

## **Budgeting for Local Governments in the United States: Deciding Who Gets What, How Much, and Who Pays?**

**By 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 operating plans. Local budgets determine who gets what services, how much they get, and who pays.

This article summarizes the role of local governments in the U.S., key principles in local government accounting, the evolution of different budget systems, decision making models, and budgeting strategies.

### **Local Governments in the U.S.**

Local governments in the U.S. provide basic services on which the public depends on a daily basis. From the time people get up in the morning and turn on the water, flush the toilet, walk down the sidewalk, drive on the streets or take transit, send children to school, play in parks or recreation centers -- people are using the services of local government. Local governments determine how land can be used and what kind of buildings can be built. Local governments often provide health care for the indigent, <sup>1</sup>affordable housing programs and shelters for the homeless. When a person faces an immediate life and death situation in the U.S., they dial three universal numbers on their telephone: 911. The call is routed to a local government public safety center and local police officers or firefighters are dispatched to help the person in need.

Local governments in major urban areas provide a vast array of services that touch the lives of every person in the jurisdiction every day. Which services should be provided? How much of a service should be provided? Who should pay for the services and in what amounts? These are the questions that are answered in the budget process.

Another important feature of local government in the U.S. is that each one is unique. One local government may provide an elaborate system of trash collection and recycling, while another may leave it to the residents to contract for their own trash disposal. An urban community may have a highly sophisticated system of fire suppression, emergency rescue, and emergency medical services. A rural local government may be limited only to a volunteer effort. In the U.S., local services are not uniform.

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There are also many different types of local governments in the U.S., some existing only to provide a very specific service such as fire protection or water or sewer service. The most prominent and most important local government is a “general purpose” government. There are basically three types of general purpose governments in the U.S.: counties, cities, and towns. General purpose governments have broad taxing power and provide a wide range of services. General purpose governments differ from special districts, authorities, commissions, and boards, which typically provide a single service or set of services, funded primarily through fees and charges.

Even among general purpose local governments, uniqueness prevails. Commonly, governments will have overlapping jurisdictions. Most states are geographically divided into counties, which provide a way to ensure that the basic services mandated by the state are performed. These will vary from state to state and even from county to county. Some rural counties may provide only very basic law enforcement and taxation functions, while some urban counties may provide a full array of virtually every local government service known in the U.S. Most counties, however, will have separate general purpose governments within them, typically cities and/or towns. The differences between cities and towns will vary, but generally cities have more expansive powers than towns. Cities are created as municipal corporations through the voluntary efforts of the people within a city’s geographical boundary. Populations in urban areas are denser and more interdependent, thus requiring more public services.

The diversity of services, authority, and structures among U.S. local governments is bewildering both to people outside and inside the U.S. Local governments are based on the idea of self-government – letting people decide in the communities where they live how much and what kind of government they will have. This concept of self-government, however, has one major constraint: each state has absolute control over what local governments it will permit and what those local governments can and cannot do. Some states permit wide latitude, while others narrowly constrain local governments. Constraints not only determine how local governments may be created or expanded, but what services they can provide and, most importantly, what taxes and other resources they can access. Thus, at the beginning of its budget process, a U.S. local government must first understand the state laws under which it operates.

U.S. local governments operate under two predominant leadership structures. One structure has an elected chief executive, which is consistent with the political model in the U.S. under which the federal government and the states operate. The model is based on a system of checks and balances, with power shared between the executive and legislative branches. The chief executive in this model is usually a “mayor” in cities and towns and a “county executive” in counties.

The alternative leadership structure is based on the U.S. business model and was developed in the early part of the 20th Century in an effort to bring a higher level of competence and consistency to local governments. In a private company, the Board of Directors, hires the chief executive officer (CEO) based on competence in running the company. In local governments, an appointed CEO is called a “city manager.” In counties, the position may be called county manager, county administrator, or county executive. Under this model, there is not a separation of power, but rather a separation of responsibility. Members of the legislative body appoint the chief executive and may dismiss the executive at their discretion. The chief

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executive runs the organization, as would the CEO in a private corporation. Members of the legislative body provide oversight and are responsible for establishing the policies and direction for the local government.

In both models, the legislative body is democratically elected. In cities, the legislative body is a “city council” and in counties it is a “county council” or “county board.” The size of the legislative body varies widely and is not necessarily related to the size of the locality. Members of the body may be elected at-large (by all voters in the locality) or the locality may be divided into voting districts, with a representative elected from each district. There may also be a combination system, with some representative elected at large and others by district.

### **Evolution of Budgeting**

Local government budgeting in the U.S. has evolved through four approaches, each dependent on the preceding for implementation. Each approach has different objectives, each intended to bring a higher level of sophistication to decision making. A continuing goal has been to advance from seat-of-the-pants decision making to a more rational approach. A fantasy for local leaders has been an analytical approach that would lead to a consensus result without political controversy. Obviously, this does not happen. At the end of the budget process, there will always be tough decisions to be made. Decisions require judgment. Modern budgeting seeks to provide the best possible information on which local leaders can exercise judgment.

### **“Fund” Accounting**

Most local governments actually have multiple budgets, which are referred to as “funds.” A fund provides a distinct accounting mechanism to keep public money designated for different purposes from being commingled. The general fund of a local government is the fund that receives general tax revenues and fees that may be used for any legitimate function of the local government. Other “funds” include the following:

- Enterprise funds for services that are supported by fees and charges. They are commonly used to provide segregation of money generated for services that are similar to services provided by the private sector. Enterprise funds for water and sewer systems are among the most common. These services are typically fully supported by charges to the users without general tax subsidy.
- Special revenue funds are taxes that are earmarked for a specific service or set of services. The special tax levy may support a wide array of services: parks, transit, and fire services are all typical. Major grants from state or federal governments may also be segregated into a special revenue fund to ensure that the funds are only spent for purposes for which they are intended.
- Internal service funds are an accounting mechanism whereby a local government provides a service to its own agencies for which it charges as if the service was purchased from the private sector. The reason for doing this is to reflect the true total cost of the service purchasing from the internal service fund. Examples include a central

vehicle fleet that provides service and replacement of public vehicles from fire trucks to dump trucks to police cruisers.

The general fund budget has two major components: a revenue budget and an expenditure budget. The distinction represents the reality that general tax revenues are not connected directly to the services that they support. A “balanced” budget is one where the revenue budget is the same amount as the expenditure budget. Local governments in the U.S. are required to have balanced budgets. They may incur debt, but the annual debt repayments must be funded with current annual revenues.

Budgets cover a “fiscal year” -- a twelve month period that may begin in January, but also commonly may begin in July or in October (which is the beginning of the fiscal year for the national budget of the government of U.S.). The norm is an annual budget, but some local governments adopt a biennial budget.

### **Line-Item Budget – A Basic Accounting Document**

Modern local government budgets in the U.S. began initially as financial documents. Their most basic purpose is to account for the source and amounts of revenues and the purpose and amounts of expenditures. The need for this accounting control function resulted in the development of a line-item budget. Line-items, also referred to as “objects of expenditure,” are merely ways to classify different types of expenditures. At the most basic level, the major categories are the following line-items: personnel, operating, and equipment. Thanks to modern computer systems, the classification systems have become quite complex. Line-items for personnel expenses may include permanent full-time employees, permanent part-time employees, temporary employees, seasonal employees, health care benefits, retirement benefits, overtime pay, vacation pay, sick leave, etc.

The line-item budget tracks every dollar spent to a specific type of expenditure. This is accomplished through a very sophisticated recording system for every financial transaction of government and is fully integrated into the financial systems for payroll, purchasing, accounts payable, and accounts receivable. Annually, local governments produce a Comprehensive Annual Financial Report (CAFR – pronounced kaf-er) reporting on its financial status. An independent auditor reviews the CAFR and other financial records annually and makes a public report on the accuracy of the local government’s financial records and report.

A local government must have the ability to produce and manage a line-item budget in order to implement the other forms of local budgets. The line-item budget is the essential foundation to ensure the financial integrity of a local government.

**Responsibility-Center Budgeting.** This form of budgeting is frequently referred to as “program budgeting” by local governments. Almost all local governments use some form of responsibility-center budgeting. The purpose of this approach is to associate funding with the different individual programs and services provided by the local government. At a minimum level, line-item budgets will be developed for each major organizational unit of the local

government, typically referred to as “departments” in the U.S.: Police Department, Fire Department, Planning Department, Parks and Recreation Department, etc.

Responsibility-center budgets go further down in the organization. A Parks and Recreation Department could have a separate budget for each recreation center or each park. The budget could alternatively be divided into services for children and services for seniors. Each local government develops its responsibility-center budget based on its own unique structure and budgeting objectives. There are no generally accepted ways of organizing such budgets, provided they are based on line-item structures that provide for full accountability. Responsibility-center budgets begin to transform the budget from solely an accounting document into a management document.

### **Performance Budgets – What We Get for What We Spend**

To provide more management information, responsibility center budgets are supplemented with performance data. In the private sector, responsibility or cost centers are judged by the revenues that they produce. Since revenues are not directly generated by most local government services, another approach is needed to assess the cost-effectiveness of services. This is what performance budgets seek to do. In the case of a recreation center, performance data could include the number of people attending different programs and their satisfaction levels. By seeing performance data, decision-makers can begin to assess the cost-effectiveness of a program and compare alternative uses of funds.

A number of different schemes exist for reporting performance measures. They include the following:

- Workload or output measures – how much work is accomplished or what volume of service is provided: miles of streets paved, number of books checked out, number of participants in a program, number of fires fought.
- Efficiency measures – response time to emergency requests, operating cost per lane mile of streets, savings per dollar of investment in energy reduction measures.
- Outcome measures – reduction in crime, increase in citizen satisfaction, school completion rates.

The greatest challenge in performance measurement is quantifying outcomes – the actual community conditions that result from the service. The problem with outcome measures is the absence of a theoretical underpinning to support a causal relationship between a specific governmental service and the societal results. Minimizing unintended teen pregnancy is an outcome to which most communities strive; however, there is no single variable that has a causal relationship between teen pregnancy and lack thereof. This is an inherent challenge within the social sciences. Thus, most performance budgets will focus on simpler measures: for example, the number of teens receiving sex education counseling – with an underlying assumption that the counseling is effective. Virtually all prevention services provided by government face this challenge: crime prevention, disease prevention, etc. The budget process cannot itself solve

these methodological problems. Performance budgeting can ultimately be only as effective as the underlying social science supporting the service that is provided.

### Strategic Budgets – Where We are Going

The most challenging form of budgeting is at the strategic level. In the preceding, we have seen how the budget evolved from an accounting control document to a management document. Strategic budgeting seeks to make the budget a policy document. Strategic budgets are outcome driven. They seek to define what a local government wants to achieve in the community and to organize budget decisions around those objectives.

Most communities want to have healthy and safe children. How does one do this? A strategic budget is intended to force the exploration of this question. What is the mix of healthcare, education, recreation, welfare, and law enforcement programs that would lead to “healthy and safe children”?

Strategic budgets seek to channel the budget debate into a causal analysis of how allocation of funds will translate into community goals. In reality, rarely do fully strategic budgets emerge due to the difficulty of determining causality, as noted above. More commonly, local government leaders, especially chief elected officials, identify a set of priorities and develop budget initiatives to support these priorities. Strategic budgets focus the budget debate on what is considered critical in the community in any given year, but does not attempt to apply strategic principles to everything.

### The Decision-Making Framework

As can be seen from the above discussion, the local government budget has emerged as a critical policy document, requiring careful and rational decision-making. Despite much discussion on the importance of strategic budgeting, the reality is that most annual budget decisions are incremental – most of the hundreds of decisions made during the budget process begin with what has always been – “the base.” Attention focuses on the increase or decrease at the margins.

A common format in which budgets are presented include the following information: a short description of the program (responsibility center) and financial data by major line-item category (personnel, operating, equipment) for actual expenditures in the previous fiscal year, budgeted amounts for the current fiscal year, proposed budget for the fiscal year under consideration, and the percent change.

<b>Program</b>	<b>Prior Yr Expenses</b>	<b>Current Yr Budget</b>	<b>Proposed Budget</b>	<b>Percent Change</b>
<b>Personnel</b>				
<b>Operating</b>				
<b>Equipment</b>				

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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. It is practical. 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 – 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: clearly defining the objectives, quantifying the results desired, exploring alternatives, creating an evaluation methodology, measuring the results, and making adjustments as necessary. 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 a fire station.

## **Local Government Revenues**

In the U.S., local governments typically have access to three categories of revenues to support their services: taxes, fees and charges, and grants. 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.S. may be able to tap into an array of taxes with considerable flexibility in how to structure the taxes, or they may be severely limited by state constraints. The most important (though not universal) source of tax revenue for local governments in the U.S. is the property tax. This tax is much maligned by the public because it is a tax on wealth (i.e., the value of one's home) and is not directly connected to one's ability to pay (i.e., actual income). To apply a property tax, the value of all property must be determined and kept up to date, which is known as the "tax assessment" or the "assessed value" of a property. The assessment should

reflect “fair market value” of a home, which is the amount of money that someone would be willing to pay on the open market. 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.S.

Much of the public debate centers on the property “tax rate” that the local government levies. Assessed value multiplied by tax rate equals taxes owed. Tax rates are expressed in different ways, but they all arrive at the same point: some percentage of the value of the home is owed in taxes. A one percent tax may be stated as a tax of \$1.00 per \$100 of value or as 10 mills (\$10 per \$1,000 of value). A number of exceptions may exist to help mitigate inequities between the value of one’s home and one’s accessible income to pay the tax. Called “circuit breakers,” these tax rules may be at the option of a local government, may be required by the state, or may be prohibited by the state.

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 state may also use sales tax revenue and may be responsible for the collection of all sales tax, sending back to the local government its share.

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. A service could also be subsidized for everyone or discounts could be provided based on a person’s income. Fees are used extensively for water, trash collection, and building inspections. They are also commonly used for a variety of recreation and leisure services.

When local governments seek to achieve full cost recovery for a service, they may create a separate “fund” to account for the service. 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. These are known as “enterprise funds.”

### **Grants**

Federal and state governments provide an array of grants to local governments. 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.



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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: roads, traffic control systems, bridges, schools, fire stations, libraries, water purification and distribution systems, sanitary sewage collection and treatment facilities, storm water management systems, technological infrastructure for the functioning of the government, parks, recreation centers, cultural centers, and more. 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. Some lower cost infrastructure may be funded this way, known as pay-as-you-go or “paygo” funding. 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. The annual debt payments (also called “debt service”) are included in the annual operating budget. A local government that acquires more debt will have less revenue to pay for services. The amount of debt owed combined with the ability to repay the debt will determine the interest rate a local government will have to pay on money that it borrows for infrastructure.

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:

- Maximum percentage of the annual operating budget devoted to debt payments, and/or
- Maximum percentage of property tax capacity, and/or
- Maximum increase in debt payments year-to-year.

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.

These and other measures of a local government's ability to repay debt will be independently evaluated by one of three bond rating agencies (Standard & Poors, Moody, or Fitch). 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.

### **Budget Development & Adoption**

Local governments use a highly complex process for the development, approval, and implementation of their local budgets. They involve every manager in the local government and solicit extensive input from the public. The following outlines the major steps.

**Budget Development.** The chief executive – whether elected or appointed – develops a recommended budget that is coordinated through the executive's budget office. 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.

**Budget Adoption.** Approving the budget is one of the most important responsibilities of local legislative bodies. It is critical to the legislative body's ability to provide effective oversight of the chief executive and to ensure that the will of the people is honored. 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). Smaller legislative bodies will conduct work sessions as a "committee of the whole" to review the recommended budget in detail.

The most important activity of the legislative body's budget review, however, is the annual public budget hearing. 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 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 60-120 days in its review process.

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Budget Implementation. 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.

At the end of the fiscal year, the legislative body will review and approve a final budget reconciliation to “close-out” the fiscal year. 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 compliance with expected standards.

For local governments in the U.S. it is unacceptable to have a deficit budget or to fail to comply with accounting standards.

## **Conclusion**

We conclude where we started: budgeting is about deciding who gets what services, in what amount, and who pays. 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. Modern budgeting systems can provide quality information that help local leaders exercise judgment. Over time all of the various budget decisions add up to the community in which one lives.

Perhaps the greatest challenge for local government leaders is deciding what kind of community people want for tomorrow. Where is the local government headed and how do current budget decisions affect the future? A sound, rational budget system will ensure that the public’s money is well spent, and it should also ensure that it creates a sustainable community where people will want to live, work, and visit.

## **Arlington, Virginia – A U.S. Local Government**

Using a single local government as a “typical example” is not possible due to the diversity and uniqueness of local governments in the U.S. governance system. It is only with the review of multiple localities that one can begin to grasp the similarities and many points of departure for local governments in the U.S. Arlington, Virginia is presented as an example of a local government in the U.S., but in many ways is representative only in its uniqueness.

Arlington is a county government in the state of Virginia, but has no cities or towns within its 26 square miles. Geographically, it is rather small; however, it is resident for a population of approximately 200,000 and has approximately 200,000 jobs. This makes Arlington one of the most densely populated counties in the U.S. Arlington is sometimes referred to as part of suburban, northern Virginia; however, its highly urbanized characteristics are more reflective of Washington, D.C., to which it is immediately adjacent. Arlington is home to Reagan National Airport, the Pentagon, and Arlington National Cemetery.

### **Structure**

Arlington's elected legislative body is a five-member County Board, whose members are elected for four-year, overlapping terms. The County Board chooses among its members a Chairman, who serves as the County's chief elected official. Executive authority is vested in the County Manager, who is appointed by the County Board. The County Manager is responsible for managing the government operations. Administratively, the current County Manager has two deputies and has organized the government into twelve departments, one of which is the Department of Management and Finance (DMF). DMF coordinates the budget process for the County Manager and manages purchasing, accounting, and revenue functions.

The County Manager develops a recommended annual operating budget and biennial five-year capital improvement program. The County Manager recommends the budget in February of each year.

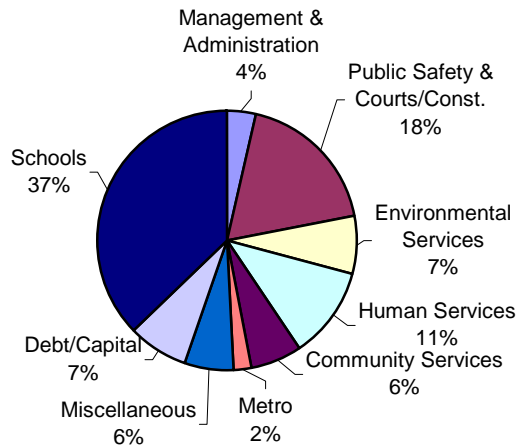
The County Board conducts multiple work sessions with the County Manager and his senior staff as part of its budget review. The County Board conducts two public hearings. One public hearing receives comments on proposed government expenditures and a separate hearing receives comments on taxes and other revenues. This separation of expense and revenue hearings is mandated by Virginia state law.

The County Board adopts the budget in April of each year, over 60 days in advance of the beginning of the new fiscal year on July 1. The County Board officially appropriates the budget at the department level. This provides the County Manager with the discretion to make budget adjustments at the departmental level. Budget reallocation across departmental boundaries requires authorization by the County Board and is subject to a public hearing. Budget reconciliation occurs in November, approximately four months after the end of the prior fiscal year. At the same time that the County Board acts on the County Manager's budget reconciliation documents, it also provides guidance to the County Manager on the County Board's policy guidance for the development of the budget for the next fiscal year.

### **Arlington Expenditures**

Arlington provides a full range of public services that are representative of what both counties and cities provide in the U.S. The General Fund budget is \$942 million; all funds are \$1.2 billion. The largest area expenditure is public education at \$350 million.

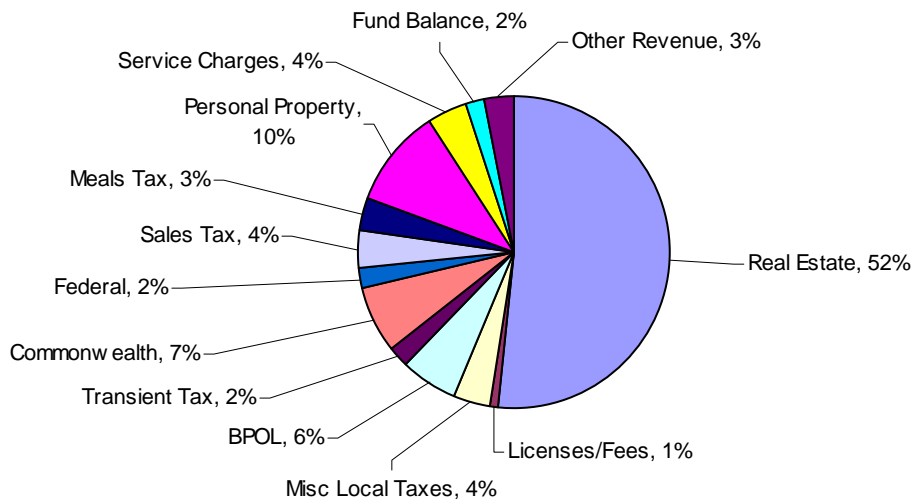
### FY 2009 Adopted Budget General Fund Expenditures



### Revenues

Arlington relies on real estate property taxes as its largest source of revenues; however, Arlington's property tax is almost equally derived from individual homeowners and commercial income-producing property. Arlington imposes a wide range of other taxes that include sales tax, business income taxes, and taxes on cars. Some services are also funded as enterprises that rely on direct charges including water, sewage treatment, and building inspections. Arlington receives a large amount of grants funds from the state and federal governments.

### FY 2009 General Fund Revenue Sources



## Capital Budget

Arlington's five-year capital improvement program is \$1.3 billion, with debt growing an average of 4.3% over the five-year period. To incur debt against the County's general revenues, voters must first grant approval in a referendum. Arlington holds a referendum on capital borrowing every other year. Arlington borrows (i.e., issues general obligation bonds) on an annual basis, securing the amount of financing that will be needed based on the timing of construction projects. The three bond rating agencies have all consistently given Arlington's general obligation bonds their highest ratings. Arlington's budget and consolidated annual financial report also both consistently receive recognition by the Government Finance Officers Association.

For more information on Arlington County, go to its web site at <http://www.arlingtonva.us>

## References

For more information on the structure of local governments in the U.S., see United States U.S. Census Bureau, *2002 Census of Governments, Volume 1, Number 1, Government Organization*, GC02(1)-1, U.S. Government Printing Office, Washington, DC.

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Mikesell, John, *Fiscal Administration: Analysis and Applications for the Public Sector* (Wadsworth Publishing, 2002).