

Best Practices in Local Budgeting

Professor Linda J. Bilmes

Harvard Kennedy School, Harvard
University

Agenda

1. Local public finance is complex
2. Cities just recovering from deep financial crisis
3. Cities can benefit from
 - Frequent analysis of variances
 - Activity-based budgeting
 - Balanced Scorecard or similar performance metrics

Stages of the Budget Cycle



Local Revenues

- Legally cannot go into deficit
 - so expenditures cannot exceed revenues
- Funding sources:
 - “Own-source” (complex set of taxes, fees)
 - Property tax assessments seldom coincide with market value
 - Volatile revenue stream from user fees and charges
 - Linked to national, regional economy – may be difficult to forecast
 - “Intergovernmental transfers”
 - These constitute 60-75% of revenues in some jurisdictions
 - Significant source of revenue for cities and states (e.g. Medicaid),
 - Simultaneously these are “*revenues*” to local governments and *expenditures* to higher level governments

Agenda

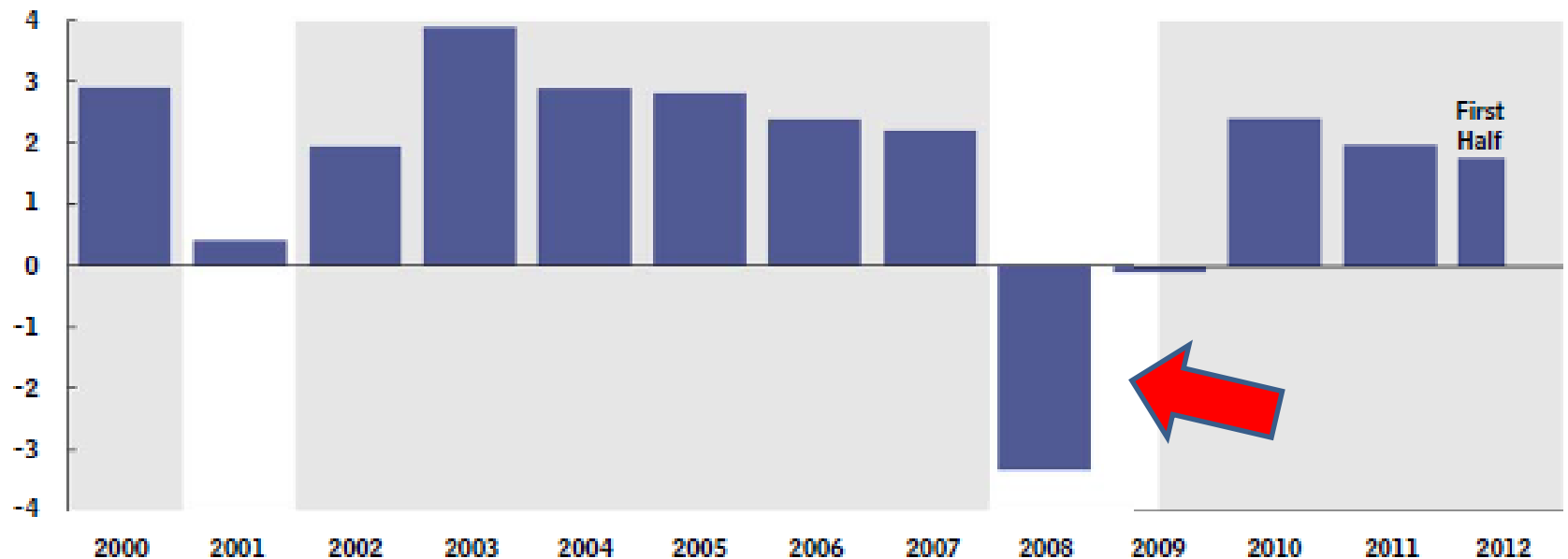
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The “Great Recession” in 2008

Figure 2-1.

Real Gross Domestic Product

(Percentage change, fourth quarter to fourth quarter)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Real gross domestic product is the output of the economy adjusted to remove the effects of inflation.

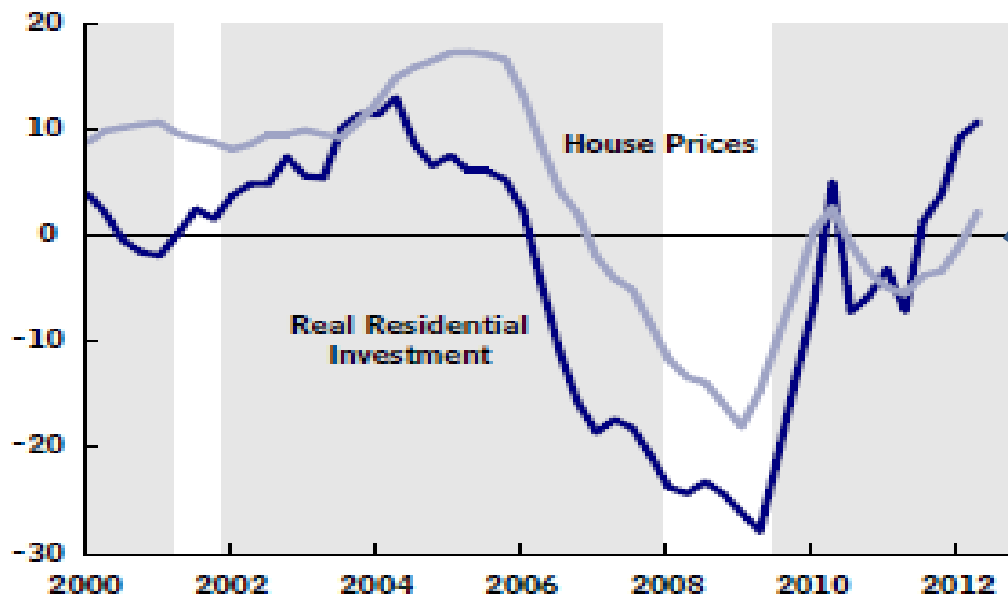
Data are annual through 2011. The value for 2012 is the annualized growth rate for the first half of the year.

Impact on Housing Lags; Impact in 2009, 2011

Figure 2-3.

Housing Market Indicators

(Percentage change from same quarter of previous year)



Sources: Congressional Budget Office; CoreLogic; Department of Commerce, Bureau of Economic Analysis.

Notes: Real residential Investment consists of spending on residential construction, improvements to existing housing, mobile homes, and real estate brokers' commissions, adjusted to remove the effects of inflation.

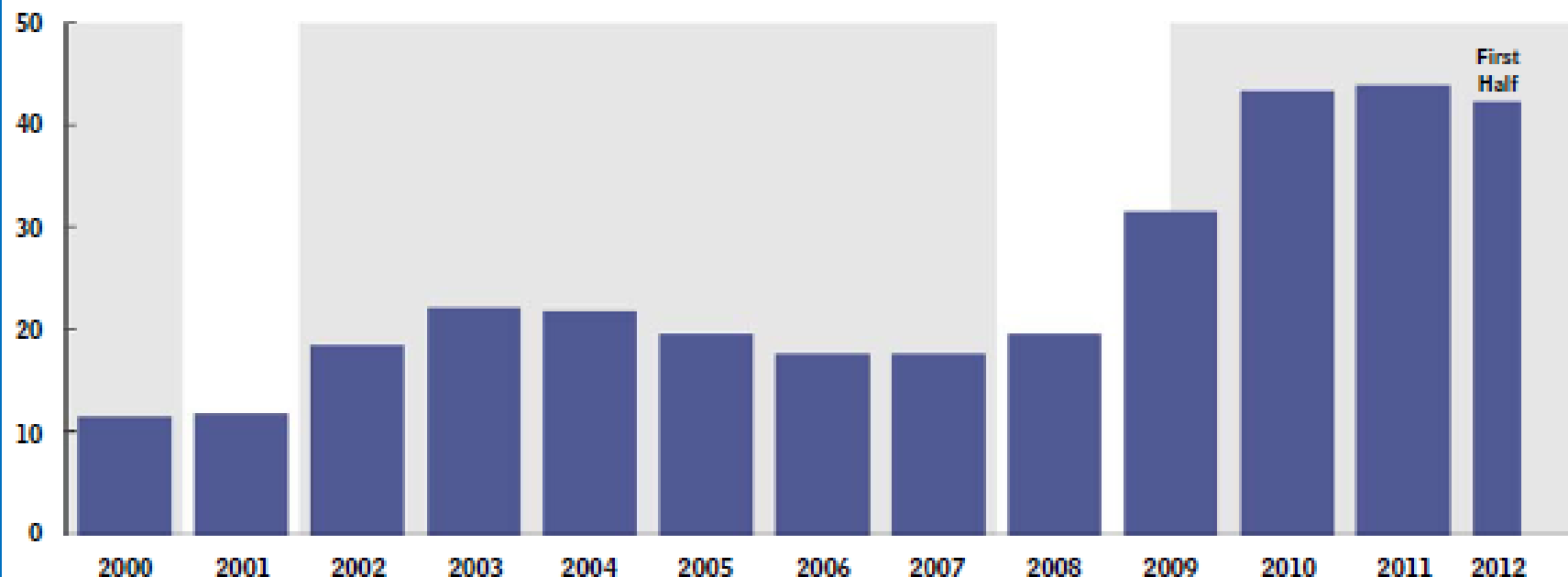
House prices are measured by the CoreLogic National House Price Index.

Data are quarterly and are plotted through the second quarter of 2012.

Figure 2-5.

Long-Term Unemployment

(Percent)

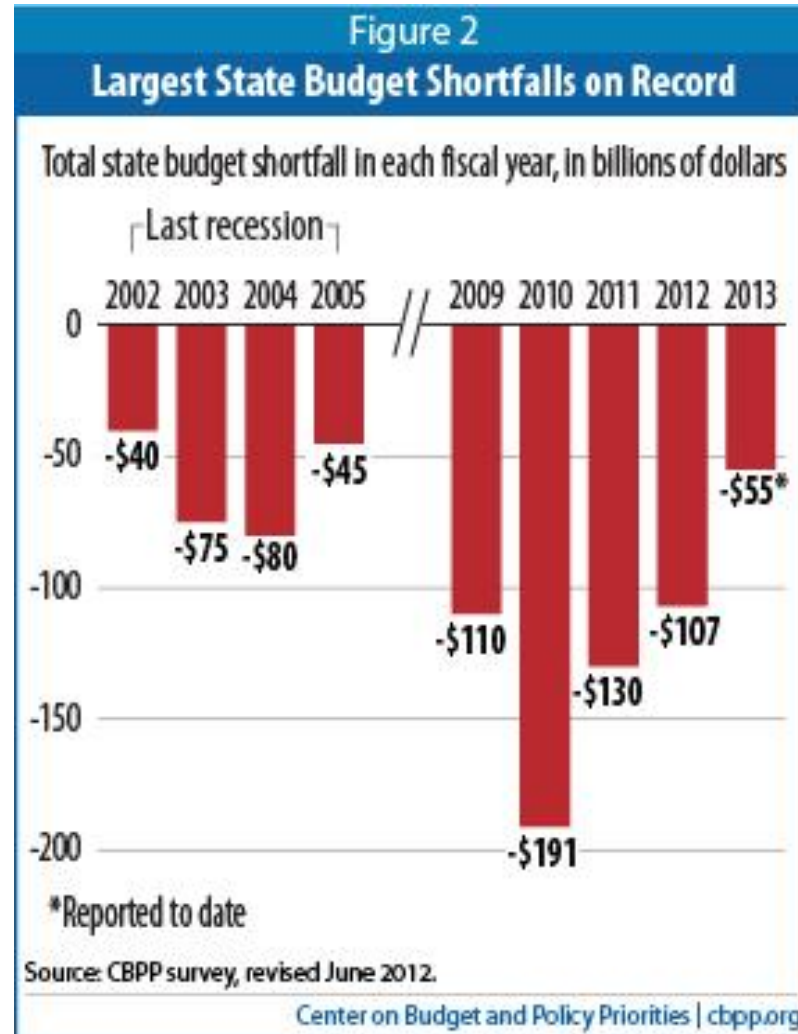


Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: Data show the percentage of unemployed U.S. workers who have been unemployed for longer than 26 consecutive weeks.

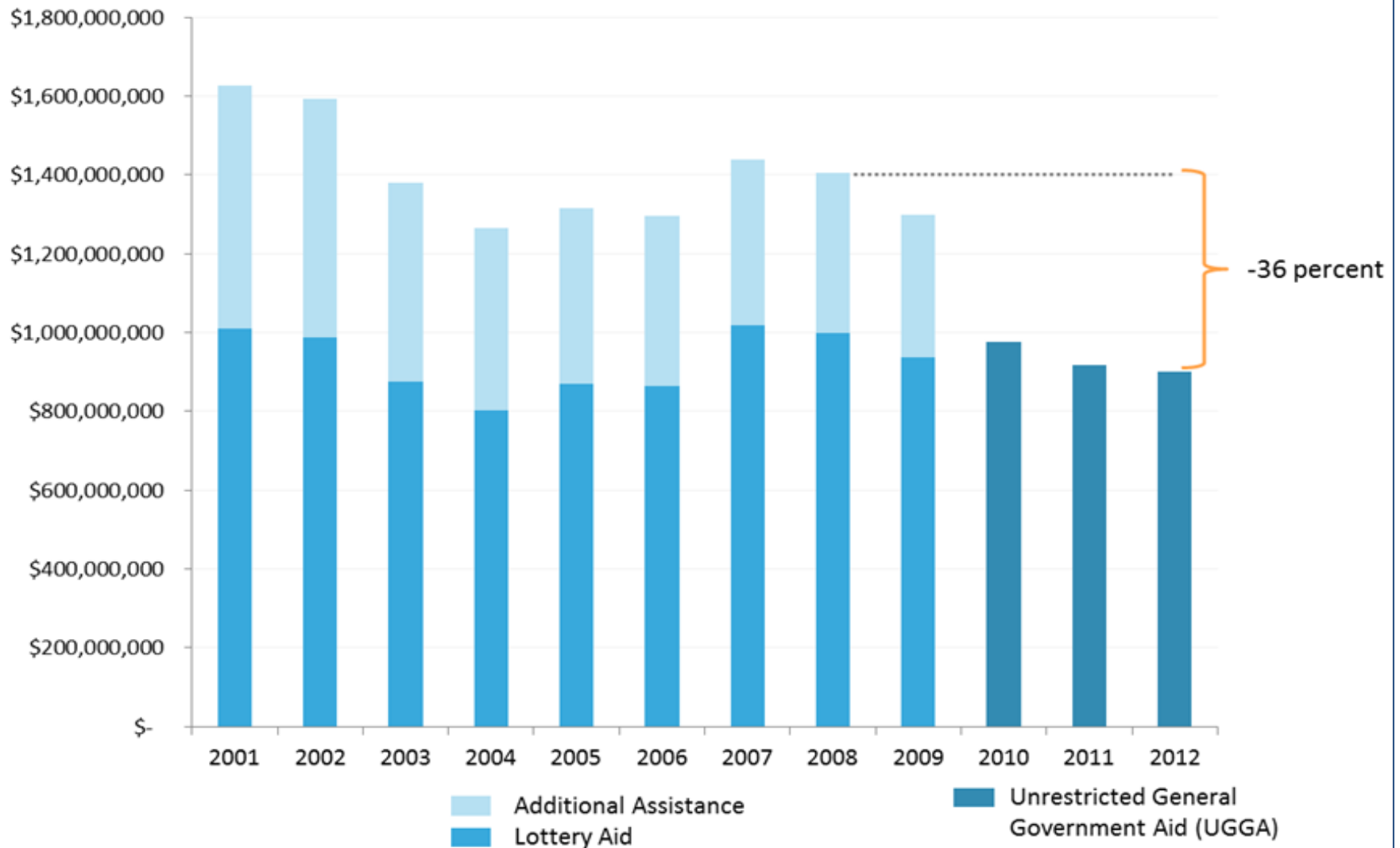
Data are annual through 2011. The value for 2012 is the average percentage for the first half of the year.

Impact of Recession on State Governments still felt now



General Local Aid is Down 36 Percent from Pre-Recession Levels

Inflation adjusted, 2012 dollars



Local aid cuts (inflation adjusted)

CITY/TOWN	FY 2008 (m)	FY 2012(m)	% cut	\$ per capita
Boston	\$ 251.8	\$160.2	36%	\$142
Somerville	\$ 32.2	\$ 21.2	34%	\$142
Newton	\$ 7.8	\$5.0	36%	\$34
Watertown	\$ 8.5	\$5.6	34%	\$86

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Variance Analysis

Key Budget Variances



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graph TD; A[Key Budget Variances] --> B[Price Variance]; A --> C[Quantity Variance]; B --> D[The difference between the actual price and the expected price]; C --> E[The difference between the actual quantity and the expected quantity];
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The diagram is a hierarchical flowchart. At the top is a white box with a black border containing the text 'Key Budget Variances' in red. Two arrows point from this box to two separate boxes below it. The left box is yellow and contains the text 'Price Variance'. The right box is orange and contains the text 'Quantity Variance'. From each of these boxes, an arrow points down to a blue box. The blue box under 'Price Variance' contains the text 'The difference between the actual price and the expected price'. The blue box under 'Quantity Variance' contains the text 'The difference between the actual quantity and the expected quantity'.

Price Variance

The difference between
the actual price and the
expected price

Quantity Variance

The difference between
the actual quantity and
the expected quantity

Most Cities use line-item budgets

- Focus on “inputs” (e.g., labor, equipment)
- Collected by administrative unit (e.g., departments, units)
- List expenditure by good or service purchased – linked to accounting

Traditional vs. ABC Budget



OLD WAY

Traditional Accounting

Salaries	\$ 371,917
Benefits	\$ 118,069
Supplies	\$ 76,745
Equipment	\$ 23,614

TOTAL \$ 590,345



NEW WAY

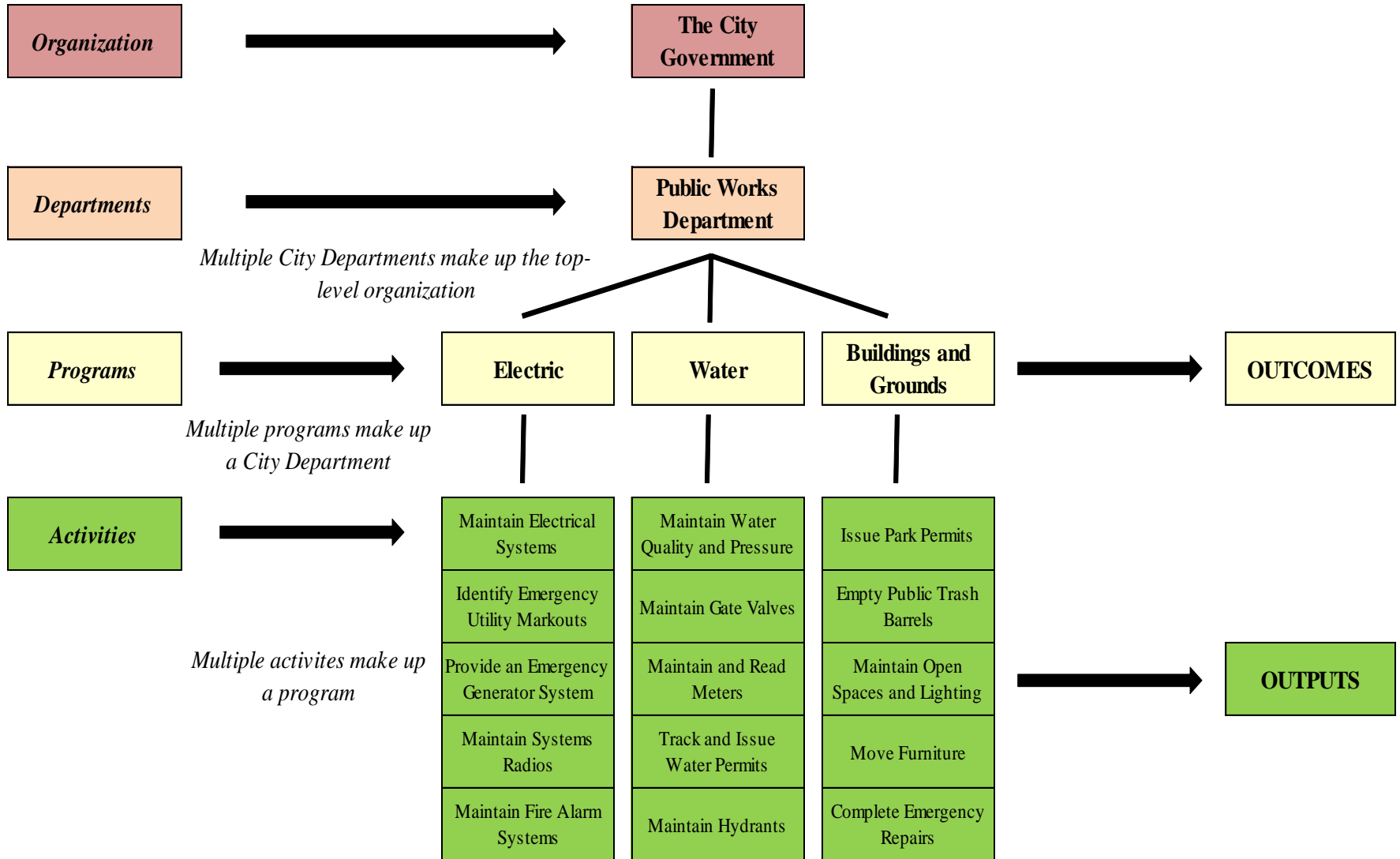
ABC Accounting

Pothole Repair	\$ 130,600
Resurfacing	\$ 240,789
Sidewalk Repair	\$ 175,203
Sealing cracks	\$ 43,753

TOTAL \$590,345

An Overview of City Management from an Activity-Based Costing Perspective

(Note: Information is not comprehensive and is presented for illustrative purposes only)



***Example: Activity Based Costing
in the City of Somerville***

City of Somerville

Department of Public Works Programs

1. Administration
2. Buildings & Grounds
3. Highway
4. Sanitation
5. Fleet Maintenance
6. Lights and Electric
7. Sewer Operations
8. Engineering
9. Water
10. Weights & Measures

Each Program Defines Activities

1. What services are performed?
2. What is the city actually doing?
3. What does the customer receive as an end output?
4. Define the service as an activity

City of Somerville

Department of Public Works Activity menu

10 programs (water,
sewer, highways, etc)

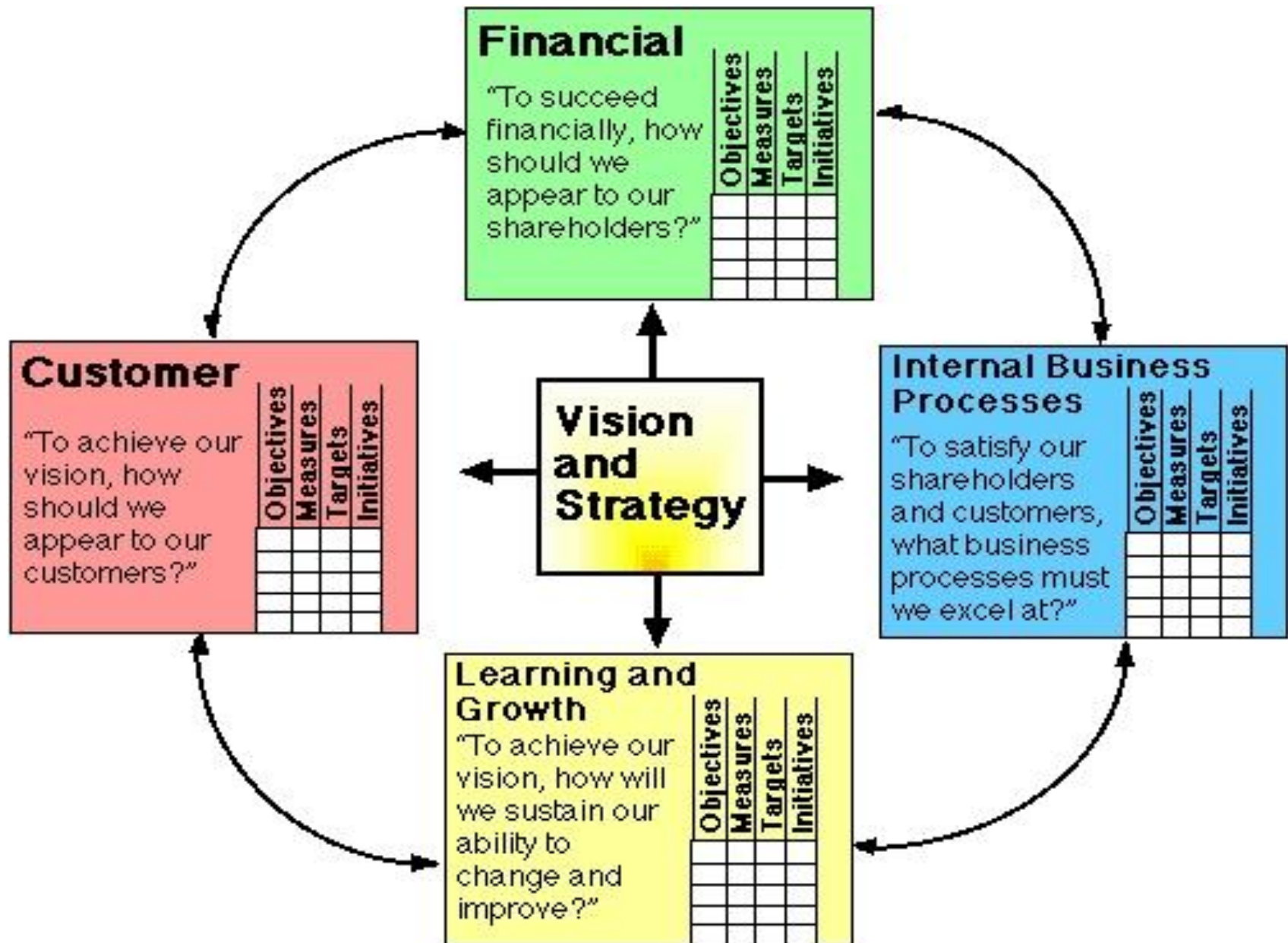
100 activities (based
on what customer
receives)

- 
- Snow plowing
 - Christmas trees
 - Pothole repairs
 - Dead animal pick up
 - Sidewalk repairs
 - Yard waste pick up
 - Street light maintenance
 - Manhole repairs
 - Playgrounds
 - Graffiti removal
 - Memorials and cemeteries

Activity-based costing helps cities better understand costs to:

1. Decide whether a service should be done in-house or contracted out
2. Set user fees in relation to cost
3. Recover costs of running programs mandated by state/federal government
3. Estimate the cost of increasing or decreasing the level of service
4. Set priorities and performance targets
5. Monitor implementation of the budget

The Balanced Scorecard



Charlotte's Balanced Scorecard: Aligning Vision with Government Performance

Pam Syfert
 City Manager
 City of Charlotte

October 31

Smarter Cities Challenge - Jacksonville

Example of a Balanced Scorecard Strategy Map for Jacksonville

Financial Perspective

Citizen Perspective

Internal Perspective

Learning & Growth Perspective

