

# zero based budgeting

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[Zero-base budgeting (ZBB) and sunset legislation] have become the center of attention, and of some controversy, due to President Carter's announced intention to implement ZBB within the Federal government.

This selective bibliography, covering the past several years, includes books, periodicals, Congressional documents and other government publications on the topic of zero-base budgeting and sunset legislation, with which it is closely associated. An abstract summarizing each item cited is also provided.

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## ZBB - GENERAL BACKGROUND

Broadnax, Walter D.

"Zero-base budgeting: new directions for the bureaucracy?" The Bureaucrat, 6:56-66, Spring 1977.

Mr. Broadnax pegs taxpayer resistance to inefficient government and legislative/executive branch concern over the "uncontrollable" portion of the Federal budget as the motivating factors behind zero-base budgeting (ZBB) proposals. He gives an overview of both ZBB and sunset legislation.

Potential problems in implementing ZBB in the bureaucracy are cited. For example, although the Executive Branch can recommend that programs be discontinued, Congress controls the purse strings. Mr. Broadnax also points out that ZBB was developed and tested in the private sector where maximizing profits is the bottom line in establishing priorities.

However, government workers are not motivated by the profit motive in setting priorities, and they provide services that the private sector is unable to provide. Therefore, it will not be as simple to motivate government workers to set ZBB priorities as it was in the private sector. The implementation of ZBB in Georgia, for example, resulted in no significant reallocation of resources. Another fear of ZBB opponents is increased paperwork.

On the positive side, some advantages of ZBB are that it improves the quality of management information, forces management to clearly state its goals, and decreases bureaucratic ambiguity.

"Budgeting from Scratch."

Management In Practice, no.76-3/4:1, March/April 1976.

This is a one-page introduction to zero-base budgeting, a concept originated by Texas Instruments. ZBB is described as a planning tool that requires managers to reassess their operations from the ground up and justify every dollar spent in terms of current company goals.

Instead of staying within the traditional budgetary structure year after year, there may be major reallocations of resources from one year to the next.

The article concludes that ZBB allows flexibility for creative managers, but may be threatening to some managers when they are forced to analyze what they do and why.

Granof, Michael H. and Dale A. Kinzel.

"Zero-Based Budgeting: modest proposal for reform." The Federal Accountant, 23:50-56, December 1974.

The authors describe zero-base budgeting, set forth its advan-

tages and limitations, and compare it with PPBS. The article gives a detailed hypothetical example of the application of ZBB to an air quality board of a state. Ways to avoid problems with the implementation of ZBB include the soft-sell approach and management support to see that it is implemented as an integrated system of analysis, planning and control. Organizational change is also required; related programs should be placed under common control.

Pyhrr, Peter A.

"The zero-base approach to government budgeting." Public Administration Review, v.37, no.1:1-8, Jan/Feb 1977.

In light of President Carter's support for zero-base budgeting and of the support for Senator Muskie's Government Economy and Spending Reform Act of 1976 (S.2925), it would appear that zero-base budgeting will be adopted in the Federal government. Though all branches and levels of government will have different requirements of ZBB, all will focus on whether: 1) the current activities are efficient and effective, and 2) current activities should be eliminated or reduced to fund new, higher priority programs or to reduce the current budget. These two questions are the focus of the ZBB process.

The ZBB procedure consists of four basic steps: 1) identifying "decision units," 2) analyzing the decisions units in a "decision package," 3) evaluating and ranking the decision packages to develop appropriations requests and, 4) preparing the detailed operating budgets.

Instead of discarding programs, zero-base budgeting leads to the evaluation of programs. In a political environment we are more likely to see shifts of funding within agencies rather than from one agency to another. Also, money saved is likely to be plowed back into programs with increased services. Zero-base budgeting will, however, serve to remove the protective umbrella covering current programs and will require their managers to identify and be responsible for decisions.

Pyhrr, Peter A.

Zero-base budgeting: a practical management tool for evaluating expenses. New York, John Wiley and Sons, 1973. 231 p. HF 5550.P95

The only book on this subject, Zero-Base Budgeting explains the need for such budgeting, then specifically discusses both the mechanics and attributes of its application. Included are chapters on the budgeting process, implementation problems and benefits, the decision package process, managing ZBB, PPB, and computer applications. Also included are appendices which show a sample budgeting manual and sample decision package topics.

The author was a key developer of a zero-base budgeting system for Texas Instruments and was a budgeting consultant to Gov. Jimmy

Carter when the state of Georgia converted its budgeting system to a zero-base system.

Pyhrr, Peter A.

"Zero-base budgeting: where to use it and how to begin." S.A.M. Advanced Management Journal, v. 41, no. 3:4-14, Summer 1976.

Zero-base budgeting is primarily a management tool rather than an accounting method. It is applicable in discretionary programs where cost benefit analysis can be applied. The process involves four steps, from identifying decision units to allocating resources on the basis of cost-benefit analysis applied to each decision unit. Implementing ZBB necessitates a task force of operating and financial managers which must design the process to fit the organization, work with managers at all levels involved with the process, and finally evaluate and revise the ZBB process.

Stonich, Paul J.

"Zero base planning--a management tool." Managerial Planning, July/Aug. 1976: 1-4.

Zero-base planning is a tool that helps cost center managers analyze operations and allocate funds better. Steps involved include the proper identification and analysis of decision units, allocation of critical resources to appropriate activities, and preparation of detailed budgets.

Since the concept of "zero-base" is threatening to many managers, implementation must include designing the system to meet each organization's individual needs, opening communication lines among managers involved in the decision unit process, and providing adequate training to managers. In addition, it is probably best to administer zero-base planning through a task force that can be responsible for the steps involved in successfully implementing the new method.

Stonich, Paul J. and Frederick W. Harvey.

"The new look for budgeting: zero-base planning." Today's Manager, May/June 1976, p. 13-16.

Zero-base planning is different in both conceptual and procedural ways from usual budgeting methods. ZBB starts from no base and treats discrete functions or activities just as it would a brand new operation. It requires consideration of the organization's purpose, facilitates the identification of alternative means of accomplishing the purpose, and requires the identification of different increments of service. The article targets the decision unit increments aspect of ZBB: "Each increment after the minimum describes only the additional activities and costs over the preceding level." A matching process of services and dollars provides alternatives at various spending

levels. Each reviewing manager thus has information needed to rank competing budget submissions.

Taylor, Graeme M.

"Introduction to zero-base budgeting." The Bureaucrat, 6:33-55, Spring 1977.

Mr. Taylor dismisses the early zero-base budgeting (ZBB) concept of constructing a budget without any reference to the past as naive and impractical. He moves on to the Peter A. Phyrre version of ZBB, which is the subject of the article. The author states that "this latter day ZBB is simply the systematic application of marginal analysis techniques to budget formulation."

The article details the elements of ZBB. The variety of ZBB approaches and the importance of tailoring them to the unique circumstances of each organization are discussed. Differences between ZBB in the public and private sectors are noted and results of a survey of corporate ZBB users are presented. The concluding section examines options for the application of ZBB to the federal government.

#### COMPARISONS BETWEEN ZBB & PPB

Axelrod, Donald.

"Lost-Burkhead: the state of the art or science of budgeting." Public Administration Review, 33:576-584, November/December, 1973.

The article reviews seven books on performance budgeting (PPB) and zero-base budgeting (ZBB) at the state, local, and Federal levels. It offers a few comparisons between PPB and ZBB and a short discussion of the pros and cons of ZBB. Mr. Axelrod concludes that governments should be wary of packaged panaceas, however articulate their advocates.

#### PROS AND CONS OF ZBB

Anthony Robert N.

"Zero-base budgeting is a fraud." Wall Street Journal, April 27, 1977.

The author says that the name, zero-base budgeting, is a fraud. The one attempt to apply ZBB (state of Georgia) did not result in an analysis of the budget from zero, with a justification for every dollar requested. Within the first budget cycle, the zero benchmark was replaced by 80%. Attention was focused only on the increment over 80% of current spending levels. No one person can annually review all the ZBB decision packages. Yet, if the job is delegated the ZBB idea of comparing priorities is lost.

Compared with current Federal incremental budget procedures, zero-base budgeting has nothing of substance to offer. The new parts are not good, and the good parts are not new. The author says that Federal agency experience as far back as the 1960's shows that ranking decision packages according to priority, does not work. Honest agency heads admit that program priority is influenced by the amount of funds likely to be available, rather than the other way around.

Mr. Anthony recommends zero-base review, in which outside experts go into an agency and carefully examine its reason for being, its methods of operation, and its costs. It is time consuming and traumatic and should be done about every five years, not annually.

Carter, Jimmy.

"Jimmy Carter tells why he will use zero-base budgeting." Nation's Business, 65:24-26, January 1977.

Jimmy Carter discusses the positive aspects of zero-base budgeting and answers negative concerns about the concept. He defines ZBB: "In contrast to the traditional budgeting approach of incrementing the new on the old, zero-base budgeting demands a total rejustification of everything from zero." Each function of an organization, regardless of whether it is 50 years old or a brand new proposal is analyzed annually. ZBB draws on systems analysis, problem-solving, cost benefit analysis, and program management techniques. Mr. Carter discusses the benefits of implementing ZBB in Georgia where it resulted in a 50 per cent reduction in administrative costs. He states that he will require zero-base budgeting for all Federal departments, bureaus, and boards, by executive order.

Dooskin, Herbert P.

"Zero-base budgeting: a plus for government." National Civic Review, 66:118-121, 144, March 1977.

Mr. Dooskin defines zero-base budgeting (ZBB) and details its functions. He says that ZBB is particularly appropriate in service and support activities typical of government. ZBB assumes that any budgeting above zero requires justification, and subjects all programs to the level of scrutiny usually reserved for new programs. This encourages executives to set priorities and to find the most effective and inexpensive method of executing particular programs.

ZBB is not without pitfalls. Overall policy planning must be done or ZBB does not work. Fear of supervisors' scrutiny is not easily overcome, and supervisors are reluctant to lay off unnecessary staff. Also, ZBB takes a great deal of time.

Mr. Dooskin concludes that ZBB is a tool that can not bring about efficient government or reduce costs in and of itself, but it may help.

Hayward, John T.

"Buzz words galore." Government Executive, v.8, no. 9:19-21, Sept. 1976.

The author voices his opinion on Carter's buzzword, "zero-base budgeting." The concept seems new, but continuing fundings in Washington already undergo five stages of review before getting into the budget--authorization, appropriation, apportionment, obligation and expenditure---processes unrelated to the state budgeting process, where ZBB has been used up to now. With the change of the Federal fiscal year comes Congressional input into the budget process--and this will lead to an eventually sensible process. ZBB will only add to the paperwork. Hardware not buzzwords, will decide the future of the nation.

McGinnis, James F.

"Pluses and minuses of zero-base budgeting." Administrative Management, Sept. 1976: 22-23,91.

Zero-base budgeting is the process of carefully analyzing budgets top to bottom. There is no automatic carry forward of funds--all expenditures must be justified for the forthcoming fiscal year. The budgeting process begins at the lowest levels of management and works upward, depending on careful orchestration and special reports. Budget reviewers make decisions based on a knowledgeable overview of a segment of an organization as it relates to the whole. In the process, managers see the basic interrelationships within the company. The keys to properly implementing zero-base budgeting are: 1. unqualified support of top management; 2. effective design of the process; and 3. effective management of the budgeting. Among the minuses are that the adoption involves an extensive manual, additional cost factors, and initial disruption of normal operations. But on the plus side, managers will be forced to identify inefficient and obsolete operations.

Rehfuss, John.

"Zero-base budgeting: the experience to date." Public Personnel Management, 6:181-187, May-June 1977.

Mr. Rehfuss offers a history and a definition of zero-base budgeting (ZBB). He emphasizes decision packages, gives a short comparison between ZBB and PPBS, and describes ~~some~~ private and government implementations of ZBB.

The article discusses the pros and cons of ZBB as well. ZBB provides high level managers detailed information on lower level activities and on lower level management performance. It suggests how funding levels may be manipulated. Lower level managers are forced to seek alternatives, consider cost reductions, and become more

knowledgeable about both their functions and their organizational interrelationships. In addition, involvement with the budget process adds to lower level managers' knowledge of government functions. One of the most significant advantages of ZBB is that it establishes a financial planning phase prior to budget preparation.

However, problems with ZBB have emerged. There is agency foot-dragging and resistance when programs are endangered. Also, many agencies are hampered by Federally earmarked funds which work against ZBB prioritizing. People also complain that the budget preparation cycle is too short for effective implementation of ZBB.

"Ways to make Uncle Sam spend more wisely."  
Nation's Business, p. 26-8, Aug. 1972: 26-8.

Dr. Maurice Mann, executive vice-president of Western Pennsylvania National Bank and former assistant director of President Nixon's Office of Management and Budget, gives his views on controlling Federal spending including the technique of zero-base budgeting.

"Zero-based budgeting--a way to cut spending, or a gimmick?"  
U.S. News and World Report, Sept. 20, 1976: 79-82.

Experts describe ZBB and discuss its pros and cons, including saving taxpayers money and generating a tremendous amount of paperwork.

#### ZBB--PROPOSED FEDERAL IMPLEMENTATION

Havemann, Joel.

"Congress tries to break ground zero in evaluating Federal programs."  
National Journal, v. 8, no.21:706-713, May 22, 1976.

The Federal government is trying to find ways to evaluate its programs. Two major efforts are legislative proposals for zero-base budgeting by Senator Edmund Muskie and Representative James Blanchard and an OMB circular that would require departments and agencies to undertake more rigorous self-evaluation projects and provide Congress with descriptions of these. Both of these efforts were still in the proposal stage in May, 1976. Also, the GAO has been involved in using cost-benefit analysis and program evaluation and expects an increase in both.

Progress on these proposals was expected to be slow and in line with the state of the art of program evaluation. The article details the various provisions of the proposed legislation and reports comments on them.



Havemann, Joël.

"Taking up the tools to tame the bureaucracy: zero-base budgeting." National Journal, 9:514-517, April 2, 1977.

James T. McIntyre, Office of Management and Budget deputy director, hopes that Federal zero-base budgeting (ZBB) guidelines will be ready in time for Federal agencies to use as they prepare their fiscal 1979 budgets. For each program (decision unit) agencies must establish a minimum budget level, below which the program would be without value. This would constitute one decision package. Taking the same program, the agency must identify add-ons that would lift the program above its current level. This would constitute another decision package. Decisions packages would be ranked in order of importance. Agencies have the option to examine in depth only the lower ranked packages.

Federal agencies fear that OMB will use ZBB to slash programs to meet President Carter's goal of a balanced budget in fiscal 1981. They also fear that their existing budgeting systems will be obliterated, that ZBB will become an exercise in paperwork, and that the public may react badly if popular programs are ranked low. The article also compares ZBB with PPB and MBO and includes a case study.

Lynch, Thomas D.

"A context for zero-base budgeting." The Bureaucrat, 6:3-11, Spring 1977.

In this introductory article, Mr. Lynch gives a short definition and history of zero-base budgeting (ZBB) and introduces the other authors. He points out that ZBB could repeat many mistakes of the Federal implementation of planning-programming-budgeting (PPB).

The article sets ZBB in the context of the economic conditions facing the Carter administration. A byproduct of the recession has been a trend towards Federal centralization of social programs traditionally funded locally, through entitlement. ZBB is an Executive Branch tool addressed to the appropriations stage and cannot be applied to "uncontrollable expenditures" which must be controlled at the authorization stage, through some form of sunset legislation.

Congressman Jack Brooks, Chairman of the House Government Operations Committee has urged President Carter to postpone immediate Executive Branch introduction of ZBB.

If the recession can be stopped, growth of "uncontrollable programs" will slow down, enabling the Carter administration to apply ZBB to future Federal programs.

The article includes references to other sources on ZBB.

#### ZBB--CASE STUDIES--FEDERAL LEVEL APPLICATION

Wildavsky, Aaron.

"Some butterflies were caught, no elephants stopped: the zero-base budget, a precursor of PPBS" in Wildavsky, Aaron, Budgeting; a compara-

tive theory of budgetary processes. Chapter 14: 278-296, Boston, Little Brown, 1975. HJ2009.W54

The author describes the 1962 Department of Agriculture zero-base budgeting (ZBB) experiment. The Secretary of Agriculture requested agencies to reconsider basic funding for each program, "to justify (them) from ground zero in the budgetary phase." This was attempted with very little time, planning, or training.

Few principles of ZBB were actually followed. Because of the time factor, few of the ZBB reports were read, nor was the budget looked at as a whole. Few comparisons of programs to each other were made. Program justification was based on traditional incremental methods. Budget analysts were not able to judge the possible effects of drastic change on their programs. Agency officials did not recommend different programs, different amounts for programs, or fund reallocations as a result of ZBB.

The result of the ZBB experiment was business as usual, with ZBB used as a new political tool to justify the past and add new pet projects. The author includes numerous comments by others on the process, such as, "it simply was not reasonable to expect an agency to routinely furnish information that might result in lower appropriation."

#### ZBB - CASE STUDIES - STATE LEVEL APPLICATIONS

Council of State Governments.

Zero-base budgeting in the states (by Allen Schick and Robert Keith). Lexington, Ky., Council of State Governments, 1976. 29 p. JS308.C6 no. 593

A survey of the states and the District of Columbia was taken to find the extent to which zero-base budgeting practices are used in government on the state level. Zero-base budgeting was defined in this survey as "any systematic analysis at below the base (of current funding)...combined with priority rankings." Tables show which states use some form of ZBB, the extent to which they use it, evaluations of the states' past experiences with ZBB and changes they made in their original ZBB system plans, and plans of non-ZBB states.

Though ZBB is primarily a tool that can be used in Executive budgeting, byproducts of ZBB have been used by various state legislatures as an aid in preparing final budgets.

LaFayer, John D.

"Zero-base budgeting in New Mexico." State Government v. 47, no. 2: 108-112, Spring 1974.

As a result of dissatisfaction with their 1970 budget presentation, the Legislative Finance Committee (LFC) of New Mexico began to experiment with zero-base budgeting. Early experiments with ten

agencies representing about one percent of the total budget were successful and led to modifications of the procedure for the following fiscal year. The results have been that various levels of spending and their projected results are submitted to the LFC. Agencies are evaluated from their minimum operational spending level instead of from zero.

The results of the modified use of zero-base budgeting have been moderately successful. They have provided an incentive for government agencies to improve their operation or economize in the use of public funds.

Minmier, George Samuel.

An evaluation of the zero-base budgeting system in governmental institutions. Atlanta, Ga., Georgia State University, School of Business Administration, 1975. 264 p. HJ2053.G4M55.

Mr. Minmier compares various budgetary procedures and discusses the historical development of zero-based budgeting (ZBB). He details Georgia's initial attempts in zero-base budgeting, from 1973 to 1975. The focus is on ZBB procedural changes as the system evolved.

The author includes an analysis of Georgia's experience and its implications for the future. The book also contains tables, exhibits, and a bibliography.

Minmier, George S. and Roger S. Hermanson.

"A look at zero-base budgeting--the Georgia experience." Atlanta Economic Review, v. 26, no.4:5-12, July/Aug. 1976.

Under Gov. Jimmy Carter, Georgia changed from an incremental budgeting system to zero-base budgeting. The result was a \$55 million savings in the first year.

An empirical study to determine the success of ZBB in Georgia was made which included a series of interviews, a questionnaire, examination of ZBB procedures, and a review of the budgets for FY's 1972, 1973, and 1974. The study pointed out major advantages and disadvantages of the new budgeting system in terms of management reactions and comparison between the new and old budgeting systems themselves.

Scheiring, Michael J.

"Zero-base budgeting in New Jersey." State Government, v. 49, no.3:174-179, Summer 1976.

By order of Governor Brendan Byrne's memorandum of July 22, 1974, the state of New Jersey adopted zero-base budgeting for all departments and agencies. This was done in the face of an impending \$450 million deficit projected for FY 1976. The time for budget reform seemed ripe.

New Jersey's ZBB system followed the prescribed basic steps of making decision packages, evaluating and ranking the decision packages, and finally allocating the resources accordingly. Forms were developed to facilitate each step.

The start was eased by New Jersey's past experiences with using the planning--programming--budgeting system (PPBS). ZBB was to force a combination of PPBS processes with a systematic management process. New Jersey's reduction of budget growth since 1974 must thus be viewed with the use of ZBB in conjunction with other factors such as fiscal necessity.

Three major problems have been encountered in New Jersey with ZBB: 1) agency and staff resistance to the system; 2) lack of understanding of the basic concepts; and 3) quality of information submitted.

Other problems in implementation are noted, including length of time needed to implement the system, assisting agencies in understanding the system, and giving the system time to mature before expecting dramatic results.

United States Congress. Senate. Committee on Government Operations. Subcommittee on Intergovernmental Relations.

Compendium of materials on zero-base budgeting in the states.  
January 1977. 384 p. Congressional Information Service. Microfiche S402-8.

This publication is a compendium of materials on zero-base budgeting (ZBB). Most of these are abstracted elsewhere in this bibliography. The items noted below concern ZBB as applied at the state level and are not cited elsewhere. They are not abstracted here because their titles are self-explanatory.

(p. 99-132)

Georgia Office of Planning and Budget. General Budget Preparation Procedures, FY 78 Budget Development. June 1976.

(p. 224-317)

Hogan, Roy L. Zero-base budgeting: a rationalistic attempt to improve the Texas budget system. Austin, University of Texas.

December 1975.

(p. 323-339)

Idaho. Division of Budget, Policy Planning and Coordination. Program Management and Budget Development Manual. May 7, 1976.  
(Excerpt).

#### ZBB - CASE STUDIES - LOCAL LEVEL APPLICATIONS

Brueningsen, Arthur F.

"SCAT - A Process of Alternatives." Management Accounting, v. 58, no 5:55-60,66. Nov. 1976.

In recent years it has been difficult for school boards to predict

expenditures. The school district in Greece, N.Y. has established a system called SCAT which has been effective. The process is based on zero-base budgeting. It incorporates such features as suggestion systems and established financial-reporting practices, and it provides a sound basis for planning. Zero-base budgeting differs from other budgeting techniques in that it does not establish operating levels based on existing levels. Each time a budget is established the complete cost must be justified. Emphasis is placed on the function being provided, with a cost-benefit analysis being conducted each budget period. During the evaluation process each function was stated on a business-as-usual, some cutback, and minimum basis. This led to an innovative reorganization of the way the things were done, resulting in reducing costs.

Leininger, David L. and Ronald C. Wong.

"Zero-base budgeting in Garland, Texas." Management Information Report, v.8, no. 4A, (Washington, D.C.: International City Management Association, April 1976), 6p.

Garland, Texas implemented zero-base budgeting in 1974 as a result of dissatisfaction with its incremental budgeting process. A project team designed and implemented the system. After establishing a timetable, testing the proposed system in two departments and ironing out difficulties such as providing means for operating managers to obtain assistance in working with the accounting mechanics of the system, implementation began city-wide.

After some experience with the system the city discovered many benefits in its particular version of ZBB. Among the points learned were 1) that a change in budgeting format without a change in organizational philosophy is useless, 2) that ZBB cannot work unless the top executive is willing to delegate managerial authority to lower levels, and 3) that there is no textbook method for implementing ZBB; it must be adapted to suit the needs of each situation to which it is applied.

Singleton, David W., Bruce A. Smith, and James R. Cleveland

"Zero-based budgeting in Wilmington, Delaware." The Bureaucrat, 6:67-87, Spring 1977.

The author presents a case history of zero-base budgeting's (ZBB) implementation in Wilmington, Delaware.

Mr. Singleton explains the steps taken to plan ZBB in Wilmington-- setting a timetable; deciding what budget units would be included; developing forms and a budget manual; and providing technical assistance and training.

The authors next outline the steps taken to implement ZBB at the department level. Each department established four service levels for each budget unit and determined the cost of each. In addition,

departments established standard budget unit program measures, and prepared detailed line item listings of all costs associated with final service levels. Departments then prioritized their budget units and service levels, and the mayor's office prepared numerical priority rankings. The city council finally approved the budget.

An attractive byproduct of ZBB was the detailed identification and prioritizing of city services. This will serve as an excellent basis for a management by objectives program in Wilmington.

#### ZBB - CASE STUDIES - PRIVATE SECTOR APPLICATIONS

Anderson, Donald N.

"Zero-base budgeting: how to get rid of corporate crabgrass." Management Review, Oct. 1976: 5-16.

Southern California Edison used Zero-Base Operational Planning and Budgeting (ZBOP) to help them get rid of budgetary non-essentials. Input to planning and the budget came from a combination of each manager, his boss, and members of senior management who also help to ensure that both corporate and individual organization needs are satisfied.

The two steps to the zero-base approach are 1) preparation of "decision packages" which identify different ways of performing each activity, different levels of effort and resources that could be spent on each activity, and a minimum level of spending for each activity; and 2) ranking the decision packages according to priorities.

The flexibility that ZBOP affords to the budget was the main factor in Southern California Edison's decision to implement ZBOP on a trial basis. Their first experience demonstrated that only a full scale implementation of ZBOP would be effective. ZBOP worked for finding areas where funding should be either cut or increased because in documenting activities managers found both non-essentials, or "crabgrass," and potential benefits.

ZBOP can be applied only to areas of the budget where there is management discretion. Its key to success is tough-minded managers and acceptance by top management.

MacFarlane, John A.

"Zero-base budgeting in action--there's nothing to it." CA Magazine, 109:28-32, Dec. 1976.

In the face of severe financial difficulties, McMaster University decided to try zero-base budgeting to help relieve the forecasted \$2.7 million deficit for FY 1975-76. Expected savings were to be effected in at least one of two ways: 1) finding less costly alternative ways to do things, or 2) shutting down operations that were ranked at the lowest priority. In addition to the usual evaluation functions of "decision packages," McMaster identified an alternative that caused

policy effects to be evaluated as well. The results of using ZBB involved changes in staffing, changes in the structure of accounting records and increased knowledge of the operation of the University as a whole. McMaster University achieved its goal of a balanced budget ahead of schedule.

While ZBB was found to have some problems, McMaster planned to use the system again.

Pyhrr, Peter A.

"Zero-base budgeting." Harvard Business Review; v. 48. no. 6:111-121, Nov/Dec 1970.

In an environment of limited resources, the need for zero-base budgeting employing cost-benefit analysis becomes apparent. It is best applied to service and support areas of an operation where cost-benefit analysis can be straightforwardly applied.

The zero-base budgeting process consists of two major steps: 1) the formulation of decision packages, and 2) the ranking of those packages by management.

Decision packages are of types that show alternative means of performing a given function at levels at which the alternatives can be accomplished. Ranking then is filtered through the hierarchy of the organization to a final review for policy setting by top management.

An appendix, "Aids for identifying packages," is included.

Stonich, Paul J. and William H. Steeves.

"Zero-base planning and budgeting for utilities." Public Utilities Fortnightly, v. 98, no. 6:24-29, Sept. 9, 1976.

The four major steps in the zero-base planning and budgeting process are detailed, using the practices of various public utilities throughout the United States as examples. The ZBB process provides a wealth of analytical data on which to base decisions to allocate or reallocate resources, and enables the achievement of cost reductions by funding only necessary high priority activities. It facilitates identification and evaluation of new ways of operating, increases analysis, and encourages efficient internal communication. Zero-base budgeting is recommended as a routine tool for any new public utility management assignment.

#### SUNSET LEGISLATION - GENERAL BACKGROUND

Delfico, Joseph F.

"Proposed sunset and zero-base legislation." GAO Review, 11:34-40, Winter 1977.

The article describes the Congressional Budget and Impoundment Control Act of 1974, zero-base review, sunset legislation proposals, and GAO's involvement in these processes.

Mr. Delfico explains that the 1974 act establishes a new Congressional budget process, a budget committee in each House and a Congressional Budget Office. The act also includes a procedure for providing Congressional control over the impoundment of funds by the Executive Branch, and focuses on a new Congressional budget timetable planned around an October 1 start of the fiscal year.

The article covers proposed sunset legislation which is aimed at establishing a fixed reauthorization cycle for legislation, whereby program termination dates would be scheduled by major functional categories. Predetermined segments of the budget would be reviewed annually, taking 4-5 years to complete the cycle.

Mr. Delfico explains that zero-base review is designed primarily for the legislator's use and that it emphasizes evaluation of past program performance along with ranking alternative programs. Zero-base budgeting is a procedure for annually examining the entire budget of a program, not just the increment requested above current levels of spending.

United States Congress. House Committee on the Budget. Task Force on Budget Process.

Zero-base budget legislation. June 30, July 27, 28, 1976. Committee Serial Number 94-33. 149 p. Congressional Information Service. Microfiche H261-18.

These hearings before the Task Force on Budget Process were held to examine the concepts of sunset legislation and zero-base budgeting (ZBB). They include testimony on S.2925, the Government Economy and Spending Reform Act of 1976. S.2925 was the precursor to S.2, the new sunset bill introduced into the 95th Congress, 1st Session, 1977.

Of special interest is testimony by Phillip S. Hughes, former Assistant Comptroller, U.S. General Accounting Office. The discussion centers on integrating ZBB and sunset concepts with existing Congressional budget procedures. (H261-18.4, pp. 89-104).

U.S. Congress. Senate. Subcommittee on Intergovernmental Relations.

Government Economy and Spending Reform Act of 1976. Hearings, March 17-19, 24-25, April 6-7, 1976. 539 p. Congressional Information Service. Microfiche S401-34.

These hearings are on S.2925, the Government Economy and Spending Reform Act of 1976, the precursor to S.2, the new sunset bill introduced in the 95th Congress, 1st Session. They contain the text of S.2925. Also, witnesses are questioned concerning the merits of amendments or additional legislation to include tax expenditures under zero-base review, and to establish a broad-based Federal advisory commission to consider comprehensive government reorganization. Portions of these hearings are particularly noteworthy, as detailed below.



Summary. Microfiche S401-34.2, pp. 38-57, 121-123.

This section includes witness statements and discussion of the potential effectiveness of zero-base budget review, an explanation of the Georgia state government zero-base budget (ZBB) procedures, and suggestions for review workload management.

Georgia. Office of Planning and Budget.  
General budget preparation procedures. F.Y. 1977 budget development.  
June 1975. Microfiche S401-32.2, pp. 86-120.

This includes general fiscal year 1977 budget preparation procedures and instructions, with specimen forms.

Hearings, March 24, 1976. Microfiche S401-34.10, pp. 284-319.

This section includes testimony by Richard C. Leone, State Treasurer of New Jersey and a discussion. The section reviews New Jersey's experience with and techniques of ZBB. Also included (p. 297-319) are specimen New Jersey budget request forms, analyses, reports, and comments on likely comparisons between New Jersey and Federal ZBB.

Hearings, March 24, 1976. Microfiche S401-34.11, pp. 320-324.

This section includes testimony by Peter A. Pyhrr, and a discussion. Mr. Pyhrr reviews and evaluates ZBB techniques used in Georgia. He recommends selecting one large program for the first try at Federal ZBB.

"Zero-base budgeting: one way to erase needless government programs."  
Nation's Business, 64:52-56, November, 1976.

Zero-base budgeting and sunset legislation will give Congress the means to control abuses of automatic Federal program funding. Zero-base budgeting (ZBB) focuses on the whole budget, rather than on just its parts. The key to ZBB is that at fixed intervals government agencies would be forced to justify their existence to Congress. The first proposed review cycle, 1979-1983, would be a review by broad functions such as energy or education and would limit duplication.

Business interests favor sunset legislation but do not like the component that reviews exemptions and deductions in the Internal Revenue Service Code. They argue that 4-5 years is not long enough to review the code, and that continuity of tax law is central to individual and business planning. The question of extra work for Congress is also raised. The article includes a hypothetical application to OSHA.

## COMPARISONS BETWEEN SUNSET LEGISLATION AND ZBB

Dale, Edwin L.

"ZBB and sunset: what's the difference." New York Times, August 8, 1976.

Zero-base budgeting applies primarily to the Executive Branch of the Federal government while sunset legislation applies to the Legislative. Sunset requires a review of all existing programs by Congress while zero-base budgeting requires justification for every dollar requested during a budget period.

Because of the difference between Federal and State governments and the possibility of the creation of a mountain of paperwork with limited results, the author feels that zero-base budgeting will have no significant effect without parallel action in Congress.

Schick, Allen

"Zero-base budgeting and sunset: redundancy or symbiosis?" The Bureaucrat, 6:12-32, Spring 1977.

Mr. Schick notes that sunset legislation and zero-base budgeting are products of the 1970s, the decade of tight budgets and disillusionment over the effectiveness of government programs. His thesis is that inflated expectations are attached to both. ZBB will not induce program officials to cut their budgets, nor will sunset legislation result in the wholesale termination of government programs.

The author defines ZBB and focuses on the application of ZBB in the U.S. Department of Agriculture and in the states of Georgia, New Jersey and Texas, where it did not result in program terminations or in reallocation of funds from one program area to another.

Mr. Schick defines sunset legislation and points out that it does not yet have a track record in the states that have tried it. He discusses its varying applications in Colorado, Florida and Louisiana.

The article compares S.2925, the leading Congressional sunset bill, and S.2 a similar version reintroduced at the start of the 95th Congress. Sunset will not function as a termination process, but like ZBB could function as an opportunity for Congress to periodically improve Federal programs. Mr. Schick concludes that ZBB is an appropriations device while sunset is a legislative/policy device. He recommends that ZBB be applied in tandem with sunset legislation.

## PROS AND CONS OF SUNSET LEGISLATION

"Chamber supports zero-base budgeting." Washington Report, 15:1-2, April 19, 1976.

Dr. Richard L. Leshner, President of the National Chamber of Commerce testified at a hearing on zero-base budgeting before a

Subcommittee of the Senate Government Operations Committee. He promised the Chamber's support for passage of the Government Reform and Spending Act of 1976 (S.2925). He also called upon Congress to adopt zero-base budgeting and incentives systems that would spur government workers to modernize and revitalize government programs and increase output. He recommended contracting out more government services with the private sector, where they are subject to cost-effective pressures. Mr. Leshner stated that ZBB legislation should be directed at the entire budget from the onset, rather than at a selected group of programs, so that the review function of ZBB is not lost.

Cohen, Richard E.

"Taking up the tools to tame the bureaucracy: sunset legislation." National Journal, 9:514, 518-520, April 2, 1977.

There is much Congressional disagreement over Senator Muskie's pending sunset legislation bill (S.2), which has been given solid support by President Carter. The bill schedules the approximately 1250 Federal programs for review, by function.

Areas of Congressional conflict include whether or not the bills should include periodic review of the IRS Code, and of regulatory agencies. Social Security, Federal Retirement, Medicare, and payment of the national debt would be exempted from sunset legislation. HEW Secretary, Joseph A. Califano, feels that civil rights statutes should be exempt. Others feel that the bill should exempt any "basic rights" provided by statute.

Critics fear that sunset legislation would be used by Congress to tamper with programs and that it would create too much additional work. Proponents feel that it will "rein in" uncontrollable spending, will make programs more effective, not terminate them, and that it is a logical sequel to Congressional budget reform. Sunset legislation will probably pass the House in the current Congress, but its fate in the Senate is not as clear.

Gardner, Judy.

"Sunset bills: an eye on big government?" Congressional Quarterly Weekly Report, 34:955-6, April 24, 1976.

The goal of sunset bills is to improve government performance. The public has become disenchanted with government because of proliferating Federal programs which are accompanied by duplication, inefficiency, and conflicting purposes.

The Government Economy and Spending Reform Act of 1976 (S.2925) was reintroduced in the 95th Congress, 1st Session as H.R. 85 on January 4, 1977 and is still pending. Most Federal programs would have to be reauthorized at least every four years, or be terminated automatically. Zero-based budgeting (ZBB) review would be scheduled by budget function. GAO would report permanently authorized duplicate and inactive programs, and would assist in ZBB reviews.

Proponents of the bill cite its potential for giving more direct control over individual aspects of Federal spending. Concern has been expressed that some activities need more frequent review, and some less frequent review than every four years. Mr. Roy L. Ash, former OMB Director suggests that selected ZBB analysis be tried immediately and that legislation be deferred until some practical experience has been gained. Others say ZBB will create an unmanageable amount of paperwork.