Chapter 1 : A Guide to Evidence-Based Budget Development | The Pew Charitable Trusts

Budgeting for Local Governments in the United States: Deciding Who Gets What, How Much, and Who Pays? Ron Carlee. Budgeting in U.S. local governments is about more than finance. The annual operating budgets of cities and counties in the U.S. also serve as their most significant policy documents and their annual opera.

Summary of Statement No. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. We developed these new requirements to make annual reports more comprehensive and easier to understand and use. Some of those objectives reaffirm the importance of information that governments already include in their annual reports. Other objectives point to a need for new information. For this reason, this Statement requires governments to retain some of the information they currently report, but also requires them to reach beyond the familiar to new and different information. This Statement will result in reports that accomplish many of the objectives we emphasized in that concepts Statement. Retaining the Familiar Annual reports currently provide information about funds. Most funds are established by governing bodies such as state legislatures, city councils, or school boards to show restrictions on the planned use of resources or to measure, in the short term, the revenues and expenditures arising from certain activities. For this reason and others, this Statement requires governments to continue to present financial statements that provide information about funds. In current annual reports, fund information is reported in the aggregate by fund type, which often makes it difficult for users to assess accountability. Fund statements also will continue to measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the performanceâ€”in the short termâ€”of individual funds using the same measures that many governments use when financing their current operations. On the other hand, when governments charge a fee to users for servicesâ€—as is done for most water or electric utilitiesâ€—fund information will continue to be based on accrual accounting discussed below so that all costs of providing services are measured. Many citizensâ€—regardless of their professionâ€—participate in the process of establishing the original annual operating budgets of state and local governments. Governments will be required to continue to provide budgetary comparison information in their annual reports. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budget in addition to their revised budget adds a new analytical dimension and increases the usefulness of the budgetary comparison. Budgetary changes are not, by their nature, undesirable. However, we believe that the information will be importantâ€—in the interest of accountabilityâ€—to those who are aware of, and perhaps made decisions based on, the original budget. Most governmental utilities and private-sector companies use accrual accounting. It measures not just current assets and liabilities but also long-term assets and liabilities such as capital assets, including infrastructure, and general obligation debt. It also reports all revenues and all costs of providing services each year, not just those received or paid in the current year or soon after year-end. These government-wide financial statements will help users: In short, the new annual reports should give government officials a new and more comprehensive way to demonstrate their stewardship in the long term in addition to the way they currently demonstrate their stewardship in the short term and through the budgetary process. We especially appreciate the input of those who participated by becoming members of our various task forces, which began work on this and related projects as early as The GASB is responsible for developing standards of state and local governmental accounting and financial reporting that will a result in useful information for users of financial reports and b guide and educate the public, including issuers, auditors, and users of those financial reports. We have an open decision-making process that encourages broad public participation. Summary This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information RSI for general purpose governments should consist of: The basic financial statements should include: Government-wide financial statements, consisting of a statement of net assets and a statement of activities.

Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Governmental fund financial statements including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements including financial data for enterprise and internal service funds and fiduciary fund financial statements including financial data for fiduciary funds and similar component units should be prepared using the economic resources measurement focus and the accrual basis of accounting. Required supplementary information RSI. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets. Special-purpose governments that are engaged in only governmental activities such as some library districts or that are engaged in both governmental and business-type activities such as some school districts generally should be reported in the same manner as general purpose governments. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. Important Aspects of the Government-wide Financial Statements Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at or above a condition level established and disclosed by the government. The net assets of a government should be reported in three categoriesâ€"invested in capital assets net of related debt, restricted, and unrestricted. This Statement provides a definition of the term restricted. Permanent endowments or permanent fund principal amounts included in restricted net assets should be displayed in two additional componentsâ€"expendable and nonexpendable. Program expenses should include all direct expenses. General revenues, such as taxes, and special and extraordinary items should be reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management. Important Aspects of the Fund Financial Statements To report additional and detailed information about the primary government, separate fund financial statements should be presented for governmental and proprietary funds. Required governmental fund statements are a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Required proprietary fund statements are a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. To allow users to assess the relationship between fund and government-wide financial statements, governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds. Nonmajor funds should be reported in the aggregate in a separate column. Internal service funds also should be reported in the aggregate in a separate column on the proprietary fund statements. Fund balances for governmental funds should be segregated into reserved and unreserved categories. Proprietary fund net assets should be reported in the same categories required for the government-wide financial statements. Proprietary fund statements of net assets should distinguish between current and noncurrent assets and liabilities and should display restricted assets. Proprietary fund statements of revenues, expenses, and changes in fund net assets should distinguish between operating and nonoperating revenues and expenses. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets. Cash flows statements should be prepared using the direct method. Separate fiduciary fund statements including component units that are fiduciary in nature also should be presented as part of the fund financial statements. Required fiduciary fund statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements. Earlier application is encouraged. If a primary government chooses early implementation of this Statement, all of its component units also should implement this standard early to provide the financial information required for the government-wide financial statements. Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is required four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only. Components of This Statement This Statement consists of several components. The detailed authoritative standards established by this Statement are presented in paragraphs 3 through Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 2 and 3 discuss the applicability of this Statement.

Chapter 2 : Indiana Local Government Information Website: xxxx

on State and Local Budgeting of this set of recommended practices represents a milestone in budgeting in one document governments now have a comprehensive set of processes and procedures that define an.

Universities, which shall include an agricultural college, a school of mines, and such other technical schools as may be essential, until such time as it may be deemed advisable to establish separate state institutions of such character. Category I Arkansas Ark. Category II California Calif. A general diffusion of knowledge and intelligence being essential to the preservation of the rights and liberties of the people, the Legislature shall encourage by all suitable means the promotion of intellectual, scientific, moral, and agricultural improvement. The Legislature shall provide for a system of common schools by which a free school shall be kept up and supported in each district at least six months in every year, after the first year in which a school has been established. One or more public schools shall be maintained in each school district within the state, at least three months in each year; any school district failing to have such school shall not be entitled to receive any portion of the school fund for that year. Category II Connecticut Conn. The general assembly shall implement this principle by appropriate legislation. Category I Delaware Del. Category II Florida Fla. It is, therefore, a paramount duty of the state to make adequate provision for the education of all children residing within its borders. Adequate provision shall be made by law for a uniform, efficient, safe, secure, and high quality system of free public schools that allows students to obtain a high quality education and for the establishment, maintenance, and operation of institutions of higher learning and other public education programs that the needs of the people may require. Category IV Georgia Ga. Public education for the citizens prior to the college or postsecondary level shall be free and shall be provided for by taxation, and the General Assembly may by general law provide for the establishment of education policies for such public education. The expense of other public education shall be provided for in such manner and in such amount as may be provided by law. Category I Idaho Idaho Const. Category II Illinois Ill. The State shall provide for an efficient system of high quality public educational institutions and services. Education in public schools through the secondary level shall be free. There may be such other free education as the General Assembly provides by law. The State has the primary responsibility for financing the system of public education. Category IV Indiana Ind. The educational and school funds and lands shall be under the control and management of the general assembly of this state. The general assembly shall encourage, by all suitable means, the promotion of intellectual, scientific, moral, and agricultural improvement. The legislature shall provide for intellectual, educational, vocational and scientific improvement by establishing and maintaining public schools, educational institutions and related activities which may be organized and changed in such manner as may be provided by law. The legislature shall make suitable provision for finance of the educational interests of the state. No tuition shall be charged for attendance at any public school to pupils required by law to attend such school, except such fees or supplemental charges as may be authorized by law. The legislature may authorize the state board of regents to establish tuition, fees and charges at institutions under its supervision. Category I Kentucky Ky. The General Assembly shall, by appropriate legislation, provide for an efficient system of common schools throughout the State. All funds accruing to the school fund shall be used for the maintenance of the public schools of the Commonwealth, and for no other purpose, and the General Assembly shall by general law prescribe the manner of the distribution of the public school fund among the school districts and its use for public school purposes. Category II Louisiana La. The goal of the public educational system is to provide learning environments and experiences, at all stages of human development, that are humane, just, and designed to promote excellence in order that every individual may be afforded an equal opportunity to develop to his full potential. The legislature shall provide for the education of the people of the state and shall establish and maintain a public educational system. The legislature shall appropriate funds for the operating and administrative expenses of the state boards created by or pursuant to this Article. B Minimum Foundation Program. The State Board of Elementary and Secondary Education, or its successor, shall annually develop and adopt a formula which shall be used to determine the cost of a minimum foundation program of education in all public elementary and secondary schools as well as to equitably allocate the funds to parish and city school systems. Such formula shall provide for a contribution by every city and parish school system. Prior to approval of the formula by the legislature, the legislature may return the formula adopted by the board to the board and may recommend to the board an amended formula for consideration by the board and submission to the legislature for approval. The legislature shall annually appropriate funds sufficient to fully fund the current cost to the state of such a program as determined by applying the approved formula in order to insure a minimum foundation of education in all public elementary and secondary schools. Neither the governor nor the legislature may reduce such appropriation, except that the governor may reduce such appropriation using means provided in the act containing the appropriation provided that any such reduction is consented to in writing by two-thirds of the elected members of each house of the legislature. The funds appropriated shall be equitably allocated to parish and city school systems according to the formula as adopted by the State Board of Elementary and Secondary Education, or its successor, and approved by the legislature prior to making the appropriation. Whenever the legislature fails to approve the formula most recently adopted by the board, or its successor, the last formula adopted by the board, or its successor, and approved by the legislature shall be used for the determination of the cost of the minimum foundation program and for the allocation of funds appropriated. Category I Maine Maine Const. Category IV Maryland Md. The General Assembly, at its First Session after the adoption of this Constitution, shall by Law establish throughout the State a thorough and efficient System of Free Public Schools; and shall provide by taxation, or otherwise, for their maintenance. The School Fund of the State shall be kept inviolate, and appropriated only to the purposes of Education. Category II Massachusetts Mass. Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged. The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. Every school district shall provide for the education of its pupils without discrimination as to religion, creed, race, color or national origin. Category IV Minnesota Minn. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state. Category II Mississippi Miss. The Legislature shall, by general law, provide for the establishment, maintenance and support of free public schools upon such conditions and limitations as the Legislature may prescribe. There shall be a state common-school fund, to be taken from the General Fund in the State Treasury, which shall be used for the maintenance and support of the common schools. Any county or separate school district may levy an additional tax, as prescribed by general law, to maintain its schools. The state common-school fund shall be distributed among the several counties and separate school districts in proportion to the number of educable children in each, to be determined by data collected through the office of the State Superintendent of Education in the manner to be prescribed by law. There is hereby created and established in the State Treasury a trust fund which may be used, as hereinafter provided, for the improvement of education within the State of Mississippi. There shall be deposited in such trust fund: The principal of the trust fund shall remain inviolate and shall be invested as provided by general law. Category I Missouri Mo. A general diffusion of knowledge and intelligence being essential to the preservation of the rights and liberties of the people, the general assembly shall establish and maintain free public schools for the gratuitous instruction of all persons in this state within ages not in excess of twenty-one years as prescribed by law. All appropriations by the state for the support of free public schools and the income from the public school fund shall be paid at least annually and distributed according to law. In event the public school fund provided and set apart by law for the support of free public schools, shall be insufficient to sustain free schools at least eight months in every year in each school district of the state, the general assembly may provide for such deficiency; but in no case shall there be set apart less than twenty-five percent of the state revenue, exclusive of interest and sinking fund, to be applied annually to the support of the free public schools. Category IV Montana Mont. Equality of educational opportunity is guaranteed to each person of the state. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. Category II Nebraska Neb. The Legislature may provide for the education of other persons in educational institutions owned and controlled by the state or a political subdivision thereof. Category I Nevada Nev. The legislature shall encourage by all suitable means the promotion of intellectual, literary, scientific, mining, mechanical, agricultural, and moral improvementsâ€¦. The legislature shall provide for a uniform system of common schools, by which a school shall be established and maintained in each school district at least six months in every year, â€¦ and the legislature may pass such laws as will tend to secure a general attendance of the children in each school district upon said public schools. In addition to other means provided for the support and maintenance of said university and common schools, the legislature shall provide for their support and maintenance by direct legislative appropriation from the general fund, upon the presentation of budgets in the manner required by law. During a regular session of the Legislature, before any other appropriation is enacted to fund a portion of the state budget for the next ensuing biennium, the Legislature shall enact one or more appropriations to provide the money the Legislature deems to be sufficient, when combined with the local money reasonably available for this purpose, to fund the operation of the public schools in the State for kindergarten through grade 12 for the next ensuing biennium for the population reasonably estimated for that biennium. LXXXIII To cherish the interest of literature and the sciences, and all seminaries and public schools, to encourage private and public institutions, rewards, and immunities for the promotion of agriculture, arts, sciences, commerce, trades, manufactures, and natural history of the country; to countenance and inculcate the principles of humanity and general benevolence, public and private charity, industry and economy, honesty and punctuality, sincerity, sobriety, and all social affections, and generous sentiments, among the people. The Legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in the State between the ages of five and eighteen years. The fund for the support of free public schools, and all money, stock and other property, which may hereafter be appropriated for that purpose, or received into the treasury under the provisions of any law heretofore passed to augment the said fund, shall be securely invested, and remain a perpetual fund; and the income thereof, except so much as it may be judged expedient to apply to an increase of the capital, shall be annually appropriated to the support of free public schools, and for the equal benefit of all the people of the State; and it shall not be competent, except as hereinafter provided, for the Legislature to borrow, appropriate or use the said fund or any part thereof for any other purpose, under any pretense whatever. The bonds of any school district of this State, issued according to law, shall be proper and secure investments for the said fund and, in addition, said fund, including the income therefrom and any other moneys duly appropriated to the support of free public schools may be used in such manner as the Legislature may provide by law to secure the payment of the principal of or interest on bonds or notes issued for school purposes by counties, municipalities or school districts or for the payment or purchase of any such bonds or notes or any claims for interest thereon. A uniform system of free public schools sufficient for the education of, and open to, all the children of school age in the state shall be established and maintained. All forfeitures, unless otherwise provided by law, and all fines collected under general laws; the net proceeds of property that may come to the state by escheat; the rentals of all school lands and other lands granted to the state, the disposition of which is not otherwise provided for by the terms of the grant or by act of congress shall constitute the current school fund of the state. Category I New York N. Category I North Carolina N. Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools, libraries, and the means of education shall forever be encouraged. The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools, which shall be maintained at least nine months in every year, and wherein equal opportunities shall be provided for all students. The General Assembly may assign to units of local government such responsibility for the financial support of the free public schools as it may deem appropriate. The governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program. Category I North Dakota N. A high degree of intelligence, patriotism, integrity and morality on the part of every voter in a government by the people being necessary in order to insure the continuance of that government and the prosperity and happiness of the people, the legislative assembly shall make provision for the establishment and maintenance of a system of public schools which shall be open to all children of the state of North Dakota and free from sectarian control. This legislative requirement shall be irrevocable without the consent of the United

States and the people of North Dakota. The legislative assembly shall provide for a uniform system of free public schools throughout the state, beginning with the primary and extending through all grades up to and including schools of higher education, except that the legislative assembly may authorize tuition, fees and service charges to assist in the financing of public schools of higher education. In all schools instruction shall be given as far as practicable in those branches of knowledge that tend to impress upon the mind the vital importance of truthfulness, temperance, purity, public spirit, and respect for honest labor of every kind. The legislative assembly shall take such other steps as may be necessary to prevent illiteracy, secure a reasonable degree of uniformity in course of study, and to promote industrial, scientific, and agricultural improvements. Category II Oklahoma Okla. The Legislature shall establish and maintain a system of free public schools wherein all the children of the State may be educated. Such moneys shall be allocated to the various school districts in the manner and by a distributing agency to be designated by the Legislature; provided that nothing herein shall be construed as limiting any particular school district to the per capita amount specified herein, but the amount of state funds to which any school district may be entitled shall be determined by the distributing agency upon terms and conditions specified by the Legislature, and provided further that such funds shall be in addition to apportionments from the permanent school fund created by Article XI, Section 2, hereof. Category I Oregon Ore. The Legislative Assembly shall provide by law for the establishment of a uniform, and general system of Common schools. Provision shall be made by law for the distribution of the income of the common school fund among the several Counties of this state in proportion to the number of children resident therein between the ages, four and twenty years.

Chapter 3 : Differences Between Federal Budgeting and State or Local Budgeting | Bizfluent

The budgeting principle in generally accepted accounting principles (GAAP) for state and local governments states that: The accounting system should provide the basis for appropriate budgetary control.

Strategic planning is about influencing the future rather than simply preparing or adapting to it. The focus is on aligning organizational resources to bridge the gap between present conditions and the envisioned future. While it is important to balance the vision of community with available resources, the resources available should not inhibit the vision. An important complement to the strategic planning process is the preparation of a long-term financial plan, prepared concurrently with the strategic plan. A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions. A financial plan illustrates the likely financial outcomes of particular courses of actions. Strategic planning for public organizations is based on the premise that leaders must be effective strategists if their organizations are to fulfill their missions, meet their mandates, and satisfy their constituents in the years head. Effective strategies are needed to cope with changed and changing circumstances, and leaders need to develop a coherent and defensible context for their decisions. GFOA recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. While there is not a single best approach to strategic planning, a sound strategic planning process will include the following key steps: The mission statement should be a broad but clear statement of purpose for the entire organization. One of the critical uses of a mission statement is to help an organization decide what it should do and, importantly, what it should not be doing. Strengths and weaknesses relate to the internal environment, while analysis of opportunities and threats focuses on the environment external to the organization. Local, regional, national, and global factors affecting the community should be analyzed, including a economic and financial factors, b demographic trends, c legal or regulatory issues, d social and cultural trends, e physical e. Also, a government should develop mechanisms to identify stakeholder concerns, needs, and priorities. Among the mechanisms that might be employed to gather such information are a public hearings, b surveys, c meetings of community leaders and citizens interest groups, d meetings with government employees, and e workshops for government administrative staffs and the legislative body. Once the environmental analysis has been completed, the next step is to use the resulting information to identify the most critical issues. Issue recognition should reflect stakeholder concerns, needs, and priorities as well as environmental factors affecting the community. These written goals should address the most critical issues facing the community. It may be necessary to define priorities among goals to improve their usefulness in allocating resources. Strategies relate to ways that the environment can be influenced internal or external to meet broad goals. A single strategy may relate to the achievement of more than one goal. There should be a relatively small number of specific strategies developed to help choose among services and activities to be emphasized. Use of flowcharts or strategy mapping is encouraged in the design of startegies. To optimize the success of these strategies, opportunities should be provided for input from those who will be affected. The action plan describes how strategies will be implemented and includes activities and services to be performed, associated costs, designation of responsibilities, priority order, and time frame involved for the organization to reach its strategic goals. There are various long-range planning mechanisms available to enable organizations to clarify their vision and strategy and translate them into action. Objectives are specific, measurable results to be achieved. Objectives and their timelines are guidelines, not rules set in stone. Objectives should be expressed as quantities, or at least as verifiable statements, and ideally would include timeframes. Performance measures provide an important link between the goals, strategies, actions and objectives stated in the strategic plan and the programs and activities funded in the budget. Performance measures provide information on whether goals and objectives are being met. Policymakers should formally approve the strategic plan so it can provide the context for policy decisions and budget decisions. Organization stakeholders should work together to implement the plan. Progress toward planned goals should be monitored at regular intervals. Organizations should develop a systematic review process to evaluate the extent to which strategic goals have been met. To the extent that external events have long-range impacts, goals, strategies and actions may need to be adjusted to reflect these changes. New information about stakeholder needs or results may also require changes to the plan. It is desirable to minimize the number of adjustments to longer-term goals in order to maintain credibility. However, governments should conduct interim reviews every one to three years, and more comprehensive strategic planning processes every five to ten years, depending on how quickly conditions change. Performance measure results need to be reviewed more frequently than the strategic plan. Key elements of this recommended practice are drawn from Recommended Budget Practices:

Chapter 4 : State Budget Reports and Fiscal Conditions - Reports by NCSL

National Advisory Council on State and Local Budgeting, Government Finance Officers Association, "Recommended Budget Practices: A Framework for Improved State and Local Budgeting," June United States General Accounting Office, Testimony before the Committee on the Budget, House of Representatives, Statement of Susan J. Irving.

Spreadsheet of Appendix Tables Executive Summary When state policymakers are writing a budget, they should be mindful of the future, not just the present. The state budget is the single most important document that a state government produces each year, and it receives close public scrutiny. It serves as both a financial plan and a policy document â€” that is, a description of the policies the state intends to pursue in the future. Often, however, policymakers focus on the immediate effects of policy decisions and fail to account for their longer-term consequences. These are proven methods to improve long-term planning, yet they are underutilized. This report describes the ten key tools that can help states chart their fiscal course accurately and make corrections when needed; it also surveys the 50 states and the District of Columbia on the degree to which they use these tools. It finds that the use of these tools cuts across regional and partisan divides. For instance, Connecticut, Maryland, and Tennessee incorporate most of the ten tools into their budget processes. New Jersey, Oklahoma, and South Dakota incorporate the fewest. The timing is right for states to adopt a much more rigorous approach to their long-term budget planning. The Great Recession â€” the most severe recession in seven decades â€” blasted holes in state budgets from which they have yet to fully recover. State tax revenues remain just below where they were five years ago after adjusting for inflation even as costs such as health care have risen faster than general inflation and the number of students, the elderly, and other state residents needing services has grown. Demographic changes such as the aging population are putting increasing pressure on state budgets, while the future course of health care costs, one of the largest parts of state budgets, remains unclear. Also, the federal government, which provides about one-quarter of state and local revenues, is on track to make deep spending cuts under the Budget Control Act and sequestration that could hit states hard. State policymakers should be thinking hard about the future whenever they write a budget, because their decisions will have very big implications many years down the road. They should be asking: Will our infrastructure meet emerging needs? Is our tax system sufficiently up-to-date for the 21st century economy? And how will our budget choices today affect our ability to provide residents with a high quality of life for decades to come? Laying out a clear roadmap of the implications of the state budget â€” using proven, nonpartisan methodologies â€” can reduce uncertainty and help a state handle the outside shocks that will inevitably arise. Specifically, to budget wisely for the future, every state needs: A map for the future: Professional and credible estimates: Ways to stay on course: Mechanisms should be in place to trigger any needed changes during the budget year, before too much damage is done. These are achievable goals. Every state does these things to at least some extent. And a wide range of government budget experts agree they are needed see box on page 5. But no state does them nearly as well as they could. The next sections outline the ten tools states should adopt for better fiscal planning. Mapping the Future Impact of the Budget: Tools We identified the ten tools in this report through a survey of existing reports and consultations with experts on state budget analysis. During the budget development process, a state can build in a focus on the long term by including revenue and spending projections for at least five years in its annual or biannual plan. These forecasts are most useful when they explain the trends they reveal. For example, they could examine such questions as: It also allows for a better informed debate by the public and outside observers. States can further plan for the future by preparing a current services baseline, or projection of the cost of continuing to deliver the same quantity and quality of services as in the current budget period. This information allows the public and outside analysts to easily determine how proposed policy changes and program funding levels would affect public services. That, in turn, allows for more informed debates over the trade-offs required to balance the budget. Tools It is not enough that long-term planning exists; it must also be based on credible, professional information so that it is not ignored. For example, states can depoliticize a critical part of the budget preparation process by creating a consensus revenue forecast, which is an agreement among the executive branch and both houses of the legislature on a revenue forecast for upcoming years. Another way to ensure that the fiscal plan is taken seriously is to establish a non-partisan, professional legislative fiscal office to provide a check on the information prepared by the executive branch. Experts Agree on Need for Planning A wide range of independent experts â€” including budgeting professionals, bond rating agencies, and academic researchers â€" have long recognized the importance of forecasting the potential impact of state tax and spending decisions for the long term. For example, eight of the major associations that represent elected officials and professional managers and finance professionals formed a commission called the National Advisory Council on State and Local Government Budgeting in These organizations â€" as well as the National Association of Budget Officers, various academics, and others that study public budgeting â€" all agree that planning ahead is important. They have also identified a number of mechanisms that states can use to carry out this planning. The budgeting tools most commonly identified are multi-year forecasts of base revenues and spending and the impact of changes in tax and spending policy, a consensus process for estimating revenues, rainy day funds, information on the cost of tax exemptions and credits, regular budget status reports, and oversight of debt levels and pension costs. In addition, some budget professionals recommend the use of current services baselines, independent legislative fiscal offices, and sunsets expiration dates for tax expenditures. The ten tools that comprise the list of recommended tools in this report are drawn from this literature. These experts agreed that these are important and useful mechanisms for state fiscal planning. They do not necessarily endorse each tool as required for each state to plan effectively Pension costs are often cited as a concern for state budgets, and one key to reducing or preventing the accumulation of new, unfunded pension obligations is for a state to determine the level of contributions needed to state pension funds and make those contributions regularly. Because of the complexity this involves, regular reviews by independent authorities of the process used to determine pension contribution levels and underlying assumptions are necessary. Ways to Stay On Course: Tools The budget process is not over once the legislature adopts a budget. A state must be able to manage revenues and spending throughout the year to deal with these uncertainties. For example, when available revenues fall short of projected spending in the middle of the budget year due to a weak economy, adequate and well-designed rainy day funds can reduce the need for damaging service cuts and tax increases. But a state must fill its rainy day fund in good times to prepare for bad times. Formal deposit rules encourage states to make such deposits by making it harder to forgo deposits without attracting the notice of outside observers. When recessions occur, states must scrutinize all forms of spending. An important tool for this is oversight of various tax expenditures tax credits, deductions, and exemptions that reduce state revenue , which in many ways function as spending through the tax code. This will enable states to make sound choices between the most essential tax expenditures and those the state can forego. For example, states can regularly publish tax expenditure reports that list each tax break and its cost. And states can enact sunset provisions so that tax breaks expire in a specified number of years unless policymakers choose to extend them. States also need tools for managing their long-term funding commitments. These include their pension obligations to retired state employees and their obligations to repay bonds that were issued to fund the construction of schools, roads, bridges, and other infrastructure. Because of the long-running and fixed nature of these obligations, it is particularly important that states regularly check whether they are meeting these obligations by establishing prudent rules on pension funding and debt levels. For example, states should make the full payment required each year to ensure that pension trust funds will be able to cover future costs â€" or should catch up quickly if they are temporarily unable to make the full payments. In addition, a state must monitor the overall balance of the budget between revenues and spending throughout the year. No state will be able to predict all economic ups and downs or budget pressures and design a budget that addresses them all automatically. Regular revenue and spending status reports during the course of the fiscal year that combine revised revenue estimates with updated spending projections will shine a light on fiscal problems while there is time to correct them. Ten Tools for Budgeting for the Future Here are ten mechanisms states can use to inform long-term planning. Does the Budget Provide a Map of the Future? Multi-year forecasts of revenues and spending: These projections should be a regular part of the budget and should be detailed and easily accessible. Fiscal notes with multi-year projections: Estimates should be easily available. Are the Projections Professional and Credible? Independent consensus revenue forecast: These reviews should be published and easily accessible to the public. Are Ways to Stay on Course in Place? Well-designed rainy day fund: These funds should not be capped at an inadequate level below 15 percent of the state budget and should be governed by rules that encourage deposits in good times and provide notice if deposits are skipped. Oversight of tax expenditures: Pension funding and debt level reviews: Rating the States This report grades states on how well they have implemented the tools described above. We evaluated each state on its use of each tool and assigned a score on a simple scale: Figures 1 and 2 show the results. The District of Columbia is included in counts of states. Sound planning is not a partisan or a regional practice. For example, New York the prototypical liberal northern state and Louisiana a southern state with a much more conservative bent both do relatively good jobs of planning ahead, while there is much room for improvement in both Alabama and Massachusetts. These examples also show that the ability to look ahead does not dictate a particular set of tax or spending programs. To read the full report, view the PDF here.

Chapter 5 : How States Budget for Capital

intergovernmental dimensions of state and local budgeting, and 5) describe and explain the ways in which budgetary policy (tax and expenditure policy) distributes benefits and burdens in state and local governments.

Although there is no standard definition of a State capital budget, the following may be a good working definition: A State capital budget is the prioritized list of capital improvement projects, adopted by the governing body along with the operating budget for the next fiscal year. It includes projects financed by various revenue sources. Capital is defined by many States to be construction, major renovation, land, and major equipment above a minimum threshold. In many States, however, significant amounts of capital expenditures, such as those for transportation mainly highways or special authorities e. An important part of many State capital budgets is a long term planning process, or capital improvement program. This plan prioritizes projects over a multi-year period, such as five years, and as projects move closer to the budget year they must undergo increasing scrutiny in order to be funded. Capital projects can be financed by general purpose revenues, dedicated revenues, Federal grants, or borrowing. No State records depreciation in its budget. In addition, States do not record depreciation in their financial accounting statements for governmental funds. Current information about State capital budgets is available in a publication by the National Association of State Budget Officers, Capital Budgeting in the States, published most recently in September The following sections provide more information on State capital budgets. A History of State Capital Budgets Comprehensive State and local budgetary processes appeared in the early part of this century as the result of encouragement by civic reformers, businessmen, and public administration scholars. This process continued into the s. Bozeman 2 identifies four factors that led to the development of public sector capital budgets: By the late s capital planning and capital budgets were in place in many communities and States, and since that time budget reform efforts have focused on other ways to improve budgeting, including performance budgeting; program planning budgeting systems PPBS , which focused on benefit-cost analysis; management by objectives; and zero-based budgeting. These latter efforts focused primarily on operating expenditures and less so on capital budgets. More recent efforts have focused on a longer range outlook for capital planning, increased automation in the planning process, greater emphasis on analyzing life-cycle costs, linking capital acquisitions to program performance measures, and ensuring that all expenditures, including capital expenditures, help achieve established long range goals. Budgeting by Funds All States budget differently. Their budgeting systems are the result of traditions and preferences that have developed, for some States, over more than years. As a result, it is difficult to identify a typical State budgeting system. Despite these differences, an understanding of State budgets, and especially State capital budgets, requires an understanding of budgeting by funds, because most States budget by the use of different funds. Most States have most of their spending in a general fund. Receipts to the general fund can come from general purpose and miscellaneous taxes. Spending in this fund can be for State operations, aid to localities, capital projects not in the capital fund, debt service principal and interest on general obligations bonds, and transfers to other funds. For most States, spending in the general fund cannot exceed annual revenues plus beginning year balances, although the stringency of this requirement to balance the general fund differs widely. In addition to the general fund, most States also have special revenue funds, although different States give this category different names, such as special funds, or non general funds. Spending in these funds is generally financed by earmarked revenues, such as highway taxes if not in the capital fund ; grants from the Federal Government; State lottery receipts; or fees for motor vehicle licenses, parks and recreation, fish and game licenses, or business regulation. Some of these funds can be very small, and some States may have a large number of special revenue funds. As with the general fund, spending in special funds generally cannot exceed annual revenues plus the beginning year balance. Many States also have a capital projects fund, which is often called the "capital budget. The method of appropriation for these projects also differs among the States. In some States this fund may have a separate capital appropriations bill, in some it may have several capital appropriations bills, and in other States capital projects may be appropriated in bills that include operating expenditures, with the amounts for the capital projects fund identified separately in the bill. States that borrow may also have a debt service fund, which receives payments from the general fund to pay interest and principal on bonds sold to finance capital projects. The bonds are generally linked to a specific project or group of projects, and the maturity of the bonds may in some cases match roughly the expected life of the projects. The timing of payments from the general fund to the debt service fund can vary. In addition to these funds, some States may have other funds, such as an exchange stabilization fund, highway fund, Federal grants fund, bond fund, public enterprise funds, or retirement funds. The Number and Variety of State Capital Budgets Because there is no standard definition of what is and is not a State capital budget, it is difficult to identify how many States have a separate capital budget. This survey indicates that only South Dakota does not have a capital budget. This suggests that since the early s an increasing number of States have developed separate capital budgets. In addition, State grants to localities for certain capital projects may also not be in the State capital budget. This planning process is often called a capital improvement program CIP and ranks projects over a year period. For many States, an important part of this plan is an inventory and assessment of the condition of existing capital assets. The six-year plan addresses three major areas: Some States permit nonprofit agencies, boards and commissions, public authorities, and elected officials to make requests for capital projects. About half the States have a separate capital budget document and about half combine capital and operating expenditures in one document. Many States have joint boards that include executive and legislative officials that inform the budgeting process in the legislature. In some cases the capital budget is a separate capital appropriations bill, in some cases it is several bills, and in others the capital projects are parts of appropriations bills that include operating expenditures. They record it only for proprietary funds commercial-type funds that sell goods or services to the public or other units of the government and for nonexpendable trust funds those trust funds where net income, expense, or capital maintenance is measured. The availability of general funds for capital projects depends in part on other demands from the general fund and on the economic condition of the State. When growth in revenues is strong there is more likely to be general revenues available to finance capital projects. The most prevalent example of a State dedicated revenue is the State gasoline tax. Other examples can include tolls or fees from bridges or other facilities, or dedicated revenues for construction of higher education facilities. Federal grants to States make a significant contribution to State capital spending. The largest grant of this type is for highway construction, financed by the Federal tax on gasoline. State borrowing can be in the form of general obligation bonds or revenue bonds, and is subject to constitutional or legal restrictions on the State debt limit, the judgment of the financial markets regarding the risk associated with the debt, the desire of the State to maintain its credit rating, and other factors. Revenue bonds are bonds backed by a dedicated revenue stream, such as tolls or other fees. It should be understood that capital improvements would not include routine maintenance. It should also be understood that capital budgets are not always enacted with the operating budget, and a capital budget is often for mutli-year projects, not just for spending for the next fiscal year. Lisle Bozeman, "The Capital Budget: Twentieth Century Fund, Organization of the Capital Budget. Massachusetts and Nevada did not respond to the survey. Council of State Governments, , p.

Chapter 6 : Summary of Statement No. 34

Key elements of this recommended practice are drawn from Recommended Budget Practices: A Framework for Improved State and Local Governmental Budgeting of the National Advisory Council on State and Local Budgeting and from GFOA s recommended practice on Performance Measurement: Using Performance Measurement for Decision Making Updated Performance Measures.

The other components are program assessment , implementation oversight , outcome monitoring , and targeted evaluation. Overview For many years, policymakers and citizens have expressed concerns about the effectiveness of public programs. While efforts such as performance-based and zero-based budgeting have been helpful, these initiatives have often had only a limited impact on the way funding decisions have been made. Nonetheless, the importance of using taxpayer resources wisely has never been greater, particularly given the ongoing budget stresses facing many state and local governments. The past decade has seen a dramatic increase in the availability of research that has rigorously tested the effectiveness of many social programs. A better method, which some governments are beginning to implement, incorporates this information into an evidence-based approach to budgeting. This issue brief, part of a series on evidence-based policymaking, highlights three key steps that governments can take to more effectively use data to inform the critical budget decisions they make each year: Require agencies to justify requests for new funding with rigorous research on program effectiveness. Embed evidence requirements into agency contracts and grants to ensure that research guides program activities. The challenges to creating a better budget process The traditional budget process often frustrates policymakers. It typically focuses attention on incremental changes to existing spending, such as increasing or decreasing funding for all agencies by 2 percent, while the impact of the programs administered by these agencies receives little scrutiny. Policymakers interested in using evidence to inform their budget decisions face two main challenges. Existing budget processes reinforce the status quo. Budget rules and processes tend to reinforce this dynamic by requiring that agencies justify the amount of funding requested, rather than the results their program can be expected to achieve. Few governments ask agencies to support funding requests by providing evidence of program effectiveness. When they do, it is typically for new programs or additional funding only, so a large majority of programs are not subject to these requirements. Governments lack key information about the programs they fund. Most governments do not gather important facts about the programs that are included in the continuation base budget. For example, most lack a comprehensive list of these activities, and few compile comprehensive data on their cost and performance. In the absence of information about the outcomes delivered by individual programs, it is understandable that policymakers resort to across-the-board cuts when required to make budget reductions, as the dearth of data hinders their ability to target cuts to underperforming programs. Three steps to creating an evidence-based budget Policymakers in both the executive and legislative branches can make more informed decisions by incorporating rigorous evidence into the budget process. Key steps include developing a complete inventory of currently funded programs, requiring agencies to justify budget requests with rigorous research, and mandating that agencies incorporate evidence requirements in the contracts and grants they administer. Collectively, these actions can help ensure that funding is directed toward programs that are most likely to achieve desired outcomes. The first step in developing an evidence-based budgeting process is to create a comprehensive list of funded programs and assess the level of evidence that exists about the effectiveness of each intervention. This enables policymakers to understand what programs are currently operating in the jurisdiction and what level of confidence they can have that investments in these interventions are likely to produce desired results. Budget documents typically provide limited, if any, information about the individual programs that are being delivered by agencies and providers. An inventory enables policymakers to look inside the base budget and examine the specific interventions that are being funded. Governments typically assign responsibility for this inventory process to a central unit that can oversee agency data collection efforts. If possible, inventories should include a description of each program and its goals, services being provided, target population and number of clients served, and per-client and total cost. The inventory creates a baseline of information that can then be used to match programs to the evidence base. Assess the likelihood that programs are successful. In a perfect world, governments would conduct periodic evaluations of all programs that they operate to provide comprehensive information about the effectiveness of each activity. However, such evaluations are expensive and time-consuming. Governments typically can conduct only a few such studies each year. Fortunately, the effectiveness of many interventions has been rigorously studied across the country in recent years. This information about what works can be used to assess whether local programs that are based on the same design are likely to generate positive outcomes. For example, a program that has been evaluated in multiple jurisdictions and consistently found to be successful is highly likely to produce good results if implemented locally with fidelity and under similar conditions. Staff can begin this process by examining national research clearinghouses, which review and aggregate rigorous studies and rate programs by their level of evidence of effectiveness. Staff can then compare the programs their jurisdiction is operating contained in the inventory to those rated by the clearinghousesâ€"considering factors such as target population and delivery settingâ€"to determine if their local programs are evidence-based. Additionally, some governments rank programs by definitions of evidence that they have established through rule or law,1 which can be helpful when classifying programs that are rated differently by clearinghouses. Using Research Clearinghouses to Match Local Programs to the Evidence Base Despite the tremendous growth of research on the effectiveness of human services programs, this information is often hard for policymakers to locate and difficult to interpret. Evaluation findings are frequently published in academic journals that are available only through paid subscriptions, or are presented in highly technical reports. To help address this problem, many research clearinghouses have been established in recent years that compile and curate findings in social policy areas. However, these entities do relatively little to publicize their activities. They also use differing nomenclature to report results, making it difficult to interpret and compare their findings. As a result, government leaders have underutilized this information on what works. The Results First Clearinghouse Database provides a single access point to information from eight national research clearinghouses that conduct independent, transparent, systematic, and rigorous reviews of available research. States and localities participating in the Results First Initiative receive technical assistance on how to match funded programs to those in the database. Once completed, this evidence assessment enables leaders to categorize each program from their inventory by the level of available evidence about its effectiveness, identifying which ones are highly likely to work, which have been shown to be ineffective, and which need more research. This information can help governments as they analyze current spending and prioritize requests for new funding. The inventory ranks each strategy according to the evidence supporting its effectiveness and highlights whether the strategy was implemented in the state. This approach has also been used effectively by local governments. Santa Barbara County in California surveyed its jail- and community-based service providers to develop a comprehensive list of the criminal justice treatment programs being delivered and to determine the extent to which evidence-based practices were being used. This analysis revealed that many of the interventions were not closely aligned with evidence-based practices, prompting the county to offer training and technical assistance to providers to help them improve their current activities or replace them with alternative evidence-based programs. While some cost-benefit analyses examine a single program, a growing number of governments are using the approach to compare the relative return on investment of portfolios of alternative interventions and target funding to those that are predicted to achieve the best outcomes. Several states, including Colorado, Iowa, Massachusetts, New Mexico, New York, Rhode Island, and Washington, have adopted this practice to analyze their investments in human services and rank programs by their predicted return on investment. The goal with this [program inventory] report was to provide information on the evidence of program effectiveness in a straightforward way. After examining this report, policymakers approved a competitive grant program to expand evidence- and research-based programming to reduce recidivism. It plans to use these results to inform funding and policy decisions in the upcoming budget cycle. Even the best evidence-based programs, if implemented poorly by agencies, will fail to deliver good results. Accordingly, governments should establish performance goals that measure the outcomes of all major programs and report this information during the budget process. For those that have been rigorously tested, outcome measures can gauge whether programs are achieving the results predicted by the research. For programs that lack rigorous research on their effectiveness, outcome data are still important for identifying trends, such as whether performance is getting better or worse. These trends can lead to questions during budget deliberations about whether alternative approaches should be considered. Governments should make certain that measures are agreed upon by members of both the legislative and executive branches and that data are verified or audited to ensure accuracy and reliability. Where feasible, research on expected results when a program is properly implemented should inform these targets. For example, an evidence-based home visiting program for new mothersâ€"predicted to reduce the frequency by which children must be removed from the home by 10 percentâ€"should be compared against baseline rates to determine its success rate. When research is not available, governments may utilize other benchmarks that allow for meaningful comparison, such as the performance in similar states or jurisdictions, or national standards. Virginia, for example, compares the performance of many state programs with the national average, the top-performing state in the nation, and three states similar to itself. In addition to creating an evidence baseline on existing programs, policymakers can require requests for new or additional funding to be justified with rigorous evidence. Governments can also compel agencies to give priority to evidence-based programs when implementing their budget allocations. Require agencies to incorporate evidence into budget requests. State and local governments can instruct agencies to justify requests for new or increased funding with rigorous evidence showing that the additional resources would produce positive results. Governments may choose to gradually phase in these requirements over time so that they apply to currently funded programs as well as to new programs. Two states are becoming exemplars in this approach. In , the Mississippi Legislature began requiring agencies seeking funding for new programs through the appropriations process to answer a series of questions to ensure that proposed initiatives adhered to key elements of high-quality design. In some cases, vendors who contract with the state are also subject to this review. During the Regular Session, staff from the Joint Committee on Performance Evaluation and Expenditure Review PEER reviewed agency requests for new program funding using the elements of quality design to determine whether they met the evidence standards. Preference was given to evidence-based programs that have been proved effective in addressing a particular problem. To facilitate this, PEER is developing standards for what constitutes a rigorous research evaluation. This may include recent performance data compared with industry standards or other relevant benchmarks, or more rigorous forms of evidence including program evaluations. Agencies must propose a business case for why they need new funding and describe whether the activity is an evidenced-based practice or otherwise supported by research, data, evaluation, or professional standards. A recent survey of state and local government officials found that 76 percent of respondents said data-driven decision-making was a major challenge. Only 44 percent said they believe employees at their organization have the training needed to make data-based decisions. When equipped to do so, these units can play a vital role in the process. One example is the New Mexico Legislative Finance Committee LFC , which regularly issues evaluation reports, cost-benefit analyses, and quarterly performance reports on programs in a variety of policy areas, including adult criminal justice, child welfare, and early childhood education. Budget guidelines issued by the LFC require that analysts, in developing their recommendations, utilize performance data and rigorous research to prioritize funding to programs shown to be effective or that achieve the best return on investment for taxpayers. Policymakers can also use legislation or administrative policy to require agencies to give preference to evidence-based programs when implementing their funding allocations. These mandates are typically phased in over time, requiring agencies to increase the percentage of funding on evidence-based programs up to a certain threshold. In , Oregon passed S. Every two years, the agencies were required to report the percentage of their total budgets allocated to evidence-based programs. Beginning in the biennium, the five agencies had to demonstrate that at least 25 percent of their funds were used to support evidence-based programs. That increased to 50 percent by the end of , and 75 percent by the end of By , all agencies reported that they had achieved these targets. The legislation itself, judging on its own merits, drove practices that were evidence-based and that the state sorely needed. In New Mexico, the Corrections Department created an administrative policy in to prioritize funding toward evidence-based programs. The policy, which is intended to provide guidance and set expectations for the delivery of services across the state, requires the department to spend at least 70 percent of funds on programs with rigorous evidence of effectiveness. Many decisions on how governments allocate funding to individual programs occur outside the formal budget process. Agencies often have significant flexibility in spending funds within their legislative budget allocation, and they frequently contract with private and nonprofit organizations to deliver services.

Chapter 7 : State Role in Education Finance

More than in past economic downturns, state and local governments were a prominent casualty of the recent recession. States in particular saw their revenues plunge.

The vision of democracy is that the federal budget â€” and all activities of the federal government â€" reflects the values of a majority of Americans. And it is a complicated process. Many forces shape the federal budget. And while the federal budget may not currently reflect the values of a majority of Americans, the ultimate power over the U. We have a right and responsibility to choose our elected officials by voting, and to hold them accountable for representing our priorities. An Evolving Process The U. Constitution designates the "power of the purse" as a function of Congress. The Constitution does not, however, specify how Congress should exercise these powers or how the federal budget process should work. As a result, the budget process has evolved over time. Over the course of the twentieth century, Congress passed key laws that shaped the budgeting process into what it is today, and formed the federal agencies - including the Office of Management and Budget , the Government Accountability Office , and the Congressional Budget Office - that provide oversight and research crucial to creating the budget. Before the Budget Congress creates a new budget for our country every year. This annual congressional budget process is also called the appropriations process. Appropriations bills specify how much money will go to different government agencies and programs. In addition to these funding bills, Congress must pass legislation that provides the federal government the legal authority to actually spend the money. Authorizations often cover multiple years, so authorizing legislation does not need to pass Congress every year the way appropriations bills do. When a multi-year authorization expires, Congress often passes a reauthorization to continue the programs in question. Authorizations also serve another purpose. There are some types of spending that are not subject to the appropriations process. Such spending is called direct or mandatory spending , and authorizations provide the legal authority for this mandatory spending. There are five key steps in the federal budget process: The President submits a budget request to Congress The House and Senate pass budget resolutions House and Senate Appropriations subcommittees "markup" appropriations bills The House and Senate vote on appropriations bills and reconcile differences The President signs each appropriations bill and the budget becomes law Step 1: Congress then passes its own appropriations bills; only after the president signs these bills in step five does the country have a budget for the new fiscal year. It sets overall annual spending limits for federal agencies, but does not set specific spending amounts for particular programs. After the House and Senate pass their budget resolutions, some members from each come together in a joint conference to iron out differences between the two versions, and the resulting reconciled version is then voted on again by each chamber. House and Senate Subcommittees "Markup" Appropriation Bills The Appropriations Committees in both the House and the Senate are responsible for determining the precise levels of budget authority , or allowed spending, for all discretionary programs. Subcommittees cover different areas of the federal government: All subcommittee members then consider, amend, and finally vote on the bill. Once it has passed the subcommittee, the bill goes to the full Appropriations Committee. The full committee reviews it, and then sends it to the full House or Senate. After the conference committee produces a reconciled version of the bill, the House and Senate vote again, but this time on a bill that is identical in both chambers. After passing both the House and Senate, each appropriations bill goes to the president. When the president has signed all 12 appropriations bills, the budget process is complete. Rarely, however, is work finished on all 12 bills by Oct. This chart shows how all of these pieces fit together to make the annual federal budget process. When Congress does not pass a continuing resolution by October 1, it can result in a government shutdown, as in The fiscal year budget was the result of a combined omnibus and continuing resolution enacted by Congress in December of Supplemental Appropriations From time to time the government has to respond to unanticipated situations for which there is no funding, such as natural disasters. In these cases the government has to allocate additional resources and do so in a timely manner. This type of funding is allocated through legislation known as supplemental appropriations. Other factors that include the state of the economy, party politics, differing economic philosophies, and the impact of lobbying and campaign contributions also have a considerable impact on the federal budget process.

Chapter 8 : IT Spending in State and Local Government: What Does Hold?

Given the diversity of budgetary and financial reporting found in the individual states, the process described here may be customized to conform to particular local and state requirements. Additionally, the following discussion is typical of districts that use a site-based budgeting approach.

What the Government Needs: Budget Estimates for the Coming Year The staffs of each department, office, board, commission, institution or fund estimate how much money they need to spend in the coming year. Estimates include things like wages and salaries of employees, employee benefits, office supplies, insurance, utilities, printing costs, machinery and equipment, purchases of land and buildings, and other budget items. They fill in this information on budget form 1. This process may sound mechanical, but it is at the heart of policy decisions about what a local government will do. If a newly elected mayor or county commissioner has pledged to upgrade playground equipment in the local park system, for example, the parks department will have to include this new expenditure in their budget estimate. This means estimating the cost of the new equipment, which will involve decisions about its features. Will it be elaborate or simple? Will all parks get some new equipment, or will one park get a big new set-up? In deciding about the parks budget for the next year, political promises take a step toward practical decisions. Agency budgets are built in two ways, called "bottom up" and "top down. Sometimes the budget begins with the fiscal officer or the executive like the mayor , at the "top", who tells the agency approximately or exactly what they will be allowed to spend in the coming year. Most of the time there will be elements of both top down and bottom up budgeting in the process. When the bottom up spending plans of all the agencies are added up, the fiscal officer will usually find that the budget is too big. Someone will have to cut their budget estimates. This is another place where policy decisions must be made by elected officials: This is a decision about what the local government will do. In a top down budgeting process, the fiscal officer usually will gather some information about department needs before setting the spending limits. Once the department budget estimates have been filled into budget form 1, they are added up and placed on line 1 of budget form 4-B. This line is labeled "Total budget estimate for incoming year. The local road and street fund is likely to be the responsibility of the highway department alone, while the general fund includes the budgets of many departments. Line 11 is "Operating balance. If there is a balance in the fund, the manufacturer can be paid. So, line 11 allows the government to add an amount to the budget to maintain a balance in the fund. Balances at the Start of the Year Now that the government knows how much it wants to spend in the coming year, it needs to figure out how to pay for it. One step in this decision is to estimate how much money will be in the fund when the coming year starts. About half of the lines on budget form 4-B are devoted to estimating this number. Instead, the form appears to be budgeting for 18 months, the second six months of the current year, and the 12 months of the coming year. Some local officials prefer to think of the budget in this way. I find the budget process easier to understand, though, thinking of it as an estimate of expenditures and revenues for the coming year. The entries for the last six months of this year simply aim at figuring out what the balance in the fund will be by January 1. How much will be on hand on January 1? Line 6 of budget form 4-B is labeled "Actual cash balance, June 30 of present year. What revenue will be received: Line 7 is "Taxes to be collected, present year. Line 8-A is "Miscellaneous revenue to be received July 1 of present year to December 31 of incoming year. What will be spent: Line 2 is "Necessary expenditures, July 1 to December 31 of present year, to be made from appropriation unexpended. Line 2 is the part of appropriations to be spent in the second half of the year. Line 3 is "Additional appropriation necessary to be made July 1 to December 1 of present year. When there are needs beyond what was anticipated in the budget, the local government can make an "additional appropriation. Line 4 is "Outstanding temporary loans. Line 4a is for loans to be repaid, line 4b is for loans that will still be outstanding at the end of the year. Estimated balance, start of the coming year: Add balances now on hand line 6 , and revenues expected in the second half of the year lines 7 and 8-A. Subtract expected spending lines 2 and 3 and money set aside to repay loans lines 4a and 4b. Revenues include taxes like the local income taxes, motor vehicle excise tax, and financial institutions tax. Revenue includes fees from licenses and permits, like dog licenses or building permits. It includes "intergovernmental revenue," which is aid from the Federal and state governments. State aid includes distributions from state tobacco and alcoholic beverage taxes, road funding aid, and potentially other payments in lieu of taxes. Other revenues are charges for services, like fire protection contracts or dog pound receipts; fines and forfeitures, like ordinance violations; and other revenues such as interest on investments, and rents on rental property. All of this revenue must be estimated. In some cases the state tells local governments how much will be received. Local income tax revenues for the coming year, for example, are certified by the state to local governments by mid-year. Other revenues must be guessed at, based on current and past year receipts, and expected trends. These estimates are recorded on budget form 2, known as the miscellaneous revenue form. The local government fills in two columns. Column A contains the revenue estimates for the rest of the current year, and are used in the calculation of the coming year beginning balance see above. Column B contains the revenue estimates for the coming year. The revenues in this column are added up, and entered on budget form 4-B in line 8-B. This line is actually poorly labeled, as it does not say anything about estimated revenue for January 1 through December 31 of the coming year. What the Government Needs to Get: Almost always, the amount of spending will exceed the sum of the fund balance and estimated non-property tax revenue. Start by taking the funds required, and subtracting the funds available. On budget form 4-B, funds required are on line 5, and funds available are on line 9. Line 10 is "Net amount to be raised for expenses to December 31 of incoming year. Another way to think of it, though, is: The arithmetic works out either way. The result of this equation is line 14, "Net amount to be raised by tax levy," meaning the property tax. Divide this levy by assessed value, which is written in a space in the heading of form 4-B , multiply by , and you get line 17, "Net tax rate on each one hundred dollars of taxable property.

Chapter 9 : Establishment of Strategic Plans | Government Finance Officers Association

a) National Advisory Council on State and Local Budgeting, Government Finance Officers Association, "Recommended Budget Practices: A Framework for Improved State and Local Budgeting," June b) United States General Accounting Office, Testimony before the Committee on the Budget, House of Representatives.

Local governments may spend considerable time debating allocation of funds to a new initiative or budget reductions necessary to balance a budget. This will not be done, however, for everything that the government does. Many areas are likely to receive a superficial review that focuses on the incremental or marginal change from the previous year. If there are no public issues in how the service is performed and the amount of change appears reasonable, the service is likely to receive little review. People may decry incrementalism, but it prevails because it enables decision-makers to complete their task within a reasonable period of time. Local budgets, thus, evolve over time. They represent the collective decisions of different leaders over many years. Rather than starting with a clean sheet of paper, local governments begin with what was decided the previous year and then focus on the deviations â€" the incremental changes. More intense review is focused on those areas where there is some perceived need to do so. When a need for change is acknowledged, all of the tools of rational decision-making should come into play: Sometimes this happens, but sometimes decisions are made simply based on political demands, with little analysis behind the decision other than how much the change will cost. For example, it is possible to perform highly sophisticated modeling on the location of fire stations, calculating how long it will take a fire engine to get to any building in a community. By employing a variety of scenarios, the models can pose highly optimized options for the location of Fire Stations. Political constraints may hinder optimal decisions. Residents in one community may strenuously object to losing a fire station while another community may strenuously object to receiving afire station. Local Government Revenues In the U. As with other areas discussed, the mix of revenues will vary from state to state and from one local government to others within a state. Each category is briefly discussed below. The challenges in the budget process are the ability to project revenues accurately, to adjust tax rates based on economic conditions, to ensure economic stability, and to promote economic equity. Taxes Local governments in the U. The most important though not universal source of tax revenue for local governments in the U. This tax is much maligned by the public because it is a tax on wealth i. As assessment techniques have become more sophisticated over the years, concerns about inaccurate assessments become less of an issue, but will never go away because market values are never fixed. Debates will certainly arise in rapidly increasing or decreasing real estate markets that occur cyclically in different parts of the U. Assessed value multiplied by tax rate equals taxes owed. Tax rates are expressed in different ways, but they all arrive at the same point: The sales tax is the other prominent tax source for local governments. Typically, the sales tax is applied to tangible goods purchased, but may also apply to services. There may also be exceptions, such as for food or medicine. The income tax is generally considered the fairest tax since it is based on actual income that a person has; however, states may preempt local governments from applying this tax. A local government may tax any number of other items, depending on state authority. These may include meals, entertainment, transactions related to sale of property, cars and boats. Fees and Charges Due to low public acceptance of general taxes and due to state constraints, local governments turn to fees and charges to fund many of their services. This makes local governments look more like private companies that charge users for the goods and services that people receive. This approach enables the public to make a direct connection between what they pay and what they get. In order to apply a fee or charge, the local government must be able to limit those who receive the service and must create a mechanism for collecting payment. The charge does not have to be full cost. Fees are used extensively for water, trash collection, and building inspections. They are also commonly used for a variety of recreation and leisure services. This enables the local government to segregate the revenues and expenses for the service, much like a company would do for a particular product line. The grants may offset disparities among local governments in a state based on the revenue producing ability of a local government. This is commonly done for the funding of local public schools. The grants may also be designed to implement state or federal policy priorities at the local level. During the Clinton administration, significant funds were provided for local police officers. During the Bush administration, the most significant federal grants have been for homeland security. The problem with grants is that they are not dependable. Grants typically are approved for only one year and may or may not continue into the future. Capital Budgets All of the preceding discussion has been about annual operating budgets for local governments. Local governments have responsibility for extensive capital investments: Maintenance of these facilities should be part of the operating budget; however, new facilities, replacement, or major rehabilitation of facilities are typically beyond the capacity of an annual operating budget. More expensive infrastructure investment requires financing over multiple years. Financing the cost of expensive infrastructure that will last over many years will also share the cost across the different generations that will benefit from the investment. This is called inter-generational equity. The development of a separate capital budget is used to decide what infrastructure investments need to be made, in what years, and in what amounts. Capital budgets cover five or six years and may be updated on an annual basis. The challenge is balancing which investments need to be made with how much debt a local government can afford to pay. A local government that acquires more debt will have less revenue to pay for services. Local governments borrow money for infrastructure through the bond market. A local government will first determine how much debt it can support. There may be limits imposed by the state; regardless, a local government will set its own affordability limits. These limits typically include the following: Explicit limits enable the local government to set targets for its investment program. For large governments, this will require sophisticated, multi-year analysis that includes the annual reduction of existing debt from repayment, the annual increase in revenues available, and annual increase in operating costs. A local government may use one or all three agencies to rate its bonds, a service for which the local government will pay a fee to the rating agency. The local government then releases its bonds for competitive bids on the interest rate it will pay. Private investment institutions that buy the bonds use the independent bond ratings to determine the interest rate they will bid based on market conditions on the day of the bond sale. They involve every manager in the local government and solicit extensive input from the public. The following outlines the major steps. The process begins with a set of guidelines that identify budget objectives and establish how much money a program may request. Budget requests are developed by the managers for each of the programs within the local government. These requests are then compiled by each department director. The budget office reviews the budget requests and submits recommendations to the chief executive. Chief executives hold meetings with the department directors and the budget staff in order to understand fully the implications of the requests. Ultimately, the chief executive compiles all the requests into a recommended executive budget that is submitted to the legislative body. The budget development process can take up to six months. Approving the budget is one of the most important responsibilities of local legislative bodies. In large local governments, especially those with large legislative bodies, the legislative body may be organized into committees, each with oversight for different parts of the government such as public safety, public works, or education. The budget hearing provides an opportunity for anyone to address the legislative body on budget concerns. Budget hearings will draw a wide range of interests. People who want more government support for programs may ask for more money. People who believe in a minimal role of government will testify that taxes should be reduced. In a politically calm, stable community, the budget hearing may last only be a few hours or less. When there are complex budget issues and competition for resources, the budget hearing could last many hours, span several days, and involve dozens of speakers. After work sessions and the public hearing, the local legislative body will adopt a budget, usually 30 to 60 days before the beginning of the new fiscal year. The legislative body will spend days in its review process. Once a budget has been adopted, the chief executive implements the budget. How much discretion a chief executive will have in shifting funds will vary based on both local and state laws. Discretion within appropriations at the departmental level is common. If a chief executive wants to reallocate funds across departments, approval of a budget amendment approved by the legislative body may be required. Over the course of the fiscal year, the budget office will monitor expenditures and ensure that funds are spent as intended and within the authorized amounts. Elaborate systems exist for review, approval, and auditing of personnel levels and for all purchases. It is expected that all funds spent by a local government can be tracked to a specific transaction and documentation on the person who approved each transaction. They will also approve the continuation of purchases and incomplete activities that span fiscal years. These actions modify the budget for the current fiscal year. A private sector, competitively procured, independent auditor will then review a sample of the transactions of the closed fiscal year and determine whether or not the local government is in compliances with expected standards. For local governments in the U. Conclusion We conclude where we started: Budgets are built from the ground up. Hundreds if not thousands of decisions are made along the way, with fewer decision points at each subsequent step.