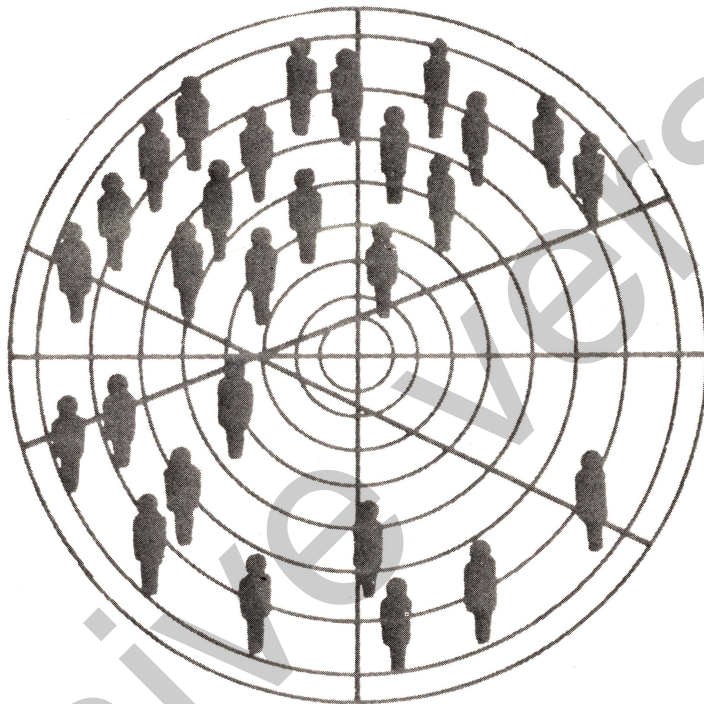


UNIVERSITY OF MISSOURI-COLUMBIA

Missouri Local Government Administrative Guide Series

LOCAL GOVERNMENT



BUDGETING

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Foreword

This is the first publication in a new series designed to aid elected and appointed officials in local government in Missouri. The series will focus on the administrative responsibilities of local officials associated with counties, cities, towns or villages, and special districts. This first guide gives an overview of the budgetary process for all types of local governments including the constitutional and statutory requirements and the reasons for budgeting. It also points out some weaknesses in existing law and makes suggestions for improving financial reporting, as well as improving the decision-making process of budgeting.

The *Administrative Guide Series* is the third category of publications developed by the Governmental Affairs Program, and will have new titles added over the next several years in the areas of: (1) governmental accounting and fiscal administration, and (2) local government administration. In addition, the *Missouri Local Government Handbook Series* was developed several years ago to aid local officials and now includes five publications.

They are:

- (1) *Revised Handbook for Municipal Officials*, by Richard R. Dohm;

- (2) *Revised Handbook on Incorporation, Disincorporation and Consolidation of Missouri Cities*, by George F. Nickolaus and Helen T. Ginder
- (3) *Annexation in Missouri*, by George F. Nickolaus (now in the process of being revised by Helen T. Ginder);
- (4) *Missouri Election Procedure Handbook for Election Judges and Clerks*, by Robert F. Karsch.
- (5) *Handbook for Planning Commissioners in Missouri*, by Robert C. Simonds

Single complimentary copies of the above monographs may be obtained by writing the Governmental Affairs Program, 306 Watson Place, Columbia, Missouri 65201; however, for additional copies there is a charge of \$1 per copy for the Nickolaus-Ginder-Simonds works and 50¢ per copy for the Dohm-Karsch works.

A third series of publications was also started several years ago—the Technical Bulletin series which now includes 13 titles on such subjects as planning, road districts, collection of delinquent taxes, mobile homes, emergency ambulance service, etc. There is no charge for any of the technical bulletins.

Richard R. Dohm, Director
Governmental Affairs Program

LOCAL GOVERNMENT BUDGETING

Despite state constitutional and statutory provisions that require all local governments in Missouri to prepare, adopt, and abide by budgets, surveys have indicated some local units ignore these requirements while others fail to secure the benefits of sound budgeting.¹

Because effective budgeting can be a significant factor in a well administered county, municipality, school district, or other political subdivision, the purpose of this guide is to set forth the chief characteristics and requirements of an effective budgeting program. The approach used will be to explain the objectives of budgeting, to outline the elements in an effective budgeting process, to review the existing legal requirements for budgeting by categories of political subdivisions, and to conclude with a checklist of budgeting practice which you can use in reviewing your city, county, school district, or special district budgeting.

Why Budget?

Why does the Missouri constitution and statutes require local governments to budget? State legal requirements for local governments sometimes have a way of unduly restricting sound administration, but local government budgeting requirements really don't belong in this category. Instead, the law reflects and seeks to assure at least partial fulfillment of the diverse and important purposes served by budgets. The purposes of budgeting include:

- a) Serving as the end product of administrative planning — being the annual dollar expression of a government's manpower and material plans.
- b) Providing a means of focusing on service priorities for the county court, city council, or other governing body — being the focal point for numerous public decisions.

- c) Serving as a compact and convenient means of informing the citizens and the press of governmental plans and their anticipated costs and benefits.
- d) Providing the governmental administrators with a guide to action and a measure of their stewardship — being an important tool of direction and control as well as a legal basis for action and a mechanism for accountability.

Consideration of the purposes served by budgeting reveals that budgets are far more than static documents of dollar figures meant to meet outmoded legal requirements. Rather, they are representations of a very dynamic process which is central to effective administration and proper stewardship of the public's resources.

The Budgeting Process

What does budgeting involve? How are the purposes that lie behind the legal requirements and the columns of figures really fulfilled?

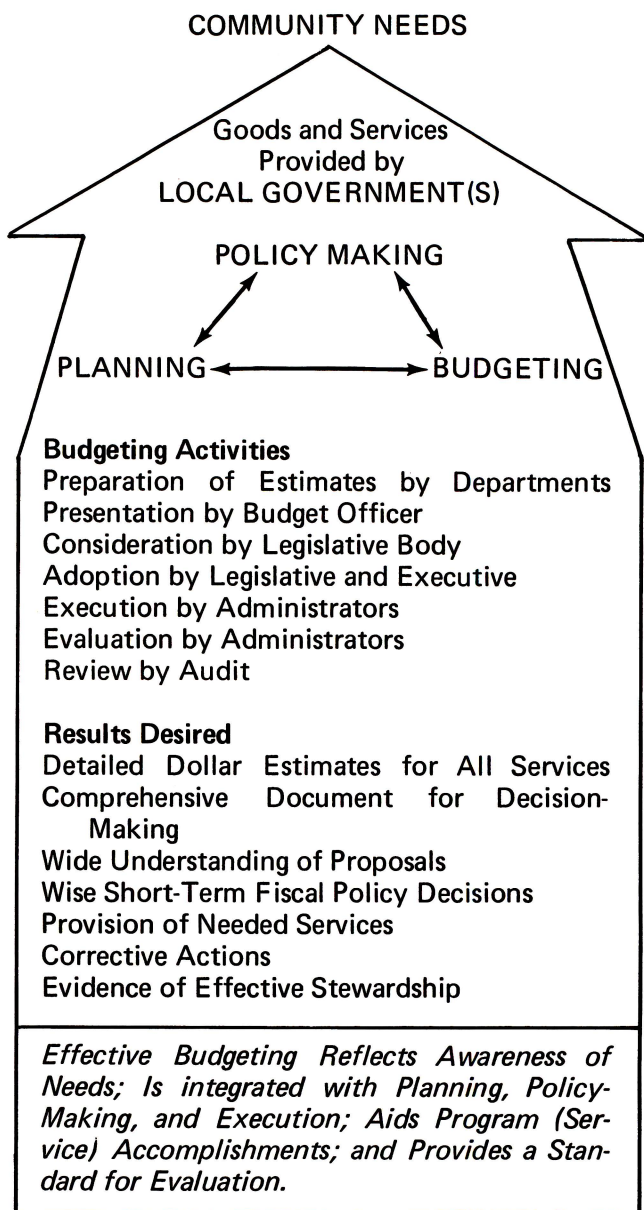
The diagram illustrates the general framework within which the budgeting process takes place and it shows the essential relationship and steps in the process.

The setting or framework for the budget process includes all of the social, economic, geographical, and political realities of the community as well as its cultural heritage and state and local legal requirements. These factors have a considerable effect in shaping the values, needs, and priorities which will be reflected in the budget document. Likewise, they influence the type and quality of budgeting that will occur. These influences necessitate standing back and reviewing the essential steps and characteristics of sound budgeting practice in order to avoid the tendency to simply repeat past practice. To be effective and to fulfill its purposes, budgeting must be a

¹ Stanley B. Botner, "Municipal Budgeting: Problems and Developments," *Business and Government Review*, Vol. X, No. 2, March/April, 1969, p. 14-26.

Missouri Public Expenditure Survey, *Better Local Government for Everyone in Missouri*, Missouri Public Expenditure Survey, Jefferson City, October, 1966, 23 pp. (See especially p. 17).

George A. Terhune, *Local Government Budgeting Practices in the United States and Canada*, Municipal Finance Officers Association of the United States and Canada, Chicago, Illinois, 1966, 26 pp.



thoughtful process conducted in full view of the public which it seeks to serve. Since local government exists to serve the community, its handling of all phases of the budget process is one of the criteria by which the citizens of the community can gauge the caliber of stewardship rendered by the city, county, school, or special district official.

Essential Steps

From the beginning of the century, when various reform groups called for local budgeting as an important step toward improved public administration, to the present day, the budgeting process has evolved from a very simple listing of expected revenues and expenditures to a very

refined and sometimes overly complex process. Stripped of complexities, however, the budgeting process is generally considered to include the following essential steps:

- 1) Preliminary planning, preparation of the proposed budget and presentation to the governing body (Court, Council, Board, or Committee);
- 2) Consideration, modification, and adoption of the budget by the governing body;
- 3) Execution of the approved budget and plans by appropriate administrative staff; and
- 4) Evaluation and review of results attained by administrators, governing body, and the public.

Within each of the essential steps, there are numerous procedural requirements and alternatives. While detailed explanation of each step is beyond the scope of this guide, the following summary will serve as a general outline of concepts and procedures.

Budget Preparation and Presentation

Effective preparation and presentation of the proposed budget will:

- a. Be part of a systematic long-term planning program.
- b. Occur well in advance of the fiscal year involved.
- c. Involve all administrative personnel from all organizational components of the governmental unit.
- d. Include adequate analysis of possible alternative programs for providing essential services.
- e. Result in comprehensive work programs and fiscal plans.
- f. Result in a clear understanding by citizens and legislative policy-makers of the programs and the budgetary (financial) and other nonfinancial requirements for their achievement.

Budget Consideration and Adoption

Although local budget preparation is essentially an executive (administrative) function, it has been greatly influenced and perhaps largely determined by legal guidelines established by the state and by the governing body of the governmental unit. Thus, the proposed budget, although presented by the executive branch, is generally formed within a framework influenced by the law and the governing body. Furthermore, the final considera-

tion, modification, and adoption of the appropriation orders and revenue raising orders is also done by the governing body. To carry out these tasks effectively, the governing body of the city, county, school district or special district will ordinarily provide adequate time for:

- a. Study, review, and questioning of the proposed budget.
- b. Public hearings to gain public understanding and support.
- c. Administrative response to their modification before final action.
- d. Final adoption of appropriations and tax levys before the commencement of the fiscal year.

When the preparation and adoption activities have been carried out effectively, the first three purposes (see p. 2) of budgeting will have been largely fulfilled, especially if an active press and an interested public have participated in the process. The fourth purpose, however, which focuses on accountability, depends upon proper execution of the budget and ultimate evaluation and review.

Budget Execution

The object of budget execution is to spend — but in an efficient, effective and legal manner. Through such spending, the objectives planned for each program or service rendered by the governmental unit will be fulfilled to the extent that the planning was appropriate, the funding was sufficient, and the administration was effective. Conversely, if administrators and officials do not spend in the face of adequate planning, programming and budgeting they may be shirking their responsibility. Good budget management is characterized neither by budgetary surpluses nor by budgetary deficits. Hitting the spending target efficiently and effectively is the goal.

Effective budget execution will therefore involve:

- a. The plan of organization for the provision of services to be rendered.
- b. The personnel system.
- c. The system of accounting and reporting.
- d. The system of allotments and other special controls.
- e. The conduct of purchasing and other internal services such as engineering, building maintenance, assessing, and collecting.

Perhaps the plan of organization and the personnel system will strike some readers as

having little relationship to budget execution, but, in reality they may be the most significant ingredients in the sense that proper organization of work and sound selection, development, and maintenance of the required personnel are two of the key ingredients in the successful provision of any public service. Moreover, the plan of organization and the personnel must dovetail with the other ingredients of execution. For example, if the cashier also does the bookkeeping, there is an opportunity for loss of control over cash and budgeted revenue may never materialize. Likewise, if the treasurer is the only official to sign checks and if he also is empowered to authorize budgeted equipment purchases, the plan of organization of work may offer temptations beyond the treasurer's control. From the standpoint of personnel, well selected employees who are fairly compensated for the work for which they are responsible are more likely to perform in an efficient and effective manner than are employees chosen on the basis of political patronage and perhaps undercompensated for the responsibilities involved in the job to be done.

Along with the organization and staffing aspects of budget execution however, the need for sound accounting, purchasing, and other controls, such as the use of spending allotments, proper authorization for travel expense, and the efficient collection of revenues, cannot be overstressed.

Department heads and elective officials also need periodic reports on the financial and operating results of their activities as the year progresses. The reports must be timely and they should focus attention on deviations from the plans incorporated in the budget so the proper official can take appropriate corrective action before operations are literally out of control. The responsibility for the provision of these reports should rest with the accounting officer.

Although specific reports on operating results in any given organizational unit will vary with the nature of the organizational unit, the chief accounting officer should stress the importance of exceptions from planned amounts and rates of activity and spending for each unit. Moreover, these exceptions should be directed to the attention of the administrator who has the appropriate responsibility and authority to take corrective action. Thus, the city or school administrator should not have to review detailed compilations of deviations which can be corrected by other personnel under their general supervision. The only reports which should require the chief administrators review should be a general summary of deviations in all organizational units.

Evaluation and Review

Evaluation and review are part of the effective execution of the budget in the sense that provision should be made for periodic internal reports so corrective actions can be taken, but the main reason for listing evaluation and review as a separate and significant step in the budget process is to emphasize the relationship between local government budget administration and the accountability of the local government to its citizens. In essence, public reporting, as verified by an independent audit of the execution of the budget, is the culmination of the evaluation and review steps.

To be meaningful, local government reports to the public should set forth the budgeted goals for the completed fiscal year and should contrast accomplishments with these goals.

Such an approach, however, is rarely seen in practice, and state law merely requires compilation of conventional statements which show revenues, expenditures, fund balances, bonded debt, assessment valuations, and tax rates. Provisions of this information is of some benefit and at least permits public scrutiny of the local governments fiscal activities. Nevertheless, encouragement should be given to the idea of operating reports which contrast financial plans (budgets) and results achieved. Such reports would permit better public understanding of the effectiveness and efficiency of their local government programs and services. An example of such a report follows. This report is for one major program area within the broad service category of health services. Quite obviously, such a report would not be feasible if the program did not involve a substantial outlay of public funds.²

Annual Operating Report (Program Detail) Fiscal Year 1971

Major Service (Health)
Sub-category (Diagnosis & Treatment)
Program (Child Health Clinics)

	Budget	1971 Actual	1970 Actual	1969 Actual
Services Rendered:				
Volume of Services:				
Number of Children Diagnosed	2,500	2,375	2,200	2,250
Number of Children Treated	1,000	1,110	1,075	975
Number of Smallpox Shots Given	500	450	475	495
Quality of Services	(Any Appropriate Statistics on Quality Indices)			
Indices of Prevention and/or Control of Child Health Problems in the Jurisdiction	—	—	—	—
Cost of Services:				
Current Operations				
Staff Compensation	\$59,000	\$58,500	\$ 56,000	\$51,000
Office Utilities & Services	3,000	3,100	2,900	2,800
Health Supplies (Drugs, etc.)	15,000	14,500	14,000	13,750
Capital Expenditures				
Buildings	0	0	35,000	0
Equipment	500	0	0	500
Total Cost of Services	\$77,500	\$76,100	\$107,900	\$68,050
Sources of Support:				
Local Revenue				
Property Taxes	20%	21%	15%	30%
Sales Tax	25	24	15	20
Service Fees	10	12	5	10
Other	10	9	5	11
Local Debt Financing	0	0	20	0
State Assistance	10	9	10	9
Federal Assistance	25	25	30	20
Total Sources of Support	100%	100%	100%	100%

² This report is merely a sample of a new type of public operating report. Further development of the rationale and requirements for such reports will be forthcoming in future Accounting and Fiscal Administration Guides.

Statutory County Budgeting

Since the 1966 revision of *The County Budget Law*, the statutory requirements for budgeting are largely the same for all classes of non-charter counties in Missouri. Thus, with the exception of Jackson and St. Louis counties, which have charters, the remaining 112 counties must all follow procedures which are compatible with the budgeting process described in this guide.

The required budgeting process includes the following:

- A. Preparation of expenditure estimates by each county office or department classified by fund, organizational unit, character and object of expenditure.
- B. Preparation of work programs to accompany the estimates.
- C. Coordination of preparation with provisions for revision by the county budget officer.
- D. Provision for public hearings by the budget officer before presentation of the proposed budget and by the county court before adoption of the budget.
- E. Provision for presentation of all budgets from all other independent county-wide taxing units (such as libraries, hospitals, and health units, etc.) to the county court along with the proposed county budget for operations under the administration of the county court to assure the existence of a comprehensive county budget document.
- F. Provision for a budget message outlining the fiscal policy of the county for the coming year along with the budget officer's presentation of recommended revenues and expenditures accompanied by corresponding figures for the two prior years.
- G. Provision for revision of the proposed budget by the county court and requirements for timely and proper adoption and filing of the approved budget with the state auditor except in class two counties.
- H. Restrictions on improper spending authorizations, fund transfers, or issuance of warrants.
- I. Provision for publication and filing of financial statements at the end of each fiscal year.
- J. Provision for audit by the state auditor on a regular basis except in class two counties.

The foregoing provisions may be found in Sections 50.525 to 50.745 of RSMo, 1969, and they are known as *The County Budget Law*. To-

gether with Sections 50.800 and 50.810, RSMo 1971 Supp., which pertain to financial statements, Section 50.745, which empowers the state auditor to "develop or approve" forms to be used for budgeting, and portions of chapter 29, which pertain to county audits, these sections implement for counties the provision of the Missouri Constitution (Article VI, Section 24) which calls for local government budgets, financial reports, and audits.

Adherence to these statutory budgeting requirements is an important obligation of county officials. And if one step — that of preparing "work programs" — is done properly it can be of special usefulness to all county officials in their efforts to render efficient and effective service.

Statutory Municipal and Political Subdivision Budgeting

Except for counties and county school districts, Sections 67.010 through 67.100, RSMo, 1969, implement the constitutional requirement for budgeting in municipalities, school districts, special districts, such as road districts and sewer districts, and other political subdivisions with authority to levy taxes. Additionally, Section 105.145, (and other Sections specifically related to various political subdivisions) sets forth the requirements for financial reporting. For political subdivision audits the statutes are silent except for three special areas. First, the governor has authority to call for an audit of any political subdivision of the state. Next, the citizens of any subdivision may initiate an audit by petition to the state auditor. Finally, there are specific provisions for the audit of school districts.

The required budget process for these units is very similar to the general budgeting process and the requirements for counties. The key requirements are as follows:

- A. Provision for designation of a budget officer by the governing body of the political subdivision.
- B. Cooperation by all subdivision officials, department heads, and other affected personnel with the budget officer in the preparation of departmental estimates and requests.
- C. Provision for presentation of the proposed budget to the governing body by the budget officer.

D. Inclusion of the following items in the budget –

- “(1) A message describing the important features of the budget and major changes from the preceding year.
- (2) Estimated revenues to be received from all sources for the budget year, with a comparative statement of actual or estimated revenues for the two years next preceding, itemized by year, fund, and source.
- (3) Proposed expenditures for each department, office, commission, and other classification for the budget year, together with a comparative statement of actual or estimated expenditures for the two years next preceding, itemized by year, fund, activity, and object.
- (4) The amount required for the payment of interest, amortization, and redemption charges on the debt of the political subdivision.
- (5) A general budget summary.”³

E. Strict limitations on deficit financing for proposed operating expenditures.

F. Provisions for revision of the proposed budget and timely and proper budget adoption, expenditure authorization, and tax levy authorization.

G. Provisions for any post-adoption increases in spending authorizations and fund transfers.

H. Provisions for publication and filing of financial statements with the state auditor or the State Department of Education.

From the above listing it can be seen that political subdivision budgeting requirements lack the three following provisions which are found in the statutory provisions for counties.

1. There is no requirement for public hearings on proposed budgets. This deficiency is overcome by local ordinance in many political subdivisions, but is left to the judgment of officials in others.
2. There is no requirement for the filing of budgets with an appropriate state office (State Auditor, Dept. of Education, or Dept. of Community Affairs).
3. There is no specific statutory implementation of the general constitutional requirement for audit except for school districts. As with hearings, however, local ordinances frequently call for audits, but this is not always true.

In view of these deficiencies in the statutes for political subdivisions it is imperative that local citizens insist on their “right to know” with respect to the budgets of the political subdivisions in which they reside and support with their taxes. Often, citizens can gain valuable assistance from their local newspapers but individual initiative should be exercised to help assure sound budgetary actions and practices.

Charter Cities and Counties

Unlike statutory counties and other state political subdivisions, counties and cities which draft and adopt their own *home rule* charters are free to design and adopt a budgeting system which embodies the concepts and procedures outlined in this guide. Charter commissions normally give careful consideration to fiscal administration and it is hoped that this guide, and the following checklists will be of service to such bodies as well as to governing bodies of all local governments in Missouri.

³Section 67.010, RSMo, 1969.

Budgeting Checklist

Does the Political Subdivision Have:

- A budget officer?
- A budgeting calendar of due dates for each step in the process?
- A budgeting procedures manual to guide persons involved in budgeting?
- Policy and program guidelines?
- An adequate accounting and statistical information system?
- Adequate analysis of program alternatives?
- Explicit assignments of responsibilities for developing dollar estimates?
- Thorough review of all analyses and estimates?
- Presentation of the proposed budget to the governing body, the public, and the press before the fiscal year commences?
- Regular financial reports?
- Regular audits?
- Modification of the Budget?
- Evaluation of Results Attained?
- Financial Audit?
- Performance Audit?
- Public Reports?

Appropriate Procedures and Forms for:

- Comparison of prior years expenditures with current estimates?
- Comparison of prior years revenues with current estimates?
- Summarization of the Revenues?
- Summarization of the Expenditures?
- Comparison of Estimated Revenues and Expenditures?

References

Moak, Lennox L., and Killian, Kathryn W., *A Manual of Techniques For the Preparation, Consideration, Adoption, and Administration of Operating Budgets*, Municipal Finance Officers Association of the United States and Canada, Chicago, Illinois, 1963, 347 pp.

Municipal Finance Administration, Sixth Edition, The International City Managers Association, Chicago, Illinois, 1962, 579 pp.

Hatry, Harry P. and Cotton, John F., *Program Planning for State, County, City*, State-Local Finances Project of the George Washington University, Washington, D.C., January, 1967, 72 pp.

State-Local Finances Project, *Implementing PPB in State, City, and County*, The George Washington University, Washington, D.C. June, 1969, 160 pp.

- Pre-Presentation conferences for organizational units involved in the budget?
- Presentation of the Message and the Proposed Budget to the governing body by the budget officer prior to commencement of fiscal year?
- Adoption of the Approved Expenditure Estimates? (Appropriation Orders)
- Adoption of necessary tax or other revenue measures?
- Notice of Public Hearings?
- Development of Proposed Work Programs?
- Presentation of Proposed Work Programs?
- Establishment of Periodic Allotments?

Expenditure Estimates by:

- Fund?
- Character (Current or Capital Items)?
- Object of Expenditure?
- Organizational Unit?
- Activity?
- Program?

Revenue Estimates by:

- Fund?
- Source? (Type of Revenue)
- Organizational Unit?
- Program?

Providing Periodic Comparisons of Budget to Actual by:

- Revenue Categories?
- Expenditure Categories?

Sources of Information

Governmental Affairs Program
University of Missouri-Columbia
Extension Division

Missouri Municipal League
Jefferson City, Missouri

Missouri Public Expenditure Survey
Jefferson City, Missouri

State Auditor of Missouri
Deputy for External Affairs
Jefferson City, Missouri

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