

IV. The Budget

A municipal budget serves many purposes. It provides accountability for the expenditure of public funds. It informs the public and city staff about the planned use of public moneys. And it is a financial plan for the upcoming year that indicates in financial terms the city's priorities for services. For example, a city council may publicly state that it is committed to law and order, but if only 25% of its General Fund budget is designated for the police department, while the average budget for police departments in similar-sized cities is 45%, then the citizenry has cause to inquire. In other words, a review of the budget can reveal much about the city's priorities, operations, and trends. You can determine the city's plans for the upcoming fiscal year; you can use it for accountability; and you can see how the City Council priorities correlate with expenditures.

Review Trends

The best way to start the review is to compare the current year's budget to that of the previous five years in order to determine trends (See Appendix IV-A for a 5 year comparison format.). Below is a typical comparison of a city's general fund revenues and expenditures over a five-year period:

Any City's Budget Comparisons 1996 - 2000

General Fund Revenues

	2000	1999	1998	1997	1996
Revenues (\$1,000's)					
Ad Valorem Tax	\$415	\$418	\$413	\$382	\$375
Franchise Tax	261	225	206	108	70
Licenses/Permits	15	16	15	10	9
Fines	100	108	84	54	41
Rentals	63	60	49	54	50
Fees	150	193	144	111	68
Sales Tax	649	613	583	472	426
Interest	16	12	10	8	6
Sub-total	\$1,669	\$1,645	\$1,504	\$1,199	\$1,045
Other Sources					
Transfers In	\$195	\$41	\$58	\$100	\$100
Federal	0	0	50	169	32
Total Revenues & Other Sources	\$1,826	\$1,674	\$1,602	\$1,460	\$1,172

General Fund Expenditures by Function (\$1,000's)

Year	Gen. Govt.	Police	Street	Culture & Parks	Health	Non-Dept	Debt Service	Total
1996	\$329	\$310	\$209	\$275	\$47	\$15	\$78	\$1,263
1997	\$310	\$410	\$284	\$320	\$62	\$15	\$67	\$1,468
1998	\$308	\$430	\$287	\$336	\$67	\$35	\$73	\$1,536
1999	\$367	\$523	\$308	\$369	\$69	\$60	\$70	\$1,766
2000	\$399	\$663	\$354	\$380	\$79	\$101	\$109	\$2,085

the comparison above tells you that the city's revenues for 1999 and 2000 are flattening out (i.e., revenues were only \$24,000 more in 2000 than in 1999), because of a sluggish economy. This comparison illustrates four obvious revenue areas hurt by the economic downturn. They are: (1) decline in general retail sales, thereby lowering sales taxes; (2) housing construction down, resulting in fewer permit fees for new construction; (3) property tax collections leveling out, because of no new growth and/or a need for property revaluation and (4) charges for city services not keeping pace with inflation and/or the actual cost of providing the services.

The expenditures reveal that the Police Department received a proportionately larger share of the General Fund Budget in 2000 than in 1996 (32% compared to 25%), and more nondepartmental services are being funded (e.g., drug abuse and primary health care increased from 1.2% to 5%, while the Street Department and all other departments are under their 1996 ratio).

Any unusual increases or decreases in either revenues or expenditures should be checked before reaching a conclusion. For example, a major capital expenditure (\$75,000 for equipment) in the Street Department in 1997 caused that department's expenditures to jump 35%, but the amount designated for operations remained the same. Therefore, you should not conclude that in 1997 the City Council's priorities changed to emphasize streets.

Four Basic Questions For Analyzing Revenues

- 1. Are there any revenues showing an unusual increase or decrease?** If yes, then is the explanation for this change a cause for alarm? For example, ad valorem tax receipts may have increased 30% because of either a higher tax rate or new property valuations. Rentals may have decreased because the Civic Center is no longer leased out for public dances. Below is a table listing various changes, with possible explanations and whether or not you should be concerned:

Revenue	Change	Explanation	Concerned? Yes or No?
Ad Valorem	Increase	Tax rate increased	No
Ad Valorem	Increase	Valuations increased	No
Ad Valorem	Decrease	Tax rate decreased	No
Ad Valorem	Decrease	Valuations declined	Yes
Sales Tax	Decrease	Retail stores closing	Yes
Sales Tax	Decrease	Less inflation	No
Sales Tax	Increase	More retail sales	No
Transfers	Increase	Subsidize General Fund	Yes

- 2. Was the percentage for any revenue source changed?** For example, what does a decrease in ad valorem taxes from 32% in 1997 to 25% in 2000 mean? Possibly sales tax revenues increased enough to offset the need for ad valorem taxation and, consequently, there is not a problem. If property values, however, are declining or delinquent taxes increasing, then the city may have economic problems similar to those experienced by oil boom towns during the oil bust of the mid-1980's (i.e., rapid expansion of the local economy followed by a rapid downfall.).

Normally, property tax receipts increase at a slower rate than other revenue sources.¹ For example, sales tax receipts increased in the 1970's at a much greater rate than total revenues, mainly because of inflation and a growing economy. However, in the late 1980's this trend was reversed as the

¹ "Trends in Local Government Finance: A Profile of Selected Cities & Counties," TACIR, April 1981, p. 14.

Texas economy slowed, sales taxes flattened, and there was increased reliance on property taxes. In the 1990's, the trend reverted back to the 1970's mode, but without the high inflation.

3. Compare the level of revenues with other cities on a per capita basis. Make sure that the level of services offered by the other cities is comparable to your city. For example, the following revenue data compiled by Municipal Analysis Services, Inc., reveals much about a city's revenues:²

Your City Compared to State and National Standards

	State Percent Ranking	National Percent Ranking
Property Tax Per Capita	65%	54%
General & Select Sales Taxes/Capita	27%	53%
Average Basic Revenue per Employee	71%	48%

From the above table it is apparent that this city is overly dependent on the property tax (i.e., 64% of Texas cities have less property tax per capita, has a low sales tax base (i.e., only 26% of Texas cities have lower sales taxes per capita), and either has few employees or a large user fee revenue base (i.e., it generates more revenue per employee than 70% of Texas cities and without knowing the amount of fees generated, this could mean less employees per capita also).

Other informative revenue data would be the following, which indicates how your city compares to other cities in revenue mix:

Your City Compared to Other Texas Cities

City	Property Tax/Total Tax	Sales Tax % of Total Taxes	Property Tax Per Capita
A	52	28	\$236
B	68	21	\$242
C	49	26	\$200
D	45	41	\$86
E	55	31	\$212
Your City	69	13	\$167
F	51	25	\$112
G	67	67	\$300
H	23	53	\$113

4. What proportion of total revenues are from state and/or federal aid? While not necessarily that common for small cities, the dependence on state and/or federal aid for city operations or capital projects can create problems if the aid ever ends. For example, the ending of Federal Revenue Sharing in 1986 created a painful transition problem for many cities, because they had grown accustomed to using it for operating expenses since its inception in 1972. The lesson learned from the demise of Revenue Sharing is to treat federal aid as an unpredictable revenue source that should be used only for one time expenditures such as capital items or emergency situations. Do not incorporate state and/or federal aid into a city's O & M budget.

You should determine how these state and/or federal funds are utilized. Examples of state and/or federal assistance available today include the COPS FAST Program, Community Development Block Grant Program, Texas Parks and Wildlife Department Grants, Gang Liaison Officer Assistance, etc. If

² Governments of Texas, Municipal Analysis Services, Inc., Austin, TX, 1996.

used in place of operating expenses, then a city will definitely have problems if the state/federal programs are ever cut back or eliminated. Even if the funds are used for capital items, such as street equipment, police cars, curb and gutter, etc., you still may be in a quandary if they are curtailed. If the state and/or federal funds are discontinued, what type of tax or fee increase will be required? What services will have to be eliminated or modified?

Analyzing Revenues For User Fees

1. List all the city services which benefit a specific user, and where the user can be identified.
2. Determine income and expenditures for each service.
3. Compare total General Fund revenue derived from user fees to similar sized cities. This comparison will reveal whether or not your city is in line with other cities.

A useful concept from the now defunct Texas Advisory Commission on Intergovernmental Relations (TACIR) is the "current charge intensity" which indicates what portion of your city's revenues are derived from user charges.

$$\frac{\text{General Fund user fees} = \$ 150,000}{\text{Total General Fund Revenues} = \$1,669,000} = 8.98\% \text{ is the Current Charge Intensity for the example city in 2000. (See Budget Comparisons on page 43.)}$$

While this information is relatively dated, it does provide you with an idea of how much cities rely on user charges. Compared to the TACIR data below, this city's current charge intensity of 8.9% is too low when compared with other cities in the TACIR survey, where 23% was the median and 24% the average:

Average Current Charge Intensity for Texas Cities by Population Group³

<u>Population</u>	<u>1978 Charge Intensity</u>
500,000 and above	.2
250,000 - 499,999	.29
100,000 - 249,999	.28
50,000 - 99,999	.24
Median	.23
Average for Texas cities over 50,000	.24
Average for all U.S. cities over 50,000	.18

4. Determine which of these city services (from # 1 above) can be financially self-sustaining, taking into account local attitudes or traditions.
5. Then determine a charge/fee for these city services that will provide more income. (See Appendix IV-B for a table listing various charges/fees for city services.)

³ "Municipal Current Charges & Alternative Revenue Sources," TACIR, August 1981, p. 15.

Four Basic Questions For Analyzing Expenditures

1. Are there any expenditure items showing an unusual increase or decrease? If yes, can the change be explained? For example, since the price of gasoline jumped \$.35/gallon in 2000, then this would explain a 50% increase in gasoline expenditures.

2. Have the percentages appropriated for the various departments changed? For example, if 30% of the total budget was spent on the Street Department in 1990 and only 20% in 2000, what does this tell you? Perhaps the streets are in need of maintenance or perhaps the street department is operating more efficiently now.

3. What are the major expenditure items in the budget? Are they changing? Usually these items would include personnel, electricity, insurance, fuel, capital items, and long-term debt retirement.

4. What are the per-capita expenditures and how do these compare to other similar sized cities? This comparison may warn you that your city is spending more than other cities and may give you grounds for cutting back in certain areas, or it may provide you with justification for increasing expenditures.⁴

Your City Compared to Other Texas Cities Per-capita Expenditures

City	Adm./Finance	Police	Fire	Street	Parks
A	\$49	\$169	\$84	\$40	\$37
B	\$70	\$98	\$71	\$15	\$26
C	\$44	\$130	\$71	\$62	\$108
D	\$114	\$62	\$52	\$18	\$44
E	\$53	\$97	\$77	\$42	\$51
Your City	\$37	\$75	\$40	\$37	\$18
F	\$29	\$78	\$52	\$11	\$21
G	\$86	\$88	\$64	\$37	\$7
H	\$117	\$132	\$22	\$41	\$24

Matching Revenues With Expenditures

Frequently, all General Fund revenues are shown in the General Fund account, and only the totals are considered when reviewing the budget or the monthly report. There is no effort to categorize the revenues and match them with a particular city service to determine if they are keeping pace with the cost of providing the service. If the city wants a diversified revenue stream and wants users to actually pay for what they use, this lack of effort cannot continue. Certainly city department heads should be instructed to look at both the revenue and expenditure side of their departments. This seems to be a shortcoming in most cities--that is, many department heads do not worry about the revenue side, they just assume that the revenue will always be available when needed.

In the high inflationary period of the middle 1970's to the early 1980's it was easy to determine and to demonstrate to the city council that city fees and rentals were not increasing sufficiently to cover costs. With the low inflationary rates of the 1990's, it is easy for a city service to slowly creep into a deficit

⁴ *Governments of Texas*, Municipal Analysis Services, Inc., Austin, TX, 1991.

situation at 2 - 3% per year, but it is more difficult to illustrate to the city council if you are not using trends.

The following table illustrates the result of such a problem:

Revenues as a Percentage of Expenditures
(A 100% indicates that the service is breaking even financially, over 100% that it is operating in the black, and under 100% in the red.)

Department	Average for 1980-89	Average for 1998
Airport	107%	85%
Civic Center	35%	73%
Golf	90%	42%
Solid Waste Collection	134%	96%
Sewer	91%	112%
Swimming Pool	22%	16%
Water	150%	160%

What actually is happening in this illustration is that the users of certain services (airport, golf, sanitation, and swimming pool) in the 1980's paid more of the actual cost of such services than today's users. If revenues are lagging behind expenditures, then this should be pointed out to the City Council, because there is no equitable reason why today's users should pay less in current dollars than yesterday's users (unless there is justification, such as lower costs resulting from increased economies of scale, or there was a major technological advance and the cost of producing the city service is less).

Summary

The key to the city budget is using it as a tool to better manage the city. It is normally the one city document which consumes most of the city manager's time--especially in its preparation. It would be a great loss of time and effort, if it is not used thereafter by the city manager on a daily basis as illustrated in this chapter.