

A Guide to

# LOCAL GOVERNMENT AND FINANCE



# Introduction

Local governments in the United States spend over 1.6 trillion taxpayer dollars per year, or more than ten percent of national GDP. This guide serves as a starting point for those who want to learn more about how local governments operate, manage, and communicate their finances.

The guide begins with an overview of the different types of governments in the United States. It explores the role local governments play, their areas of responsibility, and their internal organization.

The guide then moves to municipal finance, starting with an introduction to the Fund Accounting model that cities and other governments use to track their revenues and expenses. It explores the common types of revenues and expenses at the city level, and discusses how government accounting works in practice.

The guide concludes with a section on budgeting, the decision-making process that guides local government activities. It explains the common approaches to budgeting and walks through how budgeting works in practice.

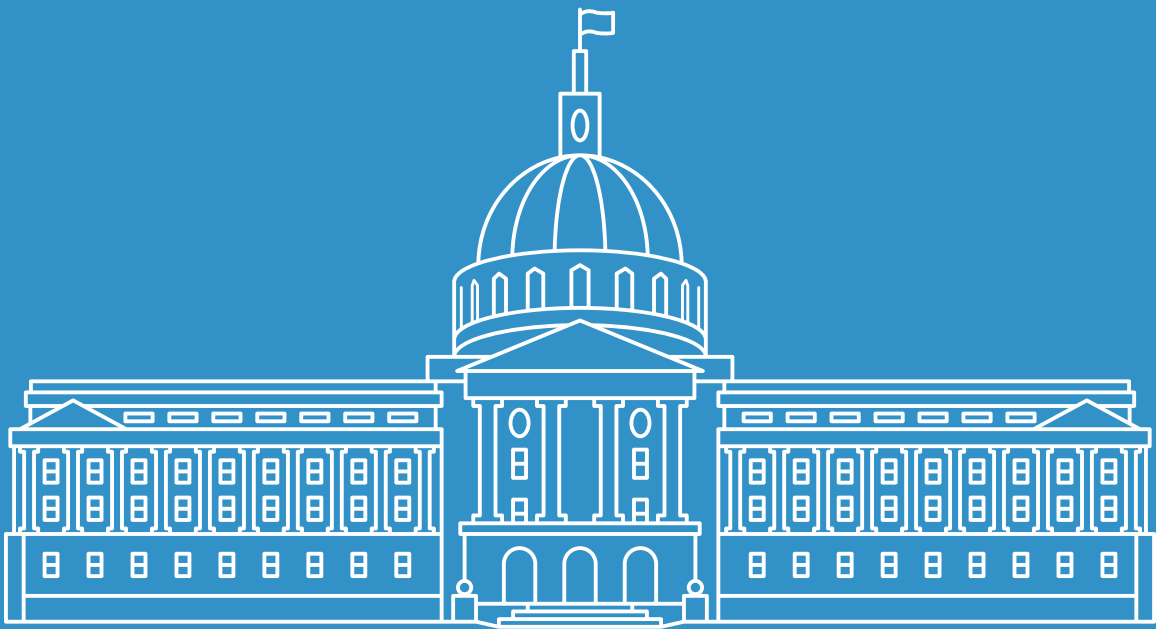
An appendix contains further suggested reading on the topics covered in this guide.

# Table of Contents

<b>Section 1: Governments in the U.S.</b>	<b>4</b>
1.1 The Government Hierarchy	5
1.2 City Organization	7
1.3 Typical City Departments and Services	8
<b>Section 2: Municipal Finance</b>	<b>9</b>
2.1 Fund Accounting	10
2.2 Funds Types	10
Governmental Funds	11
Proprietary Funds	11
Fiduciary Funds	12
2.3 Revenues	12
2.4 Expenses	13
2.5 Purchasing	13
2.6 Accounting	15
<b>Section 3: Budgeting</b>	<b>16</b>
3.1 The City Budget Process	17
3.2 Common Approaches to Budgeting	18
Line-item Budgets	18
Program Budgets	18
3.3 Other Approaches To Budgeting	18
Performance Budgeting	18
Participatory Budgeting	19
3.4 The Capital Budget	19
3.5 The Budget Document	19
<b>Conclusion</b>	<b>21</b>
<b>Appendix: Further Suggested Reading</b>	<b>23</b>

## Section 1

# Government in the U.S.



## 1.1 The Government Hierarchy

The United States has a federal system of government in which fifty independent states share their sovereignty with a central government. The United States Constitution allocates some powers specifically to the Federal government, and reserves the rest for the states. States are subdivided into administrative regions called counties. Within and around counties are various types of municipal governments, including cities.

The municipal and county level is often referred to as local government. A resident of the United States is governed by laws from at least three different levels of government.

### The government hierarchy:

#### Federal

The Federal government has a budget of nearly \$4 trillion. For comparison, California, the largest state, has a \$100 billion budget. The Federal government is primarily responsible for national defense, printing and regulating currency, entering into treaties with foreign governments, regulating commerce between states, and managing programs like Medicare and Social Security.

#### State

Each of the fifty states constitutes its own political entity with an executive branch, court system, legislative branch, and constitution. The arrangement is similar to that of the Federal government, with an elected chief executive (the governor), a series of lower courts that feed into appellate courts, and an elected legislature that is bicameral (in every state except Nebraska).

Governors control militias, collectively called the National Guard, which are independent from the

federal military. The states' responsibilities overlap with those of the federal government, but they center on providing for public health and welfare, establishing local governments, transportation, infrastructure, and setting laws to govern everything outside the scope of the federal government.

#### Local

*Local government* refers to the county, municipal, and special district governments that exist within states. Local governments provide most domestic services in the United States, and the majority of citizen-to-government interactions occur at the local level. There are different types of local government:

- **Counties**

Every state contains counties, though in Louisiana they are called parishes and in Alaska they are called boroughs. Counties are responsible for their geographical region (ranging from 12 square miles in Kalawo County, Hawaii to 20,057 square miles in San Bernardino County, California), and they are directly responsible for governing any territory that has not been incorporated into a city.

Depending on the state, counties may have limited scope and provide only courts and a sheriff's office, or they may have broad scope and take care of everything from roads and libraries to public health and education.

Depending on the state structure, cities may fall within counties or exist separately. Forty major cities in the US, such as Philadelphia, Denver, and San Francisco, have consolidated governments that are both cities and counties and carry the full powers of each.

- **Municipalities** Municipal governments in the U.S. can have a number of names, including city, borough, district, township, or village. When it comes to organization and finance, they are roughly equivalent, and the rest of this guide uses the word city to refer to all municipal entities.

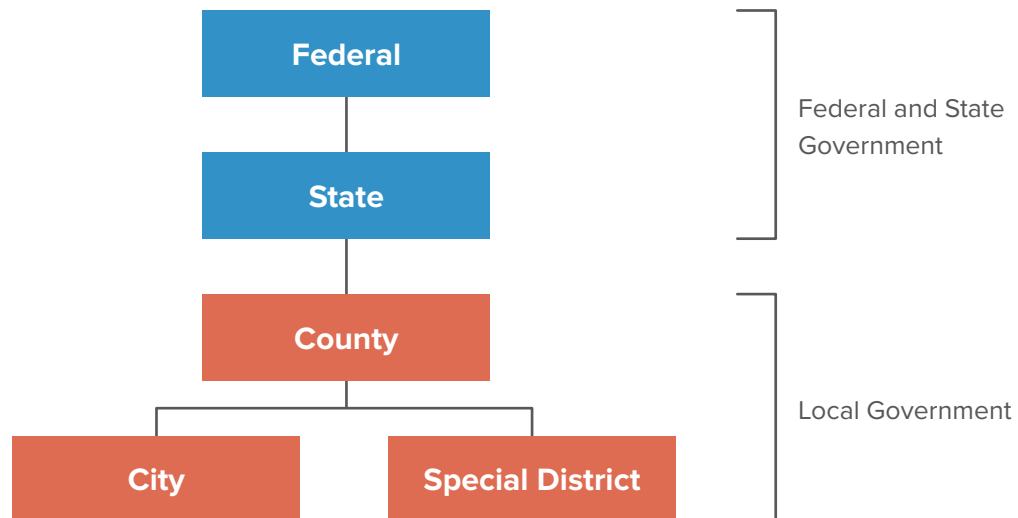
Cities are incorporated by state governments, and are often subdivisions of counties. Cities are responsible for meeting the needs of their communities and provide a range of services, from public safety and utilities to recreation and public works. In these areas, they are the primary service providers to citizens in the United States.

While cities in the U.S. range in population from 1 person (Monowi, Nebraska) to nearly 9 million (New York City), the average city has about 10,000 people and a budget of a few million dollars. Cities can pass their own laws and regulations, provided they do not contravene state and federal legislation.

- **Special Purpose Governments** Special purpose governments are organizational entities created by states or municipalities to provide one service to a specific geographical region. They are usually financially and administratively independent from other local governments, with their own leadership and revenue sources.

Special purpose governments are often called districts, boards, commissions, or authorities, and the number of special purpose governments in the U.S. has tripled in the last fifty years to over 52,000. Examples of special purpose governments include:

- School Districts
- Waste Districts
- Housing Authorities
- Utility Districts
- Port and Transit Authorities
- Air Quality Commissions
- There are even special districts responsible for mosquito control and flood prevention



**The government hierarchy**

## 1.2 City Organization

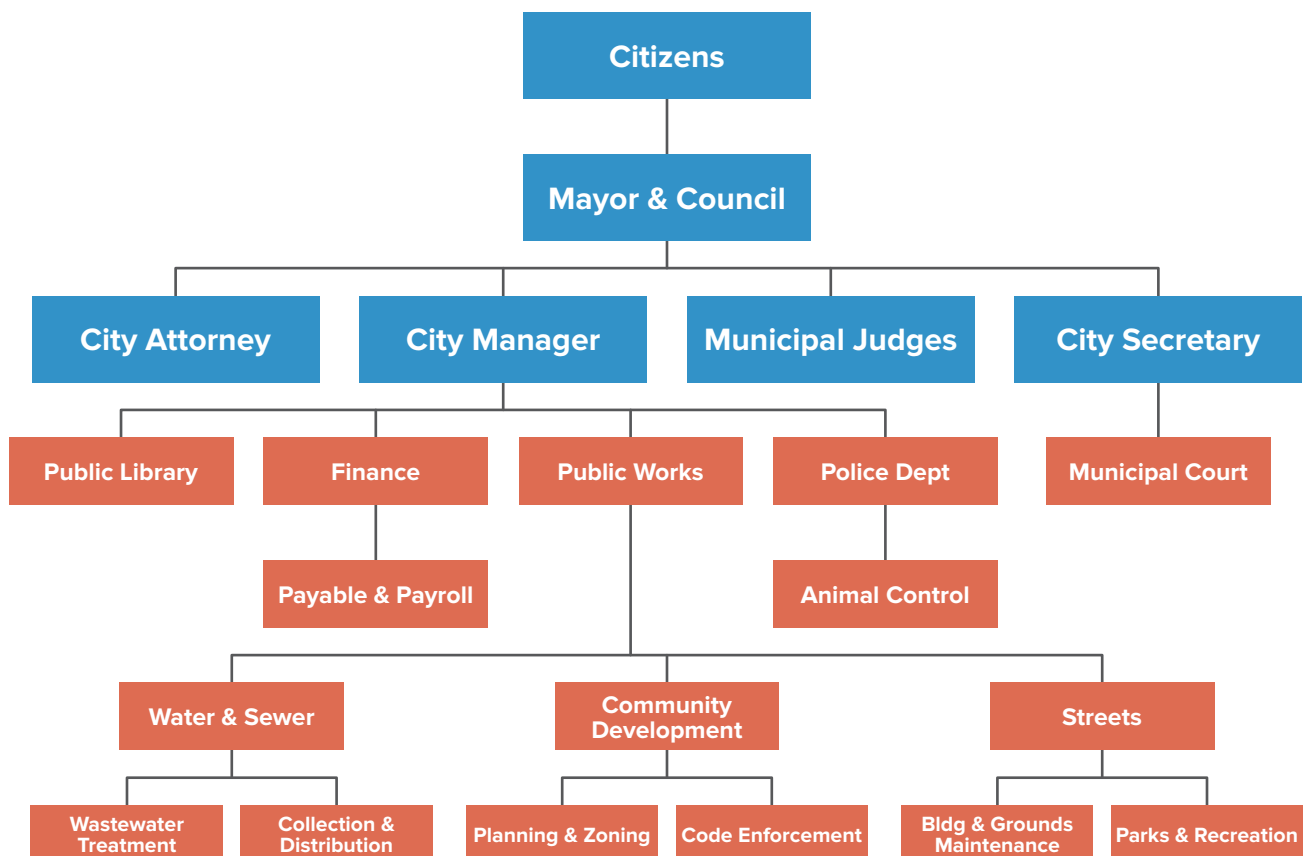
Most cities in the United States share a common structure: an elected city council, an elected or appointed chief executive, and a series of administrative departments. City councils act as the legislative branch; they are responsible for approving the city budget, setting policy priorities, establishing taxes, borrowing money, and passing or changing city laws.

In many cities, the mayor is a member of the city council. This arrangement is called a “weak” mayor system, because the mayor is not the chief executive and usually does not have veto power over the council. In a weak mayor system, the council appoints a city manager as the chief executive

officer. The concept of a city manager first emerged in Stanton, Virginia in 1908 as a Progressive Era reform to limit the control political parties exerted on cities.

Most large cities today retain “strong” mayor systems, where the mayor is elected by the people and acts as the chief executive. Whether a strong mayor or city manager runs the city, this executive oversees a series of departments, each responsible for a specific area of government service.

Department heads report directly to the mayor or city manager, and departments are often separated into divisions with even narrower responsibilities. Each city has a unique department and division structure tailored to meet its needs and constraints.



An example organizational chart for a small or medium-sized city

## 1.3 Typical City Departments and Services

Typical cities display the following organization<sup>1</sup>:

### Police and Fire

In most cities, the largest expenses stem from the provision of police and fire services, often including emergency medical response. These expenses often account for over half, and sometimes two-thirds, of a city's expenses.

### Community Development (Planning and Building)

Community Development (Planning and Building). All cities prepare and update development plans as well as review development proposals for consistency with applicable laws and standards. The city checks plans for compliance with applicable building codes and inspects new construction projects in the field.

### Parks and Recreation

Most cities maintain local parks and offer recreation programs such as youth and adult sports, exercise, and social programs like health enhancement, daycare, and senior services. The number and type of programs offered varies significantly from city to city.

### Public Works and Municipal Utilities

Generally, public works and utility services encompass street and sidewalk maintenance, storm water drainage facilities, sewage collection and treatment, water supply and distribution, garbage collection and recycling programs, and tree maintenance.

### General Government

The followings divisions manage different segments of the business of cities and administer its policies:

- *City Council* and its appointed *Commissions* and committees
- *City Manager*, *City Attorney*, and *City Clerk*, as well as their related staffs

- *Human Resources* or *Personnel Department* that recruits employees and ensures applicable labor laws are met
- *Finance Department* that collects revenues, assists in preparation of the city budget, and manages the city's finances
- *Information Technology* department that oversees computer systems, networks, phone systems, and the city website

In many cities, some or all of these services are provided by outside contractors or another level of government. Small cities and rural areas, for example, may rely on the county sheriff for policing, and on a state agency for fire prevention. Special purpose governments often handle utilities such as water and electricity. A small number of cities operate services such as airports or marinas.

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<sup>1</sup> Adapted from the Guide to Local Government Finance in California (GLGFC), Chapter 2



Section 2

# Municipal Finance



## 2.1 Fund Accounting

In corporate or personal finance, the goal is to maximize revenue streams while minimizing the use of resources. In municipal finance, the converse is true: cities strive to maximize services to the citizenry while minimizing their collections of revenue. Municipal revenues come from dozens of sources and go to hundreds of programs. Governments rely on city accountants and accounting systems to track these flows.

In contrast to corporate accounting, municipal accountants use fund accounting. Fund accounting is designed to maximize accountability rather than profitability. Funds are essentially pots of money, similar to bank accounts, each with a designated purpose. Some funds are general-purpose funds that can be spent for any purpose; other funds are restricted. For example, a city may set up a fund to receive money from the federal Department of Homeland Security to combat terrorism. Once money is placed into this fund, it cannot be used for another purpose, even if it is sitting unused while another city fund has a deficit. This system can confuse citizens who see their city slashing programs while leaving other funds untapped.

In some circumstances, a city may transfer revenue from one fund to another. An inter-fund transfer does not leave the city coffers and has no net effect on the city's financial position.

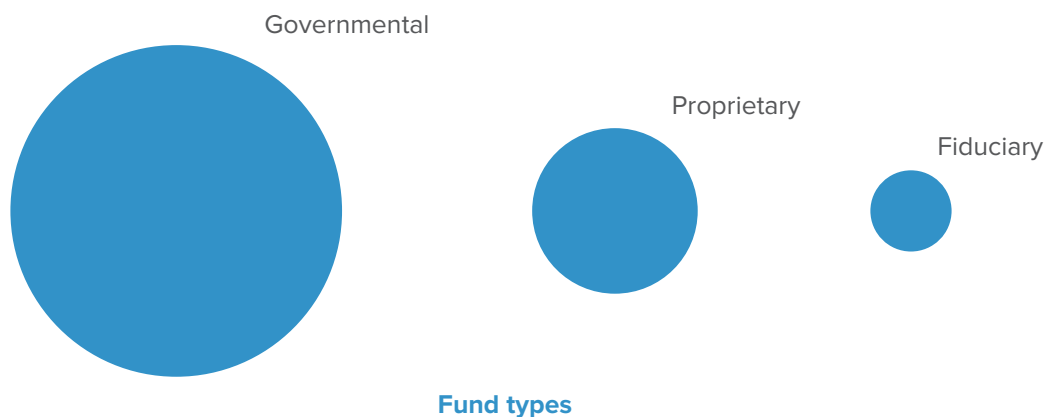
## 2.2 Fund Types<sup>2</sup>

Generally Accepted Accounting Principles (GAAP), the prevailing national standard for presenting and reporting financial information, sets forth three main fund categories: Governmental, Proprietary, and Fiduciary.

Proprietary funds stem from municipal operations that run similar to businesses in the private sector in that they provide services to some users and recover the costs through fees or charges for those services. Fiduciary funds account for money held for another party, and which cannot be used for the government's general operations. Employee pensions are held in fiduciary funds, for example. Governmental funds account for all other city operations and activities.

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<sup>2</sup> Sections adapted from GLGFC, Chapter 3



## Governmental Funds

- **General Fund** The general fund is typically a city's largest fund. Most revenues assigned to the general fund are considered to be "general purpose" in nature; that is, they have "no strings attached".

In cities, police and fire services usually account for the largest general fund expenditures. The general fund is also the source of money for long-range planning, street maintenance, parks and recreation, and libraries. Revenues to the general fund come primarily from taxes, but also from fees, fines and forfeitures, leases, investments, and grants from other governmental agencies.

- **Special Revenue Funds** These funds account for proceeds from revenue sources that are restricted *externally* by state or federal law. Gas tax funds, for example, account for monies provided to cities and counties by the state and which are limited to transportation-related purposes. Likewise, community development block grants (CDBG) from the federal government can be used only for housing and other specifically defined purposes. Special revenue funds also account for the use of income from benefit assessments such as downtown business improvement districts or lighting and landscape maintenance districts.
- **Capital Project Funds** These funds account for money used in the construction or acquisition of major facilities or equipment, apart from those financed through Proprietary or Fiduciary funds. Sources include the proceeds from debt financing, development impact fees, or transfers from the general fund.
- **Debt Service Funds** These funds account for the accumulation of resources needed to pay off long-term debt obligations with interest (apart from debt service obligations included specifically in the Proprietary or Fiduciary funds). They are typically established to account for dedicated revenues from general obligation bond financing.

**Permanent Funds** These funds account for resources where only the investment earnings on an endowment are available to provide services, such as a perpetual care cemetery. The principal may not be reduced to pay for services. These funds are not common in local governments.

## Proprietary Funds

There are two types of Proprietary Funds: Enterprise and Internal Service funds.

- **Enterprise Funds** Enterprise funds track finances for municipal services where fees or charges to the users of those services pay wholly or in part for such services.

Enterprise funds can be thought of like businesses. Unlike most private businesses, however, the funded entity frequently has a local monopoly over the service (consider water, sewer, and garbage collection). Also, rates charged to customers are set by the elected officials through a political process, not solely by the open market. In addition, municipal enterprises do not seek a profit; they seek to recover the reasonable cost of providing the public service.

In many communities, services such as water supply or garbage collection are in fact contracted to private entities, and fees for those services are paid to the private service provider. The public entity overseeing the contract can then review and alter the contracts under different circumstances so that it retains overall control over the level of service and costs.

- **Internal Service Funds** These funds may be used in accounting for services provided internally to the government, such as printing, fleet maintenance, or computer services. Each department is charged for the specific services as if they were external customers.

## Fiduciary Funds

In these funds, an agency holds money in a trustee or third-party agent capacity. As such, the resources cannot be used to support the local government's operations. Fiduciary funds include pension and other employee benefit trust funds, or situations where the local government is holding money on behalf of another agency or organization.

## 2.3 Revenues

Most cities take in the majority of their funding from taxes. Although some revenue sources flow into multiple funds, many tie to one fund. The most common revenue sources include:

### Taxes

Most cities take in the majority of their funding from taxes. Cities may impose any taxes that are not preempted or prohibited by state or federal law. While some taxes accrue to different funds, the majority of municipal tax revenues go to the General Fund.

Some common municipal tax types include:

- **Property Tax** Every year property owners pay a tax rate proportional to the assessed value of their property.
- **Sales and Use Tax** Cities, counties, and the state might impose a sales tax on every transaction that occurs within their borders. States typically set limits on the rates that can be set by local authorities. In California, for example, cities may add up to 1% on top of the state sales tax rate of 6.25%.
- **Utility Tax** Imposed on citizens or businesses that use city utilities.
- **Business License Tax** Imposed on businesses that operate within the city.
- **Transient Occupancy Tax** Imposed on individuals who stay in a hotel within the city for less than 30 days.

### Regulatory and User Fees

Cities provide services that some businesses may need to operate, and the cities charge fees for

those services. For example, cities may inspect businesses for code compliance, and can charge a fee to cover its expenses. User fees are imposed on individuals who use city services such as recreational facilities or classes, and often fund those services directly.

### Utility Rates

Citizens and businesses that use city utilities (such as water, electricity, or trash pickup) pay the city for the resources they use. Not every city provides utilities, so this revenue source is not always present.

### Assessments

Assessments are charges imposed on property owners and are used to pay for facilities or services that would directly benefit the property owners in a given area. Assessments are a common means of financing infrastructure projects but require majority consent from the property owners being assessed.

### Rent and Franchise Fees

Cities often rent property such as buildings or advertisement space to citizens, businesses, or other governments. Business that use wide-scale government infrastructure, such as phone companies or pipeline operators, can pay the city a franchise fee in lieu of rent.

### Fines and Penalties

Civil or criminal penalties are imposed on people or businesses that violate city codes. Cities can also collect penalties on violations of state laws, as long as the state allows it.

### Intergovernmental Grants

State or federal governments can give money to municipal governments to fund specific programs or initiatives. For example, the federal government often gives grants to support crime-reduction or low-cost housing development.

## 2.4 Expenses

In general, most city expenses will fall into one of these categories:

### Personnel

Cities, like other governments, spend the majority of their funds on staff expenses. Personnel expenses include not only base salaries, but such components as overtime, health benefits, uniform allowances, vacation pay, and transportation costs.

### Contracts

Cities rely on outside contractors for both internal and external services. A city might contract out legal services to a law firm or might pay consultants to maintain the city's IT infrastructure. Some cities also contract out entire areas of responsibility, such as public safety, to another government.

### Materials and Supplies

Standard business expenses – from office supplies to electricity – need to be accounted for as expenses in the budget.

### Other

Cities usually have other expenses that do not fit neatly into one of the above categories. Some examples include insurance payments and debt servicing (where the city pays back borrowed money).

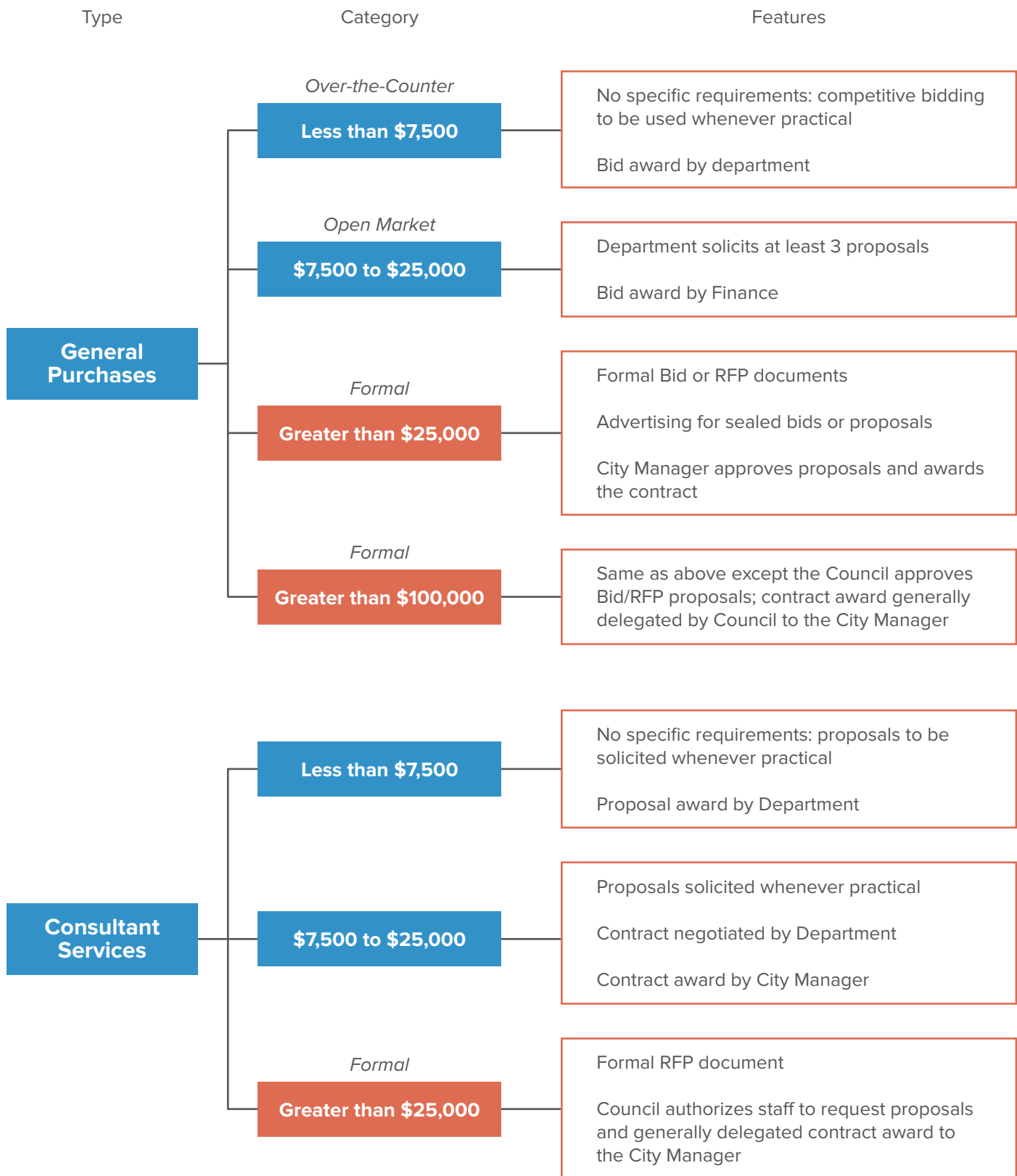
## 2.5 Purchasing

After employee expenses, cities spend most of their remaining funds on payments to vendors for goods and services. Because vendor selection and purchasing have a risk of legal or ethical hazards, cities have developed process-intensive purchasing systems that emphasize fair and balanced

decision-making. The purchase is limited to the parameters of the budget document, which answers the questions of “what” and “how much” to purchase. If a department is allocated \$4,500 for office supplies, the department is required to spend that amount and no more. Department heads will usually have some discretionary funding to spend as needed.

The purchasing process differs depending on the size of the purchase. Each city has dollar-amount limits that determine whether a competitive bidding process is required. If a purchase falls below this limit, the department can select a vendor and make a request to purchase the goods without much “red tape.” The standard system that most cities follow requires a department to submit a purchase order, which is then approved and executed by a central purchasing authority. Governments have begun issuing credit cards for use on small purchases, a system that reduces process and overhead.

If a purchase falls into the competitive bidding range, the city issues a Request for Bids or Request for Proposal (RFP). The city places the RFP in a forum and asks vendors to submit proposals and price estimates. The city will then evaluate the proposals, or bids, and selects the vendor that offers the best value for the lowest price. For very large RFPs, the city council may be required to approve the selection through a vote. In cases where only one vendor can provide a particular service, cities may issue a “sole source” contract without the need for an RFP.



**A sample purchasing guideline**

## 2.6 Accounting

Municipal accountants record the source and use of every dollar that passes through their city. To do this, cities use electronic systems that are either purchased externally or built in-house. A modern accounting system is a database that stores revenue and expense data and an interface that facilitates storing and retrieving the data.

Municipal accounting systems store two important files, the Chart of Accounts and the General Ledger. The Chart of Accounts outlines how the city is organized. It usually contains three hierarchies, one describing the city's fund structure, one describing the organizational structure, and another describing the expense and revenue structure.

The Chart of Accounts acts as a map. Associated with each entity in the Chart of Accounts is a unique number, or "account string," that the accounting system uses to identify it. For example, the "Police Department" might be associated with the number 500. This means that any item starting

with a 5 is a unit or division of that department. Similarly, "Patrol Division" might be assigned the number 520. The "K9 Unit" might have the number 523. These account strings are important to accountants because the title "K9 Unit" alone does not reveal any information about how that unit fits into the city hierarchy. The number 523, however, indicates the department, division, and program name.

Accounting systems store every line of expense and revenue data in a general ledger (GL). While GLs can vary in complexity, it can be thought of as a spreadsheet with three columns: year, account string, and dollar amount. The account string is a long number that maps (via the Chart of Accounts) to a specific combination of expense type, fund, and organization. In the case of revenue, the account string will usually indicate only the revenue type and the fund. Thus, each line in the GL indicates one complete half of a "flow," from revenue type to fund, or from fund to organization to expense type. Combining the Chart of Accounts with the General Ledger gives a comprehensive picture of a city's financial history.

### FUND NAMES

#### GOVERNMENTAL FUNDS

##### General Fund (100)

100

General Fund

##### Special Revenue Funds (201 - 299)

201

Road and Bridge

202

Federal Community Development Block Grants

203 - 210

Other Federal Programs

211

Library

212

Municipal State Aid Streets Maintenance

213

Public Housing

224 - 229

Other

##### Debt Service Funds (301 - 399)

301 - 350

General Debt Service

351 - 375

Debt Service for Special Issues

376 - 399

Tax Increment Debt Service

**An excerpt from a city's chart of accounts**

Section 3

# Budgeting





### 3.1 The City Budget Process

Budgeting for one's household might reflect flexible thinking: "I earned \$50,000 this year and \$25,000 needs to go to the mortgage and car payments, so I'll spend the rest on food, gas, and vacations, and save whatever is left." In contrast, city governments decide in advance how nearly every dollar will be spent. This approach to budgeting helps guarantee that cities provide constant and stable service.

When complete, the city budget acts as a guideline for how the city will use its resources for the next year (or in some cities, the next two years). Because of the importance of the budget document, cities go through a long and intensive budget creation period that takes much of the calendar year to complete. Many cities mark the beginning of their fiscal years in June or July, so budgets are usually finalized in May or June and then take effect on the first of the following month. About two months later, usually around September, the city begins crafting next year's budget.

A final budget is an intricate balance of policy goals and practical requirements. The city council, as the ultimate decision-making authority in the city, approves the budget. However, the budget creation process is a collaborative exercise that involves city employees at every level and in every department.

A typical budgeting cycle might go through the following phases:

#### Financial forecasting

This is the first stage in the budget creation process. Analysts in the city finance or budget department review historical revenue trends and collect data on the current economic state of the

city. This data could include projected business revenue, the number of expected home purchases, or other major revenue-generating events. Budget analysts then plug this data into models that attempt to predict how much revenue the city will receive during the coming year. The city uses these projections to set its overall budget limit.

#### Budget guidelines

The city executive develops guidelines that set the high-level and long-term goals for the budget. The guidelines also contain specific instructions that may ask departments to cut or add specific programs.

#### Department budgets

Each department drafts its own budget. Operating within the guidelines, a department director works with internal analysts to craft a budget that gives the department adequate resources to meet its goals for the year. Department directors rarely start from scratch and instead try to work off the previous year's budget, making changes as necessary to meet new demands or constraints.

#### Central budget

The city executive collects each department's budget, reviews them to ensure they follow the guidelines, and makes changes as necessary. Department heads may appeal if parts of their requested budget are denied. Once the departments finalize their budgets, the city executive compiles them into a Proposed Budget.

Budget review, amendment, and adoption  
Once the Proposed Budget is complete, the finance staff presents it to the city council and the public. The city council usually holds at least one public hearing where citizens can voice concerns about the budget, and the council will review and suggest modifications as well. The Proposed

budget may go through multiple rounds of amendments before the council approves it.

### **Budget implementation**

After the city council approves the budget, it becomes the Adopted Budget. Accountants enter the Adopted Budget into the accounting system, starting a new accounting cycle, and the spending limits laid out in the Adopted Budget instantly take effect for the following year.

## **3.2 Common Approaches to Budgeting<sup>3</sup>**

Cities approach the budgeting process in different ways. Though budgeting practices have evolved over time and continue to change, most cities currently use either Line-item budgets or Program budgets.

### **Line-Item Budgets**

Line-item budgets focus on costs, showing in detail what goods or services will be purchased, such as office supplies, asphalt, chemicals, phones, gas, electricity, and contract services. Implemented initially as a response to early 20th-Century government corruption, line-item budgets ensure financial control. They appropriate specific amounts of money for specific types of expenditures.

They also help monitor and hold down costs by allowing easy comparisons with prior years. About 60 percent of all local governments prepare their budget using a line-item system. They reflect the prevailing traditional, incremental approach to funding government programs, and are familiar and comfortable to many local elected officials.

### **Program Budgets**

Program budgets shift the focus to service delivery by answering two key questions: What is the city trying to accomplish? And, how much will it cost to do so?

This approach organizes budgets by similar functions and related programs, which may often cross departmental lines. It offers narrative (rather than line item detail) on program purpose (mission), goals, activities in delivering program services, and objectives for improving service delivery and program cost.

With a program budget, the focus shifts from why a specific line item changed to why the cost of delivering programs changed. Compared with line-item budgets, program budgets better direct the budget discussions between elected officials and the community on how the city wants to achieve its goals, focusing attention on the “what and why” of the organization, rather than just “how much.”

## **3.3 Other Approaches to Budgeting**

### **Performance budgeting**

The line-item and program-based budgeting processes create documents that specify exactly where and how a city should spend its money. But how do city officials know whether they constructed a good budget? What if a different allocation of spending could have achieved better results? To better address these questions, the concept of performance budgeting has emerged.

The budgeting systems described above tie each dollar in the budget to a specific expense, while a performance budget attempts to tie each dollar to a specific outcome. Some examples of outcomes could be repairing potholes, reviewing permits, or protecting buildings from vandalism. These desired outcomes should be aligned with the overall goals that the city council and the city manager have set

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<sup>3</sup> Section adapted from GLGFC

for the year. A well-constructed performance budget indicates how dollars spent lead to these results, outlining the chain of cause and effect. But since performance budgets do not specify how funds should be spent, department and division managers need greater freedom and discretion when it comes to allocating spending.

When moving to performance budgeting, cities face the challenge of establishing quantitative performance indicators. The city must create the processes and infrastructure needed to track performance, and then decide how to incorporate outcomes as feedback for the next year's budget. It is a difficult and data-intensive process to quantify inherently qualitative goals: how do you measure the quality of a child's education? Modern advances in information technology may pave the way for widespread adoption of performance budgeting as it becomes easier to track, organize, and analyze the data required to assess performance.

### **Participatory budgeting**

Participatory budgeting is driven by the notion that citizens should have direct say in how the city spends money. A participatory budgeting process encourages citizens to propose, debate, and vote on high-level priorities for the city. Citizens might vote to make crime prevention a higher priority, for example, or might choose to spend surplus funds on a new library. Like performance budgeting, participatory budgeting is growing in popularity and is enabled by affordable and accessible web technologies.

Participatory budgeting first emerged in Porto Alegre, Brazil in 1989. Though only a handful of US cities use participatory budgeting, thousands do so worldwide.

## **3.4 The Capital Budget**

Sometimes cities need to undertake larger projects that span multiple budget years. These projects are generally capital-intensive and related to construction, such as the building of a new bridge or library. To plan for these projects, cities produce separate Capital Budgets or Capital Improvement Plans (CIPs) that lay out the multi-year project plan and set aside funding for the project. Capital Budgets generally draw from the city's Capital Fund alone.

## **3.5 The Budget Document**

Cities typically produce three budget documents: a proposed budget, an amended budget, and the adopted budget. The budget document is printed and distributed in a thick booklet, the bulk of which consists of a series of tables containing General Ledger data attached to their Chart of Account labels. Because each fund represents a separate accounting entity, the budget is often broken into separate sections for each fund, then each fund section is further broken down by department.

Below is an example from the General Fund section of the City of Palo Alto's budget:

FUND SUMMARY (\$000)	FY 2010 Actuals	FY 2011 Actuals	FY 2012 Adopted Budget	FY 2013 Adopted Budget	FY 2013 Change
<b>Expenses</b>					
City Attorney	2,583	2,388	2,355	2,436	80
City Auditor	958	946	1,006	965	(41)
City Clerk	1,455	1,246	1,479	1,558	79
City Council	287	183	319	465	146
City Manager	2,282	2,299	2,512	2,578	67
Administrative Services	7,783	6,267	6,514	7,156	641
Community Services	20,490	20,066	20,711	21,893	1,181
Public Safety	56,573	59,676	61,698	59,914	(1,783)
Human Resources	2,707	2,572	2,919	2,982	63
Library	6,388	6,509	6,944	6,996	52
Community Environment	9,350	9,556	10,021	11,111	1,090
Public Works	12,529	13,112	13,007	13,947	939
Non-Departmental	2,101	1,150	(2,022)	(1,108)	915
Cubberley Lease	6,644	6,780	7,061	7,133	72
<b>Total Expenses</b>	<b>\$132,219</b>	<b>\$132,700</b>	<b>\$134,523</b>	<b>\$138,026</b>	<b>\$3,503</b>
<b>Operating Transfers Out</b>	<b>4,737</b>	<b>1,142</b>	<b>860</b>	<b>1,604</b>	<b>745</b>
<b>Transfer to Infrastructure</b>	<b>9,900</b>	<b>9,857</b>	<b>10,978</b>	<b>13,178</b>	<b>2,200</b>
<b>Total Use of Funds</b>	<b>\$146,857</b>	<b>\$143,699</b>	<b>\$146,360</b>	<b>\$152,807</b>	<b>\$6,447</b>
<b>Budget Stabilization Reserve Draw</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$390</b>	<b>\$0</b>
<b>Net Surplus (Deficit)</b>	<b>\$(2,333)</b>	<b>\$1,988</b>	<b>\$144</b>	<b>\$0</b>	<b>\$(144)</b>

Note the transfers, where the city moves money into or out of the General Fund. Also note the Budget Stabilization Reserve Draw. This is a pool of reserve money that the city can dip into if it runs a deficit and wants to bring their net expenditures to zero.

# Conclusion

Municipal finance continues to evolve. New practices are emerging that have the potential to transform the way local governments operate and make decisions. One of these practices, performance management, attempts to use data and information to improve service quality while reducing the use of resources. Like performance budgeting, performance management uses pre-determined outcomes and results to measure government performance. The data then informs how the government should adjust its spending and focus in future years.

The benefits of adopting a performance management system impact all the stakeholders in a city. Department heads can use performance data to determine which areas of operation function most effectively, and they can use the same data to justify budget requests.

Performance data benefits elected officials, since it can help them decide how to allocate resources. Historical data can also help leaders predict the costs of expanding services and the impacts of spending reductions. Although citizens benefit whenever their city governments function more efficiently, they can also use performance data to gain insight into how their governments operate. The City of Baltimore, for example, set up a system to track the cost and performance of their street-sweeping programs. Evaluating historical data, the City management discovered that by changing the amount they spend on equipment versus labor, they could realize cost savings while maintaining the same productivity.

Other tools are emerging to help officials measure the financial health of their governments. One example is the Financial Trends Monitoring System (FTMS), already in use by governments across the U.S. Like other financial health indicators, FTMS establishes a series of benchmarks that are designed to give early warning of future financial problems. Some of the benchmarks are tied to the community (Are people buying homes? What's the employment rate?), some are tied to current operations (How are expenses tracking relative to revenues?), and some are tied to the government's long-term financial position (Is debt at a healthy and sustainable level?).

Recent years have been difficult for many local governments. California alone saw three bankruptcies in 2012, and across the country governments are being asked to provide more services with smaller budgets. While performance management and financial health measurement systems may not resolve policy issues, they can direct valuable government resources to where they are needed most. Historically, performance and financial measurement efforts have been hindered by slow and disconnected technology. With the advent of the Internet and the prevalence of computers in government offices, however, new doors have opened. The future of municipal finance may see government officials detecting and averting financial disasters years, or even decades, before they occur.

## Appendix: Further Suggested Reading

Multari, Coleman, Hampian, Statler. *Guide to Local Government Finance in California*, Solano Press books, 2012

Wood, Len. *Local Government Dollars and Sense*, The Training Shoppe, 1998.

Groves, Sanford and Maureen Valente. *Evaluating Financial Condition: A Handbook for Local Government*, ICMA Publications, 2003

Guathier, Stephen. *Governmental Accounting, Auditing, and Financial Reporting*, Government Finance Officers Association, 2012

Slack, Enid. *Guide to Municipal Finance*, United Nations Human Settlements Program, 2009

Fishbein, John. *Building a Better Budget Document*, Government Finance Officers Association, 2013

Walters, Jonathan. *Measuring Up: Governing's Guide to Performance Measurement for Geniuses (And Other Public Managers)*, Governing Books, 2007