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Financial Records In Municipal Budgeting

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Although all Idaho cities develop and publish financial statements, the form and detail vary widely. When properly set up and used, such statements can be valuable planning tools. Some elected officials may not have the background to interpret detailed financial statements and need information that is both understandable and informative.

The typical small city financial statement lacks some of the essential features of a useful management tool. Revenues are listed by source, and expenditures are listed by categories, indicating broadly where monies go. However, the type of activity or service for which monies are spent is usually not listed, nor is there a linkage or tie-in between revenues and expenditures.

The basic financial information local officials need for developing budgets consists of:

1. A schedule of the revenues available by sources.
2. A list of the expected expenditures by activities and types of costs.
3. A process of balancing revenues and expenditures to best satisfy the city's service needs and the monies available.

Financial statements set up to meet these goals, including past records as informational guidelines, provide a basic tool in fiscal management. This publication illustrates how city officials can use financial records in developing municipal budgets.

A Typical Financial Statement

A typical financial statement for small Idaho cities shows income or revenue by sources and expenditures by major categories. Table 1 illustrates this typical layout. This example shows the revenues and expenditures for a road and street department

for the 1980-81 fiscal year. In this example, all sources of general fund revenues are listed, although the road and street department was not assumed to have received monies from all general fund sources. Also, special funds are sometimes available, but none is listed here.

Expenditures are shown in four categories: (1) salaries and benefits, (2) operations and maintenance, (3) capital outlay and (4) other expenses. **The dollar amounts shown in Table 1 are for illustration only; they do not represent any actual or recommended budget.**

Table 1. Typical Idaho small city road and street department financial statement, fiscal year ending Sept. 30, 1981.

(Dollar figures shown are for illustration only)

Revenues	
Property Taxes	\$ 65
Business and franchise licenses and permits	0
Federal grants	0
Federal revenue sharing	10
State shared revenues	
- Grants	0
- Liquor fund apportionment	10
- Highway user fund — motor fuels tax*	5
- Court revenues	0
- Sales tax allocation	5
Road and bridge fund allocation*	5
Charges for services	0
Other revenues	0
Total	\$100
Expenditures	
Salaries and benefits	\$ 55
Operations and maintenance	30
Capital outlay	10
Other expenses	5
Total	\$100

*Revenues from these sources are dedicated; that is, they must be used for street and road work.

A total city financial statement would, of course, include all departments. Other departments would use a similar format, except that enterprise departments such as water would list self-generated revenues in addition to (or instead of) general fund revenues. A financial statement shows the total revenues and expenditures for the fiscal year, which for Idaho cities is from Oct. 1 through Sept. 30. State law requires that revenues and expenditures must balance for the fiscal year. Table 1 reflects this.

Projecting and Budgeting Revenues

One requirement for effective fiscal planning is having an estimate of available revenue. The two basic focal points from which to budget revenues are: what has happened in the past and what is anticipated for the future. Obviously, the second is much more useful. But future anticipations cannot be put in a general example. Anticipations must be based on current analysis of economic and political impacts on revenue projections, recognizing that these may not be correctly interpreted and may change.

The past record of revenues can be tabulated, however, and, along with future anticipations, can be used to make revenue budgets. The way to provide this record is to show, in one place, the revenues for previous and current fiscal years. Table 2 is an example of our Idaho small city road and street department revenue worksheet. The 1980-81 (final) revenues are from Table 1. Previous years can be added, if desired, to show a longer past record.

The 1981-82 (to date) columns record the revenue picture for the current fiscal year, up to the present. Since budgeting for the coming year must begin

before the end of the current year, budgeted revenues may not equal revenues received. Thus, there is a column to show projected revenue for the full 1981-82 fiscal year.

In our example, budgeted revenues for 1981-82 were 10 percent (\$10) more than in 1980-81. **Again, the dollars shown in Table 2 are for illustration only.** Revenues received, in total, are below budgeted revenues since the budget includes the full fiscal year but receipts are for less than a full year. Revenue from some sources may be fully collected, however, and could exceed the budgeted figure. Property taxes are such a case in our example.

The "fiscal health" of current year revenues can be evaluated only by an experienced budget officer or fiscal analyst. That is, only a person familiar with the time flow of revenue from each source can judge whether revenue from a particular source is behind, on or ahead of schedule. Yearly flows are illustrated, but quarterly or monthly flows can be used to provide more detail if required. This knowledge, plus an assessment of factors which might affect revenues for the remainder of the fiscal year, is the basis for projecting revenues for the entire fiscal year. The last of the three columns under 1981-82 (to date) is for posting the projected revenues for the full year. It is left blank in our example.

City fiscal or budget officers are best qualified to develop revenue projections and initial budget estimates because of the technical nature of revenue sources and flows. The record of previous and current years' revenues are one source of information to use when budgeting the coming year's revenue. The right column in Table 2 is for entering revenue estimates for the 1982-83 budget.

Table 2. Example Idaho small city road and street department revenue, 1980-81, 1981-82 and budgeted revenue, 1982-83.

Revenue sources	1980-81 (final)	1981-82 (to date)			1982-83 (budget)
		Budgeted	Received	Projected	
		(Dollar figures shown are for illustration only)			
Property taxes	\$65	\$70	\$71	\$	\$
Business and franchise licenses and permits	0	0	0		
Federal grants	0	0	0		
Federal revenue sharing	10	10	10		
State shared revenues					
- Grants	0	0	0		
- Liquor fund	10	13	8		
- Highway and motor fuels*	5	6	4		
- Court revenues	0	0	0		
- Sales tax	5	6	4		
Road and bridge fund*	5	5	3		
Service charges	0	0	0		
Other	0	0	0		
Total	\$100	\$110	\$100	\$	\$

*Dedicated revenue

Estimating Expenditures

The expenditure section of the typical small city road and street department financial statement shows only that monies were spent for salaries, operations and maintenance, capital items and other expenses (Table 1). The specific services rendered by the spending of these funds are not given. This statement does not provide sufficient information on which to build a budget for future expenditures for a road and street department.

A more useful fiscal management tool is an expenditure worksheet. Past and current year records and a listing of monies spent by activities within the road and street department, as well as by categories of outlays, are detailed. The expenditure worksheet will thus have the same format as the revenue worksheet (Table 2) except activities and expense categories will replace revenue sources.

Table 3 is an example of a more detailed expenditure worksheet. Six activities are carried on by the road and street department: administration, construction, maintenance, snow and ice control, street lighting and street cleaning. Each activity may entail spending in each of the four expense categories shown in Table 1. The expenditure worksheet is set up to show what was spent, by activity and expense category, in the last complete fiscal year (1980-81). This worksheet also shows the budgeted expenditures, monies expended and full-year projected expenditures for 1981-82 (to date) in the same detail.

The 1980-81 (final) expenditures are from Table 1 but by activities. Budgeted expenditures in 1981-82 total \$110, the same as budgeted revenues. Monies spent to date (expended) in 1981-82 are shown as being less, in most categories, than budgeted expenditures for the year. **The numbers in Table 3,**

Table 3. Example Idaho small city road and street department expenditure, 1980-81, 1981-82 and budgeted expenditure, 1982-83.

Activities and expense categories	1980-81 (final)	1981-82 (to date)			1982-83 (budget)
		Budgeted	Expended	Projected	
(Dollar figures shown are for illustration only)					
Administration					
Salaries and benefits	\$ 5	\$ 5	\$ 4	\$	\$
Operations and maintenance	0	0	0		
Capital outlay	0	0	0		
Other expenses	1	1	0		
Total	\$ 6	\$ 6	\$ 4	\$	\$
Construction					
Salaries and benefits	\$ 10	\$ 11	\$ 5	\$	\$
Operations and maintenance	0	0	0		
Capital outlay	5	5	5		
Other expenses	1	1	2		
Total	\$ 16	\$ 17	\$ 12	\$	\$
Maintenance					
Salaries and benefits	\$ 28	\$ 31	\$ 16	\$	\$
Operations and maintenance	23	25	15		
Capital outlay	5	5	5		
Other expenses	1	1	1		
Total	\$ 57	\$ 62	\$ 37	\$	\$
Snow and ice control					
Salaries and benefits	\$ 5	\$ 6	\$ 6	\$	\$
Operations and maintenance	3	4	2		
Capital outlay	0	0	0		
Other expenses	2	2	0		
Total	\$ 10	\$ 12	\$ 8	\$	\$
Street lighting					
Salaries and benefits	\$ 2	\$ 2	\$ 1	\$	\$
Operations and maintenance	1	1	1		
Capital outlay	0	0	1		
Other expenses	0	0	0		
Total	\$ 3	\$ 3	\$ 3	\$	\$
Street cleaning					
Salaries and benefits	\$ 5	\$ 6	\$ 4	\$	\$
Operations and maintenance	3	4	2		
Capital outlay	0	0	0		
Other expenses	0	0	0		
Total	\$ 8	\$ 10	\$ 6	\$	\$
Total street and road fund	\$100	\$110	\$70	\$	\$

Source: Modified from format presented in *Uniform Accounting and Reporting Manual*, Association of Idaho Cities, Boise, 1971, which in turn was based on examples in *Governmental Accounting, Auditing and Financial Reporting*, National Committee on Governmental Accounting (Municipal Finance Officers Association), 1968.

as in Tables 1 and 2, are not actual or recommended values.

Departments with seasonal activities, such as road and street construction and repair, may not have uniform spending patterns throughout the fiscal year. Only persons who are acquainted with a department's activities can judge the adequacy of budgeted expenditures by examining monies expended to date. Persons who know the technical and financial requirements for departmental operations must be consulted when projecting the 1981-82 full-year expenditures, for which a blank column is left in Table 3.

The initial estimation of departmental expenditures is probably best done by the superintendent or administrative officer responsible for the department's operation. The person in this position should be best qualified to document the needs for his department. The example of Table 3 provides a way to consider past and current expenditures along with activities and expense categories when developing expenditure estimates. The final column is for entering the figures for the 1982-83 budget.

Budgeting: Balancing Revenue and Expenditure Estimates

Tables 2 and 3 provide a format for recording estimated revenues and expenditures, respectively, for the road and street department's 1982-83 budget. The same exercise must be carried out for each of the city's departments.

At this point the actual budgeting process, or balancing of income and outgo, begins. Budgeting is the responsibility of the city council.

There is no formula or format for budgeting. Relevant information and estimates, as we have shown, can give background and insights. But the budgeting process itself involves trial and error (trial balances); it is somewhat of a "juggling act" in which estimated revenues and expenditures are compared, revised and again compared until a balance is achieved.

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The city council has two tasks in building the budget: allocating revenues and expenditures to each department, and balancing the city's total revenues and expenditures. Each is a separate undertaking, yet a change in one always affects some or all of the other. This is politics in its true sense, that is, "the art of government" or "the art of the possible."

Conclusions

Any individual or group handling monies needs to reconcile income and expenditures. This is budgeting. A basic difference between budgeting in the public (government) and private (business) sectors is that in most cases governments do not spend money to produce income. They spend money to provide services. Government at any level cannot be "run like a business" because the direct relationship between expenditures and income which is present in a profit-oriented enterprise does not exist in a public agency.

Nevertheless public agencies, including cities, can be operated efficiently. This means being cost-conscious (getting the most value for each dollar spent) and planning effectively. This publication describes how financial records can be used as a tool in budget planning.

We have kept tables as simple as possible. More detail is available if the complexity of the operation and qualifications of personnel justify it. Financial records should exist to aid in managerial control and planning.

The examples are only one block in the budgeting process. The experience and judgments of people are the crucial ingredients. We suggest, however, that talent can best be used in the total budgeting process by giving primary responsibility (1) to the fiscal or budget officer for initial revenue estimates, (2) to the department superintendents for initial expenditure estimates and (3) to the city council, the elected governing body, for the actual budgeting.