or the legislature. Although nominal in some states, portions of spending not included in the budget were reported to range as high as 60 percent and more in Delaware, Iowa, and Wyoming.

Expenditures listed as being outside the budget in some states include spending from Federal grants; operations of state departments of highways, public welfare, insurance, banking, prisons, game, fish, and parks; institutions of higher learning; workmen’s compensation; and unemployment compensation; teachers’ and public employees’ retirement systems; construction bond authorizations; mental hygiene institutions; special funds for harbors and airports; expenditures for metropolitan parks, sewers, and water debt service; unappropriated distributions to municipal governments; and business enterprise funds.

Other exempt categories include occupational and professional licensing boards for accountants, morticians, pharmacists, and plumbers; and “minor state promotional agencies,” for apples, cherries, and potatoes.

Behind most such exemptions from budget review are the existence of previously enacted legislation or constitutional provisions which allow relatively little room for current decisions, either by the executive or legislative branch.

**Agency—Legislature Relations.** While state legislatures have gradually granted consent to a stronger role of the chief executive (represented by the central budget office in his budget-making function), they have generally reserved for themselves the right to get information directly from subordinate officials in the executive branch.

It would appear contrary to the principle of executive budgeting, now so widely in use, for the governor to pass on to the legislature the original, unprocessed, spending requests of departments along with his own recommendations. Survey respondents reported, however, that this practice is followed in the large majority of states (see exhibit).

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both original and revised requests are submitted to legislature</td>
<td>37</td>
</tr>
<tr>
<td>Only revised requests are submitted</td>
<td>11</td>
</tr>
<tr>
<td>Only original requests are submitted</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
</tr>
</tbody>
</table>

a. In Arizona, according to latest information, 87 state agencies and sub-agencies prepare their own budget requests; the governor passes them on to the legislature in their original form, without any processing, review, revisions, coordination, or recommendations. Twelve agencies reportedly collect fees and spend money from these collections without any central control.

b. In Alaska both original and revised agency requests are submitted to the finance committees; however, budget document submitted to entire legislature contains only revised requests.

At the Federal level, coordination of budget presentation by executive agencies is part of a definite policy. There are to be sure certain informal techniques which agencies have worked out for conveying to Congress their desire for more funds than have been recommended for them in the executive budget. However, direct, overt agency requests for amounts additional to those approved by the bureau of the budget and the President are forbidden by law.

A somewhat looser relationship generally prevails between governors, state

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executive agencies, and legislatures in budget matters. In most states there are not even the formal restrictions which apply at the Federal level on agencies asking the legislature for amounts beyond those recommended by the chief budget-making authority and set forth in the budget document (see exhibit).

<table>
<thead>
<tr>
<th>Practice</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agencies are permitted to request additional funds</td>
<td>30</td>
</tr>
<tr>
<td>Agencies are not permitted to request additional funds</td>
<td>6</td>
</tr>
<tr>
<td>Practice varies, or situation not entirely clear</td>
<td>14</td>
</tr>
</tbody>
</table>

The practice of permitting agencies to "by-pass" the chief budgetary authority may lead to the sort of situation described some years ago in one state:

"Appropriation committee hearings have for many years often become occasions for departmental heads—most of whom are part of the state administration and presumably under the governor's budgetary control—to ask for more than the governor has recommended with little regard for keeping within the revenue pattern he has recommended. In fact, a layman attending appropriation committee hearings with a copy of the Executive Budget could easily conclude that the purpose of department heads appearing is not to support the governor’s budget, but actually to give information showing why the governor’s recommendations are too low." (Italics added.) 16

Several years ago the New York state budget director pointed out that in the final analysis the budget office’s function is essentially "negative." Budget officials tend to respond negatively to proposals for program and expenditure expansion. The burden of proof rests on those who advocate increases. The New York official, however, viewed this attitude as basically desirable because "the programmatic agencies and most of the potent pressure groups are so expansive that there will be little danger that the undeniable values they represent will be overlooked or smothered by budgeteers." 17

Time Allowed for Budget Preparation. An important factor determining the quality of budget preparation may be the amount of time available to agencies, the budget office, and the chief budget-drafting authority for making their recommendations.

When asked their opinions as to whether sufficient time was generally available to budget office personnel for preparing the budget, questionnaire respondents replied overwhelmingly in the affirmative, although there were some negative responses (see exhibit).

<table>
<thead>
<tr>
<th>Time allowed budget offices to prepare budget document</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient time</td>
<td>37</td>
</tr>
<tr>
<td>Insufficient time</td>
<td>5</td>
</tr>
<tr>
<td>No opinion or not answered</td>
<td>8</td>
</tr>
</tbody>
</table>

For a new state administration, however, the time factor was considered to be a more serious problem. The time between inauguration of a new governor and the presentation of the first budget

to the legislature—usually a period of about 2 months—is often considered too short for proper preparation of a budget. In such cases, a new governor must either adopt the general outline of his predecessor’s fiscal plan, or make more or less perfunctory changes.

The prevailing view among survey respondents, reported by 25 states, was that a new governor does not have sufficient time for budget preparation; only 13 felt that the time allotted was adequate. These views contrast strongly with their previously cited opinion that budget offices under normal circumstances have sufficient time to make a thorough examination of spending requests when formulating the budget document.

In recent years a number of states have taken steps to alleviate the problem of budget-making faced by a new administration. Georgia, Illinois, Indiana, Louisiana, Massachusetts, Minnesota, Ohio, Pennsylvania, Vermont, and Wisconsin now provide a governor-elect with facilities, office space, and personnel to assist him in familiarizing himself with budget issues. In Ohio, the department of finance must brief the governor-elect on all matters related to the state’s income, revenue, and the preparation of its budget. In New York, a new administration’s proposed budget director is invited to participate in the budget hearings, which ordinarily begin one week after election. There is also an informal practice of hiring certain of the governor-elect’s aides as paid budget consultants during the pre-inauguration period. Despite these efforts to orient a new administration, close observers of the New York operation have noted that:

“Much could be said for delaying the submission of a new administration’s first budget for a period beyond the customary date, perhaps in a case such as New York’s until the middle or end of February.” (At present the annual budget must be presented to the legislature by February 1, for the fiscal year beginning April 1.)

SUMMARY

The trend toward the executive budget, begun in Ohio in 1910, is now widely established, and a large majority of the states assign the responsibility for drafting the budget document to the governor. Even so, the legislative branch in many states participates in some way in drafting the “executive” budget before it is formally presented to them for consideration. Central budget offices play an important role in the assembly of departmental spending requests, program review, and the making of recommendations to the chief budget-making authority. The role of the budget office in expenditure control is often limited by the large portions of state spending outside the scope of budget review, and by procedures which have the effect of permitting agency heads to by-pass the chief budgeting authority and appeal directly to the legislature for additional funds. While respondents to the Tax Foundation questionnaire reported that budget office personnel normally have adequate time for budget drafting, the problems faced by a new governor in getting a budget ready for submission to the legislature are regarded as formidable. Some states have instituted formal procedures aimed at alleviating these problems.

III.

State Budget Documents

As a decision-making tool, a plan of work, and a potential instrument for ensuring efficiency in government operations, the budget document assumes special importance in its own right. The comprehensiveness of the budget in its coverage of the state financial activity, the way in which revenues and expenditures are grouped, the treatment of capital expenditures, the degree of detail included, and the presence or absence of explanatory background material—all affect the degree of understanding which the legislature can exercise in considering expenditure requests. It has been aptly stated that:

"Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of the prosperity of individuals, the relations of classes, and the strength of kingdoms."1

COMPREHENSIVENESS

A fully "comprehensive" budget would include all revenues and expenditures of a government and of all its agencies; i.e., there would be no extrabudgetary funds or finance outside the control of the budgetary process.2 As indicated in the foregoing section, large portions of state spending are outside the scope of the official budget (see pages 24-25), as are some revenues. Constitutional or statutory impositions with respect to borrowing and taxing; Federal grants-in-aid requiring matching funds; the use of special funds and earmarked revenues; and informal arrangements or custom typically account for many of the activities excluded from the budget document.

ORGANIZATION

There are 4 basic approaches to organization of budget documents in the states. Each form derives essentially from an attempt to emphasize a particular aspect of review, decision-making, or post-expenditure control. The forms are identified as follows:

1. Organization according to activity or program.
2. Organization to measure performance.
3. Organization by "line-item," which sets forth in detail the specific items for which expenditures are to be made.
4. Organization by "object of expenditure," which presents spending requests according to major categories of items, such as personal services, equipment, or contractual services.

1. This remark is attributed to William E. Gladstone, British statesman and Prime Minister of the late nineteenth century, A. E. Buck, op. cit., p. 57.
Conceptually there are no sharp lines of differentiation among these 4 types. A performance budget has been described as "an extension of, but at the same time within the basic concept of, the 'program budget' approach," while a "line-item" presentation is essentially a more detailed form of "object-of-expenditure" organization.

In practice, a given budget document may combine elements of 2 or more of these organizational approaches. State budgets quite often are "blended mixtures" of varying proportions of program, expenditure object, and line-item types.

**Program Budget**

The program budget attempts to organize expenditure requests to emphasize the activity, or program goal, to be achieved by spending particular amounts of public funds, rather than the means for attaining these objectives—such as equipment to be purchased, personnel to be employed, services to be hired, etc. For example, the recommended budget for fiscal year 1966 for Kansas State University stated that its program objective was to "improve educational services at this institution and provide instruction for an estimated additional 697 full-time students." It is possible in practice, of course, to combine these two approaches. A budget may be organized to point up program activities, and to give details for each item of expenditure. Each line-item request may then be related to the appropriate program section of the budget.

Such a dual-purpose budget may be used where the legislature recognizes the advantages of a program approach, but at the same time believes that detailed line-item entries are essential for thorough examination of spending requests, effective control of expenditure execution, and meaningful post-audit.

Advocates of the program budget, however, point to certain advantages derived from a "pure program" organization. With appropriations approved by program—and not by specific item—agency administrators have greater flexibility in the use of funds, and may transfer money among the various expenditure objects or items as operating circumstances require, without the delays and inconveniences which result when each specific change must be approved by the state budget office, or by a higher supervisory authority.

In program-budget states, the budget office inevitably attaches greater importance to the programs for which funds are requested, than it does to the particular "means" by which state agencies propose to carry out program objectives. Although detailed expenditure control may also be considered important, program accomplishment receives greater emphasis.

It is impossible to distinguish precisely between program-budget and non-program budget states, given the degree of organizational mixture in budget documents and the fact that a number of state budget documents are in the process of transformation toward a program approach. Survey respondents, however, reported that 38 states employ the program principle, in varying degrees, in the organization of their budget documents. In some states bud-

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3. According to at least one source a "true program budget" will "eliminate all the dollar signs except the one sum total at the very end (one figure only—not even a total breakdown by personnel, nonpersonnel, and equipment)." T. W. Fletcher, "A New Look at Budgeting," *Public Management, Journal of the International City Managers' Association*, Vol. 46, No. 2 (February 1964), p. 27. According to this interpretation, none of the state budget documents could be described as a "true program budget."

Expenditure requests on a line-item or combine this with a detailed breakdown of which use the program approach combination. Examples of states which utilize the program approach are: Colorado, Kansas, Maryland, Montana, Nebraska, North Carolina, Pennsylvania, Washington, and Wisconsin. A number of states which use the program approach combine this with a detailed breakdown of expenditure requests on a line-item or object-of-expenditure basis. While the spending requests are grouped according to program, additional data are supplied to supplement each program request. For example, in Kansas state law requires the budget to include a summary of expenditures by object in addition to the program listings.

Examples of states with budgets which are not organized entirely on a program basis, but which incorporate important elements of the program approach are: Kentucky, Michigan, Ohio, and Rhode Island. In Kentucky, for example, expenditure proposals for education, and health and welfare, which together constitute the bulk of spending from the general fund, are presented largely on a program basis. In Michigan, about 50 percent of the budget document would reportedly qualify as being program-oriented.

The budget format used in California has emphasized object classification of spending requests, while program and performance information presented at the beginning of a particular agency budget has dealt in only general terms with total activities of entire agencies. Measuring the costs of estimated changes in program could thus be done only with considerable difficulty. The governor's budget message for 1963, however, emphasized the need for reorganizing the budget to permit more effective legislative review of expenditure programs. For fiscal year 1965, sample program budgets were prepared for 3 state agencies, and extension of the program method to 7 additional departments for fiscal 1966 was planned.

A basic purpose of the program budget is to facilitate estimates of costs for each government activity, so that both the budget-preparing and the budget-approving branches of government can compare alternative program costs when they decide on the distribution of state funds. According to some expert opinion, preparation of accurate program costs requires that expenditures be based on the "accrual" or use principle. Accrual reporting is particularly important if a state wishes to develop program budgeting a step further to embrace also the performance principle.

5. According to Briggs, op. cit., pp. 17-18: "The State of Washington is perhaps more advanced than any other state in refining its newly instituted program budget without moving into a performance budget with supporting detailed cost accounting systems." p. 20: "Of all the budgets examined and reviewed herein, that in the State of Washington is the most advanced in terms of providing a uniform and meaningful cost-oriented division of spending requests that should facilitate a selection among alternatives, at least at the executive level . . . ."

6. According to Shadoan, Preparing, Preparation, Review, and Execution of the State Operating Budget, op. cit., p. 21: "The Michigan budget process evidences many aspects of program budgeting especially in regard to central budget operating agency participation in the budget process . . . . In the budget formulation process, program and activity justification is stressed even though the form of the budget document and thus the agency request forms emphasize an object classification." Entire budget document is reportedly being reorganized on a program basis.

7. Michigan is apparently in the process of reorganizing its entire budget on a program basis. The legislative appropriations and committees have requested budget division personnel to prepare extensive program analyses of four departments for the 1966-1967 executive budget. Presumably, following legislative trial and experience, this approach will be extended to other state activities.


10. State of California, Sample Program Budgets, Department of Motor Vehicles, Department of Fish and Game, Department of Youth Authority, for the Fiscal Year July 1, 1964 to June 30, 1965, p. 1.

11. Under a strict accrual basis, revenues are taken into account when earned, regardless of the fiscal period in which they are collected, and expenditures are considered as such as soon as liabilities are incurred, regardless of the period in which they are paid. Irvine Tenner and Edward S. Lynn, Municipal and Governmental Accounting, Englewood Cliffs, N. J., Prentice-Hall, Inc., 1960, p. 6.
According to one close scholar of budgetary procedures:

"In the development of the cost figures which make up a performance budget, all costs should be included. Ideally, this requires an accrual system of accounting for the measurement of past program costs, and estimates on an accrual basis for the budget year. In turn, this would mean that inventory should be maintained on an accrual basis and that the portion of capital equipment used up in each fiscal period should be charged to the performance costs for that period." 12

Survey respondents reported that 22 states make at least partial use of the accrual system in their budget documents. Kansas, Massachusetts, Minnesota, and Ohio use the accrual principle for reporting expenditures. Budgets in Alaska, California, Colorado, Connecticut, Louisiana, and New Jersey present expenditures on a modified accrual basis. North Dakota reported that it uses the accrual system in the sense that obligated funds are taken into consideration, even though they may not be actually spent in the current fiscal period; in Tennessee the accrual system is used for the highway fund budget; while in Texas the accrual method is reflected to some extent in the budget documents.

None of the states which are not on an accrual system indicated that there had been any recent pressure for instituting this procedure.

An interesting variation of the program approach is used in North Carolina. This state makes use of an "A" and a "B" budget. The former contains requests for funds required to continue current programs at existing levels, while the latter embraces proposals for increasing existing programs, or undertaking new activities. Such a system is said to expedite the review and approval of expenditures for existing programs. However, with budget requests divided in this manner, some opinion has been voiced that the legislature does not have the opportunity to compare the benefits from existing programs with those which may be obtained from new activities. Decisions may be biased in favor of existing programs simply because they already exist, and not because they represent a superior allocation of resources. 13

Another refinement in the use of the program budget is exemplified in the state of Washington, where the central budget office has instructed agencies to break down expenditure requests so as to permit a selection between alternatives within, as well as between programs. The designated breakdown of spending requests is as follows:

1. Amounts required to continue the past level of services through the upcoming biennium, allowing for salary changes already granted and anticipated price increases, but not allowing for changes in work level.
2. Added amounts necessary to extend the base level of services to anticipate changes in workload, but without raising program standards.
3. Increases proposed to improve the quality of existing services.
4. Increases proposed to institute new programs.
5. Special non-recurring costs. 14

All things considered, if states employ the program budget approach, they will

13. Briggs, op. cit., pp. 15-17. However, the Council of State Governments, Book of the States, 1962-63, op. cit., p. 151, refers to this technique as being "... used successfully in North Carolina and a few other states...."
be more likely to use the budget document as an effective tool for allocating funds among alternative programs to obtain optimum benefits. Certainly, they will be more aware of goals, accomplishments, and program costs. It is true that in the final analysis any procedural mechanism will work only as well as the human element permits, and the mere existence of a program-type budget cannot alter attitudes of executive officials or legislators. Given the desire to improve budgetary allocation of resources, however, the program method can provide a useful tool in bringing about this goal.

**Performance Budget**

In much of the literature and discussion of budget types, there appears to be some confusion between “program” and “performance” budgets. In some cases the terms appear to be used synonymously. Even the first Hoover commission in 1949, after outlining the basic characteristics of a program budget and the advantages to be derived therefrom, went on to advocate adoption of a “performance budget.”

Experts in public finance, however, have worked up a number of standard definitions which point up the differences in emphasis. Program budgeting is a policy-making tool, which emphasizes what is to be accomplished with requested funds; it outlines program goals and proposes a plan for their accomplishment. Program budgeting requires the executive branch to think through what it proposes to accomplish with funds requested from the legislature. It may also assist legislators in making value judgments about alternative uses of given amounts of money.

Performance budgeting is simply an extension of the program principle. It attempts to measure achievement according to established standards for designated work units. These work units together perform the operations required to accomplish program goals. Analysis of past performance indicates how far program goals were attained through use of funds supplied in the past, and may provide standards for activities proposed in forthcoming budgets. It permits a projection of costs into the future based on workload, service costs, and program content and attempts to show how new authorizations of funds may bring about future program objectives.

In addition to aiding both executive and legislative branches in reaching rational decisions on the allocation of available funds, performance budgeting serves as a valuable management tool for executive agencies in guiding program execution and controlling operating costs.¹⁵

The development of performance data based on full cost accounting on the accrual basis is difficult and costly. Thus complete performance budgeting is not in general use at any level of government. A limited type of performance reporting, however, is frequently used to support budget requests for new spending. This reporting typically consists of identifying units of work load and indicating changes in the quantity and costs of each unit as a basis for analyzing financial requirements. Performance data of this sort, as shown in the table, was used in support of budget re-

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Performance Data in Washington Budget

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average daily student</td>
<td>273</td>
<td>263</td>
<td>285</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>population</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of students</td>
<td>2.3</td>
<td>2.1</td>
<td>2.2</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>per employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual cost per student</td>
<td>$2,360</td>
<td>$2,759</td>
<td>$2,833</td>
<td>$3,045</td>
<td>$2,948</td>
</tr>
</tbody>
</table>

quests for the 1961-1963 biennium for the school for the deaf, in the department of institutions of the state of Washington.16

According to the Council of State Governments, many states have adopted the program concept of budgeting, although a smaller number appear to have meshed successfully the program and performance approaches in the format of their budget documents.17 A number of factors have limited the use of the performance budget. The concept itself is hazy, and there is no commonly accepted precise definition of performance budgeting; hence it has come to mean different things to different people.

Performance budgeting appears to rest upon the acceptance of standards or "norms" of achievement. For most effective use, the technique would also seem to require some common denominator for measuring the benefits of expenditures of different types against their costs. In practice it has not only proved difficult to establish standards—past performance appears to have been the principal guideline—but also to measure the benefits of a given expenditure. In fact in some instances meaningful work units cannot easily be identified. Although some authorities hold that it is sufficient simply to show changes from previous levels of activity in the performance budget, to do so seems to fall short of the full potentialities of the performance budget technique.

Moreover, there is uncertainty as to the degree of accounting detail needed (some local units of government have reportedly found themselves bogged down in a mass of detail in attempting to convert to performance budgeting). Certainly the needs for budget information among the various states, as well as among programs within states, will differ considerably, reflecting not only the size of the budget but many socio-political variables. It seems unlikely that a uniform system of performance budgeting will be put to use in all states in the near future.

Line-Item—Object-of-Expenditure Budget

The "line-item" and the "object-of-expenditure" budgets are essentially variations of the same organizational approach, with the former being simply a more detailed method of presentation. Both types emphasize the "means" by which agency activities are to be carried on, rather than the "ends" of agency activities which are highlighted by the program budget. The "object" presentation of spending requests

Line-Item Requests in Arkansas Budget

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Title</th>
<th>No. of positions</th>
<th>Maximum annual salary</th>
<th>Total maximum salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Executive director</td>
<td>1</td>
<td>$16,500</td>
<td>$16,500</td>
</tr>
<tr>
<td>2</td>
<td>Assistant executive director</td>
<td>1</td>
<td>$12,500</td>
<td>$12,500</td>
</tr>
<tr>
<td>3</td>
<td>Chief, industrial division</td>
<td>1</td>
<td>$11,500</td>
<td>$11,500</td>
</tr>
<tr>
<td>4</td>
<td>Chief, services division</td>
<td>1</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>5</td>
<td>Chief, communications division</td>
<td>1</td>
<td>$9,700</td>
<td>$9,700</td>
</tr>
<tr>
<td>6</td>
<td>Senior industrial consultant</td>
<td>1</td>
<td>$9,500</td>
<td>$9,500</td>
</tr>
<tr>
<td>7</td>
<td>Industrial consultants</td>
<td>3</td>
<td>$9,300</td>
<td>$27,900</td>
</tr>
<tr>
<td>27</td>
<td>Duplication clerk</td>
<td>1</td>
<td>$2,400</td>
<td>$2,400</td>
</tr>
</tbody>
</table>

Total requested 31 $208,900

The table provides an example of the object-of-expenditure type of budget request, broken down by detailed line-item, in the form of the departmental requests for personal services for the Arkansas industrial development commission, for the fiscal biennium, 1963-1965.18

Detailed presentation of expenditure requests originated during the early years of the 20th century. At that time "lump-sum" appropriations were often used in an imprudent or at times even a dishonest manner. Itemization of spending requests, together with the accompanying close post-audit of actual expenditure which it made possible, was developed as a remedy against these abuses. In the minds of some officials and legislators, this objective still offers strong reason for retaining a line-item budget.

Some 17 states use budget documents organized on a line-item or expenditure-object basis, without any important admixture of program elements. An additional 28 states combine the line-item or expenditure-object approach with

varying elements of the program principle.\textsuperscript{19}

States which employ the line-item or object method, unaccompanied by any important program elements, are: Alabama, Arizona, Arkansas, Delaware, Idaho, Iowa, Louisiana, Maine, Massachusetts, New Hampshire, New Mexico, New York,\textsuperscript{20} North Dakota, Oklahoma, Virginia, West Virginia, and Wyoming. In Louisiana, for example, expenditure requests are based on object of expenditure, and there is little program organization, although a few agencies do provide program information. For North Dakota, the budget is organized by line-item although in the past some budget requests were submitted on a program basis.

The major drawback to the pure line-item or expenditure-object type of budget is that with this form of presentation it is difficult, if not impossible, for legislators to make intelligent decisions as to whether particular activities should be initiated, continued at their existing level, increased, decreased, or eliminated altogether. Yet such decision-making is the core of legislative action on a budget.

In Maryland, prior to adoption of its present program-type budget, the budget document was criticized as being a huge mass of detailed information which was “singularly unrevealing” as to the purposes for which requested funds were to be spent, or the efficiency and economy with which program objectives were being executed. The changeover from the line-item to the program budget was accomplished following a 1955 constitutional amendment.

\section*{CAPITAL BUDGETING}

In recent years there has been a marked trend toward adoption of separate budgets for capital improvements. This trend contrasts with the Federal situation where suggestions for adoption of a capital budget have encountered apathy or outright opposition. Even economists have reportedly expressed relatively little enthusiasm for capital budgeting on the Federal level.\textsuperscript{21} Several states pioneered in developing capital budgeting in the early 1930's, and the practice became more widespread during and after World War II. In recent years advances have been made in programming and budgeting of capital needs on a long-term basis;\textsuperscript{22} 41 states make use of some form of capital budget.

\footnotesize{\textsuperscript{19} In dividing the budget documents according to these criteria, there inevitably were a few “borderline” cases—e.g., Louisiana and New York.\textsuperscript{20} According to the Council of State Governments, \textit{Book of the States}, 1962-63, \textit{op. cit.}, p. 151: New York has “for some years been committed to program and performance budgeting . . . . The state now has a written record of each program, indicating what it costs, the number of personnel involved, and how important it is in the overall governmental structure.” However, according to Shadoan: \textit{Preparation, Execution, and Review of the State Operating Budget}, \textit{op. cit.}, p. 18, “New York is a state where the regular line-item budget does not provide the governor with information for program evaluation purposes. In order to obtain the information, the governor instituted a special program evaluation project. The agencies were required to identify programs performed and estimate, from line-item data, the costs of these programs and the personnel assigned to the program. Only in this way were the programs of the agencies fully and distinctly identified in terms of cost of personnel so that their worth could be evaluated by the agency itself and by the budget office.” According to Briggs, \textit{op. cit.}, pp. 13-14: In the New York budget “any changes in the budget year’s request over the preceding year are identified by program and object. In the personal services classification, the positions affected are detailed . . . . however, there is no indication as to why the positions were considered necessary.”\textsuperscript{21} Richard A. Musgrave, “Should We Have a Capital Budget?” \textit{The Review of Economics and Statistics}, Vol. 45, No. 2 (May 1963), p. 136.\textsuperscript{22} A. M. Hilhouse and S. Kenneth Howard, \textit{State Capital Budgeting}, Chicago, The Council of State Governments, 1963, Foreword.}
Defining a capital budget may at times involve some uncertainties. According to one standard source:

"Capital budgeting is a process or system of administrative procedures which relates a long-term capital-improvement program to the methods which will be used to pay for those improvements and provides for the implementation of these long-term financial and physical plans."23

States are generally considered to have a central capital budget if a number of agencies systematically submit proposals for capital projects to a central review agency for examination and consolidation prior to submission to the legislature, and if arrangements are made for execution of the capital programs.24

Capital budgeting, if effectively implemented, provides information for determining in advance the amounts required for construction programs together with availability of revenues for their financing. It can rank capital needs over a future period according to their relative urgency, and thus prevent some of the haphazard selection of projects influenced by immediate pressures which appears to have taken place in some states, with the accompanying piecemeal, disconnected, and relatively unplanned allocation of funds for capital purposes.25

Effective use of a capital budget requires working out proposed development programs for periods extending beyond the current fiscal period. Long-term projections may then be integrated into a coherent program and related to means of financing. This procedure does not, of course, preclude the periodic review and revision of the capital program.

In some cases, a capital budget is drawn up to assist in final decisions, even though capital appropriations are made only for the current fiscal period. Such actions, although they avoid committing a succeeding legislative session, clearly imply that the entire long-range program has been considered and approved.

For example, in Michigan a 5-year long-range capital outlay budget is prepared annually. It lists agency requests and provides an evaluation by the budget division plus an estimate of priorities. This document is employed for background information by legislative appropriations committees. When they approve funds for capital purposes, however, it is for the current fiscal period only, and no formal action is taken to adopt the over-all 5-year program of which the currently approved expenditures are an integral part.

A similar situation exists in Hawaii, where a 6-year capital budget is prepared on an annual basis, with the proposals for expenditure during the first year submitted as the recommended capital budget. The legislature acts only on these first-year requests, without at the same time either approving or disapproving the 6-year plan.

New Jersey for a number of years in-

24. Highway projects have ordinarily been excluded from central capital budgets. However, in California they are included. In addition, in Hawaii, Michigan, Minnesota, New Jersey, New York, Rhode Island, and Washington, highway projects are included in the central review process, Ibid., p. 142.
25. In one state, a large part of the required capital construction could probably have been financed from current revenues, if an effective program of advance planning had been used. In the absence of such a plan, relating capital needs to future revenues, actual financing required recourse to a bond issue.