1. Decisions and Information Needs of Governmental Accounting Information Users*

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Ten classes of decision makers requiring state and local governmental accounting information are identified. Some of the decisions made by members of each class are listed, and the kinds of information the decisions call for are discussed.

One group of decision makers discussed is voters. An obvious decision that voters make is the choice between candidates at election time. Financial information is often key information for voters in evaluating the past record of an incumbent candidate. Other examples of voter decisions and the related financial information that is needed for the decisions are discussed.

Discussions of other groups' decisions are also presented. The other groups included are management, legislative bodies, oversight bodies, employees, vendors, service recipients, investors, grantors, and taxpayers. The information required to support the decisions that are made by each group is also discussed.

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Potential users of financial information generated by state and local governments can be partitioned into 10 groups. Members of each group make decisions affecting government by providing resources, allocating resources, and legitimizing government. Taxpayers, grantors, investors, and fee-paying service recipients provide financial resources. Employees and vendors are sources of labor and material. Allocation of resources depends on decisions made by legislative bodies and management operating within the constraints laid down by voters and oversight bodies (including higher level governments).

Many users act in multiple roles. Individual citizens, for instance, in their capacity as voters legitimize the government through election of public officials. As taxpayers, the same residents provide financial resources. Some residents may be employees of the government or invest in its securities. This chapter examines key decisions and corresponding information needs for each role of potential users.

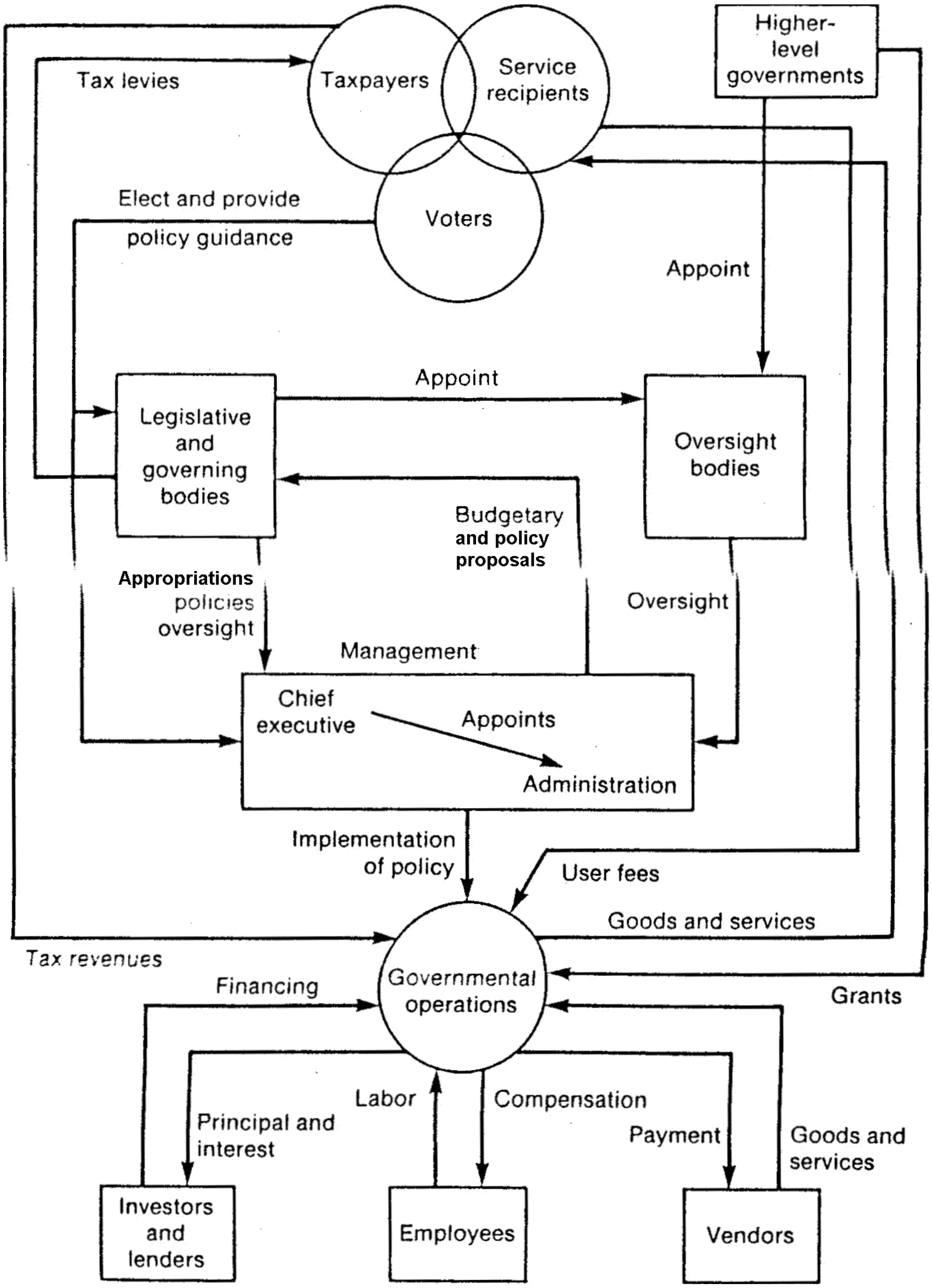
In practice, users constitute an intricately connected set of decision makers, both because individuals occupy multiple roles and because decisions of one type of user facilitate or constrain choices of other types of users. Such constraints are particularly salient for management and legislative bodies. They may make the decisions on resource generation and allocation, but these are embedded in a framework provided by other users' decisions—investors' evaluation of creditworthiness, employees' estimate of fiscal capacity to increase compensation, grantors' assessment of compliance with grant requirements, etc. Exhibit 1 illustrates some of these interrelationships.

As Exhibit 1 suggests, some users, such as management and legislative bodies, make decisions that affect most government financial activities. Other users, such as investors and vendors, make decisions in a narrower range with respect to the governmental unit. We begin with users whose information needs are broadest and move to those with more limited concerns.

The extent of information needed by users depends in part on their general approach to decision making. Most literature on the topic can be classified into two perspectives. The first points to the complexity of choosing among alternative goals, the boundaries to users' time and interest, and the limited information readily available. The second perspective emphasizes a more comprehensive approach, ordering of goals rationally and searching for data to facilitate the most efficient means to attain those goals. Depending on the issue, users may move between these two extremes. Our discussion rests more on the latter than the former. Rather than emphasizing information constraints, we outline the range of data needed by users to make rational decisions on topics of most importance to them.

Exhibit 1

Potential Users of Financial Information and Their Interrelationship



MANAGEMENT AND LEGISLATIVE BODIES

In this section the decisions and information needs of management and legislative bodies are considered. The particular individuals or groups that constitute management and the legislative bodies vary considerably among jurisdictions. In the council-manager form of government, for example, there may be a clear delineation of responsibilities, whereas in the commission form of government the same individuals perform both administrative and legislative functions. Other forms of government such as the strong mayor type fall somewhere between these two extremes. Legislative bodies should be understood to include governing bodies, in order to include special governmental units in which policy decisions are made by a body that does not possess legislative powers.

Nevertheless, in all governmental units there is a need for a policy-making function and an administrative function. We will ascribe these functions to what will be referred to as legislative bodies and management, respectively, regardless of the particular form of organization structure involved. Because of the importance of the interaction of these two groups in the decision context, they are considered together in this section, although it should be emphasized that their respective roles in the decision process are different.

Three stages of decisions involving management and the legislative body can be distinguished. In the planning stage, the legislative body, representing the interest of the public, is responsible for determining service delivery objectives. In the implementation stage, management is responsible for carrying out the policy decisions made by the legislative body and must determine the appropriate arrangements for accomplishing these objectives, including staffing, organizing and directing activities. In the monitoring stage, the legislative body evaluates management performance to determine whether objectives have been met and constraints observed.

Achieving the objectives of a governmental unit requires the development of programs. Programs are coherent groupings of activities designed to accomplish a particular objective. It is management's responsibility to plan and implement the programs.

In developing programs, management attempts to maximize effectiveness—which may be defined as the degree to which objectives are accomplished—subject to various constraints, including limitations of financial resources. Different alternative programs that meet the resource constraint may be considered and compared on the basis of their prospective effectiveness. This suggests that management needs information to help determine the resource constraints and to help predict the cost and effectiveness of alternative programs.

Establishing objectives is not a single-step process. Although the legislative body might begin with what it regards as desirable outcomes of governmental activities, it must also weigh the cost of providing the necessary resources against its assessment of the value of the expected results. Because of its taxing powers, the legislative body might not regard financial resources as fixed. It can presumably raise taxes or fees if necessary to accomplish more costly objectives.

However, this requires a decision. Even though the governmental unit may be able to impose taxes and fees on individuals and organizations within its jurisdiction, the burden of taxation is an undesirable effect which, as representatives of the public interest, the legislative body must weigh against the prospective benefits. To do this they need information to help predict the outcomes of proposed programs and their cost. This can only be done, however, after management has considered alternative programs and made recommendations concerning the most economical means of accomplishing objectives at various levels.

Thus it is necessary for management to interact with the legislative body. The legislative body can choose the level of objectives it feels provides the optimum balance of cost and effectiveness, but requires information to help predict the cost and effectiveness of programs at various levels. Management must design the optimum program for accomplishing objectives at each level. Thus it may be assumed that management makes its analyses of alternative programs at each level first, so that the legislative body can choose the optimum level from among the proposed set of programs.

Development of the operating budget is a key element in the planning stage. The choice among alternative programs takes place in the context of developing and approving the budget. Budget proposals are developed by management. In deciding whether to approve the proposed operating budget, the legislative body will be concerned with maximizing program effectiveness within short-term financial constraints. These constraints mean that short-term inflows and outflows of financial resources must balance over the budget period. Thus information is needed to help predict flows of short-term financial resources.

As representatives of the citizens, legislators are responsible for maintaining the financial well-being of the governmental unit. This involves long-term as well as short-term considerations. It implies that in choosing among alternative programs, legislators should take into account the potential impact on long-term resources, such as the physical plant. If the physical plant is not maintained, existing resources may be depleted. The legislative body can make a choice not to maintain capital assets and hence reduce service capacity in the future.

However, if the objective is to maintain the current level of services then deterioration in the physical plant indicates a need for future expenditures. To select programs using the constraint of maintenance of capital resources implies a need for information on the current condition of the physical plant and information to help predict the impact of proposed programs on the condition of the physical plant. This would require a standard measure of service capacity to permit temporal comparisons.

However, to ensure long-term financial well-being, the legislative body must consider the maintenance of future service capacity within the constraint of future ability to meet financial obligations, such as long-term debt or capital outlays. This implies a need for information to help predict long-term cost implications of proposed programs and information to help predict long-term flows of resources, so that future costs of current commitments will not exceed future financing capacity.

Once the particular objectives and service levels are selected, it is .the responsibility of management to implement the selected programs. This involves assigning staff responsibilities, and other resources to organizational units (departments) to carry out the planned activities. For example, an objective could be to maintain a healthful and aesthetically pleasing environment, and garbage removal could be among programs selected to achieve this. In implementation, management has to decide more precisely when, where, and how the garbage is to be collected.

In selecting among alternative activities to implement the program, management will attempt to maximize effectiveness, within the limitations of resources assigned to the program. To predict effectiveness implies a need for information to help determine the potential relationship between units of output (tons of garbage collected) and achievement of objectives (healthful environment).

From among the most effective alternative activities, management will then select the set of activities that maximizes efficiency. Efficiency is the relationship between outputs and inputs. Optimization requires determining the minimum quantity of input necessary to achieve the required output. To achieve this level, management needs information to help assess the potential linkage between specific units of input (labor, material, equipment) and specific units of output (tons of garbage collected).

As part of implementation, management is responsible for using short-term financial resources to meet program needs. The first requirement is to have sufficient cash, or cash equivalents, on hand to meet obligations as they come due. In order to meet obligations when there is a timing difference between inflows and outflows, management has to decide when to seek short-term financing and for how much.

To estimate the timing and volume of cash requirements implies a need for information to help predict the flows of short-term resources. Within the constraint of meeting obligations, management seeks to invest temporarily idle cash balances. The investment decision involves finding the highest rate of return consistent with a safe investment. Management wants to invest profitably but not at the risk of losing the invested resources. Again, because of the varying maturity options available for temporary investments, management must have information to help predict the flows of short-term resources.

Management is responsible for hiring and retaining staff to implement program activities. As part of this responsibility, they have to negotiate employee benefit agreements. A major consideration in deciding on the amount of such agreements is the impact on long-term financial well-being of the governmental unit. Employee benefits, such as retirement and disability pensions, involve a future financial commitment. Management will try to negotiate benefits at a level that retains and attracts qualified staff, consistent with future commitments that do not exceed resource constraints. To decide on a benefit level using these criteria implies a need for information to help predict the future costs of benefits and future resource constraints.

Higher levels of management must monitor the activities of lower-level employees to assure that they are carrying out their assigned duties. This requires information concerning actual performance. At this level, however, the focus is on the degree to which specific assignments have been carried out, and the cost of doing these. Personnel at lower levels of the organization cannot have responsibility for the effectiveness of programs, but only for performing their functions.

If assigned functions have not been performed, or have not been performed within designated resource constraints, higher levels of management can take remedial action either by changing personnel or by respecifying the activity. Deciding which remedial action to take requires information on costs and efficiency of activities performed.

In its oversight role, the legislative body monitors management performance to assess whether implemented programs have met planned objectives. To make this assessment requires information on the relationship between program outputs and planned objectives.

Measuring this relationship implies that performance measurement criteria must be established for each program and that objectives must be designated precisely enough to make evaluation possible. Nevertheless, the decision as to how well objectives have been met remains largely subjective.

The legislative body is responsible for ensuring that management does not violate legal and contractual constraints imposed upon the use of governmental resources. To decide whether restrictions have been observed requires information on management's use of resources, presented in such manner that violations can be detected. Information on management performance and use of resources is essential to enable the legislative body to take remedial action as a result of deficiencies in performance or violations or constraints.

VOTERS

Voters play a fundamental role in state and local governments. They elect officials to represent their interests in the legislative body and by this action help legitimize government activities. If these elected officials perform inadequately, voters can replace them in subsequent elections. Voters in some governmental units also vote directly on fiscal issues. It is only in the voting role that some potential users, such as taxpayers and service recipients, can take action on many issues.

A key decision of voters is choosing between candidates for elected office. In selecting officials, voters may use attributes for which financial information is not relevant, such as party affiliation, ethnic background, or personal appearance. To the extent that voters take into account previous policies, however, financial information can be useful.

If a candidate is an incumbent or has held public office, voters may find financial information useful in assessing past performance, assuming that an official's prior record helps predict future performance. The usefulness of such information varies by office. Chief executives, such as mayors or governors, may be held more directly responsible for policy outcomes than officials with less authority.

Voters also need information to help correct undesirable policies. Documentation of past performance helps assign responsibility to appropriate officials. Information that helps voters to evaluate and monitor performance provides an important control mechanism for government.

Voters' decisions are not confined to the ballot box. If taxes are considered excessive and services or stewardship of resources inadequate, the voter may complain to elected officials, participate in budget hearings, write to the local newspaper, or engage in other forms of protest. The right to vote adds weight to these other means of participation.

Financial information can be useful for evaluating past performance in three areas: the level of taxes and fees, efficiency, and stewardship of resources. In addition, nonfinancial information concerning effectiveness of programs and equity in service delivery is necessary to properly evaluate the performance of incumbent administrators. To a large extent, voters may depend on their own experience with service delivery in forming judgments on the effectiveness of current policies and programs, but information concerning overall objectives and service activities would provide a more balanced view of the performance of elected officials and thus be useful in voting decisions.

The voter seeks to minimize tax and fee payments within the constraint of receiving an acceptable level of services, and thus is likely to use these criteria in judging government performance. To decide whether taxes and fees are too high implies a need for information to measure the total tax and fee burden imposed by all government jurisdictions to which the voter must pay. To decide whether services are acceptable implies a need for information on planned objectives and the effectiveness of implemented programs in reaching these objectives. The voter may find planned objectives unsatisfactory, in which case responsibility lies with the legislative body. Alternatively, the voter may find program performance insufficient to meet objectives, in which case management is held responsible. Such information can be helpful to the voter, although ultimately the evaluation rests on the voters' subjective standards of service adequacy.

Since voters' decisions are based in part on minimizing taxes, information on efficiency in the performance of services would be useful in assessing whether taxes are too high. However, to assess whether services could be performed more efficiently, and hence taxes reduced, implies a standard for evaluation. Information from comparable government units might be helpful in assessing whether efficiency could be improved. There may be a danger, however, in making interjurisdictional comparisons when the circumstances are not truly comparable. For those services for which expenditures can be tied to a specific source of resources, such as activities financed by user fees, the voter will want information to evaluate whether fees are commensurate with the costs incurred. This requires information concerning the basis by which cost is estimated, including long-term economic cost.

In deciding whether services are acceptable, a specific criterion used by some voters is the equity with which services are delivered and the equity with which the burden of providing resources is distributed. This implies a need for disaggregated information to permit comparison of resource burdens, program inputs, and program outcomes for different geographic and socioeconomic groups.

Voters may consider management of government resources in evaluating the overall performance of elected officials. Information on the status of physical resources and their rate of deterioration can help the voter determine whether resources have been adequately maintained.

Information on the value of physical resources is also important to the voter in evaluating the overall financial condition of the government entity. A government with a large cash surplus may not be well off if its infrastructure is crumbling. When physical resources are not maintained the resources inherited from the past are being used up and the overall financial condition may be deteriorating. This may translate into higher future taxes as capital improvements become necessary, or in reduced service levels if resources are not replaced. It is important, however, to assess decline in value of physical resources in the context of conscious policy choices. A community with a declining population may decide, for example, to close or not to maintain some of its schools in order to reduce taxes. If the government were less well off in overall financial terms, this would be seen as the result of a planned reduction in services.

Financial reports can provide evidence of the extent to which officials have met contractual and legal obligations. Such reports can also reveal areas where remedial action is necessary. Even if elected officials have only limited control over these matters, voters may well hold them responsible for the proper use of resources.

Any individual voter is unlikely to have the time, resources, or interest to collect and evaluate complete information. Interest groups often serve this function. On particular issues they have the personnel and resources to make more extensive evaluations. The voter often depends on their recommendations to decide which candidate or policy to support. These groups range from those with a broad interest in government, such as the League of Women Voters and taxpayers' organizations, to those with specific interests, such as neighborhood groups and parents of schoolchildren.

In some jurisdictions, citizens vote directly on fiscal matters such as tax rate increases, authorization of general obligation bonds, tax and spending limits, and even the operating budget. The balance between the tax burden and an acceptable level of services will be crucial to voters. This suggests a need for. information to help predict costs of services so that tax implications can be assessed, as well as a need for information to help predict the outcomes of proposed programs.

Although voters often make decisions on the basis of their own needs for services—parents of schoolchildren are more likely to vote in favor of school tax referenda than persons without children—information regarding the costs and level of services for the whole unit may be helpful in making such choices. For decisions with long-term implications, such as bond authorization, voters should take into account the impact of the facility to be financed, as well as projected future costs of maintenance and debt service as they affect future tax levels.

In some governmental units, budget decisions are not made by the legislative body, but directly by the voters who must approve the periodic budget. For this decision, information on short-term financial flows is essential for judging whether the budget is in balance. However, a longer-term perspective would consider the government's future ability to meet the obligations stipulated in the proposed budget. For this purpose, information on long-term financial flows is necessary.

TAXPAYERS AND SERVICE RECIPIENTS

Taxpayers are involuntary resource providers. Taxpayers who are also voters can take action, in that capacity, to remedy undesirable tax levels or perceived inadequacies in resource management. In their role as taxpayers, however, they do not have any choice as to whether to contribute resources to the government, if they have engaged in a taxable transaction.

Taxpayers can choose to organize their affairs so as to minimize taxes. For example, they may move away from the jurisdiction if the tax burden becomes too heavy. Many factors enter into residential and commercial location decisions but the local tax level can be important. Information that aids in predicting future tax levels would thus be helpful. To the extent that current and projected commitments are helpful in making such predictions, they would be useful.

For the economic well-being of a community, location choice by businesses is as relevant as choices by individuals. With their larger resources, business organizations may engage in extensive comparisons of tax burdens and service levels in different locations. Information on service delivery objectives and effectiveness of service provision would facilitate location decisions for both business and individuals. Information helpful in predicting future tax levels would also be useful. Service recipients may have a greater choice in determining their contribution. Fees for some mandatory services such as inspections may be in effect a tax, but some governmental services are provided on a voluntary basis, in which case the service recipient acts as a "customer" who may decide to accept or reject the service on the basis of its price and the perceived benefits to the recipient. If the service recipients are also voters, many decisions about the level of fees and services may be made in the voter role.

A specific concern of service recipients may be equity in service delivery. Service recipients may use the courts to challenge perceived inequities. Information useful in evaluating the equity of service delivery is therefore important. This implies a need for measures of program inputs and outcomes classified by characteristics used to define equity, such as geographic area, age, sex, and race of service recipients.

Service recipients may also take legal action if officials violate the legal principle by which fees or charges are established. As these are often set on a cost basis, relevant information for deciding whether to seek legal remedies includes the basis on which cost is determined, including long-term economic costs. As fees and charges are often restricted to designated purposes, an accounting of collections and expenditures by specific purpose is also appropriate for determining whether legal constraints have been observed.

OVERSIGHT BODIES

State governments have a basic oversight responsibility for local government units within their jurisdiction. The implications of this relationship are potentially very important, since states have the legal authority to demand compliance in many aspects of local government accounting and financial reporting.

One aim of state oversight is ensuring that local governments operate within tax and debt limits stipulated by state legislation. To this end, information is needed on taxes levied and debt issued. Another aim is assessing whether public monies have been used in a legally appropriate manner. To achieve this, states require information linking expenditures to the origin of the resources to ensure that funds have not been used for unwarranted purposes. Also, since most states require balanced budgets and some even require state approval of local budgets, information on short-term flows of resources is necessary.

State governments constrain many activities of local government by setting tax rates and debt limits, determining what can be taxed, or imposing program mandates. Local governments in financial difficulties often request modification of state policy, such as changing tax limitations or tax structures or removing mandates. Hence state governments are interested in the overall financial condition of their local units. Information helpful in predicting which local governments are likely to face financial problems is useful in deciding on preventive or remedial action. In instances where a local government already faces serious fiscal problems, the state government, in its oversight capacity, can monitor financial activities very closely to help remedy the problems. Such monitoring requires detailed information on short-term and long-term flows of resources, including future obligations.

Not all oversight bodies are concerned with purely financial information. Program-oriented units, such as education or transportation agencies, may require information on program goals and effectiveness to ensure that legal requirements are met and to identify government units that need assistance. Some program-oriented agencies evaluate budget recommendations of governmental units within their jurisdictions to decide whether proposals are adequate.

This implies a need for information on planned outputs related to budgets. Program-oriented agencies may also set performance standards and hence need data to evaluate whether standards have been met.

INVESTORS AND LENDERS

Investors and lenders are concerned with the government's ability to meet its contractual obligations to them as they come due. For investors, assessment of the ability to pay interest and principal on time affects not merely the initial decision to purchase debt securities but also the evaluation of these securities in a secondary market. To assess the ability to pay, investors need information to help them predict the availability of financial resources in the short-term and over the life of the debt. Financial information useful for such a prediction includes estimated in-flows of resources from different sources, including constraints on the use of specific funds, and estimated outflows of resources for planned programs, including future commitments of resources implied by current obligations.

Investors' decisions in buying securities involve selecting from among alternative investments, which could be facilitated if information on flows of financial resources for different state and local governments were reported in a comparable manner. With comparable data investors could better assess the relative ability of issuers to meet their obligations.

The utility of particular types of information varies by the kind of investment. Investors in short-term securities are concerned with the ability to repay principal and interest within the limited term of the note or warrant, usually less than a year. Hence, information useful for predicting current fiscal year flows of resources is most important for such investors. Also important for the short-term investor is information about the entity's liquidity, which indicates the ease with which resources can be converted into cash or cash equivalents.

The long-term investor is also interested in flows of short-term financial resources, but has additional information needs. There are differences in information requirements between general obligation and revenue bonds. General obligation bonds are backed by the "full faith and credit" of the governmental unit, but faith is not sufficient, and creditors need objective indicators to help forecast the government's ability to meet debt service obligations over the life of the debt. For such a forecast it is necessary to have information useful in estimating future financial obligations, including explicit obligations such as outstanding long-term debt and implicit obligations such as unfunded employee pensions.

Information on the status of physical resources may also be useful, since evidence of deterioration means that facilities are being used up. If these resources are to be replaced, this indicates a potential future need for financial resources. If they are not to be replaced, the potential diminution of service could jeopardize future resource flows and thus affect the risk to investors. Investors need information to help them predict future resource flows. They also need to know if there are restrictions on the use of specific resources.

The quality of management performance is an important factor in deciding whether to buy a particular debt issue, since poor management can lead a currently sound entity into future financial difficulties. Moreover, evidence of inadequate management can make taxpayers and voters reluctant to support tax increases. Hence investors need information that is useful in assessing the efficiency and effectiveness with which services are delivered.

In deciding whether to invest, information on the government's past reliability in meeting contractual and legal obligations is important. A major concern for investors is whether the government will fulfill its legal responsibilities by setting aside monies designated for debt service, and whether these funds will be maintained separately or commingled. Information on past performance is useful to the extent that it helps to predict future reliability. Other legal factors such as a debt limit for local governments, or whether new debt has to be approved by the voters, may help in assessing the political capacity of the government to raise sufficient resources to meet its obligations.

Investors should be interested in the underlying economic condition of the jurisdictions, including changes in population size, socioeconomic characteristics, and movement of industries and jobs. This information is useful in predicting future resource flows. Systematic and comparable data would be helpful to investors but may have to be obtained from sources other than the issuing government.

The discussion has focused on general obligation long-term bonds, but the same considerations apply to direct loans and other long-term funding arrangements such as leases. For revenue bonds, however, information on the linkage between receipts and expenditures is an additional need. Where revenues from an operation are the basis of financing, investors need data to help predict the degree to which future charges and fees will be sufficient to cover the costs of operating the service. This also implies a need for information to help predict full economic costs of services, including the basis on which these costs are calculated. Since revenue bonds are not backed by the full taxing power of a general government, investors may need more detailed information to help predict long-term flows of resources. In the case of revenue bonds to assist nongovernment organizations, where a governmental unit acts merely as a conduit, investors may look for detailed reporting on the financial status and prospects of the organization itself.

EMPLOYEES

Employees make two types of decisions: whether to work for a government, and, once employed, what to press for in wages and benefits. The decision to accept employment is likely to involve many considerations beyond the financial prospects of the governmental unit, but such prospects can be important. A potential employee will want to assess the chances of being laid off due to future financial difficulties. Information helpful in predicting future resource flows will aid in assessing whether government activities are likely to be curbed or expanded in the future.

In deciding whether to accept a job, a prospective employee also requires information on short-term financial flows to help determine whether the payroll will be met regularly and on time. In negotiation of short-term work contracts, information on short-term flows should help evaluate the government's ability to meet the contract.

The financial condition can also affect the likelihood of receiving deferred compensation, such as pensions. If the chances of receiving such compensation are judged sufficiently low, the prospective employee may decline a job offer. Information helpful in assessing the jurisdiction's ability to meet these deferred obligations can be useful.

Current employees need to know the financial status of pension funding to decide if remedial action is necessary. Information on investment policy and funding levels could be useful in judging the adequacy of pension fund management. The government may set aside specific funds to ensure that deferred compensation, such as pensions, will be paid. This establishes a fiduciary relationship between the government and its employees, and the employees need information on the status of such funds to ensure that they are managed in accordance with legal provisions.

About half of all full-time state and local government employees belong to labor organizations. Many governments, even if not legally required to do so, enter into collective bargaining with their employee organizations. The core issue at these negotiations is compensation. For the employee, information useful in predicting long-term flows of financial resources can help indicate the jurisdiction's ability to grant increased compensation. Beyond projected resource flows, however, employees need information on the underlying fiscal capacity of the government to help ascertain the possibilities for compensation increases.

Does the level of personal income or business activity indicate that more revenue could be generated? Such fiscal capacity has to be evaluated in light of political tolerance for increased taxation. Information on voter attitudes towards taxes and service delivery could prove useful to employees in gauging reasonable limits to their demands.

Issues beyond compensation can enter into labor negotiations. Control of staffing levels and work rules is important to management for improving efficiency and effectiveness of service delivery. But labor representatives may seek to trade off these issues against increased compensation. Attrition in the work force may be tolerated if remaining employees receive increased wages, or lack of wage increases can be bargained against shorter working hours. Hence information to help predict staffing levels for future services and programs could prove useful to employees or their representatives.

VENDORS

Vendor relations with government are frequently predicated on more than just a financial arrangement. Every vendor, however, must at some point make a decision about whether to sell goods and services to the government and at what price. For these decisions vendors weigh heavily their assessment of the government's ability to make payments in full and on time. Information useful for this assessment is crucial.

Vendors providing goods and services in the short term need information on expected short-term financial flows to help predict the risk of late or non-payment because of insufficient resources. Information on expected liquidity, at the contracted time of payment, is necessary to determine the ease with which resources can be converted into cash or cash equivalents.

Vendors also enter into long-term arrangements with state and local governments, for example contracting out services such as garbage collection, operating a concession at government-owned facilities such as airports, or entering into a multi-year construction contract. These can involve considerable commitments of personnel and capital. The vendor has an interest in knowing the likelihood of payment beyond just the short term. Information on projected future financial flows should help predict the government's ability to meet future contractual obligations.

Besides a jurisdiction's ability to pay, vendors need to predict whether management will execute its contractual obligation, by not withholding payment when due and keeping specially designated funds separately. Information that reports prior fiduciary performance can help in assessing the likelihood of management compliance.

Moreover, financial reporting on the use of resources can act as a control in itself. When the information indicates violation of contract terms, the vendor can request remedial action.

GRANTORS

Federal and state governments play an important role in the financing of government activities by their allocation of resources to lower levels of government. In their position as grantors, higher levels of government have to make decisions in two contexts—creating new grant programs and administering existing programs.

Responsibility for authorizing new programs rests with the legislative body of the grantor government. It must decide what type of program to create and how much financial resources to allocate to it. The decision depends largely on the political objectives of the time. In the 1960s, project categorical grants were designated to deal with social and economic problems specifically defined by the grantor. By the 1970s, the aim was to reduce specific goal-setting by higher levels of government, and hence revenue sharing programs were initiated and expanded.

Within these broad political objectives, however, decisions have to be reached on which particular programs to finance and on what basis to allocate resources to different potential grant recipients. The choice of activities depends, in part, on perceived needs. Information that is helpful in identifying service needs of residents within the jurisdictions of potential grantees would be useful for this decision. The allocation procedure may be chosen on the basis of balancing service needs with the fiscal capacity of potential grantees. In order to develop a procedure or formula for allocating grants, it is necessary to predict the results of different allocation procedures. Hence there is a need for information useful in measuring fiscal capacity and service needs and predicting program results.

Fiscal capacity does not refer to the financial condition of the recipient government directly but rather to the underlying capacity of taxpayers to contribute resources. Financial information about the grantee government is useful only to the extent that it aids in making these assessments of service needs and fiscal capacity.

Once the program has been established, those who manage the grant must decide which of the potential recipient governments are to receive funding. Grants for which allocation is made by a formula intended to measure service and fiscal capacity require financial information corresponding to variables defined in the formula. The grantor may also need information to help judge whether planned uses of the funding are consistent with grantor objectives.

Hence information on long-term planning objectives would be useful in making this assessment. When grants have been awarded, the grantor's decisions focus on whether to continue funding the recipient. Central to this decision is the evaluation of grantee performance. For all types of grants, information on whether the recipient has abided by contractual provisions is important in evaluating performance. The grantor requires information to determine whether resources have been expended in a manner consistent with the terms of the grant, and whether grant stipulations have been followed. If the information indicates that contractual provisions have been violated, future funding can be curtailed or action can be taken to recover misspent resources.

Specific grant provisions vary by type of grant. Categorical grants are specifically targeted, with limited recipient discretion. At the other end of the spectrum, revenue sharing programs are not tied to narrow grantor objectives, and recipients have considerable discretion in allocation. Block grants are an intermediate type, with broader goals than categorical grants but less recipient autonomy than revenue sharing. The more specific the provisions of the grant the more detailed the information required to ensure grant provisions have been fulfilled.

Financial information linking expenditures to the source of resources is needed to assess whether grant monies have been expended for designated purposes. When the method of funding is reimbursement, grantors require information on the cost of services provided under the grant to calculate the amount of reimbursement. Also, to ensure that costs are consistent with grant provisions, information is needed on the basis by which cost is calculated. To the extent that timing is a stipulation of the grant, information on short-term and long-term flows of resources may be useful in determining whether grants have been expended within the designated period.

Effective performance can be a requirement of continued funding. Effectiveness of performance involves measuring how well activities performed under a grant have fulfilled the grantor's objectives. This indicates a need for performance criteria established by the grantor. Such criteria can include minimally defined levels of service provision, specified minority hiring levels as a measure of affirmative action, and specified levels of local community involvement in decisions about resource allocation. Grantees must provide information on performance to enable grantors to judge effectiveness. Financial and nonfinancial information is needed for this purpose. Further, in deciding whether to modify requirements or expand allocations for an entire program, grantors need information useful in assessing the effectiveness of the grants in reaching planned program objectives.