The Bottom Line

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President's Message

Shelly McAllister

The closing of one year and the opening of another is always a good time to reflect on what has been accomplished and what is yet to be tackled. Whether it is the ending of a calendar year or a fiscal year, or the anniversary of a significant event, reflection is always important. Now is a good time to reflect over the past year for AABPA.

Once again, the Spring and Fall Symposiums were great successes. We heard from six keynote speakers, including Douglas Holtz-Eakin, Stanley Collender, and former Congressman Charles Stenholm. We convened 12 panels on subjects ranging from Budgeting in Baghdad, to Homeland Security Budgeting, PART, Unfunded Mandates Reform, and Third-Party Financing. These events also provided an excellent opportunity to meet other budget professionals and learn about the products and services provided by our corporate sponsors, including Management Concepts, RGII Technologies, and PricewaterhouseCoopers. The monthly lunch-time programs were also a great success, with ICF Consulting providing refreshments. None of these events would have been possible without your membership, or speakers and panelists, and the dedication of the AABPA Board. Thanks to all for making this organization possible.

Now is also a good time to reflect on your career and professional development. Did you attend the Spring or Fall AABPA Symposium? Or one of the free lunch-time programs held almost every month? Did you read any of the numerous job vacancies posted on our website? How about articles in Public Budgeting and Finance? This excellent journal is a benefit of AABPA membership and provides yet another source of information that can help you better understand issues and how your profession is addressing them.

Your continued professional development is important. As a budget professional, you are uniquely situated in your organization. In many respects, you are a generalist in terms of the programs you oversee, but you are also expected to have expertise in numerous laws and regulations, new organizational initiatives, organizational structure, congressional activity, as well as expertise in analytical techniques and an ever expanding menu of software applications. Of course, I would be remiss if I did not mention that you are called upon to demonstrate your knowledge and abilities under very tight deadlines and more than a little pressure!

I would like to encourage each of you, whether you are new to your career or are contemplating retirement, to take a little time to look back over the year, think about where you want to be by the end of the next year, then commit to paper some of these reflections. Create a road map of sorts, with a beginning, ending, and milestones along the way. If you are just starting out, your plan will likely focus on your immediate training needs. If you are mid-career, hoping to make that next step up in your organization or become a supervisor, you might want to demonstrate your leadership potential by mentoring younger staff in a budget training program or learning how other organizations accomplish budget-related tasks. If you are retiring in the next year or so, please invest some time now to share your knowledge with junior staff, research part-time job opportunities, and consider volunteer organizations where your financial skills are sorely needed.

Whatever your situation, I hope several milestones will include AABPA. Our Spring Symposium is just around the corner, but until then we have several free monthly programs you can attend and the journal to read. Also consider serving on AABPA's Board or a committee. You can also register for formal training sessions and certificate programs conducted by Management Concepts or schedule a briefing with one of our other corporate sponsors to learn how you and your organization can work smarter. Wherever you are, now is a great time to invest in your future.

See you at Spring Symposium,
Shelly McAllister

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Mark Your Calendar for the Spring Symposium

The Spring Symposium will be held on Wednesday, May 24, at the Capital Hilton Hotel in Washington, D.C. Please check the website at www.aabpa.org for more details as the program is currently being developed. The tentative theme is about budgeting in an age of disasters.

Performance Budgeting: Is Part Making a Difference?

Kate Wulff, Reporter

Jackie Nowicki, Government Accountability Office (GAO), presided over a panel where she and Stephanie Shipman, GAO, presented findings from two recent GAO reports on the Office of Management and Budget's Program Assessment Rating Tool (PART).

Ms. Nowicki introduced the presentations by explaining that the PART and the related Presidential Management Agenda are this administration's extension of the 50 year history of linking budgets and performance information. She defined performance budgeting as an umbrella term for efforts that attempt to infuse performance information into the budget process and stated that GAO—like OMB and others—does believe that the link between performance information and the budget should not be mechanistic. Next she provided a brief overview of the questions asked on the PART and the overall process. Ms. Nowicki then stated that she would present information on the findings from *Performance Budgeting*: *PART Focuses Attention on Program Performance, but More Can Be Done to Engage* Congress (GAO-06-28) and that Ms. Shipman would present information on *Program Evaluation: OMB's PART Reviews Increased Agencies' Attention to Improving Evidence of Program Results* (GAO-06-67).

Ms. Nowicki stated that building on challenges identified in earlier GAO work on the PART (GAO-04-174), the team examined (1) OMB/agency perspectives on the effects the PART recommendations are having on agency operations and program results; (2) OMB's leadership in ensuring an integrated, complementary relationship between the PART and GPRA; and (3) steps OMB has taken to involve Congress in the PART process.

Ms. Nowicki said the review's findings revolved around three main themes: (1) while the PART encourages a focus on performance measurement and program review in both agencies and at OMB, it appears to have had limited impact on outcome-based program results to date, (2) the PART-GPRA relationship sometimes does not adequately consider the different needs of the budget and planning processes and their various stakeholders, and (3) the keys to increasing the likelihood of PART informing its deliberations include early consultation regarding the timing and selection of programs to be assessed; the methodology and evidence to be used; and tailoring PART communication and outreach to meet Congressional needs. GAO found that changes both in the Executive Branch and within Congress would be necessary to address the challenges the report identified. She then introduced Ms. Shipman's presentation.

Ms. Shipman explained that evaluations are an important facet of the PART. She stated that, in fact, question 2.6 asks "Are independent evaluations of sufficient scope and quality conducted on a regular basis or as needed to support program improvements and evaluate effectiveness and relevance to the problem, interest, or need?" Ms. Shipman explained that GAO reviewed the progress that agen-

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Paul Posner Discusses Twenty-First Century Strategic Challenges

Joan McKean, Reporter

AABPA's Fall 2005 Symposium could not have gotten off to a more exciting start than with Dr. Posner's graphics-laden presentation of the ramifications of the deepening Federal deficit, the many demands on the government that created this deficit, and the long-term strategies that lawmakers and public administrators must employ to avoid catastrophe. Drawing from his 23 years of working for the Congress on the long term federal budget outlook, capital budgeting, performance management and intergovernmental grant reform, Dr. Posner recognized that the next ten years are far more complex and challenging than at any time in the nation's 230 year history. For example, the period 2005-2015 will certainly be plagued with chronic deficits. To answer the question, "Will future generations bail us out and will they be better off than we are now?," Dr. Posner reviewed the effects of the aging society and declining fertility on the labor force, which depresses the GNP, and the increasing longevity of the population paralleling the burgeoning Medicare costs and dependence on social security.

His conclusion is that the Federal budget is on an unsustainable course. If left on this course, the Federal debt will absorb all of the private capital in the economy. If Federal spending grows faster than inflation, even with no new spending for anything and no fix of the revenue stream, the future is the picture of a nation in decline. Whereas more is expected from the Federal government, the decline in U.S. personal savings over the last 45 years has resulted in foreign capital owners filling in the breach. Of course, their profits don't stay in the U.S. What is the nature of the gap? The estimated fiscal exposure includes publicly held debt, military and civilian pensions and retiree health, undelivered orders, Medicare Part B and Part D benefits, and future social security and Medicare Part A benefits, which in aggregate have increased from $20.4 trillion in 2000 to $43.3 trillion in 2004. The size of action by Congress needed in 2005 to close the fiscal gap is the 3.5 % GDP baseline extended to keep debt held by the public from rising above the level in the base year (FY2004). To put it simply, there is a mismatch between resources and expectations.

Dr. Posner pointed out that the deficit environment is outlined in GAO's *Strategic Plan for Serving the Congress 2004-2009*, which explores eight themes – all daunting. They are: long-range fiscal challenges, changing security threats, increasing global interdependence, the changing economy, demographic shifts, science and technology advances, quality of life trends, and changing governance structures. It is heartwarming to know that GAO has also tackled each of these themes and provided recommendations for action it its *21st Century Challenges Report: Reexamining the Base of the Federal Government*. For example, to the challenge of "Changing Security Treats" is this sobering plan: allocating resources to reflect the results of a forward-looking, comprehensive threat/risk assessment; overcoming inertia of various organizations, policies and practices rooted in the Cold War era; defining an acceptable and achievable level of risk, and establishing effective federal, state, and local government as well as private sector; nongovernmental; and nation-state partnerships. Familiar and equally difficult are the governance challenges: addressing fragmentation and overlap in Federal program efforts; coordinating growing tax expenditures with other Federal spending; modernizing Federal compensation practices; and realigning the portfolio of Federal real property assets with reduced modern demands for "brick and mortar."

"The failure to act is more of a threat than the problem itself," according to Dr. Posner. Instead of counting on future conditions such as immigration, a new baby boom, healthier seniors, higher growth, and breakthrough technologies, to dissolve the deficit, there are existing reexamination processes that can and should be employed. These are: reauthorization, oversight, budgeting, and appropriations. Additional promising tactics are: special temporary commissions, sunset provisions, executive reorganization authority, and biennial budgeting. Dr. Posner concluded by stressing the use of accrual estimates in budget decisions, using three approaches: improving supplemental reporting; providing opportunities for explicit consideration of fiscal exposures in the budget process; and incorporating cost estimates of fiscal exposures directly into primary budget data. The way forward must include reframing the debate – "fiscal child abuse." With it policy makers must link short term with long term problems. They need improved metrics and models. Educating the public to the deficit problem and providing the leadership to solve the problem are critical to meeting the 21st century challenges.

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Integrating Budgeting and Accounting Making Incremental Improvements and Blazing New Frontiers

Al Kliman, Reporter

To someone like myself who has been retired from the budget business for the last 15 years, this session was an eye opener. There have been vast changes in procedures related to budget execution reporting and integrating accounting and budgeting.

- Agencies use a system named FACTS II to simultaneously fulfill OMB and Treasury budget execution reporting requirements (SF 133 and FMS 2108, respectively). In addition, OMB uses these same data to fill in the prior year (PY) column of the President's Budget.

- One thing that people who have left budgeting 10 years ago or longer may find fascinating is that FACTS II collects and converts accounting data – tens of thousands of debits and credits – from the agencies into standard reports and the program and financing schedule.

- In determining how to transform accounting data into the P&F Schedule, OMB, Treasury and agencies changed both agency accounting systems and the P&F to make things line up. Over five years in the late 1990s, OMB deleted, added or changed more than 100 lines in the P&F Schedule. Some may call that a dramatic change.

There were three speakers. Chris Fairhall of OMB spoke on the overall theme of integrating budget execution with accounting. By his own description, he is the "troublemaker" who changes things. Jeff Hoge, Director of the Accounting Systems Division at Treasury introduced himself as "the accountant" and brought us up to date on what has been happening to efforts to get consistent data (a problem which used to plague me in my prior life). And Ed Martin of HHS told us how HHS has been dealing with its accounting system problems in this context.

OMB's Efforts

After summarizing some changes made in the past 15 years, Chris told us about a new initiative he is working on to create a web based apportionment system. As with some of the other things he discussed, he explained that the aim of his project is to (1) reduce workload, (2) improve data quality, (3) keep more people in the loop, and (4) re-evaluate how we do things as we change what we do.

Chris brought together a group of agency and OMB staff about 1_ years ago to answer the question: how can we improve the way we process apportionments? The group came up with a two-part answer: leave some things as they are, but give us some new tools to do our job more efficiently. The new web-based system does not foist a one-size-fits-all solution on agencies or OMB staff, and lets agencies and OMB examining divisions continue to use spreadsheets. The system offers new tools, which agencies are testing now, that include edit checks to make sure numbers add properly. Recognizing that having numbers add up does not mean the numbers are right, the system also offers agency and OMB staff other data (e.g., non-expenditure transfers and warrants) that can be used to cross check certain numbers in the apportionments. Frankly, I had been blissfully unaware in my prior life that this was a problem. But I was entranced by the idea of instantaneous transmission to all the right people, with safeguards against the "wrong" people sending apportionments to OMB.

Treasury's Role

Jeff Hoge from Treasury regaled us with his story on the progress they have made – and the progress they have not made – in the continuous quest to get consistent data. The problem plaguing budget analysis and accountants alike has been reconciliation. He told us about FACTS II which collects the U.S. Standard General Ledger (USSGL) trial; balances, uses a single stream for multiple purposes, and has tight edits to ensure consistent reporting. Jeff stresses that the system cannot tell is the agency data is right or wrong – but it will always check to be sure it is consistent.

This is Al Kliman, the former budget officer talking again. That remark by Jeff struck a very responsive chord with me. There was nothing that would drive people on the Hill crazier than using two different figures to represent the same thing. This was a major preoccupation of mine. If the accounting and IT gurus can come up with a way to avoid this old headache of mine, more power to them!

Jeff reported that that they are now getting 99% reporting, with very few errors and a dramatic reduction in differ-

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Integrating Budgeting

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ences. Still, he only gives himself a C+ because, while several agencies have had success, financial statement reporting is still not integrated across the federal government. The next step is to develop a government-wide approach that builds on the FACTS II model. This will be a phased approach over several years. The goal, according to an "Acceleration Committee Report" submitted to the CFO Council is to have it complete in time to use in the preparation of the budget document for the FY 2008 budget.

Experience at HHS

Ed Martin of HHS told us that he is neither an accountant nor a budget person. He styles himself a "translator," and has been doing this for 28 years.

HHS needed to develop an agency wide classification system among its twelve disparate components. To do it, they have developed a Unified Financial Management System (UFMS) to link budget and accounting classifications. It uses FACTS II to generate 133's, 2108's and also data for the program and financing schedule. One feature is to have reporting by the P&F activities during the course of the year (I would have loved to have that.) – all this data available on the web.

A lesson learned from the whole exercise was that it was not easy getting to green. The accounting system must be strict, you have to forget, "the way we used to do it," budget analysts need to know more about accounting, and accountants need to know more about budget (there was a scattering of applause at that.)

But there are a lot of nagging problems. The propensity of the Congress for continuing resolutions makes the system very hard to use – as does the inconsistent use of terminology on the Hill. Sometimes "pay" means "obligate." Sometimes it means "outlay." Pity the poor folk trying to make sense of it all.

Some Concerns During Q&A

- Integrating feeder systems – e.g. payroll and grants. Legacy systems are a major problem area.
- Web based apportionment systems require a designated agent. A Bureau cannot end-run the Department.
- Inconsistency of breakout lines between 132's and 133';'s (Chris said he would try to fix).
- Time in getting apportionments back from OMB — the system can't take care of substantive problems.★

Performance Budgeting

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cies made on evaluations OMB had recommended after the fiscal year 2004 PART reviews. According to Ms. Shipman, among the 20 programs GAO reviewed, all but two had responded to OMB to some degree and eleven had completed studies. Agencies faced both resource limitations and technical difficulties in their efforts to conduct program effectiveness evaluations.

According to Ms. Shipman, GAO found that the PART reviews increased management's attention to the need for evaluation and helped get those studies done. However, OMB and the agencies had differing expectations for program evaluation; so, without discussions of design, agency evaluations may not meet stakeholder needs. One aspect of OMB's and the agencies' differing expectations was whether classical experimental research designs were feasible and preferable for all federal programs.

Ms. Shipman reported that GAO recommended greater coordination of evaluation designs with intended OMB and congressional users, a risk-based allocation of agency evaluation resources, and continued improvement of PART guidance and training.

Ms. Shipman and Ms. Nowicki wrapped up the panel by taking a few technical questions from the audience about the PART questions and the PART process. ★

Paul Posner Discusses

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In September 2005 Dr. Posner departed GAO after 30 years of distinguished service to become Director of the Master's in Public Administration Program at George Mason University. At GAO he had been the Director of Federal Budget and Intergovernmental Relations. He currently serves as chair of the Federal Systems Panel for the National Academy of Public Administration, where he is a fellow. He received his PhD from Columbia University. ★

Andy Maner Discussed Homeland Security Challenges

Hannah Laufe, Reporter

Andy Maner, Chief Financial Officer, Department of Homeland Security, was the leadoff luncheon speaker at the Fall Symposium. President Bush appointed Mr. Maner in January of 2004 as the Chief Financial Office (CFO) of the Department of Homeland Security (DHS). He is responsible for budget, finance and accounting, DHS's financial systems, strategic planning and evaluation, as well as the integration of these functions.

During his luncheon presentation, Mr. Maner focused on the top challenges currently facing DHS. He stated the top challenges were:

- Assisting agencies in need,
- Addressing start-up program and merger issues,
- Integrating and standardizing DHS financial processes, and
- Improving financial and reporting internal control requirements.

DHS was created by merging 22 agencies, and each brought with it its own unique set of concerns. As a result of the merger, DHS has an intricate mission that contains three seemingly contradictory goals: ensure security, protect freedom, and promote the free-flow of commerce.

In addition, DHS currently is experiencing hyper-growth. As of August 1, 2005, DHS's appropriation was $40 billion. After Hurricane Katrina, DHS received a supplemental appropriation totaling $60 billion. As a result, DHS also is increasing the number of employees, programs, and processes.

In order to succeed in its mission, DHS must integrate its systems, processes, locations, and organizations (people). One issue pertaining to integration is how centralized its systems and processes should be. For example, should an agency report to the agency head or to the DHS CFO? Mr. Maner believes that there should at least be one set of processes that is consistent throughout DHS, and one central point from which to retrieve financial information. Currently, DHS does not even have standard operating procedures that are consistent throughout the department, for example, it does not have a standard travel reimbursement policy.

DHS must comply with a statutory audit requirement. It also is the only agency that has a statutory review of its internal controls. The DHS Financial Accountability Act, enacted in 2004, established DHS as a CFO agency, requires DHS, in 2005, to make an assertion of internal controls that apply to financial reporting, and requires DHS to conduct a full audit of internal controls in 2006. Over 25 agencies outside of DHS receive funds from DHS through the Disaster Relief Fund. DHS and the agency receiving the funds are jointly responsible for this money, and not all of the agencies use these funds wisely. Ensuring accountability for these funds is another challenge facing DHS.

Mr. Maner admitted that it is difficult to work in DHS at this time and to take on the many challenges facing the agency; he also, said, however, that DHS is the most exciting place he has ever set foot in and that he is extremely proud of the work DHS does. ★

Tim Young Discusses E-Government and Information Technology

Hannah Laufe, Reporter

Tim Young, Associate Administrator, Office of E-Government and Information Technology at OMB was the second luncheon speaker at the Fall Symposium. The Office of E-Government (E-Gov) and Information Technology (IT) is one of the few statutory offices within OMB. It was established by the E-Government Act of 2002 and oversees $62 billion of IT spending per year. The focus of the Office of E-Gov and IT is on results. The primary goals of the office are to reduce redundancy and facilitate horizontal (cross-federal) and vertical (federal, state and local) information sharing. The office established 24 E-Gov initiatives in 2002 to assist it in accomplishing these goals.

One example of an E-Gov initiative is the e-payroll initiative, which merged 22 payroll systems into four shared services centers. The centers are portable, scaleable, and interoperable. The merger produced considerable cost savings. Prior to the merger, the average

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E-Govenment and Information Tech.

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cost to process a W-2 form was $200-$400 per person, while the average cost is now $100-$150 per person.

Another example is the smartBUY initiative, which consolidates individual agency buying power within OMB and increases the negotiating power of the government. Pursuant to the SmartBUY initiative, OMB negotiates software contracts for government-wide use for software that is commercially available and is a commodity-type software. (Commodity software means software that is widely used and is not highly diversified or specialized.) All federal agencies have been directed to use this program.

In 2004, the Office of E-Gov and IT established five "Lines of Business." The Lines of Business focus on an enterprise driven view of administrative and back-office processes. They provide common solutions to agencies by making shared services available across the federal government. The current Lines of Business are: Financial Management, Human Resources Management, Grants Management, Federal Health Architecture, and Case Management. The office plans to establish shared "Centers of Excellence" under each Line of Business. Centers of Excellence are shared service centers that operate on a fee for service basis. Mr. Young stated the centers will improve performance and provide a wider array of choices to the government. The four departments/agencies responsible for the financial Centers of Excellence are Interior (National Business Center), General Services Administration, Transportation, and Treasury Department's Bureau of Public Debt. The Lines of Business save time and money by automating functions and sharing functions across agencies, and by encouraging agencies to work with other agencies. OMB plans to save approximately $5 billion over the next ten years. ★

Electronic Budgeting: Can One Size Fit All?

John Moore, Reporter

Convener Marty Rubenstein, Budget Officer, National Science Foundation (NSF), kicked off the session by noting that NSF, like many agencies, does not have a robust electronic budget formulation capability. As is still the case with many other Federal agencies, NSF mostly relies on Excel spreadsheets for budget analysis and Word documents for production. Therefore, she was hopeful that the discussion would describe more capable alternatives with the potential to help make people's jobs easier. She then went on to introduce the panel:

- Andy Rider has been with the Labor Department since 2004 where he is working on a new Departmental E-Budgeting System (DEBS) initiative;
- Ed Walsh oversaw development of EPA's award winning BAS (Budget Automation System); and
- David Harmon, OMB, has been the MAX A-11 Project Manager for the past 6-years.

OMB's MAX Budget System

David Harmon began by relating some of the major evolutionary steps in the development of OMB's MAX Budget System, which is used by virtually every agency of the Federal Government. He began with a confession that his early experience with computer systems involved the use of old fashioned punch cards, long before the advent of personal computers. He nonetheless indicated that MAX is continuing to evolve, building on a few strategic technologies, including a relational database and the Internet.

Among the more recent significant enhancements to MAX is automated integration of text and numbers to produce the chapters of the Budget Appendix. This year, nine (9) chapters will be produced using the new automated capability; Commerce, Defense, Interior, and NSF were done previously, newly added this year are Justice, Education, EPA, OPM, and SBA.

An important enabling technology for text integration is XML, which stands for "extensible mark-up language". David indicated that XML is an important new capability because it allows information to be "tagged" based on data type instead of formatting capabilities associated with tools like Microsoft Word that largely ignore context and content. Further, XML facilitates publication of information to the Web as well as a variety of display media from handheld to large screen displays.

David ended by asserting that technologies like XML have enabling capabilities that will facilitate standard means of developing complex budget documents automatically with a high degree of flexibility and consistency.

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Electronic Budgeting

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Web-basing is another capability that can help facilitate widespread use of common tools and procedures across large organizations such as the Federal Government.

EPA's Budget Automation System (BAS)

Ed Walsh described the EPA's experience with its budget system, the Budget Automation System (BAS), since its origins in 1998 when EPA first began to develop an automated budget capability. BAS consists of a few key components. The underlying database is Oracle, reports are developed using Visual Basic and Word, and report cataloging and distribution is via Lotus Notes, which is EPA's e-mail system.

Finally, they also loaded text narrative into the database and through the "automagic" use of an "EASY button" they can literally push a button to quickly combine the latest narrative and current numbers into highly stylized budget documents. For example, this approach has allowed EPA to accomplish the incredible feat of accurately changing over 200 tables from their Congressional budget justification in less than an hour.

Ed encouraged others to try a similar approach. That is, to save time and money, make use of existing IT infrastructure wherever possible. For the EPA, Oracle, Visual Basic, Word, and Lotus Notes represented sunk-cost investments. All that was needed was the incremental cost of configuring and integrating the components into a functional system. Of course it also helps to have an "EASY button".

Labor's Departmental E-Budgeting System (DEBS)

Andy Rider began by listing some "business drivers" for change within the budget process, including inconsistent budget publications, labor intensive production processes, constrained budget analysis, lack of integration with financial systems, and constrained governance over budget processes. Countermeasures include leveraging a Web-based, services-oriented architecture, including features such as workflow, collaborative document and knowledge management technologies, and an underlying information repository, into an empowering integrated budget environment.

A proof-of-concept pilot based on elements of this concept was used in producing the last budget. When compared to a baseline, the time and effort needed to perform key budget production functions was reduced by up to 60%. In addition, there was an overall improvement in quality.

Labor is now setting about developing this integrated budget environment in the context of their IT Strategic Plan and Agency Enterprise Architecture. In so doing, they hope to develop DEBS with general applicability so that it can be implemented quickly and at relatively low cost in other Federal agencies. Towards that end, DOL is soliciting comments on the 18-key requirements and 400+ detailed functional requirements identified thus far for industry comment. ★

Stan Collender's "Nightly Budget Report"

Patrick Mullen, Reporter

Stan Collender, one of AABPA' favorite and perennial speakers, enlivened the budget debate with his comical rendition of how budget issues could be treated if they were part of a nightly newscast. As with Stan's previous performances (e.g., "Frankenbudget" and "Send in the Clowns"), Stan had taken the time to have a professional set of slides to make his points, complete with sound effects, movies, "bells and whistles" sound effects, and a complete set of costumes for his presentation. Stan said he got the idea based on his frustration that budget issues are glossed over in the news media and fantasized about what more in-depth coverage would be like, such as on the evening newscasts regarding weather and sports. The film segments included starring roles by Stan and his wife.

Although a humorous presentation of some of the same fiscal facts that Paul Posner also covered in the morning session, Stan also provided some sobering facts about how the budget is formulated and the way Congress does its work. Part of his presentation was a march through of the monthly congressional schedule, with the days off highlighted in red. Whole months and long weekends were filled in red, with not much time left over for serious budget debate and action. In another part of his talk, Stan told of going through his papers in the process of moving offices and finding an old copy of How a Bill Becomes a Law. He said this publication was one of the factors that

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Nightly Budget Report

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encouraged him to get into the field of politics and public policy in this town. He said that while the contents of the book are constitutionally accurate, the principles of how budgeting and passing laws are done today do not follow the old set of rules. Some laws are now gigantic behemoths that never were debated in hearings or substantively on the floor of either chamber.

It wasn't too long ago at one of Stan's symposium presentations that he was talking about budget surpluses. In 2001 he presented "Frankenbudget" and took his audience on a quest to find out "who/what killed the budget debate and can it be brought back to life." At that time we were dealing with surpluses for as far as the eye could see and this greatly affected the budget debate as to what to do with the surpluses. Oh for the good old days, because now we are facing deficits of enormous proportions. It would be wise if the news media followed Stan's suggestions about spending more time and detail devoted to the budget process and hold Congress accountable for it decisions that we all have to live with.

Although performing as a comedian to get his points across, Stanley is truly the ranking budget meister of the nation's capitol. He is Managing Director Washington Operations, Financial Dynamics Business Communications. Before that he was senior vice president of Fleishman-Hillard, managing director of its federal budget consulting group, and editor-in-chief of the Federal Budget Report, which is the only newsletter devoted solely to the federal budget and congressional budget process. He is one of a rare few who has worked on both the House and the Senate Budget Committees. He is the former director of federal budget policy for two major international accounting firms, namely Price Waterhouse and Touche Ross. He writes a weekly column on "Budget Battles" for National Journal's website, Cloakroom, and is the author of The Guide to the Federal Budget. He has done all this and has a marvelous sense of humor, too.

For those in the audience who want to hear more from Stan, he promised return in February 2006 with a new presentation on the impact of the President's new budget submission for the February AABPA program meeting to be held in his offices. ★

Perilous Prognostication: The Art and Science of Revenue Forecasting

Leo Lex, Reporter

David Weiner, Chief of the Modeling Unit at the Congressional Budget Office, convened a panel of federal and local experts at the symposium to discuss the difficulties of estimating revenues. Mark Booth, Chief of the Revenue Estimation Unit at the Congressional Budget Office, Joel Platt from the Department of the Treasury, and Fitzroy Lee from the D.C. Tax Office talked to attendees about approaches to estimating revenues for governments, about which components are reasonably stable, and which ones present greater challenges to estimators.

Booth noted that CBO uses a microsimulation approach for estimating individual income taxes. The agency takes a sample of about 150,000 income tax returns and adjusts that data for population growth. The data set is then linked with macroeconomic projections that tie to specific items reported in income tax forms; other projections which are not specifically tied to macroeconomic assumptions are also added for items like capital gains and pension withdrawals. Finally, a tax calculator is applied to the data, and an algorithm essentially does the taxes for the 150,000 returns projected into the future. Using this approach, CBO has encountered forecast errors of about 4 percent for the first year of the forecast horizon. Variations in the actual distribution of wealth tend to cause problems because of the progressive nature of the individual income tax.

The methodology for social insurance taxes is similar, though the population is smaller because it is limited to wage-earners. The calculator is also simpler because social insurance taxes are essentially flat, in contrast to the progressive nature of income taxes. (Some adjustments have to be made to account for capped levels of income that are subject to taxation.)

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Perilous Prognostication

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Because the base for calculating social insurance taxes tends to be relatively stable and the tax rate is flat, the forecast error for this category tends to be around 1 percent.

Corporate income taxes present a much bigger problem. The base is calculated by looking at the history of corporate profits and applying assumptions used in the macroeconomic forecast. The taxable base for corporate income tends to be much more volatile than that for income or social insurance, but corporate income taxes also make up a much smaller portion of overall federal revenues: 13 percent, compared with 43 percent for income taxes and 37 percent for social insurance taxes.

Fitzroy Lee, Director of Taxation and Research for the District of Columbia, described the unique nature of the District of Columbia when it comes to collecting revenues: some sources of revenue are typically local in nature (property taxes), and others, typical to states (income and sales taxes). The District of Columbia also has a unique relationship with Congress that requires the District to submit its budget to Congress for approval.

When estimating income tax receipts (which make up over one-quarter of total collections), the Office of Tax and Revenue uses withholding data as a starting point—a different method than CBO, which uses a sample of completed tax returns. For the District, wages and salaries and withholding tend to be closely related. After using a time series model applying a blended forecast from Economy.com and Global Insight for wages and salaries to project withholding, the Office makes additional projections of estimated payments and quarterly (final) payments to complete the income tax collection. Each of these components has different estimating errors: withholding is the smallest with an average 5 percent error, and estimated and quarterly have higher error rates of 12 percent and 13 percent. Estimated and final payments are difficult to project because the underlying liability is primarily driven by stock market activity.

The two other major revenue sources for the District of Columbia are the property tax (about 24 percent of revenues) and sales taxes (about 17 percent). Estimates of property taxes have improved in recent years as the city updated its assessment procedure and improved the availability and accuracy of data. In 2001 there was a large estimating error that was due primarily to revised assessment procedures and a consequently high number of appeals. Estimates of property tax revenues are made using a microsimulation model. Sales taxes are closely tied to personal income levels, and estimates of personal income are done using an econometric model withholding growth where the primary variable is wages and salaries for D.C. residents.

Joel Platt, Chief Revenue Forecaster for the Department of Treasury, focused on the difficulty of producing reliable estimates in the context of ongoing legislative activity. The Treasury produces revenue estimates twice a year. Because estimates must be produced using a cash basis to account for anticipated inflows of revenues, Treasury must convert estimates of tax liabilities into estimates of actual payments, and in the process apply economic assumptions for future activity. Finally, the cash estimate, which is based on calendar year tax payments, is adjusted to match the federal fiscal year (October-September).

Closely related to the process of producing an overall estimate of federal receipts is the necessity of producing revenue estimates of enacted legislation. Calculating such estimates presents a special set of problems. The timeliness of data is one. Currently, the Treasury has access to 2002 tax data, the receipts of which are based on tax laws in effect in 2001. To illustrate, Pratt noted that major tax proposals were enacted in 2001 and in 2003. The 2001 changes reflected in the 2002 data affect historical receipt data. And the 2003 tax law changes will further complicate future projections.

Pratt noted that the importance of revenue estimates has diminished in recent years as statutes focused on reducing deficits have expired. The Gramm-Rudman-Hollings Act established specific deficit targets—goals heightened revenue estimates in light of pressures for spending. Those deficit targets often changed, however, often undermining the goal of the Act. Consequently, Congress enacted pay-as-you-go (PAYGO) requirements that replaced deficit targets with a requirement that spending proposals also had to include provisions that would pay for the new proposals. PAYGO dominated aspects of the budget process in the 1990’s, but the underlying statutory requirement has since expired. Today no statutory rules govern the size of the deficit. (The Senate does have a PAYGO rule in the budget resolution, however.)

The speakers noted that the views they expressed were their own and not necessarily those of their employing agencies. ★

GAO and The Red Book; Resources to Get the Job Done

George Krumbhaar and Hannah Laufe, Reporters

One of the most widely read legal references for budget and appropriations specialists is the Government Accountability Office's "Red Book," Principles of Federal Appropriations Law. The first edition of the Red Book came out in 1981. Volume I of the third edition was published in February 2004, and the online version of the Redbook came out in the fall.

At the AABPA's fall 2004 symposium, GAO Senior Attorney Margie Armen led a lively discussion on the Red Book. Her panel featured two GAO staff with an intimate knowledge of the third edition: Assistant General Counsel for Appropriations Law Thomas Armstrong, and Senior Attorney Kord Basnight.

Unlike the previous, five-volume edition, the third edition of the Red Book will eventually consist of four volumes. This is because the functions covered in Volume III – claims against the United States, debt collection, and payment of judgments - have been transferred to the Executive Branch. While GAO no longer has statutory authority to settle claims against the U.S., it retains the authority to issue decisions to federal agencies regarding the availability and use of appropriated funds. In the third edition, Volume IV - acquisition/provision of goods and services, real property, miscellaneous topics - will be called Volume III. Volume V – index, and table of authorities – will become Volume IV. While the Redbook is now online, hard copies remain available through GPO.

GAO's Office of the General Counsel is working on an annual update of the Redbook based on new cases that will be available online. The updates are cumulative.

The following paragraphs summarize the remainder of the formal presentations and the extensive Q&A, beginning with some of the hypotheticals posed by Tom Armstrong:

1. Your agency head calls and asks whether it's OK to use appropriated funds for
   a. A holiday tree in the building lobby. (Answer: yes, it's OK in the lobby, though not in an individual's office)
   b. A New Year's Eve party. (Answer: Food not allowed from appropriated funds under these circumstances. Note there is no federal law that bans alcohol from federal buildings; it's a GSA regulation that does so. Thus, serving alcohol is not banned from federal buildings not under GSA supervision (e.g., GAO bldg, the Capitol) but is at the discretion of the agency head or other appropriate official. An awards ceremony: stipend and coffee mug with agency logo for a guest speaker, refreshments. (Answer: yes, all these expenses are OK)

2. As a franchise fund manager, you contract with a private vendor; the IG tells you that you have violated the Antideficiency Act and you say that the Antideficiency Act does not apply to franchise funds because they are not appropriated funds. (Answer: Wrong. Franchise funds are a form of intragovernmental revolving fund. Revolving funds are permanent, indefinite appropriations that are subject to the Antideficiency Act.)

The federal government's "Judgment Fund" is another example of a permanent indefinite appropriation. Congress has enacted an appropriation into permanent law to pay for judgments against the United States. The judgment is sent to the Treasury, and the Treasury borrows money to pay the judgment. In most instances, an agency is not required to reimburse the fund for judgments rendered against it; however, in some areas, for example, the Contracts Dispute Act, and more recently, the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (No FEAR Act), reimbursement is required. Agencies must record all judgments against them as a liability in their financial statements. Except for a few explicit statutory exceptions, the Judgment Fund is not available to cover agencies' administrative settlements.

GAO's Office of the General Counsel receives about two dozen queries a week regarding the availability of appropriated funds for certain expenses. It can offer several resources:

- It can issue formal decisions. Under 31 U.S.C. 3526, these decisions are binding on the GAO and the Executive Branch, even though the GAO has no enforcement authority. Approximately 24-36 such decisions are issued annually. It takes about 120 days to develop the facts and issue a decision.
- It can give callers informal advice. Anything that GAO does informally is not a binding GAO decision. If you e-mail GAO, please also provide your telephone number. GAO does not give informal advice by e-mail. All informal requests presently go through Tom Armstrong, who then delegates to a member of his staff. Expect staff to get back to you

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GAO and The Red Book

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within two days. To e-mail, go to the GAO main menu (www.gao.gov) and click on "Legal Products." Scroll to the bottom of that page and click on "Red Book Queries." Be sure to include your own e-mail address in your message. The e-mail that GAO receives contains no automatic "reply" facility.

- It gives a Principles of Appropriations Law course approximately once per month. It offers the course at GAO Headquarters and it can also bring the course directly to federal agencies. The two and one-half day course is designed to be useful to lawyers and non-lawyers.

The GAO encourages agency employees first to go to their General Counsels for advice. Increasingly, the Offices of General Counsel are becoming expert resources for appropriations law. Some parties, however, are entitled by law to come to the GAO: Agency heads, bureau-level heads, certifying officers and disbursing officers. Many agencies have internal requirements to exhaust their own remedies before coming to GAO; GAO, however, will not ask users whether they have first consulted with their GC.

GAO has no authority to entertain questions outside the government – it responds only to federal agencies and Capitol Hill. Government employees and outsiders, however, may subscribe to GAO's legal products listserv. The listserv contains GAO's appropriations law and protest decisions; also, special announcements.

The actual number of GAO formal decisions issued has gone down in recent years, as users have become more sophisticated.

In general, the panel not only summarized the expert resources available but also demonstrated first hand the extent – and good humor - of that expertise. ★

Return address correction requested

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