Headstart and Follow Through programs. (Section 577, Headstart-Follow Through Act, as amended by Section 8 of P.L. 93-644)

National School Lunch Act and Child Nutrition Act of 1966

Public Law 91-248 (May 14, 1970) amended the National School Lunch Act and the Child Nutrition Act of 1966 to authorize advance appropriations. Specifically, the relevant provision of P.L. 91-248 (Section 1(a)) authorized appropriations for school lunch programs and all provisions of the Child Nutrition Act of 1966 "to be made a year in advance of the beginning of the fiscal year in which the funds will become available for disbursement to the States."

Comprehensive Employment and Training Act of 1973

The Comprehensive Employment and Training Act (CETA) of 1973 (P.L. 93-203) also contained an advance appropriations provision (Section 4(c)(1)). Although Department of Labor staff initially favored advance appropriations for CETA monies, the hectic pace of start-up activities during the program's first year precluded any advance action for the second year. As a result, no advance appropriations were requested then, and the issue has not been seriously considered since that time.

The Corporation for Public Broadcasting (CPB) is a private, independent, nonprofit corporation established by the Public Broadcasting Act of 1967. CPB has four principal purposes: (1) to assist in the production and procurement of programs of excellence for presentation over public television and radio stations; (2) to assist in the establishment and development of one or more systems of interconnection for such stations; (3) to assist in the establishment and development of one or more systems of public broadcasting stations; and (4) to act so as to assure the maximum freedom of noncommercial, educational broadcasting systems and stations from interference with or control of program content or other activities. 33/

INITIAL FUNDING OF CPB

The 1967 act establishing CPB authorized annual appropriations, but did not include any long-term financing provision. When reporting the bill, the Senate Commerce Committee stated that the annual appropriation provided was intended only to be an interim procedure pending a long-range proposal soon to be submitted by the Administration. 34/ Despite promises from both the Johnson and Nixon Administrations that proposals would be forthcoming, no long-range financing plans were submitted to the Congress until July 1974.

In the interim the Corporation decided to develop its own long-range financing plan for submission to the Administration and the Congress. In April 1972 it established a Long-Range Financing Task Force to study the problem. The Task Force reported its recommendations in September 1973. Its principal conclusion was:

> Federal support of public broadcasting from general tax revenues should be authorized by Congress for a period of no less than five years, and a schedule of appropriations for the same period of time should be made part of the authorization. 35/

PUBLIC BROADCAST FINANCING ACT OF 1975

The White House Office of Telecommunications Policy utilized the task force report in preparing draft legislation providing long-range financing for CPB. On July 16, 1974, the proposed legislation was sent to the Congress and introduced as H.R. 16139. Due to the press of other legislation during the second session of the 93rd Congress, the bill was not acted upon. The Ford Administration resubmitted the proposal on February 13, 1975.

House Interstate and Foreign Commerce Committee Action

In the House of Representatives the proposal was referred to the Committee on Interstate and Foreign Commerce. The committee reported H.R. 6461 in May with provisions for five-year authorizations and recommendations for five-year appropriations.

The principal arguments supporting the long-term funding were as follows:

- Long-term financing would provide CPB insulation from political and economic interference. CPB's Task Force on Long-Range Financing suggested that insulation was necessary to preserve the Corporation's freedom from governmental control. Annual appropriations, "hand-to-mouth survival," made the Corporation "vulnerable to outside interference." 36/ In his message to the Congress in February 1975, President Ford suggested that the "strict accountability" of annual appropriations could "lead to Government direction of programming, which is contrary to the principles of free expression on which our nation was founded." 37/

- Long-range financing would provide financial stability to facilitate advance planning. Sound planning, the development of quality programs, and the efficient use of available funds, "requires long-term funding." Harry Loomis, President of CPB, testified in 1973 that adequate lead-time is mandatory:

  > The production of programs for presentation by local public broadcasting stations is and should be a careful, time-consuming process. It takes time to consult with 147 television licensees and 138 qualified radio stations on their program needs, to analyze and react to their recommendations and their proposals, to decide upon production centers, to negotiate for rights to produce a pilot, to produce the final series, schedule and present them for use by the stations.
  >
  > Compressing their entire cycle into a single year means compromising on the quality of the final product. Series like BBC's "Henry VIII" and Civilisation" cannot be planned and produced in one year. It took almost three years of research, planning, and development before the first "Sesame Street" series could be aired. 38/

- Long-term funding is important to operational needs and objectives. Public broadcasting needs long-term funding to (1) attract and maintain talent over the "more financially secure commercial broadcast industry," (2) "decrease dependence on foreign program sources" and (3) develop "new and innovative program services, such as ... television captioning for the deaf and increasing radio programming ... for the blind." 39/

House Appropriations Committee Action

Because the bill, as reported by the Interstate and Foreign Commerce Committee, recommended appropriations as well as authorizations, it was subsequently referred to the House Appropriations Committee. That committee reported unfavorably on the bill. While it favored increased support for public broadcasting from all sources, it opposed the inclusion in the bill of the five-year appropriations. Its report noted:

- The five-year provision would establish another backdoor spending or "uncontrollable" program.
- The arguments warranting insulation did not justify a funding mechanism outside the normal appropriations process. 40/

In the Committee's Report Congressman Stokes noted that in inquiries with Messrs. Robert S. Benjamin of CPB and Ralph Rogers of the Public Broadcasting Service, they "quite candidly admitted that they have experienced no incidents of interference or pressure from members of the Committee or other Members of Congress." 41/

However, the Appropriations Committee did recognize the need of guaranteed funds in advance to help improve planning and management and reported:

> While the Committee has rejected the provision in H.R. 6461 for automatic appropriations for a five-year period ending September 30, 1980, it does not in principle oppose advance appropriations for public broadcasting,

> (emphasis added) and will include appropriations for the three fiscal years ending September 30, 1978 in an appropriations bill if and when H.R. 6461, or similar legislation, is enacted."

The report continued, "the Committee will recommend appropriations for fiscal year 1976, and advance appropriations for fiscal years 1977 and 1978." 42/

This compromise was strongly opposed by John Eger, Acting Director of the White House Office of Telecommunications Policy. In a letter to the Senate Commerce Committee's Subcommittee on Communications, during its consideration of the companion bill in the Senate (S. 2584), Eger stated of the House Appropriations Committee's action:

> This is not a compromise. The committee has ducked the issue. The committee's proposal does not insulate the Corporation from the possibilities of Government control which could be manifested during the annual budgetary process. While such advance funding does offer the Corporation leadtime for program scheduling, fund raising, and the like, these are not the reasons why the multiyear appropriations language was placed in the bill. 43/

Despite Eger's concern, the Senate Commerce Committee reported the bill with only the five-year authorization of appropriations. The committee clearly expected that the Appropriations Committee in each house would proceed immediately to consider appropriations for the Corporation under the authorizing legislation. 44/

The Compromise Becomes Law

The Public Broadcasting Financing Act of 1975 became law (P.L. 94-192) on December 31, 1975. According to the plan suggested by the Senate Commerce Committee, the law authorizes five-year appropriations but includes no actual appropriation language. The President immediately amended his budget estimate for the Corporation, requesting fiscal year 1976 appropriations as well as the advance appropriations for fiscal year 1977 and fiscal year 1978 as promised by the House Appropriations Committee.

The House Appropriations Committee recommended advance appropriations of $107,105,000 for fiscal year 1978 and $120,200,000 for fiscal year 1979, an increase of $57,350,000 over the President's budget requests. The committee also noted in its report (H. Rept. 94-1219) that it expected "to consider appropriations for fiscal year 1980 in connection with the fiscal year 1978 appropriations bill." 45/

The Senate appropriations bill for fiscal year 1977 also approved the advance appropriations, with recommendations exceeding both the House and the President's requests. The conference committee adopted the House funding levels and these amounts became law after the Congress overrode the President's veto of the Labor-HEW Appropriations bill.

FOOTNOTES

1/ Federal Airport Act, Amendment, S. Rept. 654, 87 Congress, 1 Session (1961), p.18.

2/ Ibid., p. 21.

3/ Federal Airport Aid Extension, Hearings before a Subcommittee of the House Committee on Interstate and Foreign Commerce, 87 Congress, 1 Session (1961), p. 172.

4/ Ibid, p. 66.

5/ Federal Airport Act, Amendment, H. Rept. 728, 87 Congress, 1 Session (1961), p. 7.

6/ Ibid.

7/ Ibid.

8/ Administration's Proposal on Aviation User Chargers, Hearings before the House Committee on Ways and Means, 91 Congress, 1 Session (1969), p. 181.

9/ Congressional Record, Vol. 115, Pt. 25, 91 Congress, 1 Session (1969), p. 33289.

10/ Airport and Airway Development and Revenue Act of 1970, H. Rept. 601, 91 Congress, 2 Session (1970), p. 93.

11/ Congressional Record, Vol. 115, Pt. 25, 91 Congress, 1 Session (1969), p. 33270.

12/ Independent Offices Appropriation Act, 1966, H. Rept. 320, 89 Congress, 1 Session (1965), p. 12.

13/ Independent Offices Appropriation Bill for Fiscal Year 1967, Hearings before a Subcommittee of the House Committee on Appropriations, 89 Congress, 2 Session (1966), Part 2, p. 1005.

14/ Independent Offices Appropriation Act, 1967, H. Rept. 1477, 89 Congress, 2 Session (1966), p. 18.

15/ Independent Offices and Department of Housing and Urban Development Appropriation Bill for Fiscal Year 1968, Hearings before a Subcommittee of the House Committee on Appropriations, 90 Congress, 1 Session (1967), Part 3, p. 46, Robert Weaver.

16/ Independent Offices and Department of Housing and Urban Development Appropriation Act, 1970, H. Rept. 91-316, 91 Congress, 1 Session (1969), p. 19.

17/ Independent Offices and Department of Housing and Urban Development Appropriation Bill for Fiscal Year 1969, Hearings before a Subcommittee of the House Committee on Appropriations, 90 Congress, 2 Session (1968), Part 3, p. 9.

18/ Department of Transportation and Related Agencies Appropriation Bill for Fiscal Year 1971, Hearings before a Subcommittee of the House Committee on Appropriations, 91 Congress, 2 Session (1970), Part 3, p. 18.

19/ Department of Transportation and Related Agencies Appropriation Bill for Fiscal Year 1976, Hearings before a Subcommittee of the House Committee on Appropriations, 94 Congress, 1 Session, (1975), Part 1, p. 489.

20/ Independent Offices and Department of Housing and Urban Development Appropriation Act, 1970, H. Rept. 91-316, p. 22.

21/ Peat, Marwick, Mitchell & Co., A Study of Late Funding of Elementary and Secondary Education Programs, prepared for the U.S. Office of Education (February 1976), p. VI.1.

22/ *Ibid.*, p. VI.2-3.

23/ *Ibid.*, p. VI.4-5.

24/ *Supplemental Appropriations for Fiscal Year 1975*, Hearings before a Subcommittee of the House Committee on Appropriations, 93 Congress, 2 Session (1974), p. 407.

25/ Among the studies recommending advance funding were: Task Force on Timing of Department of Health, Education, and Welfare Appropriations for Educational Programs, Report to the Secretary of Health, Education and Welfare, September 1966; *Study of the United States Office of Education Under the Authority of House Resolution 614*, H. Doc. 193, 90 Congress, 1 Session (1967); Advisory Council on Vocational Education, *Vocational Education: The Bridge Between Man and his Work*, general report to the Office of Education, U.S. Department of Health, Education, and Welfare, November 1968; and Peat, Marwick, Mitchell & Co., *A Study of Late Funding of Elementary and Secondary Education Programs* (see note 21 above).

26/ *Departments of Labor and Health, Education, and Welfare Appropriation Act, 1969*, H. Rept. 1575, 90 Congress, 2 Session (1968), p. 10.

27/ *Office of Education Appropriation Bill, 1971*, H. Rept. 91-996, 91 Congress, 2 Session (1970) p. 5.

28/ *Supplemental Appropriations for Fiscal Year 1975*, Hearings, p. 320.

29/ *Congressional Record*, daily ed., May 16, 1974, p. S8329.

30/ *Ibid.*, p. S8330.

31/ *Vocational Education Amendments of 1968*, H. Rept. 1647, 90 Congress, 2 Session (1968), p. 16.

32/ Economic Opportunity Amendments of 1969, Hearings before the Subcommittee on Employment, Manpower, and Poverty of the Senate Committee on Labor and Public Welfare, 91 Congress, 1 Session (1969), p. 116.

33/ Section 396(g)(1), Communications Act of 1934, as amended by Section 201, Public Broadcasting Act of 1967 (Public Law 90-129).

34/ Public Broadcasting Act of 1967, S. Rept. 222, 90 Congress, 1 Session (1967), p. 5.

35/ Long-Range Financing Task Force, Report of the Task Force on the Long-Range Financing of Public Broadcasting, Report to the Corporation for Public Broadcasting, September 1973, p. 8.

36/ Ibid., p. 9.

37/ Public Broadcasting Financing Act of 1975, H. Rept. 94-245, Part I, p. 20.

38/ On S. 1000 and S. 1228, Hearings before the Senate Committee on Commerce, 93 Congress, 1 Session (1973), p. 42.

39/ Public Broadcasting Financing Act of 1975, S. Rept. 94-447, 94 Congress, 1 Session (1975), p. 5.

40/ Public Broadcasting Financing Act of 1975, H. Rept. 94-245, Part II, 94 Congress, 1 Session (1975), pp. 4-5.

41/ Ibid., p. 8.

42/ Ibid., pp. 2,6.

43/ Public Broadcasting Financing Act of 1975, S. Rept. 94-447, p. 36.

44/ Ibid., p. 7.

45/ Departments of Labor and Health, Education, and Welfare Appropriation Act, 1977, H. Rept. 94-1219, 94 Congress, 2 Session (1976), p. 85.

THE EFFECTS OF ADVANCED FEDERAL BUDGETING UPON STATE AND LOCAL PROGRAM DELIVERY

A Background Study Prepared for the

CONGRESSIONAL BUDGET OFFICE

by

Peat, Marwick, Mitchell & Co.

November 18, 1976

The Congress of the United States
Congressional Budget Office
Washington, D.C.

PREFACE

Uncertainties about future levels of funding have prompted state and local officials to advocate advance decisionmaking in the federal budget process. These uncertainties are believed to produce obstacles to effective program planning and problems relating to program implementation. Because data relating the timing of federal funding to the effectiveness of programs were not readily available, CBO contracted with the firm of Peat, Marwick, Mitchell & Co. to conduct a survey of state and local officials. A panel of state and local officials was assembled to assist in designing the study and reviewing the findings. The recommendations emerging from this study represent a distillation of the informed opinions of the officials interviewed and the panel members. Peat, Marwick, Mitchell & Co. assumes full responsibility for the accuracy of the findings and conclusions presented in the report. The conclusions do not necessarily reflect those which appeared in the final report to the Congress by CBO.

Sante J. Esposito of CBO's Budget Analysis Division was the project officer for this effort, assisted by John D. Shillingburg. Richard P. Emery, Jr. and Robert D. Harris supervised the effort. Questions concerning the report should be addressed to John Shillingburg.

Alice M. Rivlin
Director

March 1977

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ADVISORY PANEL

To advise it during the course of this study, the Congressional Budget Office formed an advisory panel of state and local officials. The panel included the following individuals:

Wayne Anderson, Executive Director, Advisory Commission on Intergovernmental Relations, Washington, D.C.

Gerald Henigsman, Assistant City Manager, Dallas, Texas (participating alternate member)

James McIntyre, Director of Planning and Budget, State of Georgia, Atlanta, Georgia

Guy Millard, County Administrator, Somerset County, Somerville, New Jersey

John H. Poelker, Mayor, City of St. Louis, St. Louis, Missouri

Alan Post, Legislative Analyst, State of California, Sacramento, California

George Schrader, City Manager, Dallas, Texas

Clark Stevens, Director, Budget Division, State of Georgia, Atlanta, Georgia (participating alternate member)

John Vickerman, Chief Deputy Legislative Analyst, State of California, Sacramento, California (participating alternate member)

Jack Webber, Budget Director, City of St. Louis, St. Louis, Missouri (participating alternate member)

PEAT, MARWICK, MITCHELL & CO.
1025 CONNECTICUT AVE., N. W.
WASHINGTON, D. C. 20036

November 18, 1976

Dr. Alice M. Rivlin, Director
Congressional Budget Office
United States Congress
Washington, D.C.

Dear Dr. Rivlin:

Peat, Marwick, Mitchell & Co. (PMM&Co.) is pleased to provide to the Congressional Budget Office this final report of our study on the impacts of advanced federal budgeting upon state and local program delivery. The study greatly benefited from the outstanding cooperation of the federal, state, and local officials serving on the advisory panel and participating in the nationwide interviews. Their contributions, as well as the fine support and guidance that Congressional Budget Office staff members have given the study team, are gratefully acknowledged.

This report documents and analyzes the consequences of future federal funding level uncertainty on program planning and execution at the state and local levels and the management improvements that could be made through advanced budgeting and related strategies.

As these findings are considered, it should be recognized that at issue are both the administrative concerns of state and local officials and the benefits that citizens obtain from federally funded programs and the related costs to the taxpayers.

Advanced budgeting is not a major public issue; potentially excessive federal program costs are. The public lacks a detailed understanding of what factors create excessive costs. However, state and local officials, such as those who participated in this study, are in a position both to evaluate the quality and cost of the services they are delivering and to identify potential problems.

The fact that state and local officials, not the public, are urging advanced budgeting does not mean that advanced budgeting is something Congress should do for state and local officials. Instead, we believe that advanced budgeting is something that Congress should do for the people of this country.

The enclosed report highlights some of the more significant problems current federal funding strategies create, including insufficient lead time, uncertainty regarding continuation, unexpected increases or decreases in funding levels, and inability to hire or retain qualified staff.

The report strongly suggests that a number of alternative federal funding strategies--1-year advanced budgeting, 3- to 5-year rolling budgets, zero-based budgeting, hold harmless provisions, etc.--can reduce these negative effects.

To assist in a rational discussion of a very political process, our report describes the relative merits of these alternative approaches and criteria for their application to specific programs. The Peat, Marwick, Mitchell & Co. study team members sincerely hope that this report will be used as a working document to improve intergovernmental delivery of services, a goal the people of the country demand.

Very truly yours,

Raymond H. Olsen

PEAT, MARWICK, MITCHELL & CO.

THE EFFECT OF ADVANCED FEDERAL BUDGETING UPON STATE AND LOCAL PROGRAM DELIVERY

Prepared for the

CONGRESSIONAL BUDGET OFFICE

November 18, 1976

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EXECUTIVE SUMMARY

STUDY AUTHORIZATION

The Congressional Budget Act of 1974 (Public Law 93-344) established new budget procedures by which the Congress considers and acts upon the federal budget. The Act moved the beginning date for the federal fiscal year from July 1 to October 1 to accommodate the review schedule required by the new budget procedures and created the Congressional Budget Office (CBO) to provide staff support to Congress in the budget analysis and review process.

In addition, the Act required CBO and the Office of Management and Budget (OMB) to study the feasibility and advisability of advanced budgeting. The specific statute, 502(c) of the law, states the following:

> The Director of the Office of Management and Budget and the Director of the Congressional Budget Office jointly shall conduct a study of the feasibility and advisability of submitting the Budget or portions thereof, and enacting new budget authority or portions thereof, for a fiscal year during the regular session of the Congress which begins in the year preceding the year in which such fiscal year begins. The Director of the Office of Management and Budget and the Director of the Congressional Budget Office each shall submit a report of the results of the study conducted by them, together with his own conclusions and recommendations, to the Congress not later than 2 years after the effective date of this subsection.

As part of its response to this requirement, CBO has undertaken a study to assess the possible impact of advanced budgeting on state and local program delivery. The study was designed to provide one of a number of background papers treating specific aspects of the advanced budgeting issue.

STUDY APPROACH

The study focused upon documenting and analyzing the opinions of informed state and local officials regarding advanced budgeting and related issues.

Formation of Advisory Panel and Engagement of Consultant

To assist it in the study, CBO formed an advisory panel of distinguished state and local officials and engaged Peat, Marwick, Mitchell & Co. (PMM&Co.) to analyze state and local views on the issue and to prepare a report documenting its findings under the guidance of the panel.

The advisory panel included the following individuals:

- Wayne Anderson, Executive Director, Advisory Commission on Intergovernmental Relations;
- Gerald Henigsman, Assistant City Manager, Dallas, Texas (participating alternate member);
- James McIntyre, Director of Planning and Budget, State of Georgia;
- Guy Millard, County Administrator, Somerset County, New Jersey;
- John Poelker, Mayor, City of St. Louis, Missouri;
- Alan Post, Legislative Analyst, State of California;
- George Schrader, City Manager, Dallas, Texas;
- Clark Stevens, Budget Officer, State of Georgia (participating alternate member);
- George Strauss, U.S. Office of Management and Budget;
- John Vickerman, Legislative Analyst, State of California (participating alternate member); and
- Jack Webber, Budget Officer, City of St. Louis, Missouri (participating alternate member).

CBO and PMM&Co. sought the panel's guidance on the study approach, focus, and conclusions. The panel met twice, once in late August to provide advice on study objectives and research methodology and again in early October to review findings, provide advice on conclusions, and examine the format for the final report. The advisory panel reviewed the contents of this final report in draft form and made comments it felt appropriate to strengthen the conclusions.

Notwithstanding the extensive participation in this study by the officials cited above, PMM&Co. takes full responsibility for the accuracy of the findings and conclusions presented in this report.

Conduct of Study

The study was conducted in a number of steps, including:

- selection by the advisory panel of eight federal assistance programs for detailed study of current operations and the potential impact of advanced budgeting options;
- conduct of interviews with federal officials from the executive departments responsible for the programs selected for detailed study;
- conduct of state and local level interviews with 30 program administrators, 17 central executive officers and budget officials, and 4 legislative staff members and elected officials;
- review of study results and report outlines by the advisory panel; and
- preparation of draft final reports, review of the drafts by the advisory panel, and submission of this final report.

STUDY SCOPE

The study included an examination of the impact of federal budgeting procedures on program planning, budgeting, execution, and effectiveness in selected federally assisted programs. In addition, the study elicited opinions of state and local officials regarding six budgeting strategies (not all of which involved advanced budgeting in the strictest sense) considered to have the potential for alleviating funding uncertainty. These six strategies, 1-year advanced appropriations, 3- to 5-year rolling budgeting, zero-based review with sunset laws, hold harmless provisions, budget carry-over provisions, and advance contract authority, are described in the following paragraphs.

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One-Year Advanced Appropriations

One-year advanced appropriations would involve the enactment of appropriations 1 year in advance of the year in which they are to become available. To obtain full benefits from this approach, authorizations would have to be made a year earlier, grant awards would have to be advanced by a commensurate period, and significant regulations governing program execution would have to be moved forward.

Three- to Five-Year Rolling Budgeting

Three- to five-year rolling budgeting would require the President to submit 3- to 5-year budget estimates in the annual budget submission. Congress would then enact overall budget targets for the 3- to 5-year period, along with specific budget targets for some programs. The specific targets would be used by executive agencies to provide budget planning marks for state and local governments. A key assumption in 3- to 5-year rolling budgeting is that budget targets are reasonably credible predictions of future appropriations.

Zero-Based Review with Sunset Laws

Zero-based review with sunset laws envisions the institutionalization of an orderly review process for each program. Through this process, which would be much like the current reauthorization process but would be on a regular cycle of 3 or more years, major program policies would be established for a definite period and left significantly unchanged until the end of the program cycle. Zero-based sunset reviews would be conducted in the next-to-last year of program life.

Hold Harmless Provisions

Hold harmless provisions would be used to provide state and local jurisdictions protection against radical fluctuations in funding by making current year grant awards a specified percentage of prior year awards. Hold harmless provisions could thus be used to buffer precipitous changes in formula calculations or individual grant awards and would in this way provide a funding floor upon which state and local jurisdictions could plan future program levels.

Budget Carry-Over Provisions

Budget carry-over provisions would not involve providing information about future funding levels. Rather, they would provide the legal permission to obligate budget authority granted in one fiscal period in future periods. In this way, the pressure to expend funds rapidly when the grant awards are given late to state and local governments would be relieved.

Advanced Contract Authority

Advanced contract authority is a means of providing multiyear funding commitments. Contract authority involves granting state and local governments the right to obligate federal funds for which the budget authority is not provided in advance by appropriation acts. Because contract authority does not provide money to pay these obligations, there must be a subsequent appropriation to liquidate them.

Summary

These strategies vary significantly in scope and approach. Some, like advanced appropriations and advanced contract authority, constitute legal commitments of the federal government, while others, like 5-year rolling budgeting, merely provide improved planning targets for future years without legally binding the federal government to specific outlays. Zero-based review with sunset laws, hold harmless provisions, and budget carry-over provisions do not involve advanced budgeting but rather are ways to buffer the effects that precipitous shifts in federal policy and funding have on state and local governments. These latter techniques should be viewed more as complementary features to or substitutes for advanced budgeting.

A funding technique that many state and local governments felt was also an important complementary feature to advanced budgeting was the block grant form of funding, in which federal funds are made available to state and local governments for broad purposes with relatively limited discretion in grant administration given to federal executive agencies.

Exhibit 1 categorizes the different budgeting strategies.

STUDY FINDINGS

Analysis of the problems affecting state and local program delivery indicated that effective program management is impaired by the many uncertainties associated with federal funding. Areas of uncertainty include the funding level, regulations, program guidelines, the application process, distribution formulas, and award decisions. Analysis of the problems also indicated that advanced budgeting was perceived as an important vehicle for reducing uncertainties and improving program delivery at the state and local levels.

The following paragraphs suggest how lack of knowledge about future federal funding affects state and local program delivery. In

EXHIBIT 1

PRINCIPAL ADVANCED BUDGETING TECHNIQUES FOR THE FEDERAL GRANTS PROCESS

ADVANCED BUDGETING OPTIONS		SUBSTITUTES FOR ADVANCED BUDGETING	TECHNIQUES COMPLEMENTARY TO ADVANCED BUDGETING
PROVIDE LEGAL COMMITMENT	PROVIDE PLANNING TARGETS		
One-Year Advance Appropriation	Rolling Budgeting	Hold Harmless Provisions	Zero-Based Sunset Review
Advanced Contract Authority		Multiyear Budget Carry-Overs	Block Grants
			One-Year Budget Carry-Over

addition, some of the forms of advanced budgeting that are considered possible solutions to program delivery problems are described.

Impacts of Uncertainty Regarding Federal Funding

The study examined the impacts that uncertainty regarding federal funding has on four specific aspects of program delivery:

- program planning;
- budgeting;
- program execution; and
- program effectiveness.

These aspects of program delivery were examined both in the specific sample programs selected for study and more generally from the viewpoints of central executives, budget officers, and legislators. The findings indicate that program delivery under current pressures is impaired as summarized below.

Program Planning

Uncertainty severely restricts state and local planning, both long- and near-term. Indeed, state and local officials are reluctant even to begin planning for long-term efforts when funding commitments are unsure. Even when general commitments are certain but specific funding amounts are not, it is difficult to place a realistic frame on long-range plans. As a result, it becomes difficult to interest elected officials and citizen groups in what are frequently viewed as long-term "pipe dreams."

Near-term planning difficulties are much more pragmatic in nature. Without advance knowledge of program levels, program implementation strategies must be adopted without appropriate deliberation from governing boards, legislative bodies, and citizen review boards. As a result, program implementation is frequently disjointed. When significant coordination with ongoing programs is required, the problem is especially serious.

The CETA administrators contacted remarked that it is very difficult for them to devise a workable plan and have it duly considered and approved by prime sponsor governing boards when late or unanticipated grant awards are made. This tends to create antagonism toward the program among board members and in the community. One LEAA administrator explained how his state planning agency, in its final deliberations on the state plan for this year, had been constantly in touch with sources in Washington, D.C., to get information on possible LEAA program directions that were being developed the reauthorization hearings then being conducted. In some cases, meetings of the board were interrupted to pass on the latest developments in Washington, developments which had direct impact on issues then before the board. UMTA officials spoke of the impossibility of stimulating the kind of long-term local planning and commitments required to undertake large construction and procurement projects funded through the Section 3 program without long-term federal funding security. The administration has tried to provide this security by signing full funding contracts for major construction projects and making commitments to long-term transportation improvement plans for minor projects, such as bus replacement.

Budgeting

Uncertainty makes budgeting difficult for program administrators, central executive and budget officials, and legislators. Specific concerns include (1) budgeting sufficient state or local revenues to meet hard matching or maintenance of effort requirements and (2) preparing for federal funding phaseouts or other downward fluctuations in federal funding. Chief executives and their budget staffs are particularly concerned about having to free state and local funds budgeted for other purposes to meet additional matching requirements or to continue operations when available federal funds are reduced. State and local legislative officials tend to be concerned about the loss of legislative initiative and control when shifts in federal funding occur after appropriations have been enacted. All are concerned about the distortions that can occur in state and local budget priority setting when budgets representing only a guess about the size of federal aid in many programs must be enacted.

The checkered experience of cities in deciding whether to budget for general revenue sharing funds in this year's budget is indicative of the confusion late or uncertain funding can produce: some jurisdictions budgeted for 100 percent of the funds, some for 50 percent, and some for none. One local finance director prefers to keep all federal funds as separate as possible from the mainstream of city financial affairs so that the city council will not consider the funds "its" money. (Uncertainty can work both ways: a state budget officer explained that lack of knowledge about future matching requirements could create a $5 million savings in state matching shares in one large program. Decisions on how to use these funds, should they become available, have to be deferred until much later in the budget cycle.) Another state budget official criticized the gamesmanship that goes on between line and staff agencies in deciding the level of federal funds and state matching funds required in each federally aided program. A state legislator noted that his legislative staff was undertaking a broad study of the uses of federal funds in his state because his legislature felt that its control over federal funds had been lost since the state executive agencies had been given so much authority to deal with fluctuations in federal funds after the state budget was enacted.

Program Execution

Several specific negative impacts have been identified in program execution. First, it is difficult to attract and retain good staff. Under conditions of uncertainty, the most competent staff tend to move on to more secure positions. Community Development Block Grant administrators reported that as the program nears the end of its current authorization, the best staff are already beginning to accept positions with greater security.

Second, in programs that experience unexpected upward fluctuations and in which client outreach and screening are needed, the quality of these latter functions is frequently greatly reduced in the interest of delivering services. In such cases, the most appropriate services are not always delivered to each client.

Third, when contracts with outside or private agencies and firms must be concluded, late grant notification may combine with state and local contracting laws to produce damaging program delays. Also, when multiyear contracts are required, some outside agencies and firms are reluctant to enter into agreements under which firm funding exists only for the first year. Some CETA administrators note that when no grant for the future period has yet been received, they have difficulty contracting with private firms for on-the-job training courses that must be carried beyond the end of the current fiscal year.

Finally, cash management can be impaired if programs must be continued with state or local funds in anticipation of future but uncertain federal funding. (Many state and local laws actually prevent spending state or local revenues in anticipation of federal funding.)

Program Effectiveness

Ultimately, program effectiveness suffers from the program execution difficulties cited above. Funds intended for multiyear projects are frequently channeled into shorter-range spending. Hardware purchases and small construction or land acquisition projects take the place of service-oriented functions. Major reform or reconstruction efforts are foregone, and the quality of service suffers. Loss of continuity impairs the value of services that require time to become established and produce results. In some cases, program beneficiaries, faced with inconstant services, become cynical and resistant to such services, thus thwarting program objectives.

CDBG administrators are concerned that because of uncertainty about the long-term future of the CDBG program, many superficial projects have been undertaken. Such projects do not provide the kind of continuing commitments to neighborhood renewal that are most desirable. An LEAA official indicated that long-term plans to initiate needed reforms in the judicial and correctional systems in his state had been set aside because of the uncertain future of the LEAA program. The funds were channeled into shorter range but less desirable efforts.

Benefits of Increased Certainty Strategies to the Federal Government

The survey findings indicate that increases in certainty provided by advanced budgeting or other funding strategies do make a difference in program effectiveness. Experience in ESEA Title I and other programs, such as general revenue sharing and CDBG, that feature funding certainty corroborates this finding. Based on such experience and the survey of state and local officials, Congress could expect the following results from expansion of advanced budgeting or similar increased certainty mechanisms:

- more efficient, effective utilization of federal grant dollars through better planning and elimination of "crash" hiring and excessive personnel mobility;

- increased lead time, which would allow greater citizen input into the planning process;

- removal of a major source of dissatisfaction among state, county, and municipal officials and therefore an improvement in intergovernmental relations;

- less Congressional and executive staff time spent responding to the urgent state and local problems brought about by uncertainty;

- better long-term coordination of total public sector budgets, in recognition of the major factors they have become in the entire national economy;

- greater acceptance of programs by the taxpaying public, which recognizes the waste of tax dollars caused by "crash programs"; and

- better ability to phase down or eliminate marginal programs.

State and Local Reactions to Alternative Federal Funding Strategies

The budgeting strategies studied were not regarded as equally advantageous by state and local officials. In general, these officials prefer options such as advanced appropriations or advanced contract authority, which require Congress to take some specific legal action creating budget authority, to options such as 3-year rolling budgeting or hold harmless provisions, which merely provide targets, funding floors, or estimates of future funding.

State and local officials agree, however, that the options that provide improved planning targets might have a favorable impact upon program delivery. Several specific advantages are:

- A realistic multiyear approach to fundamental problems would be encouraged by underwriting commitments to a neighborhood, a service, or a set of client problems.

- Program efforts could be focused on longer-term strategies rather than on short-range tactics.

- Multiyear financial planning and budgeting would be facilitated and encouraged.

- Federal grant programs could be more easily integrated with state or local revenues and considered directly in the normal state or local budget cycle.

Notwithstanding these potential benefits, state and local officials remain skeptical that planning targets would actually be realistic predictions of future appropriation levels. Because of this skepticism, 1-year advanced appropriations and advanced contract authority, options which create legal budget authority, are considered much more desirable. The following specific benefits from those options which create the legal authority to obligate federal funds were cited:

- Sufficient lead time would be available to plan implementation strategies for new or enlarged program efforts or to adjust to downward fluctuations in funding.

- It would be possible to budget for appropriate levels of hard matching funds and thus avoid the difficulty of having to provide additional funds later or to account for embarrassing matching surpluses.

- When new staff is required, advanced appropriations would allow sufficient lead time to recruit appropriately skilled persons. The assurance of program continuity would enable state and local governments to attract top quality staff in federally assisted programs and would have a favorable impact on staff retention.

- Service continuity would improve client relationships and, therefore, program effectiveness. As a result, projects would be designed better.

- Relationships with citizen groups participating in program planning would be improved.

The other budgeting options, which have been described as complements to advanced budgeting, were also viewed favorably by state and local officials. Budget carry-over provisions were felt to be universally desirable, although their efficacy would not be as great in service-oriented programs, where spending schedules are not flexible, as in those programs where project schedules may be slipped without significant damage to program delivery. Zero-based sunset review was viewed favorably, but only to the extent that it would stabilize important program policies for a known period of time and allow lead time for any program adjustments made following the zero-based review.

Finally, state and local officials expressed considerable approval of the block grant form of federal aid distribution, which substantially reduces the delays and uncertainties produced by the executive grant review process and is therefore viewed as a valuable companion to alternative funding strategies.

Forms of Advanced Budgeting Appropriate to Different Types of Programs

Federally aided programs in state and local governments take a variety of forms. In this study, three general forms were identified:

- ongoing services programs which fund continuous service to beneficiaries. (Among the programs studied, Social Services Title XX, Medicaid, ESEA Title I, CETA, and UMTA Section 5 fall into this category.)

- short-term project-oriented programs which fund specific types of effort in 3- to 5-year increments (specific performance objectives are usually associated with each project). Among the programs studied, the LEAA and, in some cases, the CDBG programs fall into this category.

- long-term project-oriented programs which fund major, (typically capital investment type) programs requiring many years to be completed. Among the programs studied, UMTA Section 3 and EPA Waste Water Treatment Plant Construction programs fall into this category.

The time horizons required for planning, budgeting, and program execution in these three types of programs are highly variable. For this reason, the term of certainty required to perform these program execution functions properly is variable. No single form of advanced budgeting can be applied in all cases and produce equal gains in program execution and program effectiveness. Rather, the form of advanced budgeting employed must be tailored to the time horizon required for proper program execution. Based on this finding, the following conclusions about appropriate advanced budgeting forms were made:

- Programs providing ongoing services can benefit most from 1-year advanced appropriations, including commensurate advancing of authorizations, grant awards, and major decisions regarding program regulations. Block grant funding is particularly useful.

- Programs funding short-term projects can benefit most from 3- to 5-year rolling budgeting, preferably combined with a 1-year advanced appropriation. This conclusion assumes that 3- to 5-year authorization cycles are enacted, that budget targets are credible, and that executive agencies issue state and local jurisdictions planning marks that cover the 3- to 5-year period.

- Programs funding long-term projects can benefit from long-term contract authority. Executive procedures such as full funding contracts might be required to convert congressionally enacted budget authority into commitments for specific projects.
- Hold harmless and budget carry-over provisions are beneficial in most circumstances, as discussed above, but neither is as desirable as advanced budgeting.

In Exhibit 2, the relationships among the three types of programs and the advanced budgeting options are depicted.

Priorities for the Use of Advanced Budgeting

Although from the state and local viewpoint advanced budgeting might be desirable in all federally aided programs, it may not be possible to achieve in all cases. During the study, those state and local officials interviewed suggested a number of criteria for consideration.

As a rule, advanced budgeting is preferred for ongoing services. However, this rule is complicated by a broader set of criteria that must be considered when setting priorities. These criteria include the following items, described in the order of precedence that state and local officials would assign to them:

- There are no alternatives to the program (i.e., the program provides a service or a capital investment that cannot be easily foregone or readily substituted).
- The program is large.
- Significant complications exist in program implementation, including:
    - the need to closely coordinate the program with other ongoing programs;
    - the necessity of a substantial startup effort such as client outreach and screening and securing facilities and staff;
    - the accompanying requirement for a complex delivery and decisionmaking structure with multiple levels of government and/or outside agency and private sector involvement; and

EXHIBIT 2

ADVANCED BUDGETING TECHNIQUES APPROPRIATE TO THREE TYPES OF PROGRAMS

TECHNIQUES FOR INCREASING CERTAINTY IN THE FEDERAL GRANTS PROCESS	PROGRAM DELIVERY STRUCTURES		
	Ongoing Services	Short-Term Projects	Long-Term Projects
1) Advanced Budgeting Options which Provide Legal Commitments to Future Federal Funding			
. One-Year Advanced Appropriations	Best Option	Best Option*	
. Long-Term Contract Authority			Best Option
2) Advanced Budgeting Options which Provide Planning Targets			
. Three- to Five-Year Rolling Budgeting	Second Best Option	Best Option*	
. Trust Fund Financing			Second Best Option
3) Substitutes for Advanced Budgeting			
. Hold Harmless Provisions	Good Substitute		
. Multiyear Budget Carry-Over		Good Substitute	Essential Complement
4) Techniques Complementary to Advanced Budgeting			
. Zero-Based Sunset Review on a Multiyear Cycle		Desirable Complement	
. Block Grants	Highly Desirable Complement	Desirable Complement	
. One-Year Budget Carry-Over	Highly Desirable Complement		

*These features should be used in tandem for short-term projects.

- the large numbers of public employees that are involved in the program.

- Direct financial requirements are placed on state and local governments in the form of hard cash matching requirements, maintenance of effort requirements, or federal funding phaseouts.

The more of these characteristics that exist in a program, the higher its priority for advanced budgeting should be. In addition, characteristics from the top of the list carry relatively greater weight when priorities are set than do those at the bottom. Thus, the criteria must be applied with selectivity.

CONCLUSIONS

This analysis of informed state and local opinions about when and where advanced budgeting is desirable has lead to the following conclusions.

- If properly applied, advanced budgeting should have a beneficial effect upon all aspects of program management and should ultimately produce more effective programs. The intergovernmental partnership in program delivery should be strengthened, the beneficiaries of programs should be better served, and the taxpayers in general should get more for their money.

- The form of advanced budgeting chosen should produce certainty about future funding and program requirements for a time span equal to that needed to plan and implement programs in an orderly manner. Forms of advanced budgeting that involve legal actions authorizing state and local spending are generally preferable to forms that merely improve the predictability of future funding actions.

    - One-year advanced appropriation is the most beneficial form of advanced budgeting for ongoing service-oriented programs. This approach is also helpful in programs consisting of short-term projects. Budgeting and program execution are the management functions most benefited by this approach to advanced budgeting.

- Three- to five-year rolling budgeting is most beneficial to programs only if budget targets are made credible and 3- to 5-year planning targets are issued to each eligible jurisdiction. Programs that must be closely coordinated with other ongoing programs will benefit from this option. This option is best employed in conjunction with 1-year advanced appropriations and is most beneficial to program planning and budgeting functions.
- Multiyear advanced appropriations and long-term contract authority are the most desirable means for financing long-term projects. Program and financial planning are most benefited by these approaches.

- Substitutes for advanced budgeting are clearly less desirable than advanced budgeting itself. These approaches can best be used (a) in conjunction with advanced budgeting or (b) as a last resort measure when advanced budgeting is deemed undesirable by Congress.

    - Hold harmless provisions establish a funding floor for programs and are most beneficial to ongoing service programs.

    - Carry-over provisions are valuable in all programs because they reduce pressure to spend money rapidly and unadvisedly. They can substitute for advanced budgeting in short- and long-term programs where spending schedules may be slipped.

- Approaches to grant distribution and administration that limit executive discretion to select grantees, determine grant amounts, and determine grant award schedules are important companions to advanced budgeting. Block grants like CDBG and LEAA have some of these characteristics.

- When determining which programs should receive advanced budgeting, those programs providing ongoing services for which there are no options for program beneficiaries should be given highest priority. Second priority should be given to short- and long-term projects the products of which are not easily substitutable.

State and local officials are convinced that advanced budgeting would be helpful in program management and beneficial to program beneficiaries and that it would improve state/federal relationships. They therefore feel strongly that the implementation of the advanced budgeting approaches described above should be an important Congressional concern.

CHAPTER I

STUDY APPROACH AND METHODOLOGY

Peat, Marwick, Mitchell & Co. (PMM&Co.) undertook this study with a single preeminent objective: to fairly represent the views of informed state and local officials regarding the need for and advisability of advanced budgeting in federal assistance programs for state and local governments. Therefore, the study approach and methodology were constructed to collect opinions from a broad range of state and local officials. This chapter discusses the specific approach and methodology employed.

STUDY BACKGROUND

This study is one component of a broader effort being undertaken by the Congressional Budget Office (CBO) to provide background information to Congress on the advanced budgeting issue. [CBO was instructed, in the Congressional Budget Act of 1974 (P.L. 93-344, Section 502), to examine the advanced budgeting issue.] To assist it in analyzing the impact of advanced budgeting on state and local governments, CBO engaged PMM&Co. to carry out the study and assembled an advisory panel of distinguished state and local officials to guide the study effort. The advisory panel met twice, once in late August to examine the preliminary analysis and proposed study methodology, and again in early October to review findings and participate in drafting conclusions. In addition, the members of the advisory panel have had the opportunity to review this report in draft form and to suggest changes.

STUDY OBJECTIVES

In its initial meeting, the advisory panel provided extensive guidance to the study methodology. It was instrumental in focusing the study on identifying:

- the conditions under which advanced budgeting would prove most beneficial;
- what forms of advanced budgeting would be most desirable; and
- what aspects of program delivery would be most benefitted by advanced budgeting.

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STUDY APPROACH

To answer the questions posed by these objectives, a two-phased study approach was developed. The first phase of the approach involved an analysis of the impact of the funding uncertainties of existing grants on program administration in eight programs selected by the panel and PMM&Co.:

- Comprehensive Employment and Training ACT (CETA) Title I;
- Social Services Title XX;
- Law Enforcement Assistance Administration (LEAA) Block Grants;
- Environmental Protection Agency (EPA) Waste Water Treatment Grants (Sections 201 and 208);
- Elementary and Secondary Education Act (ESEA) Title I;
- Medicaid Reimbursement;
- Community Development Block Grants (CDBG); and
- Urban Mass Transportation Administration (UMTA) Sections 3 and 5.

These programs were chosen for study because both the advisory panel members and PMM&Co. staff felt they offered the most information on the advanced budgeting issue. They were identified as programs in which significant doubts and uncertainties about federal funding levels and policy directions are frequently experienced. They vary widely in purpose, from service-oriented programs like Medicaid or ESEA Title I to long-range construction programs like EPA Section 201. Some are block grant programs and some categorical. Some, like CDBG, are administered directly by local government, some are administered directly by state government, and some, like LEAA Block Grants, are pass-through programs involving both state and local governments.

The second phase of the approach involved a review of the problems created by uncertainty in grant administration from the central management and budgeting perspectives of state and local governments.

In both phases the analysis focused on the problems that unpredictable and unexpected federal funding and policy actions create for the following four aspects of state and local program delivery:

- program planning;
- budgeting;
- program execution; and
- program effectiveness.

In each of these areas the study sought to identify (1) the reasons why problems related to uncertainty exist, (2) the specific ways that each of these aspects of program delivery is affected by these problems, and (3) the advanced budgeting technique that would have the most beneficial effect in each sample program studied.

STUDY METHODOLOGY

The reviews of the programs and of these aspects of program delivery were conducted through extensive interviews with more than 50 state and local officials. Interviews were also held with federal officials having responsibility for interfacing with state and local officials in each program area and with representatives of some of the major public interest groups, including the National Governors Conference, the National Conference of State Legislatures, and the Advisory Committee on Intergovernmental Relations, and the National Association of Counties. Some of these interviews were conducted by telephone and others in face-to-face meetings.

Specific work steps included:

- a preliminary review in each program area to establish certain basic facts about the program, such as program size, basic program structure, eligible grant recipients and activities, and basic funding arrangements;
- interviews with key federal officials in each program area to ascertain the principal features of the grant funding cycle, grant requirements and regulations, the federal view on the problems the federal grant cycle creates for state and local program delivery, and the impact of these problems on program effectiveness;

- interviews with state and local officials to determine their views of the program delivery problems created in the grants cycle and their opinions about what form of advanced budgeting might help them; and

- interviews with central management and budgeting officials, legislative staff, state legislators, and local governing board members to obtain their views on advanced budgeting issues.

In selecting interviewees, no attempt was made to obtain a random sample of state and local officials. On the contrary, interviews were held with those persons identified by their peers as being especially knowledgeable in their respective fields of public administration. Interviewees were chosen from lists provided by advisory panel members, public interest groups, federal officials, and PMM&Co. functional specialists in each program area. For this reason, the study does not purport to represent scientifically collected and validated findings. Rather, it conveys a composite of what may be described as informed state and local opinions on the advanced budgeting issues.

The team assigned to this study was highly experienced in state and local governments. It included:

- a former city manager and state planning officer;

- a former state budget officer;

- a former state planning and budget analyst; and

- four functional specialists in the program areas under study.

When possible, interviews with state and local program administrators were conducted by the functional specialists, while interviews with central management, budgeting, and legislative officials were conducted by study team members with experience in those activities.

This methodology enabled the study team to collect the broad range of state and local views on advanced budgeting needed to ensure that the study findings fairly represent informed state and local opinions. These findings were summarized and presented to the advisory panel in a 2-day meeting held on October 2, 1976, at which time a proposed final report outline was reviewed and critiqued, and study conclusions were discussed. Subsequent to the meeting, this final report was prepared.

Notwithstanding the extensive participation of state and local officials both on the advisory panel and in the interviews conducted by the study team, PMM&Co. takes full responsibility for the accuracy of the findings and the validity of the conclusions presented in this report.

CHAPTER II

THE CURRENT FEDERAL GRANTS PROCESS AND ITS IMPACT ON PROGRAM DELIVERY

The large and growing role of federal funding in state and local program efforts is evidence of a rapidly maturing partnership among the three levels of government, a partnership in which overall national domestic goals are established at the federal level, while the direct administration of many programs to achieve those goals is conducted at the state and local levels, along with activities in pursuit of state and local objectives. If this partnership is to result in effective program delivery, decisionmakers at all governmental levels must be able to coordinate their efforts to ensure effective program management.

Unfortunately, effective management of federally assisted programs at the state and local levels has often suffered because of the many uncertainties associated with federal funding. The inability of state and local governments to plan, budget, and execute federally assisted programs based on solid information about future funding levels and administrative requirements creates confusion in program management and ultimately damages program effectiveness.

Advanced budgeting for federal programs has been proposed as one means for ensuring the future federal funding that state and local decisionmakers need to deliver federally assisted programs effectively. As this study indicates, advanced budgeting may provide state and local governments with more information on federal program levels in time for them to make the policy and management decisions necessary for orderly program administration.

To provide a basis for analysis, this chapter:

- describes federal grant characteristics relevant to the study;
- identifies principal sources of uncertainty; and
- describes the impact these uncertainties have on program management and effectiveness.

PRINCIPAL CHARACTERISTICS OF FEDERAL GRANTS

Federal grants take a wide variety of forms, each affecting state and local program delivery in different ways. In particular, grant programs vary in their administrative and financial structures and in their program output and delivery systems.

Administrative Structure

As federal grant programs have developed over the past decade, two general administrative structures have emerged: categorical grants and block grants. Categorical grants are made available to a state or local government for a very specific purpose. These grants are issued by federal executive agencies and are typically subject to very stringent federal review and control.

Block grants, a form of federal aid developed more recently, are made available to state and local governments for much broader purposes than categorical grants. Greater discretion is typically given to state and/or local governments in the uses to which block grant funds may be put, and the guidelines that must be followed in grant administration are frequently less stringent.

Distribution Methods

Methods for distributing funds among state and local governmental jurisdictions vary. In some cases, the federal executive agency administering the program is given extensive discretion in deciding who the grant recipients will be and how large a share of the total funds available each grantee will receive. In other cases, the legislation authorizing a particular grant program establishes a formula for distributing available funds among state and local jurisdictions. Formulas may be employed either to fix the maximum amount a jurisdiction may receive under a particular program or to establish the entitlements each qualifying state or local government meeting certain minimum standards must receive. In all cases, formula distributions of federal aid funds tend to shift the discretion for establishing the relative shares each jurisdiction will receive away from the federal executive agency.

Pass-Through Features

Another important aspect of the administrative structure of federal grants is the "pass-through" feature employed in many programs. When this feature is used, a grant is made to an agency of state government, which in turn must pass some or all of the grant funds on to local governments. Pass-through grants increase the number of participants involved in the delivery process and therefore complicate decisionmaking.

When pass-through features are employed, the potential for uncertainty at the grant recipient level is magnified because state level executive agencies are given discretion in fund distribution.

Financial Structure

Federal grant programs vary widely in their financial structures and in the requirements they place on the financial resources of state and local governments.

Open-Ended Funding

In some programs the Federal Government has made what is essentially an unlimited commitment to reimburse local and state governments for the costs incurred on approved activities. In such cases, state and local governments have no concerns about the level of funding that will be made available; they will receive what they need. This "open-ended-commitment" form of funding is found in some income maintenance and health programs. Such programs comprise over one-third of federal assistance to state and local governments.

A variation of this open-ended type of funding is found in Title XX of the Social Services Act. Here, the Federal Government first made an open-ended commitment to fund certain social service activities of state and local governments but later established for each state a top limit, or "cap," beyond which no further payments would be made. The cap was introduced to control costs at the federal level. In only a few states has spending under Title XX reached the cap, however.

Fixed Appropriations

Most programs face a fixed dollar limit determined through a Congressional appropriation and distributed, as discussed previously, through executive discretion or formulas. These appropriations provide state and local governments with authority to draw cash from the U.S. Treasury Department up to the grant limit.

Contract Authority

Another form of financing used to support longer term, usually capital programs is contract authority. When Congress enacts contract authority and executive agencies issue contract authority grants, state and local governments are given the legal right to enter into contracts for the use of federal funds but not to draw cash immediately. Later, as contract payments become due, appropriations to provide cash to meet those payments are enacted, and cash is made available to state and local governments. Contract authority is usually granted at least 1 year and sometimes several years in advance of the year in which cash is actually made available. Originally it was developed to provide state and local governments long-term assurances that federal funds would be available to support large, long-term projects.

Financial Requirements

Federal grants also vary in the financial requirements they place upon state and local governments. Three general types of requirements are significant: matching requirements, maintenance of effort, and federal "seed" money.

Matching Requirements. As a condition of receiving grant funds from the Federal Government, the state or local government may be required to commit a portion of its own resources to the specific program activity as a matching share of the program effort. The proportion of the total effort that must come from the state and local government varies substantially from program to program. In some cases, as in the Medicaid program, the matching rate is determined through a formula and therefore varies over time as the data used in the formula change.

Matching requirements are divided into two broad categories: "soft match" and "hard match." Soft match applies to the requirement present in many programs that the state or local governments produce "in-kind" services, the costs of which are equal to some fixed proportion of the total program cost. In most cases, the state or local government does not have to initiate any new effort to produce such in-kind services; rather, it has merely to designate some ongoing effort as the matching effort. The match is soft in the sense that no additional state or local funds are required.

Hard matching requirements force state and local governments to include a specified portion of their own funds in the federally assisted program. Thus, hard matching requirements tend to place an additional burden on state and local financial resources. In addition, specific provision for the matching amounts for federal grants usually must be made in the state or local budgetary process. Hard matching requirements thus have a direct impact on the setting of state and local spending priorities from their own source revenues.

Hard matching requirements can produce more financial complexities when the pass-through of grant funds from state to local governments occurs. Then, not only must the total matching requirement be budgeted, but the relative share of the match which both the state and the local government must pay must be established, so that state and local budgets will contain appropriate matching amounts.

Maintenance of Effort. Another financial requirement that is sometimes placed on state and local governments through the federal grants process is known as maintenance of effort. Federal funds are frequently channeled into program areas where state and local efforts are already underway. In such cases, the Congress seeks to enhance, upgrade, or enlarge ongoing efforts rather than simply to replace state and local funding with federal funding. To deter state and local governments from diverting their own funds away from the program area in which federal funds are becoming available, federal grants require state and local governments to maintain their own funding efforts at predetermined levels as a condition of the receipt of the federal grant. In this way, state and local funds are forced to remain applied to the program effort even though no specific hard matching requirement exists. Again, the state and local governments must provide the funds to meet such maintenance of effort requirements in their own budgeting processes.

Federal Funds as Seed Money. A third type of financial requirement federal grants place upon state and local governments is the phaseout of federal funds from specific projects over a predetermined time period. In such cases, federal funds are employed as seed money to get a program going, but state or local funds must be appropriated to continue the effort. Such "federal phaseout" provisions are frequently an integral feature of grant programs that are of a demonstrative or experimental nature. In such cases, the Federal Government seeks to stimulate innovations in state and local programs which, if successful, will be continued with state or local funds. Grants distributed through the LEAA are often intended to be treated in this manner. Because experimental and demonstration programs are often difficult to terminate, state and local governments often must budget their own funds to continue federally initiated efforts.

Program Output and Delivery Systems

As noted earlier, federal grants are used to support a wide variety of services and program efforts. Three general types of delivery are employed:

- ongoing services provided through state and local governments. (Federal funds support local educational efforts, social services, transit operations, employment services, and a host of other ongoing, day-to-day services upon which the residents of our communities have grown to depend.)

- short-term projects to experiment in new approaches and techniques in services, to provide training, to purchase specific pieces of equipment, or to conduct small or short-term capital projects. (Much of the LEAA and some CETA financing fall into this category, along with numerous traffic safety and research efforts carried out as short-term projects.)

- long-term capital investments. (Large portions of highway and mass transportation capital funds flow from the Federal Government, as do funds to develop waste water treatment plants, educational facilities, and housing and community development facilities.)

Just as delivery structures for federally aided programs vary widely, so are delivery systems very different. In some cases, a relatively limited number of participants entirely within the sphere of state or local government are involved in the execution of federally aided programs. This is the case, for example, in some LEAA projects and in some income maintenance programs. More frequently, however, a large number of participants are involved, including government agencies, private agencies and contractors, and private citizens. The Medicaid program is an example of a program that funds services provided by a host of private and public institutions, including public hospitals, mental health facilities, nursing homes, clinics, and private physicians. The CETA program funds services provided both by private and public employers and by public institutions. The CDBG Program involves local housing agencies, private construction firms, and a number of other service providers.

FEDERAL GRANT FEATURES THAT CREATE PROGRAM DELIVERY PROBLEMS

The federal grants process often creates problems for state and local managers and decisionmakers. Most of these problems stem from the fact that major decisions taken at the federal level are not made sufficiently in advance of the time when they are to be implemented to allow state and local governments to adjust their own policies and provide for orderly program delivery. The principal aspects of the federal grants process that produce these problems for state and local program delivery are:

- program authorization and reauthorization schedules;

- timing of appropriation and grant distribution;
- federal executive agency requirements;
- coordination requirements for related programs; and
- external laws brought to bear on program administration.

Program Authorization and Reauthorization

In the program authorization process, guidelines for program implementation and delivery are set. Legislation establishing programs and stating their objectives is enacted, the desired funding level for programs over a specified time period is outlined, distribution formulas are enacted, and many informal signals and instructions about Congressional intentions for programs are provided to federal agency administrators by the Congressional committees.

Delays in these processes at the Congressional level impede state and local planning, slow program execution, and reduce program effectiveness. When an ongoing program is being considered for reauthorization, that is, when the legislation governing it is expiring and new legislation to continue the program is being proposed, state and local decisionmakers may be totally unable to plan or establish budgets because of the potential for radical change in program structure, matching rates, formula distributions, and eligible clients or projects. One LEAA administrator described how his state agency was constantly on the telephone to Washington during the final days of the recent reauthorization hearings for the LEAA program. In some cases, meetings of the state policy board for LEAA were interrupted with new information from Congress that impacted on the immediate decisions being taken on the state plan for the following year.

Timing of Appropriation and Grant Distribution

For a state or local government to receive notification of how much federal money will be made available for a particular program in its jurisdiction, two things must happen: Congress must enact the nationwide appropriation, and the share of funds the particular unit of government will receive must be established. This study found that these events almost never occur in time for state and local governments to use actual grant amounts for federal programs in their budgeting process. Indeed, until the recent implementation of the new Congressional budget process, federal appropriations for many very critical programs were made far into the fiscal year, months after state and local budgets had been enacted. Even with the new federal budget cycle, most state and local governments will still enact their budgets before federal appropriations are made.

After appropriations are enacted, there is still a need to subdivide the funds into the grant amounts each state and local government will receive. As noted earlier, a substantial amount of federal grant money is distributed through formulas set by law, and in some cases the data needed to derive these formulas are not available until well after the fiscal year has begun. This is so, for example, in the CDBG Program, in which the data needed to distribute a CDBG appropriation made in September are not available until December and local entitlements are not issued until January. In other cases, the desire to use the most current data possible to distribute funds may force delays in the issuance of state or local grant levels. Such is the case in the distribution of CETA Title I funds, where the sensitivity of the distribution formula to current economic indicators can make important differences in the level of funding available to a local or state prime sponsor. For this reason the U.S. Department of Labor, which administers the program, seeks to employ the most current data possible in establishing amounts to go to prime sponsors so that those areas in which economic conditions are weakest will get the greatest proportion of the funds.

Uncertainty about the data upon which the eligibility of a state or local jurisdiction to a share of grant funds is based can be particularly troublesome for jurisdictions on the threshold of eligibility. In such cases a slight shift in the formula data can bump the jurisdiction into or out of funding. This problem is particularly serious for some urban counties participating in the CDBG Program.

Uncertainty about the state or local share of federal assistance for a particular program becomes even more problematic when funds are distributed through federal executive discretion and not through formulas. In such cases, it becomes necessary to obtain planning targets and tentative commitments from a federal agency to guide state or local decisionmakers. Given the large number of eligible recipients normally associated with a grant program and the lateness of Congressional spending actions, obtaining realistic planning figures when funds are distributed entirely through executive discretion can prove quite difficult.

Federal Executive Review and Administration

Except for federal revenue sharing, all grant programs are subject to administrative oversight by some federal agency. The actions of these agencies can produce serious problems for state and local government. As noted above, when executive agency discretion includes the determination of what share of the available total grant funds each jurisdiction will receive, the problem is magnified. Other aspects of executive agency administration that create similar difficulties include:

- grant application, review, and approval processes;
- shifting federal policy emphases;
- financial management and reporting requirements and audit standards;
- performance standards; and
- federal phaseout procedures.

Grant Application, Review, and Approval Processes

In virtually all grant programs, whether they are block grant entitlement based programs or very narrow categorical programs, some form of grant application from the state or local government is required. The federal executive agency that administers the program establishes the basic regulations under which grant requests are submitted, the information required to support grant requests, standards of acceptability, and, usually, the schedule for review and approval. Delays in any one of these elements of the grant review and approval process can create problems for state and local decisionmakers.

In some cases, the requirements for grant application are not issued in time to enable local and state administrators to familiarize themselves with the data required and to permit the construction of a meaningful grant application. Several CETA administrators indicated that the guidelines for applying for their 1977 CETA grant were not issued until after the grant application was due. In other cases, grant application requirements are complicated or unclear, making it difficult to prepare an application even if the guidelines are issued on a timely basis.

In some programs the grant application must be the culmination of a very extensive planning process, in which substantial resources are invested in developing a long-term program delivery plan. For example, LEAA programs are funded based on a 3-year statewide plan that is updated annually. CDBG applications are based on a 3-year plan prepared with extensive citizen participation and coordinated with

3-year housing assistance plans. UMTA has placed substantial importance on the development of local Transportation Improvement Plans that provide a 5-year perspective on transportation needs and priorities for action. (UMTA sees these plans as a means for making long-term federal commitments to local priorities in the absence of a solid funding commitment.) Such plans can reduce uncertainty when, as is the case at UMTA, they are used to establish federal executive level commitments to a particular state or local program direction. However, they are often just a source of confusion and uncertainty, particularly when they serve no useful management purpose at the state or local level.

Delays in the executive review process can also create problems. State and local program planning and execution often must be held up awaiting federal agency action. To reduce this problem, some of the newer block grant programs, such as CDBG and LEAA, have specific schedules executive agencies must follow in reviewing grant applications. Such provisions ensure timely action and reduce uncertainty.

Shifting Federal Policy Emphases

The level of discretion executive agencies have in setting program objectives and policies can also become a significant source of uncertainty if the discretion is used to make precipitous shifts in program emphasis. When state and local governments must frequently adjust to shifting program emphases, their own planning and policy setting processes begin to appear irrelevant or useless. This is particularly frustrating when extensive effort has been invested in the orderly planning of program efforts.

Shifting policy emphases can also increase state and local program costs without advance warning. For example, in the Medicaid program, where new medical services may be mandated upon state governments by the U.S. Department of Health, Education, and Welfare (DHEW), additional state matching funds are required along with federal funds to pay for newly mandated services. As a result, additional state funds must be budgeted to meet these new matching requirements, sometimes long after state budgets have been enacted. In addition, when standards for the services provided in the Medicaid program are upgraded or reimbursement rate determination rules are changed, additional state funds are frequently required to meet rising costs.

In short, shifting policy emphases can have both financial and administrative consequences for state and local governments. If policy emphases change quickly and precipitously, enormous uncertainties can be generated for state and local governments.

Financial Management and Reporting Requirements and Audit Standards

The financial management and reporting requirements placed upon state and local program management by federal executive agencies can produce serious problems. Knowledge both of what constitutes allowable costs and of the appropriate means to collect, summarize, and report data is essential to ensure that adverse post-audit findings do not result in a withdrawal of funding. This aspect of financial management is particularly significant in programs like Social Services Title XX and Medicaid, where very large volumes of financial transactions must be controlled and reported. Substantial sums of money can be withdrawn through inadequate implementation of financial management standards.

Financial accounting and reporting standards can also be so strict that they have the effect of turning relatively simple block grant programs into categorical programs. In such cases, the gains in local flexibility and certainty that accompany the block grant form can be seriously damaged because financial reporting standards force local agencies to budget for and report expenditures in very narrow categories. Some CETA administrators indicated that the very detailed reporting requirements in their program are one of the problems creating difficulties for them in budgeting and in program flexibility.

Performance Standards

Executive agencies can also create uncertainties by changing, and frequently broadening, the standards for performance review for a particular program effort. This proves particularly vexing when review standards are issued after major program decisions at the state and local levels have been made or when new standards are made to apply retroactively.

Federal Phaseout Procedures

Finally, in programs where a phaseout of federal funds is required, the failure to establish a firm schedule for the removal of federal funds can produce uncertainty. In such cases, when state or local funds will be required to replace federal dollars, it is helpful to know in advance when those funds will be required.

Coordination with Complementary Federal Programs

It is often desirable, and sometimes required, to coordinate program efforts in several federally aided programs aimed at achieving

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similar goals. This type of coordination is difficult to achieve, however, because of the different funding and policymaking cycles in which federal programs are operating. When attempting to coordinate complementary programs, all the uncertainties associated with program structures, funding levels, and policy directions found in a single program become magnified many times. One state official described how a number of federal agencies, each having its own unique planning requirements, grant funds, and policy direction, were funding efforts in land use policy within his state. Such fragmentation of program effort produces confusion in his state regarding the direction of land use policy.

Application of Legal Requirements External to the Program

Finally, one federal action which has created some serious difficulties for state and local program delivery is the application of laws that are essentially external to the program itself. These outside laws, such as civil rights requirements, environmental protection statutes, historic preservation laws, and the wage and hour laws can produce serious delays in program implementation, thus escalating costs and delaying service delivery. These factors are particularly significant in major construction efforts such as those required in mass transportation and waste water treatment. In San Francisco, a major mass transit project was held up for a considerable period of time while a relatively obscure passageway was examined for its possible historical significance.

Of course, the application of such external legal requirements is necessary if national standards are to be observed in federally aided programs. However, if the exact ways in which these provisions are to be implemented are unclear to the state or local agency administering the program, great uncertainties can result.

IMPACT ON STATE AND LOCAL PROGRAM DELIVERY

Problems for state and local program managers generated in the federal grants cycle have some very negative effects on program delivery. In the following paragraphs some of the more serious implications of delays and uncertainties created at the federal level are presented. The discussion focuses upon four major aspects of program delivery:

- program planning;
- budgeting;

- program execution; and

- program effectiveness.

Illustrations developed during the course of this study of problems in selected program areas are provided.

Program Planning

Uncertainty is anathema to program planning. The uncertainty associated with federal grant programs affects both long- and short-term planning in a number of ways.

Long-Term Effects

The ability to perform realistic long-range planning is seriously impaired by uncertainty. Without some reasonable idea about the direction of future federal funding, state and local governments are reluctant to commit themselves to any sort of effort for which federal funds will be required a number of years in the future. This difficulty is particularly acute for longer term capital investments such as large-scale urban renewal projects, waste water treatment plants, fixed rail transit systems, and long-term bus replacement programs.

For example, in the CDBG Program there is serious concern that the lack of certainty about longer term funding may be forcing local governments to spend grant funds on shorter term projects rather than providing the kind of continuing programs needed for neighborhood revitalization.

In addition to impairing long-term capital planning, uncertainty about future federal funding levels and structures can reduce the possibility that long-term efforts to make changes in service-oriented programs will be undertaken. One LEAA administrator noted that his state would like to use LEAA funds to undertake some significant reforms in its correctional and judicial systems. Uncertainty regarding the future direction of the LEAA program has forced his state to plan a circumscribed program effort, instead of the more desirable reform effort it would have preferred.

Long-term planning is particularly sensitive to the reauthorization process for federal programs. When the ground rules of a program are being reconsidered, no one is willing to commit to long-term effort. In addition, without long-term knowledge about probable funding develop levels and program policies, it is extremely difficult to develop plans that are reasonable in scope. This tends to result in the production of unrealistic plans that have little significance for state and local policy-makers and managers. Because of this lack of realism in longer term planning, inducing state legislatures, local governing boards, and citizens to focus serious attention on planning efforts can prove quite difficult.

UMTA has tried to stimulate the local transportation planning effort by placing heavy emphasis on local Transportation Improvement Plans as a vehicle for committing the Federal Government to 5-year local transportation programs. This effort is buttressed through UMTA's use of long-term contract authority to give local government the perception that future funding commitments are certain. Thus, longer term planning is perceived to be more meaningful because local governments view it as the vehicle by which a relatively certain amount of funds is to be made available to them.

Finally, when complementary programs must be coordinated, long-term planning can be impaired because the policies and funding levels for related programs are not known sufficiently in advance to allow state or local governments to plan for common or complementary directions.

Near-Term Effects

Near-term planning is also impaired by uncertainties associated with federal grants. Insufficient lead time in the notification of federal funding levels or of important federal policy changes can create serious problems for establishing staffing plans, identifying target client groups, and deciding upon a strategy for program implementation. Legislative, governing board, and citizen participation review procedures must frequently be eliminated as implementation plans are rushed into place. These problems are particularly acute for programs that provide initially needed services. In such cases, the pressure to deliver services to client groups can be so great that ineffective efforts often result. In the CETA program, where frequent fluctuations in local funding have been experienced, the pressure to spend money rapidly has made near-term planning a useless exercise. Many CETA administrators lament that they are forced to operate on a month-to-month planning horizon.

Budgeting

Lack of predictability for any source of state and local revenue creates serious difficulties for the budgeting process. During the 1974 fuel crisis, for example, uncertainty over the availability of fuel made the projection of gasoline tax revenues extremely tenuous and strained the ability of state budgetmakers to develop a reasonably acceptable highway program.

Federal funding is generally perceived to be more unpredictable for state and local budgetmakers than their own-source revenues. Three reasons can be cited for this view. First, the probable fluctuations in federal funds are perceived to be greater because major grants may be adjusted by substantial margins and whole grants can simply be eliminated. Second, since federal funds are typically earmarked for rather narrowly defined programs, fluctuations in funding affect a specific group of jobs or services and cannot be spread over a larger group of programs, as can fluctuations in general state and local revenues. Third, federal funds tend to carry built-in demands upon state resources in the form of matching and maintenance of effort requirements, which must be accommodated by state or local budgetmakers.

The specific problems created for state and local budgeting may be reviewed from the perspective of the line agency administering the program, of the central executive and central budget staffs, and of the legislative body enacting state or local appropriations.

State and Local Line Agency Perspective

The budgetary problems faced by the substantive state or local agency administering the program are primarily related to the development of a budget package that will meet client needs and can be sold to the central executive and/or legislature. Line agencies recognize that there is strong pressure to use federal funds to support state or local activities whenever feasible. However, unpredictable federal funding places them in a rather precarious position. If they overestimate federal availability and sufficient state funds are not made available to supplement the resultant deficit, desirable services may have to be curtailed. On the other hand, if they underestimate federal funding, they are susceptible to serious criticism in subsequent budget reviews and may not be able to meet matching requirements.

In addition to these budget strategy issues, substantive agencies are rightly concerned that they know about changes in federal fund availability in time to prepare cogent budget proposals, either for using additional funds or for managing scale-downs.

Executive Perspectives

From the viewpoint of central executives, lack of knowledge about federal funding can seriously limit their ability to put together a complete budget package for the legislature or governing board. The pressure to maximize the expectation of federal aid in budget proposals must be balanced against the need to provide for downside risk in federal funding. In addition, federal matching, maintenance of effort, and phaseout requirements reduce the level of state and local funds available. Thus, there is also strong pressure to keep the state or local share of federal programs as low as practicable. Balancing these conflicting pressures is troublesome and becomes more so when there is great uncertainty about federal programs.

Two separate, though related, problems are encountered by chief state and local executives and their budget staff. First, it is sometimes difficult to defend requests for state funds to match federal aid for programs about which there is substantial uncertainty. These may be programs to which the executive is committed but about which the legislature or governing board has some doubts. Second, fluctuations in federal funds after budgets have been formally enacted can place heavy pressures on budget staffs and on the executive to locate and make available additional state or local funds to fill in where federal funds have been removed or to provide additional matching funds where additional federal money has become available.

Legislative Perspective

The primary concerns of state and local legislative bodies and their staffs arise in two areas. First, legislators may be placed under considerable public pressure because of a precipitous shift in federal funding or policy. As a result, they may be forced to make decisions to commit state or local funds to new or increased program efforts in a very short time frame, without the deliberation over spending priorities that is deemed desirable. Second, considerable authority frequently must be given to the executive, particularly at the state level, to manage the fluctuations in federal funding and policy that occur when the legislative body is not meeting. This reduces legislative control, it is argued. In some states, legislative oversight committees have been established to review all requests by state agencies for the use of federal grant funds and thereby to provide direct legislative input into federal aid policy.

General Longer Term Perspective

From a broader budget perspective, all thoughtful state and local decisionmakers are rightly concerned about what the long-term implications of current decisions to enter into a program supported by federal grant funds are. Uncertainty over long-term program directions has created concern that state and local governments are accepting potential liabilities in terms of commitments to provide services that would not be sustainable should federal funding be withdrawn. These concerns become very acute in those programs, such as LEAA, which require a phaseout of federal funds while leaving commitments to staff or service delivery behind. Uncertainty about federal commitments has created cynicism among some state and local officials regarding federal intentions. This cynicism is reflected in the resistance of many budgetmakers to assuming costs of federally supported programs or to accepting federal budget commitments without some legally binding agreement.

Program Execution

The principal aspects of program execution that are negatively impacted by uncertain federal funding include:

- personnel recruitment and retention;
- client outreach and service continuity;
- contracting;
- financial management; and
- program coordination.

Personnel Recruitment and Retention

It is difficult to recruit and retain competent staff when future funding is unreliable. When a rapid increase in funding or a change in program requirements occurs, there is frequently a need to add staff quickly. This can be a very difficult task if the new staff must possess special skills or be drawn from a tight labor market. Both Medicaid and ESEA Title I programs have experienced this difficulty. In Medicaid, it is sometimes necessary to add highly skilled staff, experienced in some health or social services specialty, to meet some additional administrative requirement established by DHEW. In many cases, months are required to locate and obtain qualified persons.

During this period the state administering the Medicaid program is technically in noncompliance with DHEW guidelines and could face administrative or financial sanctions. Uncertainty about ESEA funding once forced delays in signing teacher contracts until after most teachers had been employed in nonfederally supported positions, and it became difficult to obtain the most highly qualified teachers for Title I jobs.

When program continuity is in doubt, it may also be difficult to retain competent staff. The more mobile staff members, who are frequently the most competent, tend to bail out as uncertainty increases. CDBG administrators indicated that as the program approaches the end of its 3-year authorization period, the best staff are beginning to move on. In some cases if advanced knowledge of funding reductions were available, program staff could easily be moved into other programs' slots which have been vacated through normal attrition.

If year after year program managers can give no assurance of job continuity to their employees, programs will experience rapid turnover, and the most competent staff will not remain long. For those who do remain, morale will probably suffer. Several CETA administrators pointed to severe morale problems among their staff because of job insecurity and general program uncertainty.

<u>Client Outreach and Service Continuity</u>

As discussed previously, many programs require that clients be contacted and screened before receiving services. Rapid upward fluctuations in program funding make this outreach function difficult to perform. Eligible clients may be overlooked while others who are ineligible receive services. In addition, when some matching of clients to specific services must be performed, some clients may not receive the services they need.

Service continuity is also adversely affected by uncertain federal funding. Program administrators and state and local policymakers can be placed under some severe strains when they are faced with having to reduce or eliminate services, not because a decision to eliminate a program has been made, but because major decisions regarding funding levels and program requirements simply have not been made. A related difficulty arises when programs must be scaled down rather precipitously. The prospect of "on-again off-again" service not only complicates management but also generates cynicism and resistance among client groups. Rapid program fluctuations have been particularly evident in the CETA program, where the possibility of having to terminate payments and training services to large numbers of clients at the last minute is frequently present.

Contracting

It is difficult for program administrators to contract for services with outside agencies, particularly those in the private sector, when funding delays and uncertainties are present. This impact is felt in two distinct ways. First, if funding notification is late, state and local contracting procedures may make it difficult to obligate or encumber the funds within the time frame required by the federal administering agency. When federal agencies (or federal law) allow funds to be carried over and spent in subsequent fiscal periods, this difficulty can be avoided. However, to the extent that the delay caused by uncertainty and compounded by state and local contracting laws damages program delivery, uncertainty may be viewed as a serious problem.

Second, it sometimes proves difficult to get contractors to commit to multiyear enterprises when firm contracts can be signed only for the first year. This difficulty has been faced in some CETA programs where private firms are sometimes reluctant to begin on-the-job training efforts that will span 2 fiscal years when they can be given no absolute assurance that the program will be continued beyond the first year.

Financial Management

A final area in which uncertainty has a negative impact upon program execution is financial management. Most state and local agencies are reluctant to commit their own funds to program efforts in anticipation of federal support. Yet most state and local fiscal years begin prior to the date when federal funding levels are known. Thus, decisions must be made as to whether state or local cash will be committed. In many cases legal restrictions make it necessary to wait until a firm federal commitment has been made before funds are expended.

Lack of lead time for the implementation of executive rulings on accounting, reporting, and audit requirements can also hamper effective financial management. Lead time is needed to implement new requirements, and clear, explicit directions are needed to accommodate continuing ones.

Program Coordination

The execution of programs that must be coordinated closely with other ongoing state or local efforts can prove especially difficult without advance knowledge of program funding levels. Here, program timetables may not be as flexible as in those programs which stand alone. For example, because the ESEA Title I program had to be tied to the scholastic academic year, uncertainty about funding created enormous distortions. Key program planning, budgeting, and staffing decisions had to be made well after decisions on other education programs. Thus, funds were misspent because they could not be integrated into the full educational effort effectively.

Program Effectiveness

The preceding sections have described essentially how program management is affected by uncertainty. The most important question to be addressed, however, is how this uncertainty affects program effectiveness. This impact is difficult to assess, given the fact that measures of program effectiveness are most often imprecise and subject to idealogical or political interpretation. However, some general observations can be made.

Frequently, the short lead time involved in initiating a new federally assisted program or service causes the program effort to be initiated in a disorganized and uncoordinated manner. The result is that the program flounders in a sea of indecision and controversy, with frequent shifts in policy and discretion. In such cases, the program's staff expends more effort in internal machinations than in the delivery of services. Effort is wasted, and the program proves ineffective.

In addition, poor patterns of resource allocation and priority setting are established in the startup period. Spending tends to go to superficial, "one-shot" projects rather than to real needs. Once this pattern is established, it is difficult to change.

These same difficulties are experienced when frequent changes in program direction or in funding are imposed from the federal level. Shifts in funding levels are especially damaging in programs supporting the provision of immediate or ongoing services to a large number of recipients. Programs like CETA, which go through "feast or famine" cycles, are usually either gearing up or gearing down. Often program beneficiaries are held on a tenuous thread, while program administrators rush papers to Washington to adjust the program and buffer the impact of precipitous change.

The lack of certainty about future funding levels can also affect program character in a negative way. For example, the inability to guarantee more than 1 year of certainty in the CETA program has sometimes made it difficult to consummate on-the-job training agreements that span more than 1 fiscal year. The lack of a longer term commitment to some consistent policies and funding levels for LEAA programs may have discouraged attempts to perform high-value projects of large magnitude and longer term payoffs. In fact, the extensive channeling of LEAA funds into the purchase of police hardware may have been related to perceived uncertainty about longer term program commitments. There is also reason to believe that the character of local community development programs would be somewhat different if longer term CDBG Program certainty were available.

The examples just cited all have one thing in common: thoughtful program administrators believe that uncertainty about future federal funding and policies in each program has foreclosed the option for state and local agencies to pursue projects that would be of greater benefit to their communities than projects now being conducted, thereby impairing program effectiveness.

The Funny Money Syndrome

The net effect of the problems resulting from federal funding uncertainty is a widespread attitude on the part of state and local officials that federal money is "funny money." That is, it is not taxpayers' money, it is loaded with legal and political problems, and it should be contained outside the mainstream of each jurisdiction's operations. It has been clearly demonstrated in programs such as general revenue sharing that the longer term of certainty a federal fund source features, the more likely it is that federal funds will be considered as a state and local revenue source and be integrated into the normal budgetary and operating process, with accompanying controls and care. In contrast, the more uncertainty and administrative requirements accompanying a program, the more its funds become funny money and tend to be spent at the outer margin of significance. Certainly, this causes useful experimentation; however, federal funds now constitute over 25 percent of state and local resources and underwrite many basic services. The impacts that the federal funding system has upon state and local behavior cannot be ignored. Many state and local officials now care less about the amount of money the Federal Government will make available than about their ability to use it wisely and to stay out of political and technical trouble as a result.

Finally, there is considerable evidence that many state and local officials would like to tell the Federal Government to keep its money, if it were financially possible to do so. This cynicism indicates a need for Congress to seriously consider whether the Federal Government has fostered a condition in which the funding actually impedes effectiveness.

IMPROVEMENTS IN PROGRAM PERFORMANCE FROM THE USE OF ADVANCED BUDGETING IN TITLE I, ESEA - A CASE STUDY

Title I of the Elementary and Secondary Education Act of 1965 is perhaps one of the primary examples of how substantial the benefits of advanced budgeting can be to federal, state, and local governments. Historically, the detrimental impacts of the uncertainties and delays in the federal funding process on the ESEA Title I program were not only substantial with respect to program effectiveness but also pervasive in their impact on almost all of the management functions involved in delivering and supporting the educational services.

For example, the 1965 National Advisory Council on the Education of Disadvantaged Children stated, with respect to ESEA Title I:

> There is no doubt that implementation...was greatly hampered by the non-availability of funds until after the school year began. Most personnel in needed specialties were already under contract, and school administrators were forced to plan projects almost overnight. The pressures of time gave state departments of education little opportunity to revise substantially many quickly conceived programs...

The major problems in delivering the educational services created by the uncertainty and indefinite federal funding of ESEA Title I included:

- the inability to plan effectively in light of the minimum lead time provided. The school year calendar is generally August or September to May or June. Planning, which includes such activities as hiring personnel, developing pupil and teacher schedules, purchasing books and other materials, and budgeting appropriate nonfederal fiscal resources, takes place in the prior spring. Late and uncertain funding, often delayed in part until well after the school year begins, severely limits, or even eliminates, effective planning.

- the inability to coordinate one federal categorical program with a different but related federal (or nonfederal) program.

- the inability to coordinate the federal program fiscal resources with all other fiscal resources during the overall budget formulations and approved process. In particular, most often the school district budget was approved without knowledge of at least the major program.

- the inability to rationally hire or retain personnel. This was perhaps the most critical impact of late and uncertain federal ESEA Title I funding. Not only is the school year generally out of synchrony with the local, state, and federal fiscal year, but the delay forces numerous districts to release, rehire, and even release once more personnel paid by the federal dollar.

In reponse to these and other significant problems, the ESEA Title I was advance budgeted (by 1 year) for the first time in fiscal year 1976. Additionally, a hold harmless provision amounting to a "floor" of 85 percent of the prior year's funding level, plus provisions permitting a carry-over of unspent funds for 12 months, was incorporated into the program.

The first year's results strongly suggest that the potential benefits from this combination are significant:

- The cognizant federal agency, in this case the U.S. Office of Education (OE), is provided with additional time to enable state program planning and to process allocations.

- The planning period at the state and local level is strengthened by increasing the time to develop plans in light of the actual amount allocated (ESEA Title I has a significant state plan requirement).

- The citizens' participation component of Title I is significantly strengthened by virtue of the additional time and prior knowledge of the actual funding level.

- The federally funded Title I program can be more effectively coordinated and integrated with related disadvantaged programs, particularly those which are state funded.

- The ESEA Title I planning, budgeting, personnel administration, and purchasing mesh effectively with the overall local school district functioning.

As indicated in a report prepared for OE by PMM&Co. (a study of Late Funding of Elementary and Secondary Education Programs), USOE Contract Number 300-75-0211), the ESEA Title I administrative management functions have been further strengthened by the hold harmless and carry-over provisions. The Late Funding Study indicated that the value from these provisions is particularly relevant to an ongoing program where the question of program continuance is small or nonexistent. In these cases, the Federal Government has already established the need for the programs, and its actions enhance the opportunity for state and local government to achieve the program objectives.

The study suggested, however, that state and local regulations may often preclude hiring or purchasing actions simply on the basis of the hold harmless provisions and recommended a study to determine what form of additional assurance would be required to fully advance administrative actions. The study also indicated that the ability to carry over program funds for 1 fiscal year is valuable and should be continued. Such ability helps provide the managerial flexibility necessary for good planning, budgeting, and personnel administration as well as an automatic cushion to compensate for any unusual or unforeseen delays in program implementation.

CHAPTER III

ALTERNATIVE BUDGETING STRATEGIES TO IMPROVE CERTAINTY

This chapter reviews the existing executive/Congressional budget cycle, describes typical state and local budget cycles, and examines some of the principal budgeting techniques that have been proposed to increase certainty, expand lead time, and provide a strengthened program management base.

Each alternative strategy will be defined, and the administrative actions that would have to be taken to make the option operational will then be listed. Finally, the viewpoints of state and local officials regarding how the option would improve program delivery will be outlined.

In all cases, references to time dimension will be made in terms of the Fiscal Year 1979 budget cycle (FY79).

OVERVIEW OF THE FEDERAL BUDGET PROCESS

Before describing alternative federal funding strategies involving advancing key Congressional decisions, it is necessary to review the existing federal budget process.

The federal budget process may be divided into four parts:

- preparation of the President's budget by the Office of Management and Budget (OMB):
- Congressional determination of targets and ceilings in the concurrent resolutions on the budget;
- Congressional authorization of programs in authorization acts; and
- Congressional appropriation of funds in appropriations and other spending bills.

Congressional action on the federal budget for a fiscal year represents the summation of Congressional target-setting, authorizing, and appropriating decisions. Most decisions about the size and allocation of the federal budget for a fiscal year are made in a 20-month period (for FY79, this period is from May 1977 to September 1978). The advanced budgeting options discussed below involve changes in one or more of the four parts that make up the federal budget process.

The Executive Branch Process

The Office of Management and Budget begins its preparation of the President's budget for FY79 in May 1977, 20 months before the beginning of the fiscal year. However, preliminary FY79 planning is done by OMB during the preparation of earlier budgets. For example, the first projections of the size of the FY79 budget were made in 1973 as part of the 5-year projections accompanying the FY75 budget. These projections were revised each year after that as part of the planning for the budgets for Fiscal Years 76 through 78. Decision-making on the President's FY79 budget will be essentially completed in January 1978 when the budget is submitted to Congress.

The Congressional Process

Congressional consideration of the budget involves two phases. In the first phase, from January until May, the target-setting authorizing and appropriation processes proceed separately but simultaneously. In the second phase, from approximately May 15 to the October 1 beginning of the new fiscal year, Congress as a whole acts on the bills that make up the Congressional budget, which are the budget resolutions, authorizations, appropriations, and other spending bills.

Preparing the Congressional Budget Targets

The primary actors in the target-setting cycle are the budget committees in each house. The major focus of their activities is on the preparation of the First Concurrent Resolution on the Budget for reporting to each house by April 15th.

Preparing the Authorizing Bills

The initial authorizing cycle of the Congressional budget process begins about May 15th of the year before the year in which the fiscal year begins. (For FY79, this would be May 15, 1977.) At that time the President sends to Congress his year-ahead requests for authorizations of budget authority for a fiscal year, as required by Section 607 of the Congressional Budget Act of 1974. This gives Congressional Committees 1 year to propose their authorizing bills, before the required reporting date of May 15 of the year in which the fiscal year begins.

The authorizing committees use their March 15th reports to the Budget Committees to provide their estimates of the new budget authority and resulting outlays to be authorized in all bills the committees intend to be effective during FY79.

Preparing the Appropriations Bills

The appropriations cycle of the Congressional budget process begins with the receipt of the President's budget in January 1978 and ends its first phase with the preparation of the 13 or so individual appropriation bills.

In addition to preparing the appropriations bills themselves, the Appropriations Committees must prepare their views and estimates of the budget authority that should be provided in their bills for their respective budget committees.

Appropriations Actions

After May 15th of each year, the Congressional budget process moves into its second phase: Congress as a whole acting on the bills that make up the Congressional budget (authorizations, appropriations, and other spending bills). During this phase the products of the individual deliberations in the target-setting, appropriating, and authorizing cycles are the inputs for Congressional action:

- The First Concurrent Resolution on the Budget sets the targets for Congressional action at functional levels and for the budget as a whole.
- Shortly after the adoption of the First Resolution, the Budget Committee in each house allocates new budget authority and outlays to each committee reporting bills providing budget or spending authority.
- By May 15th the authorizing committees of each house have reported their authorizing bills and, in the case of backdoor spending authority, their spending bills to their respective houses.
- After May 15th the Appropriations Committees may bring their bills to the floor.

As the spending bills are considered by each house, they are compared to the respective committee allocations.

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This phase of the Congressional budget process comes to a close in September, just prior to the beginning of the new fiscal year. Congress must complete all action on its spending bills by the seventh day after Labor Day in order to pass a second required concurrent resolution on the budget by September 15th. Any reconciliation action directed by this second resolution must be completed by September 25th.

STATE AND LOCAL PLANNING, BUDGETING, AND IMPLEMENTATION CYCLES RELATED TO FEDERAL ASSISTANCE

Existing State and Local Procedures

The typical state fiscal year runs from July 1 to June 30, corresponding to the old federal fiscal year. One state (New York) begins its fiscal year on April 1, one (Texas) begins on September 1, and two (Alabama and Michigan) begin on October 1, the beginning date for the new federal fiscal year.

Local governments fall into a much less consistent pattern. Many municipalities and special districts and counties are on a January 1 to December 30 fiscal year. However, July 1 fiscal years are common, and other beginning dates are not unusual. When organized separately from general purpose local government, school districts and higher educational institutions tend to have fiscal years that ensure that the school year does not split two fiscal years. July 1 and September 1 are popular, but other dates are used.

About 20 states, generally the less populated ones, operate with a biennial budget. Annual budgets are the rule at the local government level.

Many state and local governments do not undertake fiscal planning beyond the year or years for which budgets are being prepared. In some cases (e.g., Pennsylvania and Flint, Michigan), detailed 5-year projections are developed as part of a planning/programming/budgeting system, although the expenditure projections in such systems are not necessarily reconciled with the revenue projections. In a few other cases, fiscal officials make "back of the envelope" projections in major categories of revenue and expenditure primarily as a tool to predict future financial stringency.

Budgeting processes at the state and local levels are typically similar to the federal procedures that were in effect before the Congressional Budget Act was passed. A sample state level schedule, counting up to the start spend (SS) date (that is, the first day of the fiscal year), is shown in Exhibit III-1.

Budgeting for Federal Funding

Federal grants are anticipated primarily through information provided by the line agency administering the assisted program. As might be expected, the officials of line agencies normally belong to associations of their counterparts (e.g., the National Association of Housing and Redevelopment Officials, the Association of State and Territorial Alcoholism Officials), which actively lobby over federal appropriations and maintain comprehensive information systems to report on the progress of legislation and regulations of interest to state and local officials. In addition, most subject matter areas have specialized journals that provide similar information. Central staffs, such as state budget offices and legislative budget staffs, may independently assess the prospects for federal funds in a few key fields but generally rely upon the agencies for initial estimates of federal funds and for revisions of those estimates as the budget process progresses.

Of particular note is where state and local officials do not go for information:

- the President's budget and printouts of grants-in-aid requested in that budget. The budget is an event in the process of making appropriations that is reported as such, analyzed by national associations of state and local executives, and weighed in light of the likely legislative action on it.

- formal notifications of likely grants by federal agencies.

The states have differing procedures for dealing with federal funds that become available after the legislature has completed state action on the budget. In some states, federal funds are not appropriated, and an agency that obtains federal money can spend it provided only that either there is no match requirement or it is a match requirement that can be met by allocating funds that would be spent in any case (soft match). Some states, particularly those with biennial budgets and short legislative sessions or none at all in the off year, have finance boards of varying titles and composition that have the authority to make emergency appropriations of state funds (and federal funds in the states that appropriate them). Some states require the appropriation of federal funds and limit spending in excess of those appropriations, in which case the legislature must be

EXHIBIT III-1

SAMPLE STATE SCHEDULE

DATE (Months)	ACTION
SS minus 12	Plan review procedures and submission formats, develop preliminary overview of fiscal situation (some states).
SS minus 11	Issue format instructions and financial guidelines (some states) to agencies.
SS minus 8-9	Receive agency submissions, begin review.
SS minus 6-6½	Executive budget preparers lock numbers on both revenue and expenditures.
SS minus 5½	Present executive budget to legislature.
SS minus 5	Legislative consideration of budget begins in earnest (in some states it starts earlier).
SS minus 4-1	Appropriation bills (or bill, in some states) begin to move in the legislative process. Proposed changes from executive dealing with, inter alia, different federal program assumptions still considered.
SS minus 1-0	Budget rapidly becoming locked in concrete, some bills passed in states with separate bills. Changes increasingly difficult.
SS minus 0	Legislature adjourns, not to return until the following year except for special sessions confined to stated subjects and consideration of vetoes.
SS plus 6-12	Legislature back in session for all or part of period. Considers supplemental appropriations for current year and, in biennial states, modifications for next fiscal year.

called back to make unanticipated federal funds available. (This is less of a problem than it would appear since state agencies can adopt a higher spending rate than the appropriation and seek supplemental appropriations when the legislature returns in the middle of the fiscal year.)

Procedures also differ in the event that anticipated federal funds are not available. In reimbursement programs such as public assistance and social services, the impact falls on the central fiscal office (as would an unanticipated decline in revenues from state taxes) and is dealt with as a decline in state revenues would be. In nonreimbursement programs, the decline in federal aid would normally be met by a corresponding decline in program activity, although in certain situations (e.g., when state funds are appropriated for a match for Federal Government dollars that do not materialize), the state may spend its available state matching funds for a 100-percent state-funded effort.

In the case of local governments, the basic cycle and procedures are similar, with the following exceptions:

- Local legislative bodies, such as county commissioners, city councils, and school boards, meet regularly throughout the year, so there is less of a timing problem in considering the use of anticipated funds from the Federal Government.

- Most, but not all, local governments are smaller and less complex than state governments (however measured), with the result that lead times are shorter and legislative consideration of the budget can take place in a much shorter period of time.

Given this background, the PMM&Co. team set out to analyze, through discussions with state and local officials, the impact of changing the federal fiscal year from July 1 to October 1. From the perspective of these officials, the Federal Government has not recently been on a July 1 fiscal year and may not be going to an October 1 fiscal year.

Implications of the New Congressional Budget Process

Enactment of an appropriation by the Congress does not immediately translate into cash flow to state and local governments. Individual agencies have their own grantmaking cycles, which do not necessarily correspond to either the state and local fiscal years or the timing of appropriations.

State and local officials also indicated that the new budget process has not yet been tested and that, as a result, there is not great certainty that Congressional actions will in fact occur on the schedule indicated in the budget act, although the experience of the past year has been reassuring.

Thus, for these reasons and others, there has not been a stampede by state and local governments to adopt the new federal fiscal year, nor would such a movement be expected to develop very rapidly for two reasons: (1) lack of motivation to make the change and (2) institutional barriers to making the change.

At the state level, the institutional barriers to changing the fiscal year include the following:

- Shifting fiscal years means considerable paperwork for the fiscal officials who advise political decision-makers on whether to make a change. An additional fiscal period (like the transition quarter) must be administered and accounted for.

- Some states set the timing of their legislative sessions, including ending dates, by constitution. To move the fiscal year from July 1 to October 1 in a state where the legislature must go home by July 1 would simply mean that the budget would involve guesses 3 months more removed from future realities than such guesses already are.

- Budgetmaking is a politically difficult process that is time consuming for the legislators involved. From the standpoint of a state legislator considering moving the fiscal year to October 1 and shifting legislative action on the budget accordingly, he is being invited to (1) make unpopular decisions shortly before election and (2) tie up his time considering budgets while his opponent is campaigning against him. These reasons accounted, in major part, for the rejection by one legislature of a governor's recommendation for an October 1 fiscal year.

From the standpoint of local government, the primary institutional barrier to adopting the new federal fiscal year is that most local governments do not set their own fiscal year; it is generally set by state statutes applicable to all local governmments in a given class. In the case of school districts, October 1 would split the school year. In addition, the local governments, whose fiscal years have been out of phase with both federal and state fiscal years, would presumably not be too concerned with a continuation of this situation but would be concerned with a different federal fiscal year. Those local governments that are in phase with the July 1 year could opt for the federal year only at the expense of being out of phase with the state's year, under circumstances where more support of local government comes from states than from the Federal Government.

Summary

The above analysis suggests that state and local planning, budgeting, and implementation will be little affected by the changes in the federal fiscal year and the other procedural provisions of the Congressional Budget Reform Act. This conclusion is strengthened by the fact that there have been few changes in state and local procedures to date that have been tied to the federal changes, and discussions with state and local officials suggest that few such changes are likely in the future.

This suggests that questions of the timing of various decisions can be separated from the consideration of advanced budgeting devices except insofar as the cycles of state and local government need to be analyzed in relation to federal cycles under various advanced budgeting alternatives.

ALTERNATIVE FEDERAL BUDGET DECISIONMAKING STRATEGIES

The primary federal budgeting strategies reviewed in this study include:

- 1-year advanced appropriations;
- 3- to 5-year rolling budgets;
- zero-based budget review with sunset laws on a 5-year cycle;

- hold harmless provisions; and

- carry-over provisions.

Each of these strategies is a possible alternative to the current single-year appropriation cycle. Some are currently being used in selected programs, and some are entirely prospective.

The following sections define and describe each of these strategies, indicate the primary conditions and requirements which must be met to successfully implement them, and summarize the viewpoints and reactions of state and local government officials interviewed during the course of the study.

One-Year Advanced Appropriations

Appropriations for a given federal fiscal year are conventionally provided during the session of Congress in which the fiscal year begins. One-year advanced appropriations involve the enactment of appropriations 1 year in advance of the year in which the appropriation is to become available for obligation.

The use of 1-year advanced appropriations does not change the nature of activities undertaken in the regular budget process, but only the fiscal year in which they occur.

Impact on OMB

Increasing the use of advanced appropriations increases the extent to which OMB must do preliminary FY79 planning during its FY78 budget preparation cycle: the greater the use of advanced appropriations, the more detailed the FY79 planning.

In addition to the advanced budget planning required, the President must, when necessary, request the authorizations in advance for those programs for which he will request advanced appropriations. To fulfill the intent of Section 607 of the Congressional Budget Act--that the authorizing committees should have 1 year to study and prepare authorizing bills--Presidential requests for advanced authorizations would be due May 15th, 2 years before the year in which the fiscal year begins, i.e., May 15, 1976, for the advanced authorizations required for advanced appropriations for FY79.

Impact on Congressional Cycles

Congressional actions on the budget are similarly advanced 1 year. The authorizing committees would report their bills by May 15, 1977, along with the regular authorizations for FY78. The advanced appropriations themselves are included in the Appropriations Committees' regular FY78 appropriations bills, which are enacted by Congress in the summer of 1977. Thus, all actions on the advanced appropriations for FY79 are completed by October 1, 1977, or 12 months prior to the beginning of FY79.

Although increasing the use of advanced appropriations has no scheduling effect on the concurrent resolutions that set the targets and ceilings of the Congressional budget and may provide significant benefits to state and local government, the flexibility of Congress in allocating resources is affected. (For example, there may be no opportunity for trade-offs between the programs receiving regular appropriations and those receiving advanced appropriations.)

Conditions to Make Operational

For 1-year advanced appropriations to be beneficial to state and local governments, several additional actions beyond the enactment of appropriations would be required. First, as noted above, program authorizations would have to be enacted 2 years in advance. Second, all determinations of state and local eligibility, entitlements, and grant awards would have to be similarly advanced. This would mean that federal executive decisionmaking procedures, as well as the data used in grant distribution formulas, would have to be advanced by 1 year. Third, key executive policy decisions governing program administration and setting forth the activities eligible for federal funding would have to be advanced 1 year.

State and Local Viewpoints

State and local officials surveyed were unanimous in their judgment that 1-year advanced appropriations, with the operational characteristics just cited, can be of significant benefit to them because they would be able to receive a legal grant commitment from the Federal Government sufficiently in advance to allow them to make the key planning, budgeting, and administrative decisions required for orderly program delivery.

Some of the specific advantages state and local officials cite are:

- Sufficient lead time would be available to plan implementation strategies for new or enlarged program efforts or to adjust to downward fluctuations in funding.
- It would be possible to budget for appropriate levels of hard matching funds and thus avoid the difficulty of having to provide additional funds later or to account for embarrassing matching surpluses.
- When new staff has to be acquired, advanced appropriations would allow sufficient lead time to recruit appropriately skilled persons.
- The assurance of program continuity would enable state and local governments to attract and retain top quality staff in federally assisted programs and would impact favorably upon staff retention.
- When service continuity to clients is important, as, for example, in a training program, client relationships would be improved, and program effectiveness would be benefited.
- Improved relationships with clients would also be fostered by avoiding variances in promises and actual program delivery.
- Projects would be better designed.
- Relationships with citizen groups participating in program planning would be improved.
- State and local program development would be improved when pass-throughs are involved.

Thus, state and local officials feel that 1-year advanced appropriations, by providing both adequate lead time for planning and a certainty of the federal contribution, can make marked improvements in the short-term administration of a program. However, the officials interviewed in this study pointed out that 1-year advanced appropriations would encourage neither the planning for nor the undertaking of sustained long-term attempts to solve complex problems.

Three- to Five-Year Rolling Budget Targets

Before making any individual spending decisions for a fiscal year, Congress should debate overall priorities for that fiscal year in the context of a total budget. This Congress now does each year for annual appropriations and the first year of multiple-year authorities in the concurrent resolutions on the budget for the upcoming fiscal year. These 1-year budget resolutions, however, are not sufficiently long-term to adequately plan for multi-year spending decisions. Besides 1-year advanced appropriations, Congress makes other decisions about spending for federal programs a year or more in advance: multi-year contract or borrowing authority, permanent appropriations, or entitlements of various kinds. To adequately plan for these decisions, the scope of the priority-setting process should be extended from 1 year to several years in the future. The mechanism for setting such multiple-year budget targets, revising them, and extending them forward in time each year is a rolling budget.

Proponents of rolling budgets argue variously for 3-, 4-, or 5-year (or sometimes even longer) cycles. The shorter the cycle, the greater is the reliability of the economic forecasts and the estimates of budgetary outlays. The longer the cycle, the greater is the number of multi-year spending decisions that may be incorporated in the resolution targets.

For state and local governments trying to anticipate future federal grants, the rolling budget will mean one of two things:

- For grant programs that receive multiple-year appropriations (the future years being advanced appropriations) or multiple-year spending authority of some other kind, the knowledge and certainty of federal funds--and the benefits accruing therefrom--will be the same as that experienced under 1-year advanced appropriations.

- For grant programs that receive annual appropriations, the future-year budget targets set in the rolling budget will be planning guides for state and local officials to use.

Budget Schedule Revisions

The principal changes to the current budget schedule that would result from the adoption of a rolling budget are:

- The President's budget each year would contain recommendations not only for the upcoming fiscal year, but also for the outyears. For a 5-year cycle, the President's budget release in January 1978 would contain recommendations not only for FY79, but also for FY80 through FY83.

- The First Concurrent Resolution on the Budget passed in May 1978 would set targets not only for FY79 but also for FY80 through FY83 (again, for a 5-year cycle).

Spending decisions could be made annually as they are now, or they could be advanced 1 year or more. Decisions on the timing of individual spending actions would depend on the characteristics of the program.

Required Operational Conditions

For 3- to 5-year budgeting to be meaningful to state and local governments, three conditions would have to be met:

- Budget targets must be credible predictors of future appropriations.

- Budget targets must be enacted in sufficient detail to indicate program funding levels.

- Executive agencies must issue budget planning targets for individual state and local jurisdictions.

Credibility of Budget Targets

To be a useful approach to advanced budgeting, budget targets must be good reflections of the outcome of the legislative budget process in Congress in following years.

One step to improve the probability that the targets fairly presage future Congressional decisionmaking would be to adopt the targets through exactly the same process as that followed in adopting the budget.

This would include a requirement that the President's budget include recommendations for future legislative action. It would also assume that serious Congressional consideration will be given to alternative funding levels for future years.

To increase the credibility of the targets but not eliminate the flexibility of the Congress in setting the actual appropriation levels during the session of Congress in which the fiscal year begins, Congress could adopt procedures that would enhance the respectability of the multi-year planning targets as bonafide planning decisions. For example, Congress could mandate that the targets set in the earlier years of a multi-year cycle become the baseline for Congressional consideration of spending decisions during the final year of the cycle. Congress might also require that adjustments to the previously set targets be approved by majority votes in each house.

Sufficient Detail

A key question in determining the probable impact of such a system on state and local planning, budgeting, and program implementation is the level of detail that would be found in the targets. There would undoubtedly be considerable temptation to enact targets at the level of functional totals only. This would reduce the number of debates over individual programs, since each interest can always see room within the total for its program. However, targets of functional totals would be relatively useless to state and local decisionmakers because the major federal grant programs of interest to state and local officials are merely components of the functional totals. (One could not readily infer the size of the component from the size of the total.)

Targets at the subfunctional level would not prove useful for certain of the smaller grants but would provide information on the income sources that loom most important to state and local governments. Thus targets would have to be set at the level of individual programs.

Issuance of Planning Targets by Executive Agencies

Obviously, Congressionally enacted budget targets would be of little use to state and local governments if it were not possible to determine how much money is expected to be available to each jurisdiction. Therefore, executive agencies would have to be required to convert the 3- to 5-year budget targets into planning "marks" or targets for each eligible jurisdiction, probably based upon current year standards and formulas. This approach has proven successful in the CDBG program, where multiyear planning figures have been issued, based upon authorization levels.

State and Local Officials' Viewpoints

The state and local officials interviewed in the course of this study like the idea of 3- to 5-year rolling budgeting, but they generally prefer 1-year advanced appropriations because that form establishes a specific legal commitment from the Congress. They believe that credible 3- to 5-year projections would have a highly favorable impact upon effective use of funds. As examples of the potential benefits that could be produced if this practice were universally applied, they point to the experience under general revenue sharing and CDBG, where 3- and 5-year authorization levels were converted to planning targets for each eligible jurisdiction. Some specific advantages include:

- A realistic multiyear approach to fundamental problems would be encouraged by underwriting commitments to a neighborhood, a service, or a set of client problems.

- Realistic multiyear planning and commitments to more complex efforts to solve community and client problems could be achieved.

- Program efforts could be focused on longer-term strategies rather than on short-range tactics.

- Multiyear financial planning and budgeting would be facilitated and encouraged.

- Federal grant programs could be more easily integrated with state or local fund own-source revenues and considered directly in the normal state or local budget cycle.

However, skepticism is high among state and local officials that 3- to 5-year targets could in fact be made credible. Therefore, they prefer solutions (such as advanced appropriations) that involve fixed legal commitments.

Zero-Based Review and Sunset Laws

Advanced appropriations and rolling budgets are changes in the appropriations and budget resolution components of the Congressional budget process to achieve different forms of advanced budgeting. The only changes to the authorizing component caused by these two advanced budgeting techniques are those made necessary by advancing spending actions (e.g., advancing budget decisions 1 year requires authorizations to be advanced 1 year).

Legislative proposals for zero-based review and sunset termination procedures, however, relate primarily to the authorizing cycle. Specifically, they propose the regular reauthorization of all federal programs on a multiyear cycle. Such procedures would complement advanced budgeting techniques, especially when a rolling budget has the same length cycle as the sunset termination cycle.

Operational Conditions

For zero-based sunset reviews on fixed multiyear cycles to be helpful to state and local program delivery, three simple conditions would have to be met:

- The period of time between reviews would have to be of sufficient length to allow programs to be planned and implemented without substantial disruption.

- Major provisions of the program would not be significantly altered either by the Congress or by the federal administering agency during the program cycle.

- The program's sunset review would be conducted in the year before program expiration.

State and Local Viewpoints

State and local officials see great potential for program disruption in this option. Nonetheless, they tend to favor the approach for project-oriented programs if the operational conditions described above are met. They doubt whether sunset laws should apply to ongoing services, however. In general, they see this option not as a possible approach to or substitute for advanced budgeting, but rather as a possible complementary feature. In addition, they see some potential benefits if similar groups of programs go through the zero-based sunset review at the same time. This, in their view, would strengthen the argument for greater use of block grants.

Hold Harmless Provisions

Hold harmless provisions generally serve to set a funding floor for local jurisdictions consisting of some portion of a previous year's grant amount. In this way, the jurisdiction is protected against radical downward fluctuations in funding levels, thus allowing more orderly program scale-downs. The degree of such protection that a jurisdiction may receive, however, depends upon the exact form of hold harmless provision that is employed. There are two general types of hold harmless provisions:

- Jurisdictions may be guaranteed a fixed portion of the previous year's grant, as in the CDBG program.

- Jurisdictions may be guaranteed that their proportion of the total funds available will not drop below a certain percentage.

The first of these forms provides greater security than does the second.

Within any given appropriation, hold harmless provisions tend to benefit those jurisdictions whose needs were given high priority under the expiring authorizing legislation and to harm those whose needs are given high priority under the new. Thus, any given jurisdiction's approach to hold harmless provisions will depend on which of these two situations it is in for any particular program.

Hold harmless provisions can also be used to justify higher Congressional appropriations for a program than would normally be desired. This would result if Congress were pressured into enacting sufficient amounts to provide for increased funding in new jurisdictions and also keep funding at a relatively high level in old jurisdictions. Many maintain that because of this potential for forcing the appropriations for a program beyond desired limits this procedure severely impairs Congressional flexibility.

State and Local Viewpoints. Those state and local officials who have experienced hold harmless provisions, such as in the CDBG program, generally agree that this mechanism is helpful in planning the phasedown of a program over a period of years. As to a general hold harmless provision that would provide protection from reduction of grant levels in future years, most state and local governments feel that assurances that they would receive at least 80 to 90 percent of current year funding would be very helpful. This is particularly true if they have the flexibility to determine what portion of the program will have priority for available funds.

Hold harmless provisions are generally viewed as protections against negative consequences and are therefore much less preferred than advanced budgeting because (a) they provide no lead time for planning and budgeting for upward funding fluctuations above the hold harmless floor and (b) they carry the connotation that undesirable funding consequences are likely.

Budget Carry-Over Provisions

Carry-over refers to a state or local option to carry over funds (cash, in some cases) or obligating authority beyond the time period when a federal grant would normally be planned to end. This authority has been provided in a number of programs as a way for state and local government to administer funds rationally and to permit state and local governments to hedge against uncertain future federal appropriations. Carry-over authority can be combined with partial and full advance appropriations.

State and Local Viewpoints. State and local officials believe that all programs should have this characteristic in order to avoid the wasteful decisions and poorly conceived projects that result from the rush to spend. This is particularly important in the first years of a new program.

Budget carry-overs can have the same effect as advanced budgeting if Congressional intent and executive action encourage state and local governments to utilize the funds in a subsequent year and to apply good planning and administrative approaches. This option does not, of course, apply to countercyclical grants, where the objective is quick spending.

Budget carry-over, however, is viewed as an inadequate substitute for advanced budgeting in those programs which are rapid resource consumers. Many ongoing service programs like CETA fall into this group.

OTHER FINANCING MECHANISMS USEFUL FOR LONG-TERM PROJECTS

None of the options discussed above provides long-term federal commitments to fund major multiyear state and local projects. However, the state and local officials interviewed, along with the advisory panel,

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indicated that two approaches to providing long-term commitments would be useful:

- multiyear appropriations and grant awards; and
- long-term contract authority and full funding contracts.

Multiyear appropriations would simply involve Congressional enactment of appropriations for a number of years in advance of the years in which the appropriations would become available. Executive agencies would then issue grant awards to, or sign contracts with, state and local governments to fully fund projects for the multiyear period.

Contract authority is the authority to enter into contracts under which the United States is obligated to make outlays for which the budget authority is not provided in advance by appropriations acts. Since contract authority does not provide the money to pay the obligation, there must be a subsequent appropriation to liquidate the obligations incurred.

From the state and local perspective, there is no essential difference between multiyear appropriations and contract authority, since in both cases cash is to be made available in some future period when it is needed to liquidate obligations on approved projects. Long-term commitments can be made to specific state and local governments through full funding contracts.

Full funding contracts are means whereby federal agencies sign specific contracts with a state or local jurisdiction to provide funds for long-term, multiyear projects. When backed by contract authority, these contracts can be a useful tool for giving specific jurisdictions the financial commitments they need to undertake major multiyear projects. It must be noted, however, that neither contract authority nor full funding contracts strictly bind the Congress to a future appropriation to liquidate obligations incurred.

SUMMARY

The techniques discussed here provide a variety of means to increase the predictability of future federal funding. State and local officials frequently point out that reductions in executive discretion to select grantees, determine grant amounts, or manage grant application and award schedules are important complementary features to these advanced budgeting techniques. Block grants frequently possess such complementary features. Exhibit IV-1 categorizes the different techniques that have been proposed for increasing certainty. In Chapter IV, the ways in which these techniques might be most beneficially applied will be discussed.

EXHIBIT III-2

PRINCIPAL ADVANCED BUDGETING TECHNIQUES FOR THE FEDERAL GRANTS PROCESS

ADVANCED BUDGET OPTIONS		SUBSTITUTES FOR ADVANCED BUDGETING	TECHNIQUES COMPLEMENTARY TO ADVANCED BUDGETING
PROVIDE LEGAL COMMITMENT	PROVIDE PLANNING TARGETS		
One-Year Advance Appropriation	Rolling Budgeting	Hold Harmless Provisions	Zero-Based Sunset Review
Contract Authority		Multiyear Budget Carry-Overs	Block Grants
			One-Year Budget Carry-Over

CHAPTER IV

ANALYSIS AND CONCLUSIONS

Previous chapters have discussed how delayed and unpredictable federal grant funding and policy decisions impair program management and reduce program effectiveness, and some of the techniques that could be used to create greater certainty over future federal funding and grant policies have been identified. Since these techniques vary widely in the ways they would affect state and local program delivery, it is necessary to make some judgments about what techniques are the most appropriate to employ and in which conditions they would prove most desirable.

In this chapter, the important criteria that must be considered in selecting appropriate advanced budgetary techniques are outlined. The ways in which these criteria should be applied are identified, and a specific set of conclusions about the uses to which the various techniques should be put are made.

DESIRABLE TECHNIQUES FOR STRENGTHENING PROGRAM MANAGEMENT AND EFFECTIVENESS

The study did not uncover any federal aid programs for state and local governments which benefit from uncertainty. Efforts to increase certainty are therefore clearly desirable from the state and local viewpoint and will probably benefit program effectiveness. Given this view, it appears that such action would also be desirable from the federal perspective.

The study results indicated that advanced knowledge of the funds that will be available to a particular state or local grant program is a critical prerequisite for improving certainty. Thus, it can be concluded that some form of advanced budgeting is essential to the removal of the uncertainties plaguing state and local governments as they administer programs receiving federal funds.

Some of the alternatives discussed in Chapter III are actually substitutes for advanced budgeting. These substitutes, including hold harmless provisions, budget carry-overs, and reducing executive discretion in grant distribution, may appreciably reduce uncertainty in certain limited circumstances, but they are clearly less desirable than

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the advanced budgeting options, and state and local officials were outspoken on this point. As subsequent analysis will indicate, these substitutes may be more effective when used as complementary features to some form of advanced budgeting. They might also be employed as last resort substitutes when advanced budgeting is not desirable from the Congressional viewpoint.

Finally, some programs already have certainty of funding for future years. These include not only programs, such as ESEA Title I and UMTA Section 3, for which advanced appropriation or contract authority is already available, but also those where open-ended commitments have been made by the Federal Government to reimburse state and local governments for a portion of all costs incurred for approved services (e.g., Medicaid, Public Assistance). For these programs, the greatest difficulties stem from unexpected shifts in program administrative requirements, changes in the types of services eligible for reimbursement, and requirements that additional services be added to the program. Concern for these aspects of federal program administration is preeminent because relative certainty over future funding levels already exists.

CHOOSING TECHNIQUES TO STRENGTHEN FEDERALLY FUNDED STATE AND LOCAL PROGRAMS

Techniques chosen to increase certainty about federal programs must be tailored closely to the program delivery structure and time horizon required for key planning, budgeting, and program execution decisions.

Program Delivery Structure

Program delivery structure was defined in Chapter II to mean the form of effort a particular grant supports. Three general types of structures were identified:

- immediate ongoing services;
- short-term (3- to 5-year) projects; and
- long-term projects.

Each of these delivery structures requires a different type of funding and program certainty to achieve optimum program results.

Ongoing Services

Ongoing services tend to require absolute but short-term certainty of funding levels and program requirements. (Among the programs studied, Social Services Title XX, Medicaid, CETA, ESEA Title I, and UMTA Section 5 fall into this category.) With large numbers of clients depending on services from day to day, interruptions in program delivery caused by uncertainty can be particularly traumatic because service recipients may be immediately affected. Thus, to ensure program continuity and adequate lead time either to phase in additional services or to phase out discontinued services, techniques that provide absolute but short-range certainty are necessary.

For such programs, the most appropriate technique is a 1-year advanced appropriation and grant award. To achieve this goal, Congress would have to enact appropriations at least 1-year in advance of the year in which the funds are to become available. All determinations of state and local eligibility, entitlements, and/or grant awards would have to be advanced by a commensurate period. This would mean that executive discretion regarding the schedule of the grant award cycle would have to be limited. It would also mean that the data employed in distribution formulas would have to be moved back 1-year.

Some other techniques would be applicable here as well. First, the block grant form of funding, which tends to reduce the uncertainties produced by the executive grant review cycle, is a highly desirable approach to funding ongoing services. Second, hold harmless provisions could serve as a substitute for 1-year advanced awarding of grants, though they are much less desirable than advanced appropriations. Hold harmless provisions used in conjunction with block grants tend to relieve many anxieties about funding. Allowing budget carry-overs can be helpful in buffering program administrators and beneficiaries from precipitous program fluctuations. Ongoing service programs tend to be rapid resource consumers, however, so there is seldom much budget authority to carry over. Thus, while desirable, budget carry-over provisions can in no way substitute for advanced grant awards. Finally, greater lead time in the issuance of program regulations and guidelines is highly desirable for these programs. (In cases where ongoing service programs already have advanced funding certainty, concern over this latter issue is now preeminent.)

Near-Term Projects

Near-term projects are units of program effort that may be accomplished in 3- to 5-year periods. They may be projects with short planning and execution horizons or longer term projects that can be completed in usable segments requiring 3- to 5-years of effort. (Among the programs studied, the LEAA and CDBG programs fall into this group.)

Near-term projects might benefit from the application of techniques that provide some short-range certainty, but it is unlikely that optimum program results could be achieved. In these cases, techniques that provide greater certainty over a 3- to 5-year period are needed to encourage planning and budgeting for projects that span the multiyear period. Desirable techniques might include some form of short-term absolute funding certainty combined with multiyear budget targets that provide a reasonably credible expectation of future funding. It is also desirable that the basic program structure and objectives established in the authorization process be extended over the multiyear period.

Some form of 3- to 5-year rolling budgeting, combined with a 1-year advanced appropriation and a 3- to 5-year authorization period, is highly desirable in these programs. The longer term authorization and budget targets provide a reasonable level of certainty for project planning while the 1-year advanced appropriation provides the solid commitment needed for budgetmaking and program execution. In these cases, executive agencies would have to be required to (a) issue planning marks for each state or local jurisdiction based on budget targets, (b) make a commitment to a multiyear plan that would be regarded as reasonably solid, (c) provide for a decision stream that easily integrates the 3- to 5-year plan with current grant approval decisions, and (d) avoid precipitous shifts in program emphasis.

On balance, this study concludes that credible 3- to 5-year budget targets for these types of programs would be more advantageous to state and local governments than 1-year advanced appropriations, although, as suggested above, a combination of the two is most desirable. The key issue here is credibility. State and local officials strongly indicated that if Congress simply issued budget targets, without serious review of their particular policy implications and without some procedural sanctions against allowing appropriations to fluctuate more than 20 percent from targeted amounts, they would not view 3- to 5-year targets as credible.

Budget carry-overs can be particularly useful for these programs because in a 3- to 5-year project cycle, there is frequently slippage in the schedule of spending, especially in the early going. Carry-over provisions allow budget authority to accumulate in the early going and then to be consumed in the latter stages of project life. Budget carry-over can also play a useful role by allowing state and local governments to adjust grant or project years to their own fiscal periods, thus accommodating their own budget cycles.

Long-Term Projects

Long-term projects consist of major program efforts that cannot be easily broken down into smaller usable modules or segments. (Among the programs studied, UMTA Section 3 and EPA Section 201 fall into this category.) Such efforts typically involve construction or long-term procurement. Long-term projects require certainty over a very lengthy period of time. In the absence of such certainty it will be close to impossible to get state and local governments, many of which are already becoming uneasy about their financial prospects over the next decade, to commit to long-range efforts. In addition, long-term projects usually have a large capital component, which means that commitments to a project are typically irrevocable if a useful product is to result from the program effort. At the same time, the schedule by which federal funds flow to support a particular long-term project may be somewhat flexible. Thus, what is required for long-term projects, at a minimum, is a form of certainty that provides a total commitment to a complete project, with the flow of cash being somewhat variable.

For programs supporting longer term projects, long-term contract authority is needed. Through this technique strong commitment of federal funds to seeing major projects through to completion can be made. This funding technique would have to be used in conjunction with a meaningful planning process that allows federal executive agencies to make legal commitments to long-term contracts. The use of full funding contracts, in which a federal agency pledges a specific sum of money, in constant dollars, to a total project, is a useful vehicle for translating long-term Congressional funding actions into specific commitments for state and local governments.

A reasonable substitute for this technique is funding a full project out of a single-year appropriation and then allowing the budget authority to be carried over until project completion. This approach has essentially the same effect for individual state and local governments as the advanced budgeting techniques cited above, but it could create some severe rationing problems in the early years of a program. (It would also reduce rationing difficulties in later years in the sense that new spending authority would be continuously created and the needs of new grantees could thus be accommodated through time. Under the advanced funding approaches, most funds would be committed early in the program with relatively little available for new grantees later.)

Budget carry-over and long-term stability in program requirements and regulations are essential in programs funding long-term projects.

Summary

One technique cannot be applied with equal success to all programs. Techniques must be used that provide certainty over funding and program policies for a sufficient period of time to stimulate program planning, allow for financial or budgetary planning, and permit hiring, contracting, and client relationships to occur in an appropriate pattern. Exhibit IV-1 summarizes the relationships between the advanced budgeting techniques and the three program delivery structures described above.

PRIORITIES FOR ADVANCED BUDGETING

Having determined which advanced budgeting techniques are most appropriate to the three major program delivery structures, the next step is to determine what programs should be given the highest priority for the application of these techniques. Establishing these priorities is a risky task since opinions about the relative merits of programs always color perceptions about which grants deserve greater certainty. This study did lead to some tentative conclusions, however.

To determine priorities, the following criteria should be applied:

- the existence of options to program services or products for program recipients and beneficiaries;
- program size;
- the degree of complexity involved in program execution; and
- the extent to which programs place direct financial requirements on state and local governments.

These criteria are discussed in the following paragraphs in the order of precedence state and local officials would assign to them in selecting programs for advanced budgeting.

Existence of Reasonably Viable Options to Program Services or Products

When programs provide absolutely essential services for which there are no viable substitutes, certainty about future funding levels and program policies is highly desirable. This condition can be found in some programs viewed as vital services, such as CETA and Medicaid. Other programs possessing these characteristics are those assisting state and

EXHIBIT IV-1

ADVANCED BUDGETING TECHNIQUES APPROPRIATE TO THREE TYPES OF PROGRAMS

TECHNIQUES FOR INCREASING CERTAINTY IN THE FEDERAL GRANTS PROCESS	PROGRAM DELIVERY STRUCTURES		
	Ongoing Services	Short-Term Projects	Long-Term Projects
1) Advanced Budgeting Options which Provide Legal Commitments to Future Federal Funding			
. One-Year Advanced Appropriations	Best Option	Best Option*	
. Long-Term Contract Authority			Best Option
2) Advanced Budgeting Options which Provide Planning Targets			
. Three- to Five-Year Rolling Budgeting	Second Best Option	Best Option*	
. Trust Fund Financing			Second Best Option
3) Substitutes for Advanced Budgeting			
. Hold Harmless Provisions	Good Substitute		
. Multiyear Budget Carry-Over		Good Substitute	Essential Complement
4) Techniques Complementary to Advanced Budgeting			
. Zero-Based Sunset Review on a Multiyear Cycle		Desirable Complement	
. Block Grants	Highly Desirable Complement	Desirable Complement	
. One-Year Budget Carry-Over	Highly Desirable Complement		

*These features should be used in tandem for short-term projects.

local governments in complying with compelling judicial rulings or national legislation, such as funds provided through the Environmental Protection Agency to construct waste water treatment facilities. Many state and local governments believe that such EPA grants fall into this latter category.

State and local officials would place the highest priority for advanced budgeting on programs for which there are no viable options.

Program Size

The sheer size of a federal program, measured as a percentage of (a) the total state or local budget and (b) the total funds dedicated to a particular program area, is an important characteristic to state and local officials. When a program is large or funds a substantial portion of state or local effort in an important larger program, advanced budgeting is usually more desirable than in smaller programs. All the programs reviewed in this effort, except the LEAA program, qualify as large programs accounting for a substantial portion of the effort in their respective program areas. LEAA funds are but a small part of the total state and local expenditures in criminal justice.

Complexity of the Program Execution Process

The complexity of the program execution process refers to several factors that impede swift decisionmaking and program action. These include:

- the extent to which programs must be coordinated with other ongoing programs;
- significant startup problems encountered in program implementation;
- the existence of a complex delivery system; and
- the large number of public employees required in the program.

Extent of Coordination Required With Ongoing Programs

The greater the degree to which a program must be coordinated with other ongoing programs, the more inflexible are the dates when planning, budgetary, and program execution decisions must be made. In such cases, programs cannot be readily accelerated or decelerated to accommodate the federal funding cycle. This condition was most apparent in the ESEA Title I program that had to be coordinated with other educational programs on an academic year cycle. Thus, all else being equal, state and local decisionmakers would prefer to have greater certainty for programs that must be coordinated with other ongoing efforts than those that do not.

Startup Problems

Startup problems include the need for lead time to plan implementation strategies, secure proper facilities and staff, and reach and screen program beneficiaries. Late or unpredictable funding can delay such programs unduly, thus reducing effectiveness. Therefore, state and local officials tend to prefer advanced budgeting in programs when significant lead time for program startup exists.

Complex Delivery Systems

The term "delivery system" refers to the way resources are organized for program delivery. Delivery systems may be quite complex, as for example, when programs involve both state and local agencies, when multiple decisionmakers are involved, when citizen participation is an integral part of program planning and execution, or when outside contractors, either public or private, are responsible for delivering some services or performing some functions.

Generally, when the complexity of the delivery system is greatest, the need for assurance about future program policies and funding is greatest, if program managers throughout the organization are to become cognizant of changes and, when appropriate, participate in the decisions to adjust state or local policy to new program conditions.

Large Numbers of Public Employees Involved

Another aspect of the program execution that is significant when considering the need for advanced budgeting is the number of public employees required in the program delivery effort. In the past, state and local governments have been particularly reluctant to lay off large numbers of public employees on short notice. In fact, the pressures to retain employees in the face of heavy program reductions can create a strong presumption that state or local funding should be used to continue a program at a relatively stable level should federal funds be removed. Therefore, when large numbers of state or local employees are supported by federal funding, greater certainty about future funding levels is highly desirable from the state and local viewpoint.

Financial Requirements on State and Local Governments

In general, state and local governments prefer predictable funding for those federal programs that place demands upon their own-source revenues. This is because budgeting for these programs must be closely integrated into the budget process for other state or local programs. Reasonable advanced knowledge of funding levels and program requirements allows state and local budgetmakers to provide for appropriate levels of matching funds and thereby avoid the difficulty of squeezing additional matching funds out of the budget later in the year after appropriations have been enacted. It also permits state and local governments to plan and budget for federal funding phaseouts in an orderly manner. Finally, maintenance of effort requirements can be more easily accommodated if they are known in advance.

To budget for matching or maintenance of effort requirements, 1- to 2-year advanced knowledge of funding levels, matching rates, and/or program requirements is needed. Longer term (3 to 5 years) certainty would be desirable to plan for phaseouts of federal funds.

Use of Criteria

Two important points about these criteria and the priority in which they have been listed need to be made. First, more than one of these criteria are usually applicable to a specific program. In general, the greater the number of these criteria met in a program the greater will be the need for certainty. For example, if two ongoing programs that provide services for which there are no viable options are compared, the presence of significant startup problems in one would make it a better candidate for 1-year advanced appropriations than its companion.

Second, the criteria cannot be viewed as having equal significance. As noted, the criteria were reviewed in the order of importance state and local officials view them as indicators for selecting priorities for advanced budgeting. Exhibit IV-2 depicts the weighting order of these criteria and shows how they might be applied to the programs reviewed in this study.

Generally, the presence of one of the higher level criteria could outweigh one or more of the lower level criteria in selecting priorities for advanced budgeting. Thus, these criteria provide a checklist of items that should be considered in determining when advanced budgeting and other techniques to improve certainty should be employed, but they cannot be accepted as rigid guidelines for choice. Rather, they must be employed with selectivity.

EXHIBIT IV-2

CRITERIA FOR ASSIGNING PRIORITIES FOR ADVANCED BUDGETING, AS APPLIED TO SAMPLE PROGRAMS STUDIED

CRITERIA FOR DETERMINING PRIORITIES	PROGRAMS STUDIED							
	Social Services, Title XX	EPA – Waste Water Treatment	ESEA – Title I	UMTA, Section 3	CETA, Title I	LEAA, Block Grant	Medicaid Reimbursement	Community Development Block Grant
1) Lack of Options to Program								
. Human Services			X		X		X	
. Compelling Legal Circumstances		X						
2) Program Size								
. Large in Absolute Dollars	X	X	X	X	X	X	X	X
. A Large Percentage of the Total Program Effort	X	X	X	X	X		X	X
3) Complex Program Execution								
. Close Coordination with Other Programs	X		X					X
. Significant Startup Problems	X	X		X	X		X	X
. Complex Organizational Arrangement	X		X		X	X	X	X
. Large Numbers of Public Employees Present	X		X					
4) Direct Financial Requirements Placed on State and Local Governments								
. Hard Matching Required	X	X	X	X		X	X	
. Maintenance of Effort Provisions								X
. Federal Phaseouts Required						X		

One caveat about the weighting order is important. The list reflects judgment based upon a composite of views from state and local officials. However, views among individual officials regarding the relative weights to be assigned to the criteria will likely vary depending on that official's particular perspective. For example, central budget officials might place the financial requirements set of criteria well ahead of program execution problems because the financial requirements impact their work more directly.

CONCLUSIONS

This analysis of informed state and local opinions about when and where advanced budgeting is desirable has lead to the following conclusions.

- If properly applied, advanced budgeting should have a beneficial effect upon all aspects of program management and should ultimately produce more effective programs. The intergovernmental partnership in program delivery should be strengthened, the beneficiaries of programs should be better served, and the taxpayers in general should get more for their money.

- The form of advanced budgeting chosen should produce certainty about future funding and program requirements for a time span equal to that needed to plan and implement programs in an orderly manner. Forms of advanced budgeting that involve legal actions authorizing state and local spending are generally preferable to forms that merely improve the predictability of future funding actions.

    - One-year advanced appropriation is the most beneficial form of advanced budgeting for ongoing service-oriented programs. This approach is also helpful in programs consisting of short-term projects. Budgeting and program execution are the management functions most benefited by this approach to advanced budgeting.

- Three- to five-year rolling budgeting is most beneficial to programs only if budget targets are made credible and 3- to 5-year planning targets are issued to each eligible jurisdiction. Programs that must be closely coordinated with other ongoing programs will benefit from this option. This option is best employed in conjunction with 1-year advanced appropriations and is most beneficial to program planning and budgeting functions.

- Multiyear advanced appropriations and long-term contract authority are the most desirable means for financing long-term projects. Program and financial planning are most benefited by these approaches.

- Substitutes for advanced budgeting are clearly less desirable than advanced budgeting itself. These approaches can best be used (a) in conjunction with advanced budgeting or (b) as a last resort measure when advanced budgeting is deemed undesirable by Congress.

  - Hold harmless provisions establish a funding floor for programs and are most beneficial to ongoing service programs.

  - Carry-over provisions are valuable in all programs because they reduce pressure to spend money rapidly and unadvisedly. They can substitute for advanced budgeting in short- and long-term programs where spending schedules may be slipped.

- Approaches to grant distribution and administration that limit executive discretion to select grantees, determine grant amounts, and determine grant award schedules are important companions to advanced budgeting. Block grants like CDBG and LEAA have some of these characteristics.

- When determining which programs should receive advanced budgeting, those programs providing ongoing services for which there are no options for program beneficiaries should be given highest priority. Second priority should be given to short- and long-term projects the products of which are not easily substitutable.

State and local officials are convinced that advanced budgeting would be helpful in program management and beneficial to program beneficiaries and that it would improve state/federal relationships. They therefore feel strongly that the implementation of the advanced budgeting approaches described above should be an important Congressional concern.