

# BUDGET PREPARATION MANUAL FOR BULGARIA

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# BUDGET PREPARATION MANUAL FOR BULGARIA

## 1.0 INTRODUCTION

The purpose of the Budget Preparation Manual (BPM) is to provide practical guidance to senior level municipal financial managers on how to implement Service-Based Budgeting (SBB) in their municipalities. This manual provides tools and procedures they can apply in the next local budget preparation cycle that starts in Summer 1999, to prepare the Fiscal Year (FY) 2000 budget.

**# Practical Focus.** This Manual has a practical focus and is brief by design. It provides a budget technician with a template for implementing a new budget preparation process. It is not a textbook on budgeting, nor a training course on this topic. Section Two contains examples of actual budget process documents that you can use, as is, or with minor changes, to introduce SBB into your municipality. These documents include the Budget Calendar, Budget Request Forms, Budget Request Instructions, model transmittal letters, and other documents. This manual refers to these documents as “tools” for implementing SBB.

**# Reference Manual.** A reference manual has been prepared to accompany the Budget Preparation Manual. The reference manual describes the underlying ideas and concepts on which Service-Based Budgeting tools and procedures are based. The reference manual is intended to supplement the budget preparation manual with explanations of basic concepts, examples of good practice, and references to other helpful documents. Users of the budget preparation manual should keep a copy of the reference manual handy for consultation. The reference manual is considerably longer than the budget preparation manual. Although it is comprehensive, it cannot address all questions that may arise in the context of introducing a financial management innovation of this scale.

Both the manuals clearly establish that SBB requires budget preparers to go beyond the formal requirements of applicable Bulgarian law. The reference manual discusses why this is necessary in its second chapter *Municipal Budget Reform*.

**# Training.** Formal training is important for building the capacity to undertake service-based budgeting. The reference manual includes an appendix with an inventory of applicable training products prepared by the Local



Government Initiative. Training occurs twice during first year implementation of SBB: an introduction and overview takes place at the inception of the process; and, a detailed review of the budget forms and instructions takes place just before these forms are prepared.



**# Razgrad Experience.** The Municipality of Razgrad introduced a SBB pilot program, working with an earlier version of this manual and the reference manual to prepare its fiscal 1999 budget. The forms and instructions appearing in this Manual were developed in collaboration with the Municipality's leadership. We acknowledge with gratitude the visionary leadership and dedication to improving municipal financial management of Mayor Ventsislav Uzunov and Deputy Mayor for Finance Stanka Anguelova, and the hard work, dedication, and enthusiasm of the many municipal staff who contributed to this effort.

### ***How to Use the Budget Preparation Manual***

A Deputy Mayor for Finance, a Budget Director, or Chief Accountant can use this manual as a source for model documents that he or she can use to introduce SBB. A Deputy Mayor or other official might want to create his or her own budget preparation manual by repackaging the material presented here, modifying them as necessary.

### ***Legal Foundation for the Local Budget Process***

Bulgarian law specifies a number of budget preparation steps. Each such required step is included in the budget calendar presented in the tools section of this manual. The reference manual also describes these legal requirements in some detail.

Fortunately, Bulgarian law allows municipalities substantial freedom to experiment with new budget preparation methods and techniques. The introduction of SBB is well within the discretion local officials have under existing law.

There is no final authoritative "best practice" for municipal budget preparation in Bulgaria. The Budget Preparation Manual and its companion Budget Reference Manual are intended as a practical foundation on which to build positive experiences that can be shared across municipalities. As this experience grows the content of this manual should be updated to capture improvements and refinements generated in the field.

### ***Introducing the Key Concepts and Tools of Budget Preparation***

Many Bulgarian municipalities still prepare of traditional input-oriented "line-item" budgets that the Ministry of Finance oversees and regulates. This is the classical "control oriented" budgeting that is common in Bulgaria and



elsewhere. However, the best municipal budgeting practices go well beyond serving this control function.

Local elected officials are politically accountable to their electorate for the results of spending as well as its control. Citizens demand more services, better services, different services, just as loudly as they demand cheaper services. Because a classical control-oriented budget does not use information about service results, it does not help local officials make well-informed decisions about how to reconcile competing demands for services with severely limited resources.

In addition to this information problem, control-oriented budgeting encourages operating department staff to passively execute instructions received from higher authority, with no accountability for service results. In this situation, staff who directly provide services to citizens and their managers have little incentive to take responsibility for the quality and efficiency of the services they deliver, and the satisfaction of citizens. The desire of elected leadership to improve services in response to citizen demand is frustrated by the narrowness of the control orientation and the message it sends to operational staff about what kind of behavior is important. The control orientation minimizes the opportunity for citizens to contribute their suggestions and priorities for services.

Finally, modern municipal budget management practice (and, significantly, the Municipal Budget Law in Bulgaria) requires that municipal budgets be based on judgments about the efficiency and effectiveness of municipal services. In other words, municipal budget managers must evaluate the relationship between resources consumed and the amount of services produced (the efficiency concept), and the relationship between the volume of services produced and the degree to which the services improve living conditions or reduce the incidence of problem conditions (the effectiveness concept).

SSB introduces information about service results into the budget process and systematically applies this information to support budget decision-making. SBB also attempts to link the municipality's annual resource allocation decisions more closely to a multi-year planning process, such as a strategic plan. SBB also offers more opportunities to obtain citizen feedback by describing resource allocations and service results in terms that citizens understand. Finally, SBB broadens and deepens accountability within the municipal administration by making explicit, within the budget and its monitoring mechanisms, the service results that department staff are expected to accomplish.

SBB introduces some new concepts. The most important include:

- The constant service level budget (the “base budget”)



- The enhancement budget
- Service performance indicators: inputs; outputs; effectiveness; efficiency

### **Constant Service Level Budget**

Service-Based Budgeting creates clear analytical distinction between the current level of service provided by the municipality and a future level. SBB creates a precise definition of the current service level in terms of both outputs (real, nonfinancial measures of service volume) and inputs required to produce the current level of service. The constant level of service budget describes service results for as many services as the municipality defines in its budget procedure.

The constant service level budget is a powerful tool for assessing efficiency and productivity because it directs attention to the production relationships inside the service delivery departments of the municipality. It opens up the budget process to scrutiny of the value of current services as well as their cost by relating resource consumption to performance of the service as measured by well-defined service performance indicators. It is also a powerful financial control tool because the constant service level budget reveals the cost of continuing to fund current services. It helps the municipality determine if financial resources are available to initiate improved services or new investment projects in the budget year.

**# The Enhancement Budget.** In SBB all changes from the constant service level budget must be initiated through an enhancement budget request. All enhancement budget requests must be justified using service performance indicators. All capital investment budget requests are similarly scrutinized.

The enhancement budget and its associated analysis and review procedure takes into account competing proposals. It focuses decision makers' on the outcomes that citizens expect local government to produce.

**# Service Performance Indicators.** Service performance indicators generate the information about service results that decision-makers need to assess budget decisions based on tests of efficiency and effectiveness. These indicators differ from conventional control information in that they contain nonfinancial information that describes a service in terms of its quantity and quality. The service performance measures most important for SBB include:



- Input indicators (e.g., person-years of labor, kilowatt-hours of electricity);
- Output indicators (e.g., tons of solid waste collected, number of inspections completed);
- Efficiency indicators (e.g., labor hours per ton of solid waste collected, inspections completed per day, unit cost per inspection); and
- Effectiveness indicators (e.g., percent of households receiving acceptable solid waste collection service; percent of roads in good condition; percent of clinic patients served within acceptable waiting time).

Service performance measures provide the information that expands budgeting from a narrow control function to a financial management process.



## **Creation of a Constant Supply of Service Budget**

A service-based budget comprises of several elements: a baseline of services, service increments, base budget requests, and enhancement budget requests. Each of these are explained below:

### **! Baseline of Service.**

Municipalities try to establish a “baseline of service” through a process of understanding customer needs and balancing resource allocations. In some instances this baseline of service may be mandated by a higher level of government.

Furthermore the municipality may decide to make certain services available in the community, regardless of local demand. The baseline that emerges over time is also influenced by the afford ability of the service and the inertia of preexisting services.

#### **Constant Supply of Service**

Each department’s base budget will be a “constant supply of service” budget. In this manual, a constant supply of service budget is defined as the total amount of resources needed to provide the same quantity and quality of services currently offered.

- ! Service Increments.** The level of a service may be adjusted relative to the baseline. The municipality should know the costs—both the unit cost and service delivery cost—for each baseline service provided. This information makes it possible to review, analyze, and compare services for efficiency, and effectiveness. By understanding the services being delivered, potential enhancements or reductions in service levels can be considered by adding or subtracting “increments” of existing services or new services.

The service-based budget process requires the support of the operational managers. Each operational manager will have to complete budget forms for continuation of the existing services (base budget requests), any proposed expansions (service enhancement budget requests), and capital equipment (CIP enhancement budget requests). Each step will be explained below as will the attached forms when appropriate.

- ! Base Budget Requests.** Departments prepare base budget requests. A “base budget” corresponds to a department’s current service level as defined by the municipal administration. Departments will prepare



base budgets to maintain the same quantity of services at the same level of quality as the previous year (i.e., a constant supply of service).

In the budget process, it is assumed that present policies will remain unchanged for the next year. Expenditure and revenue estimates will only be adjusted to ensure a constant supply of service. Any other increases in services (e.g., due to population growth, or new national requirements) must be submitted as budget enhancements. Any decreases in services (e.g., due to population decline, or removal of national requirements) will be factored into the annual growth formula by the finance department. Line items that are modified by a significant amount must be justified, and notes must explain any significant overspending or under spending of the prior year's budget.

### ***Base Expenditures***

The base expenditures included in any budget:

- ! **Personnel Expenditures.** The finance department is responsible for forecasting each department or budgeted unit's applicable salary and fringe benefit figures for the new budget year. The new salary figures will be the current FY adopted budget salary figures plus any previously or currently approved adjustments. Departments must clearly identify any base estimates for overtime, budgeting and justifying it on the constant supply of service budget request.
- ! **Operations and Maintenance Expenditures.** To help departments prepare their FY constant supply of service budgets, the finance department can provide data on all expenditures, including those for operations and maintenance, for the past three years. Departments can use these data to conduct trend analyses to estimate the costs to maintain quality and quantity during the next fiscal year. The historical data may vary from year to year due to project stoppages, start-up of new services, modifications, and other city initiatives. The finance department will explain such changes when providing data to departments.
- ! **Contractual Services.** Departments should contact service providers to determine if existing services will continue at current prices. A written explanation must accompany all contractual service elements. At a minimum, each explanation should include: (1) who the service provider is; (2) what service is provided; and (3) how the expenditure estimate was calculated.



- ! **Utilities.** All departments should budget for utilities used in all municipal buildings.
  
- ! **Capital Outlay and Capital Acquisition.** Before requesting budget support for annual capital outlays, a department should ask itself the following questions:
  - Will the purchase or project be completed during the next budget year?
  - Are expenditures mostly for construction or equipment?
  - What is the estimated capital cost of the project or equipment?
  - Are expenditures for replacements or non-replacements (i.e., initial)?
  - Are expenditures associated with requested enhancements or constant services?

### ***Enhancement Budget Requests***

As stated earlier, the next FY constant supply of service budgets will be adjusted for annual inflation and designed to ensure the same quality and quantity of program<sup>1</sup> service delivery as in current FY. Any resource requests that exceed the constant supply of service budgeted amount must be submitted as follows:

- ! **Expenditure Enhancements.** This type of enhancement is the most common and is typically the result of directives by the mayor, the municipal council, or the national government. An expenditure enhancement is any budgeted expenditure (e.g., personnel, capital, or other budget costs) that exceeds the constant supply of service budget.
  
- ! **Revenue Enhancements.** A revenue enhancement is any proposal for a new source of revenue or any increase in a charge, fee, and/or rate for a service provided directly through a department program. The marginal increase in revenues above inflation constitutes the revenue enhancement. The municipal council and the appropriate standing committee always must endorse rate enhancements. In some cases, a revenue enhancement requires a public hearing.

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<sup>1</sup>Throughout this document, a “program” is defined as a group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. A sample of a program description template is provided in chapter two of this manual (exhibit 2.5).



### Constant Supply of Service Budget vs. Enhancement Request

<b>Expenditures</b>	<b>Constant Service Budget</b>	<b>Enhancement Request</b>
Personnel	Existing	New position(s)
Operational	Existing	Expanded
Capital outlay	Replacement	New or expanded
<b>Revenues</b>		
Own-source revenues	Projected from prior year	New fees, sources, or rates



### ***The Enhancement Request Process***

The development and submission of enhancement requests is a seven-step process:

- **Step 1.** The departments develop their requests and rank them;
- **Step 2.** The departments submit ranked enhancement requests to the management;
- **Step 3.** The management discusses and ranks the enhancements for all departments;
- **Step 4.** The management submits enhancement requests to the finance department;
- **Step 5.** The finance department provides comments on all enhancements to the management and holds final discussion with the mayor;
- **Step 6.** Recommended enhancements priorities. Final recommendations; and
- **Step 7.** Incorporation of the recommended enhancements into the proposed budget.

## 2.0 TOOLS OF BUDGET PREPARATION

Like any process, successful budgeting requires planning and execution. This chapter describes how to apply different tools and techniques of budget preparation. It presents examples of forms and letters that are used in preparing the budget.

The annual budget preparation cycle should start with the development of principal policies that will be reflected in the budget. This requires a review of current-year fiscal conditions and the prospects for the coming budget year. After overall policies have been developed, a set of detailed instructions for preparing the budget should be prepared and disseminated to each department. The instructions should usually include items such as those listed below:

- ! Transmittal letters from the Mayor and chief financial officer summarizing the the anticipated fiscal position of the government, outlining the overall fiscal policies to be pursued, and providing specific guidelines on implementing the budget process;
- ! A budget calendar indicating dates of all pertinent activities relating to the completion of the budget;
- ! General guidelines on the rate of inflation to be used in estimating costs, and techniques for estimating revenues and expenditures.
- ! Copies of all forms to be completed along with detailed instructions and examples of how to complete them.

A brief description and samples of the above forms are given below.

### ***Transmittal Letters***

When initiating a new budget technique, it is useful to have the mayor send a letter to all staff outlining the process of budget reform. Similarly, a letter from the chief financial officer to all departments is also useful (see Exhibits 2.1 and 2.2 respectively).

# **Mayor's Transmittal Letter.** This letter could be considered as a formal beginning of the budget process. The mayor addresses the staff on the next fiscal year goals, focuses on the expectations of the public for the service provision and motivates the participants in this process to fully contribute. Major topics covered in this letter include:

- The budget as a policy statement;
- Collaboration;



- Service results vs. expenditures;
- Non-financial information;
- Citizen participation; and
- The new beginning.

**# Chief Financial Officer's Transmittal Letter.** The purpose of this letter is to introduce the budget preparation and budget reference manual to the participants of the budget process and to provide specific guidance on its implementation. Major topics covered in this letter include:

- The new budget process;
- Overview of the budget preparation manual;
- Overview of the budget preparation calendar;
- Initiation meeting;
- Budget reference manual; and
- Final words

### ***The Budget Calendar***

Because the budgeting process involves many actions, it is essential to have a plan to ensure that these actions will be implemented in a comprehensive and timely fashion. This plan is the budget calendar (as shown in Exhibit 2.3). The budget calendar establishes a schedule for the various steps and procedures within each phase, and clearly defines the participants and their responsibilities. It also keeps track of actions required by law. The budgeting process can be divided into four phases:

#### **! Phase A:**

- Part 1: Decide annual goals and objectives based on the city's long term vision and community needs.
- Part 2: Decide annual goals on the basis of budget requests and revenue evaluation.

#### **! Phase B:**

- Fiscal analysis, review, and deliberation of proposed budget

#### **! Phase C:**

- Budget Adoption



! Phase D:

— Budget Execution



## ***Estimate of Revenues and Expenditures***

This section focuses on specific ways and considerations on applying the techniques for estimating revenues and expenditures. The participants in the budget process receive guidance on the importance of and how to choose a model, how to apply it, and what steps or procedures to follow (see Exhibit 2.4).

## ***Budget Requests Forms***

Exhibits 2.5, 2.6 and 2.7 provide the basic tools for service based budgeting. Budget request forms are designed for different decision-making and service responsibility levels. This section consists of three sets of forms:

- Exhibit 2.5: Program description template;
- Exhibit 2.6.1 - Exhibit 2.6.5: Base budget request forms; and
- Exhibit 2.7.1 - Exhibit 2.7.3: Enhancement request forms.

## ***Instructions on Filling Budget Request Forms***

The instructions on filling in the forms (Exhibit 2.8) establish common rules for using the budget request forms and provide specific guidance on implementing SBB. They aim at obtaining real, comparative, and ready to use data.

## ***Glossary***

The new method of budget preparation, SBB, is based on new terms and concepts. Participants in the budget process have to be familiar with all aspects of the new procedure. Most of the concepts are explained in depth in the budget reference manual but a short explanation of their meaning is provided in the glossary in Appendix A.



**EXHIBIT 2.1**  
**SAMPLE MAYOR TRANSMITTAL LETTER AT BUDGET KICKOFF**

Dear Colleagues:

This letter addresses some of the main features of the new budget development process that is described further in the budget preparation, and budget reference manual. The new process strongly supports improved decision-making about how we commit our limited resources. For the first time, our budget preparation process reveals the scale and value of our services as well as their cost. We need this new dimension to improve our budget decisions, strengthen management of services, and respond more effectively to citizen preferences and priorities.

I want to take this opportunity to emphasize the importance of this new process and make sure that all participants are aware that their cooperation is critical to its success.

**# Service Results, Not Just Expenditures.** The basic philosophy of the new budget process is that budget decisions should express judgments about the results of our municipal services—how much service we deliver, at what level of quality, and with what impact on the welfare of our citizens—as well as the cost of these services. This new orientation is essential to making good judgments about budget priorities, because we need to know what our services are worth as well as what they cost.

**# The Budget is a Policy Statement.** It states how the municipality will use its scarce resources to accomplish its most important objectives over the next year. If the municipality has a strategic plan, this is the place to mention how the budget can direct resources to accomplish the multi-year objectives.

**# Collaboration is Essential.** The new budget process requires collaboration between finance technicians and operating service managers, because it depends on their assessments of efficiency and effectiveness. Each participant in the new budget process is expected to fully contribute to the success of this new process.

**# New Nonfinancial Information for Budgeting.** You will notice new forms and instructions this year. These documents introduce new information into the budget process. Operating managers and financial specialist will use this information to describe and analyze services in “real” (nonfinancial) terms. This new information is critical to the success of the new process, and all budget preparation participants are instructed to comply fully with all information requirements.

**# Transparency and Citizen Access.** We are committed to reforms which make budget decision-making more understandable to our citizens. The new budget process is a significant step in that direction, in at least two respects. First, the new process clearly identifies how citizens may participate in the process. Second, the focus on service results and the inclusion of nonfinancial performance information increases the transparency of budget decision-making and stimulates citizen interest.

**# A Strong Start.** We will not complete the reform of our budget process in one year. We do expect to accomplish a strong beginning in this first year and build a foundation for future reforms. I look forward to meeting with many of you over the upcoming year to assess our progress, and to identify the most important steps we must take to continue our progress.

With Best Wishes for Success,



**EXHIBIT 2.2**  
**SAMPLE TRANSMITTAL MEMORANDUM FROM**  
**CHIEF FINANCIAL OFFICER AT BUDGET KICKOFF**

MEMORANDUM

To: Finance Staff  
Service Department Heads  
Accountants and Budget Assistants

From: Name of Chief Financial Officer  
Title of Chief Financial Officer

Date: XXXX

Subject: Budget Manual for Fiscal Year XXXX

This memorandum introduced the budget preparation manual for fiscal year XXXX. All recipients of the manual must read it carefully and implement the forms and procedures that it describes.

**# The New Budget Process: Focus on Service Level.** We have developed a new budget development process. The purpose of this new process has been addressed in the Mayor's letter on this topic. From the standpoint of budget technique, the most significant departure from past practice is the focus on service level and, where necessary, the creation of two separate budget requests.

All budget requesters will prepare a "base budget request," working closely with assigned finance staff. The base budget request defines the cost of continuing a service at the same quantity and quality it is provided in the current year (the "base year"). After all base budget requests are compiled, next year's cost of continuing to provide this year's services is calculated. The municipality-wide base budget total is then compared with an available funding forecast to determine how much funding might be available to support service levels beyond the base budget.

All budget requests for changes in service provision departing from the identified base budget (changes in quality, quantity, cost) must be presented in an "enhancement budget request." The enhancement budget request defines the real and financial impacts of varying from the base budget, and provides a justification for funding the request.

**# Overview of New Budget Preparation Manual.** The budget preparation manual contains six sections:

- Introduction;
- Tools of budget preparation;
- Revenue and expenditure forecasts;
- Choices of indicators;
- Citizen participation in the budget process; and
- Guidelines on budget presentation.

The second section on budget preparation tools is most important, and contains sections



All the forms you will need to prepare a budget request for Fiscal Year XXXX are contained in the budget preparation manual. The budget calendar tells you when each step of the process takes place, including your own contributions. Be sure to review the budget calendar carefully to identify the key dates for your budget preparation activity.

Many of the entries on the budget forms will be familiar from earlier years. However, there is new content in the forms that nearly everyone will have to supply. You are responsible for familiarizing yourself with the new forms. There are detailed instructions to guide you through the work of filling out budget request forms. Every effort has been made to address your questions in the instructions.

**# Overview of Budget Preparation Calendar.** Please study the budget preparation calendar carefully. The calendar identifies four phases of preparation:

- Decide annual goals and objectives, develop requests, evaluate revenues, conduct initial prioritization (Phase A). This phase begins in May or June and ends in late September;
- Perform fiscal analysis, evaluate budget requests, prepare draft reconciliation of expenditures and revenues, construct a draft budget, and submit the final draft budget to the council (Phase B). This phase starts in mid-September and ends in late December;
- Adopt Budget (Phase C). This phase starts in December and ends in January; and
- Execute Budget (Phase D). This phase starts as soon as Phase C is completed and continues through the year.

The instructions and forms presented in the tools section of the budget preparation manual focus on Phases A and B.

**# Budget Process Initiation Meeting.** A budget process initiation meeting has been scheduled for (time, date, place). Attendance of all participants in the budget development process is required. The purpose of this meeting is to review the main features of the new process; to ensure that each budget participant understands his or her tasks; to address all questions; and to develop a method for responding to further questions as they arise during budget preparation.

**# Budget Reference Manual.** A companion volume, the budget reference manual, has been prepared to help introduce and explain new budget concepts. Each participant in the budget preparation process should have a desk copy of this manual. The Budget Reference Manual covers the following topics:

- Municipal budget reform;
- Budget preparation;
- Budget analysis;
- Budget review and adoption; and
- Budget implementation and management.

Please take time to study the budget reference manual. It will answer most of your questions about the basic principles underlying the practice of SBB.

**# A Final Word.** I would like to call your attention to the Mayor's directive that calls for all participants to actively support the new budget process. Real collaboration is extremely important to the success of the new process.



**Exhibit 2.3  
Budget Calendar Phase A, Part 1:  
Decide Annual Goals and Objectives Based on the City's Long Term Vision and Community Needs**

Steps and Procedures	Responsibilities	Participants	Required by	Deadline
A.1 Call for citizen-focused service goals Message from the Mayor	Participate in public dialogue that leads to possible goals for city consideration	Mayor, deputy mayors, heads of departments, citizens, non - governmental organizations, etc.		May-June
A.2 Training on Constant Supply of Services Concept	Based on the Budget Reference Manual	Finance Department, Heads of Departments, Operating Managers		Early June
A.3 Defining the base for the budget process	Report on the execution of the current fiscal year budget (Jan-June)	Mayor, Deputy Mayor for Finance, City Council	Art. 25 MBA	Mid July
A.4 Incorporation of public-recommended goals and program initiatives in city's annual goals	Devise coherent program goals that lead to service enhancements with full costs identified	Deputy mayors, heads of departments		End of July
A.5 First revenue estimate	Trend analysis and other techniques applied over data from Territorial Tax Office	Deputy Mayor for Finance	Art. 11 para1-2 MBA	Mid August
A.6 Elaboration of objectives by area	Objectives identified within teams	Deputy mayors, secretary, heads of departments and division		Second week of August
A.7 Consideration of elaboration and discussion	Reasoned defense of identified objectives	Mayor, deputy mayors, secretary		Third week of August
A.8 Decision-making on administration's objectives for next fiscal year	Precise formulation of objectives by area and type of services	Mayor, deputy mayors, secretary		Fourth week of August
A.9 First Draft Budget Prepared	Full version of the budget document required by MoF	Deputy Mayor for Finance	Art. 17 NPBA Art. 11 para 3 MBA	Fourth week of August
A.10 Training on Budget Requests Process	Based on the Manual	Finance Department, Heads of Departments, Operating Managers		Fourth week of August

**Phase A, Part 2: Decide Annual Goals on the Basis of Budget Requests and Revenue Evaluation**

<b>Steps and Procedures</b>	<b>Responsibilities</b>	<b>Participants</b>	<b>Required by</b>	<b>Deadline</b>
A.12 Receipt of base-budget requests and enhancements requests	Verification of compliance with instructions and completeness of execution, return of deficiencies for rectification	Head of budget division, chief accountant		Mid September
A.13 Priority sorting	Sorting of requests by type of service/function	Deputy Mayor for Finance, head of budget division, chief accountant		Beginning of October
A.14 Briefing the Municipal Council on the status of the budget development	Presentation of objectives and discussion	Mayor, chairpersons of municipal council and standing committees		First week of October
A.15 Citizen participation in objectives identification	Presentation of objectives to community, public discussions	Mayor, chairpersons of municipal council, public boards, non-governmental organizations	Art. 11 para 7 MBA	First week of October
A.16 Finalization of objectives	Adjustment and fine-tuning after public discussion	Mayor, deputy mayors, secretary		First week of October





**Budget Calendar Phase B: Fiscal Analysis, Review and Deliberation of Proposed Budget**

<b>Steps and Procedures</b>	<b>Responsibilities</b>	<b>Participants</b>	<b>Required by</b>	<b>Deadline</b>
B.1 Evaluation of budget requests	1. Analysis of requests for sustained level of services	Deputy Mayor for Finance, head of budget division, chief accountant		October
B.2 Analysis of revenues	2. Analysis of changes (increase/decrease) Comparative analysis of tax projections, report on the 3 <sup>rd</sup> quarter budget report, preparation of own tax projection	Deputy Mayor for Finance, tax service, business community	Art. 11 para 1-2 MBA	Mid October
B.3 Evaluation of requests for service delivery enhancements	Arraying of submitted requests for increase of expenditures by priority	Deputy Mayor for Finance, deputy mayors, secretary		End of October
B.4 Preparation of draft expenditure side by function	1. Operating budget 2. Capital investments 3. Off-budget 4. Financial accounts of enterprises	Deputy Mayor for Finance, finance and accounting administration		End of October
B.5 Draft budget balancing	Collation of approved expenditures and revenue projection and increase of expenditures as requested according to priorities	Mayor, deputy mayors, secretary, chairperson of budget committee (observer)		Beginning of November

## Phase B, Part 2

	Steps and Procedures	Responsibilities	Participants	Required by	Deadline
B.6	Presentation of draft to municipal councilors (either standing committees or committee chairpersons)	Justifying the content and process of creating the draft	Deputy Mayor for Finance, standing committees or committee chairpersons		Mid November
B.7	Presentation of draft to community	Sharing and discussion with the public of the municipality's set objectives and their achievement	Mayor, public boards, non-governmental organizations, etc.		End of November
B.8	Adjustment of draft	Incorporation of opinions and recommendations of public in draft	Mayor, deputy mayors, secretary		Mid December
B.9	Final version of draft budget	Preparation of final version after adoption of annual national budget act	Deputy Mayor for Finance, finance and accounting administration	Art. 11 para 4 MBA  SBRBA(a)	Third week of December or within three days after national budget act gazetting
B.10	Presentation of the draft to the City Council	The formal act of the presentation. Mayor's letter attached.	Mayor	Art. 11 para 5 MBA	Third week of December or within three days after national budget act gazetting



### Budget Calendar Phase C: Budget Adoption

	Steps and Procedures	Responsibilities	Participants	Required by	Deadline
C.1	Discussion at standing committees	Discuss draft by function and type of services	Municipal council committees, deputy mayors, standing committee members	Art. 11 para 6 MBA	December
C.2	Adjustment of draft	Incorporation of alterations as a result of committee discussion	Deputy Mayor for Finance		Mid December
C.3	Adoption of budget	Presentation by budget committee, incorporating observations of other committees; voting	Mayor, chairperson of budget committee	Art. 12 MBA	December
C.4	Making budget resolution public Mayor's message	Informing the community, stressing the most important objectives and consequences	Mayor, municipal council chairperson		End of December
C.5	Notification of public-financed organizations	Circulation of forms filled out with summarized budget figures	Deputy Mayor for Finance, finance and accounting administration		End of December
C.6	Apportionment by quarter	Quarterly apportionment budget	Heads of public-financed organizations	Art. 13 MBA	Beginning of January
C.7	Sorting of apportionment		Deputy Mayor for Finance, finance and accounting administration		Beginning of January
C.8	Notification of Ministry of Finance	Sending of forms elaborated by Ministry of Finance	Deputy Mayor for Finance, finance and accounting administration	Art. 15 MBA	January or within 30 days after Council of ministers regulation on the implementation of the national budget gazetting

### Budget Calendar Phase D: Budget Execution

	<b>Steps and Procedures</b>	<b>Responsibilities</b>	<b>Participants</b>	<b>Required by</b>	<b>Deadline</b>
D.1	Monitoring of expenditures and revenues	Monitoring and control of budget execution Analysis of "budgeted-to-implemented" ratio (i.e., control over quantity of services provided)	Deputy Mayor for Finance and finance and accounting administration Mayor, Deputy Mayor for Finance, deputy mayors, secretary	Chapter 4 MBA	Continuous Continuous
D.2	Cash flow management	Preparation and implementation of program for cash flow management	Deputy Mayor for Finance, finance and accounting administration, tax service		Continuous
D.3	Develop performance indicators	Gathering of information to identify suitable indicators	Heads of public-financed organizations, deputy mayors		Monthly
D.4	Results of activity	Measuring results of services provided	Heads of public-financed organizations, deputy mayors		Quarterly
D.5	Annual report	Preparation of reports after end of fiscal year: statutory requirements, analysis of services provided	Deputy Mayor for Finance, deputy mayors, secretary	Chapter 5 MBA	End of February next year



## EXHIBIT 2.4 ESTIMATE OF REVENUES AND EXPENDITURES

### ***Revenue Estimates***

Revenue estimates are used to determine levels of municipal spending, so it is very important that they be as accurate as possible. Perfectly accurate revenue estimates are not likely, however, because actual collections often vary from estimates. Revenue shortfalls often pose grave problems, particularly during periods of economic or fiscal distress. Because of the requirement for balanced municipal budgets, officials attempting to deal with a shortfall are often faced with a dilemma—reduce spending or raise additional revenues by increasing taxes or finding alternative revenue sources. In an effort to avoid this type of situation, municipal governments try to apply accurate means of estimating tax and non-tax revenues.

Four types of revenue forecasts are explained in Chapter 5 of the budget reference manual. Table 2.1 shows which of the projection techniques could be applied for the different types of local revenues. Most of the data needed for the revenue forecasting process is held at the Tax Office. In order to get realistic revenue projections municipal officials have to work very closely with the tax authority officials. Ideally, both institutions should use the same techniques for local revenue forecasting.

### ***Technical Considerations***

**# Adjusting The Data Series.** Since historical data is used in estimating, it is important to adjust the revenue series for past discretionary changes in rate and base. The goal is to estimate how much the present tax structure would have yielded had it been in effect in past years.

**# Model Specification.** The techniques are based on the empirical relationship between the item to be forecast and relevant variables. Knowledge of the item to be estimated and its relationship to other variables is essential to a consistent, logical and reasonable forecast.

**# Reasonableness of The Model.** Every model should be critically evaluated for reasonableness of the key assumptions and results. A common fault in using a model is a disregard of reasonableness.



**# Model Accuracy.** There is no such thing as a perfectly accurate forecasting model. Even the best models will produce errors as often as 5 percent of the time. The difficulty in developing a model for annual budget purposes is compounded by the fact that even good models are subject to the effect of the business cycle. The goal is to select a model which can provide reasonably close estimate of revenues actually collected.

### ***Considerations for Budget-Makers***

**# Accuracy of Revenue Estimates.** Goals should be set by top management for the accuracy of revenue estimates. Most revenue analysts are satisfied with estimates for major revenue sources when actual collections reach 95 percent of the amount estimated.

**# Built-in Budget Surplus.** By building into the budget the potential for surplus municipalities can help avoid budget shortfalls and fiscal difficulties. The primary means to accomplish this is to develop conservative revenue estimates and liberal expenditure estimates.

**# Use of Spending Controls.** An effective method of controlling spending is to establish an allotment system (by quarters) in conjunction with an annual spending limit (by percentage of the amount budgeted). (For a detailed discussion on this topic see chapter 6 of the budget reference manual).

**# Multi-Year Forecasting.** Multi-year forecasts which employ econometric modeling can help identify turning points in revenue streams and describe outcomes under a variety of scenarios.

### ***Expenditure Estimates***

Expenditure estimates can be developed based on each department's historical pattern of expenditures, adjusted for any special considerations related to the current-year budget.

#### **! Step 1: The Budget Officer Prepares the Baseline Estimate**

- Obtain actual quarterly expenditures for previous five years
- Compute percent of total expenditures made in each quarter of each fiscal year
- Compute the five-year average percent expended in each quarter
- Adjust the computed average percents for obvious trends



- Apply adjusted average percent to current-year budget
- ! Step 2: Adjust for Major Anticipated Deviations. The raw expenditure projection based on historical trends also must be adjusted for any major expected deviations from past trends. Adjustments may be made for inflation, salary and wage changes, the addition or elimination of programs, changes in the level or quality of service, changes in the scope of service, changes in operating costs due to the opening and closing of facilities, and productivity gains and losses. To calculate the impact of anticipated deviations on expenditure projections, the following steps may be taken:
  - Discuss possible deviations with the department head, and quantify the leva value. Remove these special amounts from the basic budget and recompute the percent by quarter based on the adjusted budget figure. Compute new amounts for each quarter;
  - Estimate and allocate each deviation; and
  - Add the adjusted base budget and estimated deviations to obtain the final expenditure estimate.



**Table 2.1**  
**Projection Techniques for Different Types of Local Revenues**

Items of Income under the Uniform Budget Classification	Share in total revenues (Percent)	Expert Judgement	Trend Analysis	Deterministic Forecasting	Econometric Forecasting
Profits Tax	1	Additional	Main		Optional
Municipal Tax	17	Additional	Main		Optional
Personal Income Tax	28	Additional	Main		
Personal Income Tax (patent tax)	0.3	Main	Additional		
Real Estate Tax	4	Additional		Main	
Inheritance Tax	0.4	Additional		Main	
Fees for Entitlement to Use of Motor Vehicles	2	Additional		Main	
Donated Property Tax	7	Main			
Waste Disposal Fee	3	Additional	Main		
Municipal Fees	2.6	Main			
Deductions from Income of Municipal Enterprises		Main		Additional	
Income Obtained from Rented Property	1		Main	Additional	
Interest Income from Current Bank Accounts	0.1		Main		
Interest Income from Bank Time Deposits			Main		
Fines, Sanctions, Damages, Interest in Arrears, Compensations and Penalty Charges	1.6	Main			
Income from the Sale of Long-Term Tangible Assets	3	Additional	Main		
Privatization Income	5.2*	Main	Additional		Additional
Subsidies and Transfers Received from the Central Government Budget	29	Main			

\*Privatization revenues are not included in the local budget. Their share in total budget revenues is shown just for illustrative purposes.



**Exhibit 2.5**  
**Sample Program Description:**

<b>RAZGRAD MUNICIPALITY</b>	
<b>Legal Framework</b>	
<p style="text-align: center;"><b>Central Government</b></p> <p style="text-align: center;">[Identify enabling legislation specified]</p>	<p style="text-align: center;"><b>Municipal Government</b></p> <p style="text-align: center;">[Identify local law and policy specifically]</p>
<p style="text-align: center;"><b>Municipal Administration</b></p> <hr/> <p style="text-align: center;"><b>The service is organized by</b> [title of responsible operational manager]</p> <p style="text-align: center;"><b>Under the management of</b> [name of department]</p> <p style="text-align: center;"><b>And the responsibility of</b> [chain of command]</p> <hr/> <p style="text-align: center;"><b>The service is delivered</b> [under what relationship? _____ ]</p>	
<p style="text-align: center;"><b>Criteria for Service Evaluation</b></p> <p style="text-align: center;">[List indicators for which there is service data List outcome performance measures that show the results]</p>	<p style="text-align: center;"><b>3 Year Budget</b></p> <p>1997 - BGL _____</p> <p>1998 - BGL _____</p> <p>1999 - revenue _____</p> <p style="text-align: center;">offset _____</p> <p style="text-align: center;">request _____</p>



**Exhibit 2.6.1**  
**Sample Base Budget Request Forms—Staff Information**

Form # BBSI BASE BUDGET REQUEST FOR \_\_\_\_\_ FY  
STAFF INFORMATION

Domain: Education  
 Department: Education Department  
 Unit: School

Employee/ Position	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Gross annual wages CFY	Social Security CFY	Total Labor Costs CFY	Average per 1 person CFY	Basic annual wages NFY	Average monthly wages NFY	Number of months	Other payments (Overtime experience)	Additional remunerations	Compensations under Art. 222 & 224 of the LC	Social security	Total for the staff for NFY	Average per 1 person for NFY	
<b>A. Staff</b>														
A1. Pedagog. staff														
A2. Nonpedagog. staff														
<b>B. Auxiliary staff</b>														
B1. Fire-guard team														
B2. Security unit														
B3. Repair group														
B4. Ensemble														
<b>C. Service contracts</b>														
<b>D. TOTAL EXPENSES</b>														

CFY Current Fiscal Year  
 NFY Next Fiscal Year  
 PFY Previous Fiscal Year

BBR Base Budget Request  
 CFYB Current Fiscal Year Budget

**Exhibit 2.6.2  
Sample Base Budget Request Forms—Labor Costs/Labor Contracts**

**Form No. BBLCLC** **BASE BUDGET REQUEST FOR \_\_\_\_\_ FY**

**LABOR COSTS**

**Labor Contracts**

Domain: Education  
 Department: Education Department  
 Unit: School  
 Program Description:  
 Objective Description:

Drafted by:

Personnel: Labor Contracts		Jan-June CFY (actual)	Jan-Sept CFY (actual)	CFY budget	Request for NFY
Budget Subitem					
1		2	3	4	5
A. 01 - Basic remuneration on labor contracts - teachers - other staff	Total				
B. 02 - Social security contributions (for subitems 01) - teachers - other staff	Total				
C. Total Labor Contracts Expenses	Total				

Indicators <sup>a</sup>		
Input Indicator(s)	Norm	Output Indicator(s)
PFY	PFY	PFY
CFY	CFY	CFY
NFY	NFY	NFY

**Notes:**

<sup>a</sup> Input, output, outcome and efficiency indicators should be developed for the department. (See chapter 2 of the budget reference manual for a discussion on performance indicators.)

CFY Current Fiscal Year      BBR Base Budget Request  
 NFY Next Fiscal Year      CFYB Current Fiscal Year Budget  
 PFY Previous Fiscal Year





**Exhibit 2.6.3**  
**Sample Base Budget Request From—Labor Contracts/Other Payments**  
**FORM #BBLCOP**      Education Department      Program Description:  
BASE BUDGET REQUEST FOR \_\_\_\_\_ FY      LABOR COSTS (Other Payments)      Objective Description:

Domain: Education  
Department: Education Department  
Unit: School  
Drafted by:

Personnel: Other Labor Payments		Jan-June CFY (actual)	Jan-Sept CFY (actual)	CFY budget	Request for NFY	Indicators	
Budget Subitem		2	3	4		Input Indicator	Output Indicator
1					5	PFY	PFY
A. 03(01) - Labor contracts auxiliary staff - security unit - fire guards - repairs group - state dance ensemble	Total					CFY	CFY
A. 03(02) - Civil contracts personnel - service contracts	Total						
B. 02 - Social security contributions - security unit - fire guards - repairs group - state dance ensemble - service contracts - teachers A. 03(03) - Art. 222 and 224 of the Labor Code compensations - teachers - other staff - auxiliary staff	Total						
C. Total Other Labor Costs	Total					NFY	NFY

Notes:  
<sup>a</sup> Input, output, outcome and efficiency indicators should be developed for the department. (See chapter 2 of the budget reference manual)

**Exhibit 2.6.4  
Sample Base Budget Request Form—Other Budget Costs**

Form # BBOBC      BASE BUDGET REQUEST FOR \_\_\_FY  
OTHER BUDGET COSTS

Domain: Education      Program Description:  
Department: Education Department  
Unit: School      Objective Description:  
Drafted by:

<b>Personnel: Other Budget Costs</b>					
<b>Budget subitem</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Jan-June CFY (actual)	Jan-Sept CFY (actual)	CFY budget	Request for NFY	
04 – Food - food for children in the kindergartens - free food for the personnel - price difference	Total				
06 - Bedding and clothes - bedding - clothes	Total				
07 - Business trips - travel expenses - daily allowance	Total				
08 - Office supplies, fuel, and energy - fuel - electricity - heating - office supplies - water - others	Total				
09 - Other services - subscription - telecommunications, postal charges - laundering	Total				

<b>Indicators<sup>a</sup></b>		
<b>Input Indicator 1</b>	<b>Norm</b>	<b>Output Indicator 2</b>
PFY	PFY	PFY
CFY	CFY	CFY
NFY	NFY	NFY

**Notes:**

<sup>a</sup> Input, output, outcome and efficiency indicators should be developed for the department. (See chapter 2 of the budget reference manual for a discussion on performance indicators.)

CFY    Current Fiscal Year      BBR    Base Budget Request      PFY    Previous Fiscal Year  
NFY    Next Fiscal Year      CFYB    Current Fiscal Year Budget



1	2	3	4	5
10 - Major repairs of premises - roofs - heating installations - others	Total			
11 - Scholar and subscription expenses - scholar trips - scholar contests - books - qualification - others	Total			
12 - Other expenses - overheads - transportation teachers - transportation students - entertainment fund	Total			
15 - Major repairs - heating systems - roofs	Total			
39 - Scholarships - orphans - Disadvantaged - prize students	Total			
<b>Total</b>				
16 - Acquisition of long-term tangible assets - computers - stoves - water heaters - freezers, etc.	Total			
<b>TOTAL EXPENSES</b>				

CFY Current Fiscal Year  
 NFY Next Fiscal Year  
 PFY Previous Fiscal Year

BBR Base Budget Request  
 CFYB Current Fiscal Year Budget







(Specify exact index code, sub-object code, and leva amount within the department. Include inflation for operations and maintenance, if applicable. Double-check number accuracy.)

	<b>Index</b>	<b>Sub-object</b>	<b>Current FY</b>	<b>Next FY</b>
<b>Expenditures</b>				
1. Personnel				
2. Operations and Maintenance				
<b>Revenues</b>				
1. Own revenues				

- 8. Attach Implementation Time line (if applicable)**  
(Be specific in presenting the best estimate of the anticipated implementation schedule).



**EXHIBIT 2.7.2**  
**SAMPLE CAPITAL IMPROVEMENT PROJECT ENHANCEMENT**  
**BUDGET REQUEST FORM**

**Form CIPEF**

**FY\_\_\_\_ BUDGET**  
**CAPITAL IMPROVEMENT PROJECT**  
**ENHANCEMENT BUDGET REQUEST FORM**

**1. Basic Information**

Department/Agency: \_\_\_\_\_ Departmental Ranking: \_\_\_ out of \_\_\_  
CIP Name: \_\_\_\_\_ Functional Group Ranking: \_\_\_ out of \_\_\_

**2. Summary Table** (combined total of detail table)

	Previous FY (Actual)	Current FY (Actual)	Next FY (Enh.)	FY ____ (Estimate)	FY ____ (Estimate)	Total
<b>Expenditures (-)</b>						
<b>Revenues (+)</b>						
<b>Total Funding:</b>						
Target Transfer from the Central Budget						
Privatization Revenues						
Local Budget						
Loans						
Bonds						

**3. Description**

(Please give a detailed description about the capital improvement).

**4. Enhancement's Relation to the Department Mission**

(Please be specific on the number of clients currently being served and the anticipated future impact of the proposed enhancement on service).

**5. Impact If Not Approved**

(Use quantitative data when possible).





## 6. Detail Table

(Specify exact index code, sub-object code, and leva amount within the department. Include inflation for operations and maintenance, if applicable. Double-check number accuracy).

	Index	Sub-object	Current FY	Next FY
<b>Expenditures</b>				
1. <i>Feasibility Studies</i>				
2. <i>Engineering</i>				
3. <i>Construction</i>				
4. <i>Other</i>				
5. <i>Contingent</i>				
<b>Revenues</b>				
1. <i>Own revenues</i>				

### ***Attach Implementation Time line***

(Be specific in presenting the best estimate of the anticipated implementation schedule).







## **EXHIBIT 2.8**

### **INSTRUCTIONS ON COMPLETING BUDGET EXPENDITURES FORMS**

This section presents instructions on completing eight forms, five of which (Exhibits 2.6.1 to 2.6.5) are for calculating the base budget; two (Exhibits 2.7.1 and 2.7.2) are for estimating additional costs; and one (Exhibit 2.7.3) is for consolidating the base budget and enhancements. The forms have the following titles and acronyms:

- 2.6.1. BBSI—Base Budget Request—Staff Information
- 2.6.2. BBLCLC—Base Budget Request—Labor Costs/Labor Contracts
- 2.6.3. BBLCOP—Base Budget Request—Labor Contracts/Other Payments
- 2.6.4. BBOBC—Base Budget Request—Other Budget Costs
- 2.6.5. BBRS—Base Budget Request—Summary
- 2.7.1. PEF—Services Enhancement Budget request
- 2.7.2. CIPEF—Capital Improvement Project Enhancement Budget Request
- 2.7.3. BBRE—Base Budget/Enhancement Request

#### ***Using the Base Budget Request Forms***

Five forms are used to estimate the base budget. The base budget refers to the existing service level of a unit or to a base budget approved by the city council. The constant supply of service budget is defined as the total amount of resources needed to provide the same quantity and quality of services currently offered. In other words, budget units have to estimate what the costs of services presently offered will be in the new FY. Given all other conditions are equal, inflation will be the main factor for the changes in the new FY.

When preparing base budget requests, it is also necessary to consider:

- The general situation in the country and the regional economic development prognosis;
- Local financial policies;
- Foreseen changes in labor remuneration;
- Forthcoming structural changes in the municipality; and
- The capacity of hired services.

It is quite possible to expect a lower service level in a number of sectors due to reasons, such as a decrease in the number of school children, etc. Should that be the case, all related expenditure items of the base budget should be adjusted to the expected service level.



This type of budgeting employs a system of clear and specific service performance indicators, which constitutes a powerful tool for efficient and effective financial management. The forms use several types of new indicators, in addition to norms applied by central government agencies for evaluation of specific services. In most cases, the norms do not give a clear picture of the quality or costs of individual services, however, the norms can be used at least as a general indicator of the prevailing trends. For example, a change in the teachers/pupils ratio is a norm that indicates a general trend in the provision of educational services. This norm, however, is insufficient for assessing the need for a service, and its cost and benefit.

**# Form Number 2.6.1—BBSI—Base Budget Request—Staff Information**

**Description:** This is a detailed specification of the staff by job categories and remuneration level. It is drawn up by municipal units such as schools, health care establishments, departments, etc. It contains data for determining the funding needed to cover labor costs in the new FY.

**Purpose:** To justify the amount of funds needed to retain the current service level. This provides the basis for filling in forms BBLCLC and BBCOP.

**Information:** The data needed for filling the form is retrieved from the management plans and objectives of the unit, PFY reports, CFY budgets, instructions given by the Finance department, and existing legislation regarding labor remuneration in the budget-funded sectors.

**# Form Number 2.6.2—BBLCLC—Base Budget Request—Labor Costs/Labor**

**Contracts Description:** This contains labor cost data for the personnel on labor contracts as well as performance indicators. Labor costs are broken down into basic remuneration, social security contributions, and benefits. This form is filled in by municipal units like schools, health care establishments, departments, etc. It is based on data from form BBSI. The form contains indicators for measuring both inputs and outputs over a period of three years.

**Purpose:** To justify the amount of funds needed to retain the current service level. It provides opportunities for comparative analysis of costs incurred during different reporting periods.

**Information:** The data for this form is retrieved from previous reports, CFY budgets, instructions given by the Finance department, existing legislation regarding labor remuneration in the budget-funded sectors.

**# Form Number 2.6.3—BBLCOP—Base Budget Request—Labor Costs/Other**

**Payments Description:** This form contains labor cost data on auxiliary staff and civil



contracts personnel, broken down by types of staff and payment types. It is based on data contained in form BBSI. The form contains indicators for measuring both inputs and outputs over a period of three years.

**Purpose:** To justify the amount of funds needed to retain the current service level. It provides opportunities for comparative analysis of costs incurred during different reporting periods.

**Information:** The data for this form is retrieved from previous reports, CFY budgets, instructions given by the Finance department, and existing legislation regarding labor remuneration in the budget-funded sectors.

**# Form Number 2.6.4—BBOBC—Base Budget Request—Other Budget Costs**  
**Description:** This form contains data on other budget costs including capital improvement costs. The form contains indicators for measuring both inputs and outputs over a period of three years.

**Purpose:** To justify the amount of funds needed to retain the current service level. It provides opportunities for comparative analysis of costs incurred during different reporting periods.

**Information:** The data for this form is retrieved from previous reports, CFY budgets, instructions given by the Finance department, resolutions of the city council, procurement contracts with vendors of goods and services, and instructions issued by central government agencies and departments.

**# Form Number 2.6.5—BBRS—Base Budget Request—Summary Description:**  
This form consolidates data on all types of expenses and shows their rate of change expressed as ratios. Data on off-budget funds is presented on a separate line.

**Purpose:** To justify the amount of funds needed to retain the current service level. It provides opportunities for comparative analysis of costs incurred during different reporting periods.

**Information:** Data needed to fill in the form is retrieved from forms BBLCLC, BBLCOP, and BBOBC, and from PFY reports.

### ***Using Enhancement Request Forms***

An expenditure enhancement is any budgeted expenditure (personnel, capital, or other budget costs) that exceeds the constant supply of service budget.

A department budget can grow as the result of:



- The higher cost of providing the same services as the previous year (inflation);
- The addition of new activities and responsibilities (program change);
- A higher level of quality in providing the same services as the previous year (change in service level);
- Providing the same services at the same level as the previous year to a larger number of service recipients (change in work base); and
- Staffing and operating a new building or other capital facility (new facility operating costs).

### ***The Enhancement Request Process***

The development and submission of enhancement requests for the FYXXX budget follows a seven-step process:

- ! Step 1. Using the mayor's criteria (*see below*) and the enhancement request forms, the departments develop their requests and rank them (1 = highest priority, 10 = lowest priority). Enhancements related to capital improvement program (CIP) projects are ranked separately from the service enhancements.
- ! Step 2. The departments submit ranked enhancement requests to their deputy mayor or city secretary for discussion and prioritization. The departments also submit CIP enhancements with to their request forms to the finance department.
- ! Step 3. The deputy mayor and the city secretary discuss and rank the enhancements for all departments (1 = highest priority, 10 = lowest priority). As in Step 1, service enhancements are ranked separately from the CIP enhancements. Enhancements should not be tied to each other.
- ! Step 4. The deputy mayor and the city secretary submit the prioritized service enhancement requests, including background information to the finance department. Their ranking of CIP enhancements, based on the project's ranking, is given to the finance department.



- ! Step 5. The finance department provides the deputy mayor and city secretary with comments on the enhancements, and meets with the mayor for final discussion. Comments on CIP enhancements also are sent to departments.
- ! Step 6. The mayor meets with the deputy mayors and city secretary to identify his and the municipal council's service enhancement priorities. After consultation, the mayor makes the final recommendations for CIP enhancements.
- ! Step 7. The finance department incorporates the recommended enhancements into the proposed budget.

An enhancement must meet all of the following criteria:

- It must have a direct impact on the adopted municipal strategic plan;
- It must have an impact on a department's mission and goals;
- It must have a measurable impact and be directly related to a performance indicator;
- It must be endorsed and prioritized by the relevant deputy mayor and city secretary (or be specifically directed by the mayor); and
- It must have an implementation plan (i.e., public hearing dates, schedules, etc.).

An enhancement must also meet one of the following criteria:

- It was directed by either the municipal council, the mayor, a deputy mayor, or city secretary;
- It is necessary to comply with a national mandate;
- It relates to the implementation of a CIP project currently in process or proposed for the next FY;
- It is essential to meet a public need with a greater emphasis on customer service;
- It replaces a withdrawal of national funds for the maintenance of a critical service;
- It offsets a decline in another source and is necessary to maintain current service levels on a constant supply of service basis; and



- It is essential to maintain constant levels of public health and safety.

The mayor will only recommend an enhancement to the municipal council for approval if it meets the mayor's general guidelines and includes all required attachments. A department must complete each section of the enhancement request form carefully. Incorrectly completed forms will not be considered for review. Departments should be as specific as possible in their enhancement requests. Departments must demonstrate the benefits to be received by the enhancement, and the impact on services if the enhancement is not approved.

**# Form Number 2.7.1—PEF—Services Enhancement Budget Request Form**  
**Instructions:** This form provides the department or agency name and the name of the service requiring budget enhancements. Enter the departmental and functional group rankings of the enhancement.

**Summary Table:** This table displays the total expenditures and revenues associated with this enhancement.

- The expenditures line is for the total increased expenditures as a result of this enhancement for CFY and NFY.
- The revenues line is for the total revenues that will be generated as a result of this enhancement for CFY and NFY.
- The local budget funding line describes the net fiscal impact associated with the proposed enhancement (expenditures less revenues) for CFY and NFY.

**Personnel:** If the enhancement includes new permanent positions, include the number of full-time equivalents (FTEs) and the official titles and job classifications of each new position.



## ***Description of Enhancement***

This section should include:

- The type of enhancement being requested (e.g., maintain service levels, new services, operating costs, etc.) and its cost;
- The type of services and activities;
- The quantifiable and measurable benefits to be achieved by the enhancement;
- The effective date for the enhancement;
- The mayor's optional criteria (i.e., "must meet one") met by the enhancement; and
- Any relevant background information.

**Enhancement's Relation to the Department Mission:** Explain how the enhancement enables the department to achieve its stated mission. Attach any relevant background information.

**Impact If Not Approved:** Explain any consequences that are expected to result from the rejection of this enhancement. Quantify the impact where possible.

**Detailed Table:** This table provides specifics on the information presented in the summary table (Item 2). Attach any relevant background information.

- Under the expenditure heading identify all personnel costs and operations and maintenance (O&M) costs associated with this enhancement by services and sub-object for CFY and NFY.
- Under the revenue heading identify revenues, fees, or grants associated with this enhancement by services for CFY and NFY.

**Implementation Time line:** Provide a schedule if the enhancement must be implemented over time. Time lines may identify:

- When staff will be recruited, hired, and trained;
- Key actions and necessary milestones;
- Completion dates (if applicable); and
- Highlight approximate dates for key events using letters or numbers, and provide a brief explanation of each key event



# **Form Number 2.7.2—CIPEF—Capital Improvement Project Enhancement Budget Request Instructions.** This form provides the department or agency name and the CIP enhancement. Enter the departmental and functional group rankings of the enhancement.

**Summary Table:** This table displays the total expenditures and revenues associated with this enhancement.

- The expenditure line is for the total CIP expenditures as a result of this enhancement for the CFY, NFY, and estimates for other FYs.
- The revenues line is for the total revenues that will be generated as a result of this enhancement for the CFY, NFY, and estimates for other FYs.
- The local budget funding line describes the net fiscal impact associated with the proposed enhancement (expenditures less revenues) and proposed funding alternatives for the CFY, NFY, and estimates for other FYs.

### ***Description of Enhancement***

This section should include:

- The history of the project;
- The type of CIP enhancement being requested and its cost;
- The location of the project;
- Short description of the capital improvement;
- Legal and practical issues regarding the procurement process;
- Preliminary assessment of the market; and
- An explanation of how the CIP relates to the strategic plan, the city's mission or a specific program.

Attach any relevant background information.

**Enhancement's Relation to the Department Mission:** Explain how the enhancement enables the department to achieve its stated mission. Attach any relevant background information.

**Impact If Not Approved:** Explain any consequences that are expected to result from the rejection of this CIP enhancement. Quantify the impact where possible.



**Detailed Table:** This table provides specifics on the information presented in the summary table (Item 2). Attach any relevant background information.

- Under the expenditures heading identify all possible costs associated with this CIP enhancement by sub-object for CFY and NFY.
- Under the revenue heading identify revenues, fees, or grants associated with this CIP enhancement for CFY and NFY.

### ***Implementation Time line***

Provide a schedule that identifies:

- How the contractor(s) will be selected;
- Key actions and necessary milestones;
- Completion dates (if applicable);
- Highlight approximate dates for key events using letters or numbers, and provide a brief explanation of each key event.

**# Form Number 2.7.3—BBRE—Base Budget/Enhancement Request**  
**Description:** This form consolidates the base budget and enhancement requests. It is drawn up at the department level and provides data broken down by units. It used financial data contained in forms BBRS, and ENHCIP, and non-financial data (indicators and norms) from forms BBLCLC, BBLCOP and BBOBC. Columns 2 through 8 contain base budget data, and columns 9 through 12 contain enhancement figures. Page 1 of the form specifies expenses by type of expenditure units, while page two presents trends in indicators and norms.

**Purpose:** To present the base budget and enhancement requests in a consolidated form. It provides opportunities for comparison of the two types of requests in different reporting periods. This form has to be filled out regardless of the fact that in some cases enhancement forms would not be used by some of the organizational units. Some of the indicators on the second page will be calculated on the basis of the information on the base budget data.

### 3.0 REVENUE AND EXPENDITURE FORECASTS

Revenue and expenditure forecasts are essential in calculating base budget and enhancement requests.

#### ***Revenue Forecasts***

The budget calendar provides the opportunity for a three-phase revenue forecast process according to the availability of the data needed and the purpose of the corresponding budget process step:

- Step A 5: First revenue estimate in mid-August
- Step B 2: Analysis of revenues in mid-October
- Step B 9: Final version of the draft budget in December

#### **# Phase 1—Before the Budget Process Starts**

During this phase, the finance department can develop a general idea of what the expectations for the next fiscal year could be, based on the current budget execution report for the first six months. In addition, the tax office produces its own forecast as part of the national budget procedure. These two information sources provide the data which form the basis for additional analytical work on the first local revenue forecast.

At this time, the Ministry of Finance requires all local governments to prepare a comprehensive budget draft for the next fiscal year. This document becomes the first local budget draft. In most cases, the draft does not reflect real needs and resource allocations, but the local management can use this process to define objectives based on the proposals of the citizens.

Based on the information available and using the techniques described in chapter two, *Tools of Budget Preparation*, a fairly precise forecast can be done for the following revenue sources:

- Real estate tax
- Waste disposal fee
- Rents and other incomes from municipal property
- Fees for use of motor vehicles

#### **# Phase 2—After Ministry of Finance Publication of Official Economic and Budget Estimates**

This period starts in August and ends in October. By the end of August, the Ministry of Finance provides general guidelines for the first local budget draft on:

- Inflation rate;



- National policy objectives;
- Expected taxation changes;
- Major reassignment of services; and
- Territorial/administrative changes.

Based on the data above and the results of the budget process so far, the municipal management can form a local fiscal policy with detailed mission statement, goals and objectives (see chapter one of the budget reference manual). This document provides general and specific guidelines for those involved in the budget process. The revenue forecast takes into account the data in the budget request forms, giving city officials a clearer picture of the local budget. Most of the analytical work on the revenue estimates is done at this phase. The only question mark that remains at the end of this phase is the exact amount of the intergovernmental transfers. Using the expert judgment technique, the finance department can estimate the transfers and balance the budget draft. The finance department can then present it to the councilors and the public for additional discussion.

At this point, the revenue forecast could give a precise picture on:

- Profit and municipal taxes;
- Income tax;
- Municipal fees; and
- Privatization revenues.

# **Phase 3—After National Budget Act Adoption.** The Nation Budget Act governs the amount and types of intergovernmental transfers. Prior national budgets show that major changes should not be expected, i.e., the projected amount of transfers is reliable and adequate for the local budget preparation process. A sound revenue estimating approach requires finance officials to assume that revenues will fall somewhat short of the amounts projects by the Ministry of Finance and to guarantee that, after the National Budget Adoption, budgeted services will not be cut back.

During the last few years local governments have helped the Ministry of Finance determine the transfers by identifying trends, needs and objective criteria. The proposed methodology has been broadly discussed with representatives of the National Association of the Bulgarian Municipalities. Legislation has made this process mandatory since 1996. This means:

- City officials deal with fewer unforeseen factors during the local budget preparation process;
- Citizens can be involved at an earlier stage of the budget process; and
- The overall local economic and fiscal environment is more stable and predictable



### **Other Considerations**

During each of the phases described above, some general revenue estimating steps can be followed.

<p style="text-align: center;"><b>Step 1</b></p> <p style="text-align: center;"><b>Analyze the revenue sources by reviewing historical trends</b></p>	<p><b>Basic questions:</b></p> <ul style="list-style-type: none"><li>! What factors or assumptions influence the revenue results?</li><li>! What was the previous mix of volume and fees?</li><li>! What mix of volume and fees is anticipated in the future?</li><li>! What are the inflation assumptions? How do the inflation assumptions affect the revenue forecast?</li><li>! Does the proposed fee also provide information on the methodology used to develop the revenue projections?</li></ul>
<p style="text-align: center;"><b>Step 2</b></p> <p style="text-align: center;"><b>Based on the above analysis, develop the forecast in constant leva</b></p>	<p><b>Basic notes:</b></p> <ul style="list-style-type: none"><li>! Ensure all assumptions regarding mix, volume, and economic factors that support the revenue forecast are well documented.</li><li>! Interrelated revenues should share consistent economic assumptions.</li><li>! The extent of effort and documentation should be determined by the significance of the revenue impacts.</li></ul>



<b>Step 3</b> <b>Indicate the inflation assumptions to be used for each revenue source</b>	<b>Inflation options:</b> <ul style="list-style-type: none"><li>! Inflate using an official projection.</li><li>! Inflate using a conservative inflation rate (higher than the official).</li><li>! Do not inflate.</li><li>! Use other options.</li></ul>
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### ***Expenditure Mandates***

The level of local government authority over budget expenditures is set by legislation and is not equal for all local governments. The municipal officers should be aware of the diverse types of regulations and relationships between the different policy levels—National Assembly, Council of Ministers, Ministries and local governments.

The Annual National Budget contains certain local expenditure rules that govern:

- The type and amount of national grants and contributions to municipal budgets, as well as the payment method and the restrictions imposed on them;
- Disbursement priorities by type of expenditure;
- The extent to which socially relevant services are provided and the proportion of expenditures committed to them;
- The investment policy of local authorities;
- Procedure for use of state/municipal property by state/municipal institutions; and
- Participation of municipalities in financing extrinsic (e.g., culture) activities, which, are state priorities.

The Municipal Budgets Act establishes budgetary obligational authority for the twenty-one areas of municipal services/expenditures listed below in three groups:

# **Group A**—Services/expenditures over which local governments have limited authority:

- Health care, social, and educational activities
- Activities related to national defense and to the armed forces



- Activities intended to protect the community in the event of natural disasters and industrial accidents

# **Group B**—Services/expenditures over which local governments have shared authority (with central government):

- Municipal property management and administration



- Urban planning and development of the municipal territory, public services, and public works
- Environmental protection activities
- Cultural activities
- Maintenance of public order and protection of private and municipal property
- Acquisition of noncurrent assets
- Collection of statistics
- Repayment of borrowings

# **Group C**—Services/expenditures over which local governments have total authority:

- Administrative and technical services to the community
- Sports and tourist activities
- Maintenance of the municipal council and the municipal administration
- Information support
- Promotional activities and information distribution to attract investors
- Joint activities of mutual interest with other municipalities
- Investment of property in business activity and support of enterprises conducting community-related activities
- Implementation of international programs within the municipal territory
- Extension of loans to other municipalities
- Budget reserve

The central level agencies use various non-financial ratios and norms to measure the impact of municipal spending on state mandated services. Most of the norms deal with inputs rather than measure the result of the service. The local governments are advised to implement similar indicators—the data is available and easy to analyze (Chapter 2—Budget Request Forms).

## 4.0 CHOICES OF INDICATORS: SEVERAL LEVELS OF INDICES

Efficient and effective service delivery requires performance management—the planning, monitoring, and measuring of service performance. This type of management goes beyond day-to-day supervision of work crews. Similarly, simply examining the overall expenditures of a department without considering the quantity, quality and cost of the services produced is not sufficient. Operations managers must have additional information and analytic tools to monitor the performance of services for which they are responsible.

In performance management, the municipality establishes service objectives and monitors performance towards the attainment of those objectives. Objectives are usually described as effectiveness or efficiency goals.

- **Effectiveness goals:** Stated in terms of the number of people served and the quality of the service delivered (i.e., doing the right things)
- **Efficiency goals:** Stated in terms of the cost per unit of service delivered (i.e., doing things right)

Establishing goals, defining service programs and monitoring performance allows managers to:

- Ensure the best possible service at the lowest possible cost (i.e., customer satisfaction);
- Identify areas for service improvement;
- Ensure conformance to the budget; and
- Plan for future service delivery.

### ***Definition of Performance Indicators***

Indicators are quantitative data on the need for a service, the inputs to that service, the amount of service provided (outputs), and results (outcomes) of that service:

- ! Service Need Indicators:
  - Population to be served
  - Number of households to be served
  - Number of street lights to be maintained
  - Kilometers of drains to be cleaned
  
- ! Service Input Indicators:
  - Number of trucks in service
  - Liters of fuel consumed
  - Labor time (days, hours)



- Number of employees
- Amount of expenditure
  
- ! Service Output Indicators:
  - Tons of garbage collected
  - Kilometers of roads resurfaced
  - Number of drains maintained
  - Cubic meters of water supplied

- ! Service Outcome Indicators:
  - Decrease in crime rate
  - Increase in employment
  - Change in student test scores
  - Percentage increase in employment among low skilled workers

The budget request forms contain a specific field dedicated to performance indicators and norms currently used for various purposes. The introduction of goals and performance measurement helps local governments to overcome their input oriented budget practices. Municipal managers have to develop a system of indicators for each service in order to be able to measure:

- Strategic objectives;
- Annual goals;
- Ongoing performance of service providers; and
- Citizens' needs

The goals and objectives example below demonstrates an approach for developing several levels of indicators for education services.

### ***Goals and Objectives—(Example)***

#### **Cognitive:**

- To provide basic and higher-order skills
- To provide factual information
- To provide skills for future life activity (including further education and employment)



**Noncognitive:**

- To develop self-esteem and self-concept
- To develop interpersonal skills
- To develop good working habits
- To develop self-discipline
- To develop responsible citizenship
- To maintain mental and physical health
- To encourage students to develop ethical values

**Efficiency:** To achieve the above outcomes at minimum cost.

**Equity:** To maximize the potential of students of all ethnicities, income levels, and genders.

***Explanatory Data***

**Purpose:** to provide information on factors that are likely to have some effect on student achievement and that can be important in understanding performance indicators.

**Not controllable:**

- Student enrollment figures
- Percentage of students of minority racial/ethnic groups
- Percentage of students in subsidized lunch program
- Percentage of pupils in the school whose families receive welfare benefits
- The total number and percentage of students in families below the poverty level
- Percentage and number of students in compensatory education programs
- Percentage of students with "limited English proficiency" and percentage enrolled in "English as a Second Language" classes
- Percentage of students enrolled in special education classes
- Distribution of entering test scores (such as from the end of previous school year)
- Mobility rate (e.g., percentage of school's enrollment entering, or departing, after the start of the school year)
- Per capita income
- Property value per pupil
- Percentage of students in gifted or talented programs

**Controllable:**

- Student-teacher ratios



- Percentage of student-hours spent in "overcrowded" classes
- Percentage of teachers with Master's degree
- Percentage of teachers who passed teacher competency tests
- Teachers' entry salary (for entrants with a Bachelor's degree or for entrants with a Master's degree) and average teacher's salary after 10 years
- Average teacher tenure
- Number and percentage of teachers teaching out of their primary subject area
- Teacher turnover rate

**Indicators of Service Efforts**

**Inputs**

<ul style="list-style-type: none"> <li>— Expenditures (broken out by type of activity such as instructional and administrative, and reported per household or per capita)</li> </ul>	<p><i>To provide a measure of resources used to provide services</i></p>
<ul style="list-style-type: none"> <li>— Total number of personnel</li> <li>— Amount of work time expended</li> <li>— Student-Teacher Ratios</li> </ul>	<p><i>To provide a measure of the size of the organization</i></p>

**Indicators of Service Accomplishments**

**Outputs**

<ul style="list-style-type: none"> <li>— Number of student-days</li> </ul>	<p><i>To provide a general measure of workload</i></p>
<ul style="list-style-type: none"> <li>— Number of students promoted or graduated</li> </ul>	<p><i>To provide a measure of students satisfactorily advancing</i></p>
<ul style="list-style-type: none"> <li>— Attendance/absenteeism rate</li> </ul>	<p><i>To provide a measure of student participation in classes and an indication of their interest in the learning process</i></p>
<ul style="list-style-type: none"> <li>— Dropout rate</li> </ul>	<p><i>To indicate the school's success in keeping students actively involved in the learning process</i></p>



**Outcomes**

<p>! Test score results—for each major subject area:</p> <ul style="list-style-type: none"> <li>— Average percentile on standardized tests</li> <li>— Percentage of students above 50<sup>th</sup> percentile on tests</li> <li>— Percentage of students reaching a level of proficiency commensurate with their age</li> </ul>	<p><i>To provide measures of student achievement in academic subjects and a comparison with expected achievement and established norms</i></p>
<p>! Percentage of students achieving grade level gain on achievement test (may be presented for major subject areas as well as overall)</p>	<p><i>To provide an indication of the development of noncognitive skills and abilities generally considered as objectives of formal education</i></p>
<p>! Percentage of students achieving specific fitness test standards</p>	<p><i>To provide an indication of the development of noncognitive skills and abilities generally considered as objectives of formal education</i></p>
<p>! Percentage of graduates gainfully employed or continuing education two years after graduation</p>	<p><i>To provide an indication of the school system's results in preparing graduates for further education or to become members of the workforce</i></p>
<p>! Percentage of students rating themselves as good, excellent or improved regarding:</p> <ul style="list-style-type: none"> <li>— Work and study skills</li> <li>— Self-discipline</li> <li>— Interpersonal skills</li> <li>— Knowledge gained</li> </ul>	<p><i>To provide measures of students' perceptions of their acquisition of knowledge and selected noncognitive skills and behavior</i></p>
<p>! Percentage of parents rating their children good, excellent or improved in:</p> <ul style="list-style-type: none"> <li>— Work and study skills</li> <li>— Self-discipline</li> <li>— Interpersonal skills</li> <li>— Knowledge gained</li> </ul>	<p><i>To provide measures of parents' perceptions of their child's acquisition of knowledge and selected noncognitive skills and behavior, to allow comparison with students' perceptions, to indicate the school system's contribution to the acquisition of these skills and behavior</i></p>





**Indicators that relate service efforts to service accomplishments Efficiency:  
(input/output and input/outcome measures)**

<p><b>!</b> Cost per unit of output: — Per student-day — Per student promoted/graduated</p>	<p><i>To provide an indication of the school system's operational efficiency</i></p>
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## 5.0 CITIZEN PARTICIPATION IN THE BUDGET PROCESS

Recently enacted Bulgarian legislation requires citizen participation in local government and defines the means for involving the public in decision making. According to the Local Self-Government and Local Administration Act:

- ! Citizens shall participate in local self-government by making decisions on issues of local concern directly, by means of general meetings, referenda or other forms, or through bodies thereby elected, which shall develop and implement a local policy consistent with the interests of the community.
- ! Local referenda shall be held on major issues related to the implementation of the policy of the municipality. A resolution to conduct a referendum shall be passed by the Municipal Council by a majority of more than one-half of the total number of councilors.
- ! Local referenda and general meetings of the community shall be called and conducted under terms and according to a procedure established by statute.
- ! The expenses incurred for the conduct of any referendum or general meeting shall be borne by the municipal budget.

The Municipal Budgets Act sets some general principles for spending budget resources. Expenditures should be lawful, expedient, effective, efficient, based on public openness, and in the interest of the municipal community.

Despite the legal requirements local governments have limited citizen participation to actions like inviting citizens to the city council meetings, and publishing budget summary reports in local newspapers. Some typical barriers to effective participation include:

- ! The budget process is so time-consuming and costly that officials try to minimize the effort devoted to it.
- ! Local government officials see the development of the budget as an internal process.
- ! The budget is driven by departments, functions, and inputs as opposed to mission, goals, and outputs, which are relevant to citizens.
- ! After adoption, the budget document is primarily used for operational purposes, not for reporting back to citizens.
- ! The budget is a thick technical document, which uses accounting language.
- ! The budget reporting forms in use do not connect with citizens' key concerns.





## ***Razgrad's Experience with Citizen Participation***

Three years ago the Municipality of Razgrad introduced reforms to make its budget process and budget document open and accessible to citizens. One of the main reasons for this was the city's need to "do more with less." The city faced serious economic and demographic problems and the management team decided to make definite, but limited, promises and to fulfill those promises. In addition, the leadership team knew that it needed to make some hard decisions and understood the value of both better information and citizen support to make these decisions.

### **The Budget Document**

The Municipality of Razgrad developed and published its first revised municipal budget for FY 1997. The budget document:

- ! Provided basic information about the municipality and its organization;
- ! Served as a public expenditure plan;
- ! Served as an initial tool for decision making by the city council; and
- ! Served as an initial tool for sharing information with citizens.

The Razgrad budget for FY 1998 included:

- ! Additional information about the municipality;
- ! More thoughtful analysis of revenues and expenditures (multi-year comparisons);
- ! Principal performance indicators for service activities;
- ! Improved graphic presentation (charts and diagrams); and
- ! Wider distribution (press releases, public libraries).

### **Citizen Participation**

In parallel with the improvement of the budget document, the municipal management applied different approaches to involve the public in the local decision-making process.

# **Strategic Development Plan (1997-2000)**. Defines the city vision, strategic objectives, implementation work plan, and performance measures. It serves as general guide for the annual local budget process, and provides more information to citizens regarding the working of the government.

# **Public Councils**. Established as auxiliary collective organs under the Mayor with the purpose of attracting experts with resourceful ideas and alternatives for the solution of problems in specific areas such as education, social welfare etc.



# **Commissioners.** Reception offices have been opened in 26 neighborhoods with the purpose of public outreach on community problems. Each office has a commissioner from the staff of the municipal administration.

# **Youth Parliament.** Established with the aim of attracting young people with resourceful ideas about the future development of the municipality.

### **Citizen Participation in Service-Based Budgeting**

The implementation of the new budget approach is a logical step towards achieving the Razgrad management goal of establishing an effective and citizen-focused local government. The staff efforts concentrate on:

- ! Demonstrating that the budget process offers local government the opportunity to win public support for community choices;
- ! Identifying creative approaches for engaging citizens in the budget process; and
- ! Examining ways of making the budget a citizen-friendly document that helps communicate the mission, goals, and performance of local government.

The budget calendar contains several steps related to public participation:

<b>Step</b>	<b>Actions, Purpose</b>	<b>Time frame</b>
A.1	Public dialog for citizen-focused service goals	May — June
A.4	Incorporation of public recommended goals and initiatives in the city's annual goals	July
A.15	Citizen participation in objectives identification	October
B.7	Presentation of draft budget to community	November
C.4	Making the budget resolution public	December

### **Steps in Increasing Citizen Participation**

Public involvement in the budget process can be obtained via the following steps:

# **Goal:** Identify the citizens' expectations and needs as possible service goals for the next fiscal year in the beginning of the budget process.



# **Actions:** The Mayor addresses the public and invites it to participate in defining service goals. The Mayor's statement is based on:

- The current FY budget;
- The extent to which the current FY goals are being achieved;
- Rough estimates of basic economic factors for next FY; and
- Realistic expectations.

The city management organizes a series of meetings and public hearings, to gather broad citizen input. Other purposes of these events are to:

- Inform the public on basic economic indicators and how these estimates would affect the municipality;
- Present the new service based budget process and explain that competitive approach towards the enhancements will be implemented;
- Present the realistic picture of local government service responsibilities; and
- Identify further steps for citizen participation.

The management should avoid criticizing or assessing citizens' proposals during the events.

# **Participants.** Participants include top local government management (the Mayor, deputy mayors, commissioners, mayoralties' mayors), and the public (neighborhoods, target social groups, the Youth Parliament, NGO's).

### # **Recommended Techniques**

**Opinion Surveys:** Opinion surveys are particularly useful for gathering timely information. This type of survey can:

- Provide important information that can be used to measure the effectiveness of the services provided;
- Capture public opinion on local government performance;
- Measure how public perceptions change over time; and
- Become a powerful tool for stakeholders input into budgetary decisions.

**Publications:** The purpose of publications at this stage should be to inform the citizens about major local government issues – services, problems, trends:

- The budget-in-brief provides key issues and major service and financial changes.
- Newspaper inserts are an effective vehicle for educating a larger audience .
- Leaflets and fliers are one-page written materials on specific service issues.



**Public Hearings:** Public hearings may be the best tool for encouraging stakeholder participation and for direct communication with the city management. In a successful public hearing the public does the talking.

### ***Incorporating Public Goals and Initiatives in City's Annual Goals***

# **Goal:** To analysis citizens' input, incorporate their proposals into the city's annual budget goals, and provide feedback of the results.

# **Actions:** The city management assesses public comments on local government services and performance.

- The mid-level management analyzes the information gathered in the previous stage by service areas and levels of management.
- The Mayor and city council chairman publicly announce their decisions on recommendations made by citizens.

# **Participants:** This step involves the Mayor, city council chairman, deputy mayors, heads of departments, service managers, and commissioners. The media also has a role.

# **Recommended Techniques.** The main purpose at this stage is to prove to the public that its proposals are valuable to the city and to explain the reasons for not accepting some suggestions (e.g., due to legislative constraints or lack of authority). This is where the Mayor and the chairman should communicate with the citizens using:

- The media – newspapers, radios, TV; and
- Bulletin boards in accessible locations – city hall, libraries, open markets.

### ***Citizen Participation in Objectives Identification***

# **Goal:** To reconcile the opinions of service managers with those of the citizens, and involve the public in identifying achievable objectives and priority sorting.

# **Actions:** The city management grants the public access to the budget requests (base budget and enhancements) by service areas.

- The public should assess both the basic levels of service and the purpose of the additional requests for improving or expanding the service.



- The citizens could assess to what extent budget goals (defined in the requests by the city management) match the public expectations.

**# Participants:** The Mayor, city council chairpersons, deputy mayors, commissioners, public councils, the Youth Parliament, and NGO's participate in this step.

### **# Recommended Techniques**

**Public Council Meetings:** The public councils consist of prominent experts whose main purpose is to help the local management made decisions by service areas. The respective deputy mayor or the chairpersons of the city council should organize the meetings. Service managers and heads of departments also have to attend the meetings. If the stakeholders decide to open the meetings to the public, the commissioners could promote and distribute the budget information the public needs to participate.

**Roundtables:** This form is recommended for meetings with NGO's and other organizations. The organizers should avoid discussions on general topics. To ensure the meeting is focused on specific issues, the experts attending the roundtables have to be identified in advance. All the information used for producing the budget requests should be available too.

**Meetings with Focus Groups:** Some local issues deal with specific groups of citizens like minorities, disabled people, etc. During these meetings the local officials may need to provide additional information, such as comparative data from other regions and historical trends.

### ***Presentation of Draft Budget to Community***

**# Goal:** To share and discuss the balanced budget draft with the public.

**# Actions:** The management team presents the draft to the public with emphasis on:

- Identified annual goals;
- Identification of the public input incorporated in the draft;
- Financial limitations and possible constraints;
- Justification and explanation of higher levels of taxes, fees, and charges; and
- Clear demonstration of the relationship between resources and outputs.

### ***Open Discussion of Key Budget Issues and Public Feedback***

**# Participants:** The participants include the Mayor, deputy mayor for finance, Chair, city council chairpersons, public councils, NGO's, and the media.





**# Recommended Techniques:**

- Public hearings.
- Media interviews.
- Bulletin boards.
- Open telephone lines for public opinions.
- Preparation and distribution of leaflets with key budget issues and service performance data.

***Making the Budget Resolution Public***

**# Goal:** To inform the community about the adopted budget, by making the budget information easy to read and accessible.

**# Actions:**

- Preparation and dissemination of the public version of the budget document.
- Preparation and dissemination of the budget-in-brief.
- Meetings of the management team with business circles, target citizen, groups etc.

**# Participants:** Participants include the Mayor, deputy mayors, chairman, city council chairpersons, commissioners, major employers, NGO's, target groups, and the media.

**# Recommended Techniques:**

- Easy-to-read budget publications widely distributed and placed in accessible locations.
- Media releases with telephone access for the public.
- Public meetings.

## 6.0 GUIDELINES FOR BUDGET PRESENTATION

The budget document is the final product of a lengthy process and at each stage of development, the budget takes on a different form. Proposed budgets are usually the most comprehensive and largest versions, because they contain critical decision-making information. The adopted or final budget, on the other hand, may be a smaller summary document used to communicate final policies and appropriations. This chapter suggests ways to organize, present, and reproduce the various budget documents.

Regardless of form or size, budget documents have three purposes:

- ! **Integrate Diverse And, Sometimes Competing, Proposals.** The budget presents all of a government's revenue-raising and spending plans for the budget year. Even in the best of economic times, spending proposals compete for scarce resources. An effective budget document pulls together and reconciles these disparate interests.
- ! **Encourage Debate and Deliberations over Budgetary Issues.** The budget is a decision-making document that is the basis for important fiscal and policy decisions. An effective document encourages debate and proper consideration of budgetary issues by delineating the issues and informing participants of the implications of specific actions (or inactions).
- ! **Communicate Budget Decisions Accurately and Clearly.** At different stages of development, the budget reflects decisions made by department heads, the deputy mayors or secretary, and, finally, the governing body. At each of those stages, the budget must accurately and clearly reflect the results of the preceding stage(s).

Because the budget serves as the official action plan for managers and staff charged with carrying out government functions and services, it must be easily understood and unambiguous.

### ***Key Features of the Final Document***

- ! **Table of Contents and Index.** A table of contents is needed for documents of fifteen pages or more. A tables of content shows the document's organizational structure and provides page numbers to help readers locate specific sections. Major sections and subsections of the budget should be listed in the table of contents. For example, a section entitled "Financial Summaries" should be included, followed by a list of all summary schedules included in this section. Letters or numbers should appear with section and subsection titles only if they are used in the document.



An index is an alphabetical list of budget topics and terms that are cross-referenced with page numbers so the reader can locate topics. Indexes are not essential for a budget, but they contribute to its ease of use. Preparers should think of words and concepts readers are likely to seek out within the budget. Many word processing programs have indexing features which can be used to code key words and phrases while the document is being written. The software produces an index from this group of words and phrases.

- ! **Glossary.** A glossary of terms is an essential feature of any document—like a budget—which makes extensive use of technical terminology. As with a table of contents or index, a glossary cannot be totally compiled until the budget is complete. Unlike a table of contents or index, a glossary will change little from one year to the next. Nonetheless, special care should be taken to update the glossary for each document. A glossary should not be a substitute for the use of plain language within the text. Instead, it should be used to define key terms and words whose meaning may not be readily apparent to most readers.
  
- ! **Graphs and Other Visuals.** Visual aids, graphs in particular, are an integral part of the budget. These aids stimulate the reader's interest, focus the reader's attention, and help the reader better understand budget information. Graphs can be one of a budget's most powerful visual devices if used properly and sparingly. Some of the graphs commonly used in budgets are bar charts, line graphs, and pie charts. Each of these graphs has a special application.
  
- ! **Bar Graphs.** Bar graphs are useful for depicting trends on how one or more variables change over time. For example, an economic trends bar graph could show how the unemployment rate changed over a certain period. By plotting several variables against time, an analyst can show how the variables change relative to one another over time. When using bar charts, follow these guidelines:
  - Make the bars wider than the spaces between them;
  - Label each bar so readers understand what each bar represents;
  - Use different patterns or colors for different data and provide an explanation of what each pattern or color represents; and
  - Use segmented bars to depict three or more variables.



! **Line Graphs.** These graphs are particularly useful for showing trends and cycles among variables. As its name implies, line graphs are plotted on lines, with a horizontal axis and vertical axis. Line graphs are particularly useful in displaying financial projections or trends. Keep in mind the following when creating line graphs:

- Label each axis and provide the proper scale for plotted data;
- Use captions to explain the purpose of the graph;
- Display all labels, numbers, and letters so they are parallel with the horizontal axis; and
- Use different line patterns to depict different variables, when there are three or more variables.

! **Pie Charts.** These charts are circles divided into sections that show the relationship of the parts to a whole. The sections must add up to 100 percent. Pie charts are useful for comparisons of relative size, and frequently are used to show the distribution of revenues or expenditures. At a minimum, follow these simple rules when preparing pie charts:

- Use different patterns or colors to differentiate sections of the chart;
- Label each section of the chart, and the percentage it represents;
- Make sure that the size of each section is proportional to the data it represents; and
- Group small percentage items under an "other" heading.

Other visual aids frequently used in budgets are maps and photographs. Maps can be useful for showing the location of capital projects or the location of demand for certain services. Photographs are used most often on divider pages or in budgets-in-brief to show government facilities or the provision of services.

! **Divider Pages or Tabs.** How budget sections are separated from one another may seem unimportant. However, if the document is large, divider pages will make it easier for readers to find particular sections. The document will also be handier for those who refer to it often. Divider pages set off one section of the document from another. They can be made of heavy weight or colored paper. Either will slightly add to the document's cost because of the additional steps they add to production. Unique graphics or photographs may also be placed on divider pages. These pages will stand out from the rest of document as readers skim through it.



Another highly effective means of separating budget sections is through the use of tabs. Tabs work well because they stand out. The title of major budget sections should be printed on these tabs. In addition, tab pages should be made of heavy stock of paper; so they do not deteriorate with use.

- ! **Cover Design.** You may not be able to judge a budget by its cover; but the cover can be an indicator of the quality of the document. The diligence devoted to designing an appealing cover is usually also applied to designing its contents. Budget documents, particularly budgets-in-brief, are among the most widely disseminated government financial documents. Like any document with a potentially large audience, the budget should be attractively packaged and invite readers to examine its contents. Choosing an attractive cover design is the most obvious way of making the document visually appealing. Although covers do not have to be works of art preparers, however, must be mindful of the potentially negative reaction when using costly, flashy covers. Budget covers do not have to be expensive to be appealing.
- ! **Reader's or User's Guides.** In addition to the standard glossary and index, a reader's or user's guide may be included in the document. These guides assist the reader in learning to use the budget or its special features. This type of guide can be very helpful especially when combined with a consistent format for detailed or summary tables.
- ! **Suggestions for Assembling the Final Document.** The budget document looks different at different stages of development. Once the budget is amended by the legislature or governing body, an amended version is produced either as an entirely new document or as a shortened version with amendments only. The adopted budget is the final document produced for internal use and distribution to the press and public.

The proposed budget is the original document, with revisions added when appropriate. Budget changes are reflected in legislation passed with the budget. At most, local governments produce a summary document which outlines policy and fiscal changes made to the executive budget. Summary budgets (also called budgets-in-brief or popular budgets) may be produced at any stage. Frequently they are prepared following budget enactment as a means of communicating budget decisions to the public. The following steps are suggested for the first and most difficult document to prepare the proposed budget:



- ! **Determine Document Type and Method of Distribution.** Before production of the document begins, the type and number of documents to be published must be determined. These decisions will depend on the size of the document as well as available resources. The government is usually required by law to make copies available to the public for inspection. For local governments, copies should be made available at government office buildings and public libraries.
- ! **Select Method of Production.** There are three options to select for producing the final document: word processing, desktop publishing, and typesetting. Word processing and desktop publishing make the most sense in this day of affordable computer equipment and software. Typesetting is more expensive and usually must be contracted out. If a high resolution laser printer is used, desktop publishing (and even word processing software) can produce a high-quality document.
- ! **Develop Production Schedule and Document Outline.** Once the method of production is selected, a production schedule should be developed. Because budget preparation is usually done under tight deadlines, it is important to develop a production schedule. This schedule should identify the tasks involved in completing the document, such as preparing tables, narratives, the budget message and staffing summaries, as well as preparing camera-ready copy, printing, binding, and distribution.

After completing the schedule, an outline of the budget document should be prepared. The outline should include titles of sections and subsections, and a list of all schedules and tables. Graphs should also be listed to the extent possible. The outline serves two purposes. First, when used in conjunction with the production schedule, it can help track the status of various parts of the document. Second, it allows budget preparers to review the basic layout of the document before production begins.

- ! **Prepare Style Sheet.** If a change in the style of the budget document is contemplated, it is useful to examine budgets and financial documents from other governments. Among the style items to be considered are:
  - Margins: use white space liberally to produce readable copy (or text);
  - Tables: use bold-faced headings and divider lines for a polished look;
  - Graphs: where possible, integrate them into the text, instead of displaying on separate pages;
  - Shading: use shading in tables to highlight important data; and
  - Type size: should not be smaller than 10 or 12 point for text.



Once a basic design has been selected, a style sheet should be prepared to ensure that a consistent format is used throughout the document. The style sheet can actually be more than a single sheet. It may be several pages taken from an existing budget document or a mock-up of a new document which shows how both text and tables will appear. The style sheet should include instructions for preparers on the style items noted above, as well as type sizes, length of paragraphs, and type of headings. The style sheet should be distributed to everyone involved in preparing the document before work on the final version begins.

- ! **Prepare Camera-Ready Copy.** The camera-ready copy is the final copy that goes to the printer or photocopier. Before it is prepared, a few important tasks must be performed.
- ! **Consolidate Files.** If more than one person has prepared narratives, tables, graphs, or other parts of the document, these pieces should be merged into a single computer file. A complete draft of the document with page numbers should be printed out prior to proceeding with the next step.
- ! **Edit Document.** Once a complete draft is prepared, one person should edit the document for style and substance. If preparers adhered to the style sheet, there should not be much editing to attain a consistent look. Since everyone has a different writing style, however, some changes will be needed to attain consistent grammatical structure throughout the text.
- ! **Proofread Copy.** If time is available, one or more additional edits of the entire document should be done. Once editorial decisions are final, they can be entered into the master computer file. Word processing software should be used to check the spelling in the document. Unfortunately, spell checkers will overlook words that are spelled correctly but used in the wrong context. Final proofreading should always be done from a hard copy. Checking the accuracy of tables and graphs is probably the hardest task in proofreading the budget. Someone other than the person(s) who prepared the tables should be assigned to cross-check those items with source documents.
- ! **Print.** The number of proposed budgets printed should meet internal needs (e.g., managers, key staff, and elected officials) and external requests (including news media, libraries, special interest groups, and citizen activists). Only a few copies of the complete budget (with all of its supporting detail) are generally needed. Supporting detail includes minor revenue source and expenditure data that are used in developing the budget, but are not included in the final document. Copies of this information should be available for inspection, but not distribution.



**! Prepare News Release and Distribute Documents.** Once the budgets are printed, a news release or budget briefing paper can be prepared for distribution with the budgets. These documents allow the mayor or the deputy mayors to highlight key issues and priorities. News reporters will use press releases and briefing papers for their initial reporting on the budget. Eventually, however, they will focus on specific budget issues. Budget staff should be prepared to respond to inquiries from the press on any budgetary issue.

### ***Final Document Checklist***

- Develop a production schedule with major assignments and key deadlines.
- Develop a comprehensive outline of the document with a list of tables, schedules, and where possible, graphs.
- Prepare a style sheet using excerpts from an existing document or a mock-up of new one.
- Prepare or update a glossary of technical terms and acronyms.
- Examine the use of graphs throughout the document for consistency and appropriateness.
- Prepare divider pages or tabs for major sections and subsections.
- Select and prepare cover design.
- Select method of production and binding.
- Determine number of documents needed and method of distribution.
- Edit tables, graphs, and narratives.
- Prepare and proofread camera-ready copy.
- Print and bind documents.
- Prepare news release and distribute documents.

## APPENDIX A

### GLOSSARY

**Accounting System**—The total set of records and procedures used to record, classify, and report information on the financial status and operations of an entity.

**Accrual Basis of Accounting**—Accounting method that records revenues when they are earned (whether or not cash is received at that time) and expenditures when goods and services are received (whether or not cash disbursements are made at that time).

**Activity**—Departmental efforts contributing to the achievement of a specific set of program objectives; the smallest unit of the program budget.

**Allot**—To divide an appropriation into amounts that may be encumbered or expended during an allotment period.

**Amended Budget**—The original adopted budget plus any amendments passed as of a certain date.

**Appropriation**—A legal authorization to incur obligations and to make expenditures for specific purposes.

**Assessed Valuation**—The government-set appraised valuation, less any exemptions, of real estate or other property; used as a basis for levying taxes.

**Assessment Ratio**—The ratio at which the tax rate is applied to the tax base.

**Asset**—Resources owned or held by a government that have monetary value.

**Audit**—A systematic examination of resource utilization concluding in a written report; a test of management's internal accounting controls intended to:

- Determine whether financial statements fairly present the financial position and results of operations.
- Test whether transactions have been legally performed.
- Identify areas for possible improvements in accounting practices and procedures.
- Ascertain whether transactions have been recorded accurately and consistently.
- Ascertain the stewardship of officials responsible for governmental resources.

**Available (Undesignated) Fund Balance**—Funds remaining from the prior year available for appropriation and expenditure in the current year.

**Balance Sheet**—A statement of the value of an entity's assets, liabilities, and equities as of a specified date.

**Base Budget**—Cost of continuing the existing levels of service in the current budget year.

**Beginning Balance**—The residual nonrestricted funds brought forward from the previous fiscal year (ending balance).

**Bond**—A written promise to pay (debt) a specified sum of money (principal or face value) at a specified future date (maturity date[s]) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds typically are used for long-term debt.

**Budget**—A plan of financial activity for a specified period of time (fiscal year) indicating all planned revenues and expenses for the period.

**Budgetary Control**—The control or management of a government in accordance with the approved budget to keep expenditures within the limits of available appropriations and resources.

**Budget Calendar**—The schedule of key dates in the budget preparation and adoption process.

**Budget Document**—The official written statement prepared by the budget office and supporting staff that presents the proposed budget to the legislative body.

**Budget Message**—A general discussion of the proposed budget presented in writing as a part of or supplement to the budget document. Explains principal budget issues against the background of financial experience in recent years and presents recommendations made by the chief executive and budget officer (if not the chief executive).

**Capital Assets**—Assets of significant value and having a useful life of several years; also called fixed assets.

**Capital Budget**—A plan of proposed capital expenditures and the means of financing them, usually based on the first year of the capital improvement program and typically enacted as part of the complete annual budget, which includes both operating and capital outlays.

**Capital Improvement**—Expenditures related to the acquisition, expansion, or rehabilitation of an element of the government's physical plant (infrastructure).

**Capital Improvement Program (CIP)**—A plan for capital expenditures to be incurred each year over a fixed period of several future years setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

**Capital Project**—Major construction, acquisition, or renovation activities that add value to a government's physical assets or significantly increase their useful life; also called capital improvements.

**Cash Basis of Accounting**—Accounting method that record revenues when received in cash and expenditures when paid.

**Cash Flow Budget (Cash Budget)**—A projection of the cash receipts and disbursements anticipated during a given time period. Typically covers one year and broken down into separate projections for each month, week, and/or day during the year.

**Commodities**—Expendable items that are consumable or have a short life span (e.g., office supplies, gasoline, minor equipment, and asphalt).

**Constant or Real Money**—The presentation of monetary amounts adjusted for inflation to reflect the real purchasing power of money as compared to a certain point in time in the past.

**Contingency**—A budgetary reserve to provide for emergency or unanticipated expenditures during the fiscal year.

**Contractual Services**—Services rendered to a government by private firms, individuals, or other governmental agencies (e.g., utilities, rent, maintenance agreements, and professional consulting services).

**Cost**—The amount of money or other consideration exchanged for property, services, or an expense.

**Cost Accounting**—Accounting method that assembles and records all costs incurred to carry out a particular activity or to deliver a particular service.

**Current**—Denotes the operation of the present fiscal period, as opposed to past or future periods. Often used to refer to items likely to be used up or converted into cash within one year.

**Debt Service**—The cost of paying principal and interest on borrowed money according to a predetermined payment schedule.

**Debt Service Reserve**—A fund used to pay debt services of revenue bonds if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service

requirements; funded in whole or in part from the proceeds of the bonds or allowed to accumulate gradually over a period of years through required payments from the pledged revenues.

**Dedicated Tax**—A tax levied to support a specific government program or purpose.

**Deficit**—The excess of expenditures over revenues during an accounting period or, in the case of proprietary funds, the excess of expense over income during an accounting period.

**Demand Deposit**—A deposit of moneys that are payable by the bank upon demand.

**Department**—A basic organizational unit of a jurisdiction that is functionally unique in its service delivery.

**Depreciation**—(1) Expiration in the service life of capital assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, or obsolescence. (2) That portion of the cost of a capital asset charged as an expense during a particular period.

**Development-Related Fees**—Fees and charges generated by building, development, and growth in a community, including building and street permits; development review fees; and zoning, platting, and subdivision fees.

**Disbursement**—The expenditure of moneys from an account.

**Employee (Fringe) Benefits**—Contributions made by a government to meet commitments or obligations for employee fringe benefits, including the government's share of social welfare and the various pension, medical, and life insurance plans.

**Encumbrance**—The commitment of appropriated funds to purchase an item or service. To set aside or commit funds for a specified future expenditure.

**Enterprise Fund**—A fund established to account for operations financed and operated in a manner similar to business enterprises where (1) the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, and accountability of other purposes. Examples include those for the water and wastewater utility, electric utility, and aviation.

**Entitlements**—Payments to which local governmental units are entitled, pursuant to an allocation formula determined by the agency providing the moneys (usually the central government).

**Expenditure**—The payment of cash or the transfer of property or services to acquire an asset or a service or to settle a loss.

**Expense**—Charges incurred (whether paid immediately or unpaid) for operations, maintenance, interest, or other charges.

**Fees**—Charges for services based upon the cost of providing the service.

**Fiscal Policy**—A government's policies with respect to revenues, spending, and debt management related to government services, programs, and capital investment. Provides an agreed-upon set of principles for the planning and programming of government budgets and their funding.

**Fiscal Year (FY)**—A 12-month period designated as the operating year for accounting and budgeting purposes in an organization.

**Fixed Assets**—Assets intended to be held/used in the long term (e.g., land, buildings, machinery, furniture, other equipment).

**Function**—A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible (e.g., public safety).

**Fund**—An independent fiscal and accounting entity that carries out specific activities or attains certain objectives with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities.

**Fund Balance**—The excess of revenues over expenditures during an accounting period. A negative fund balance is sometimes called a deficit.

**Goal**—A general and timeless statement of broad direction, purpose, or intent based on the needs of the community.

**Grants**—A contribution by a government or other organization to support a particular function. May be classified as either operational or capital, as designated by the grantee.

**Indirect Cost**—A cost necessary for the functioning of the organization as a whole but that cannot be directly assigned to one service.

**Inflation**—The increase in cost of a standardized, representative selection of goods and services; calculated and reported by the Ministry of Finance.

**Infrastructure**—The physical assets of a government (e.g., streets, water, sewer, public buildings and parks).

**Interfund Transfers**—The movement of moneys between funds of the same governmental entity.

**Intergovernmental Revenue**—Revenue received from another government unit for a specific purpose.

**Internal Control**—A plan for purchasing, accounting, and other financial activities; provides that:

- Employee duties are subdivided so that no single employee handles a financial action from beginning to end.
- Proper authorizations from specific responsible officials are obtained before key steps in the processing of a transaction are completed.
- Records and procedures are arranged appropriately to facilitate effective control.

**Internal Service Charges**—The charges to user departments for internal services provided by another government agency, such as data processing or insurance funded from a central pool.

**Investment**—Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

**Levy**—The total amount of taxes, special assessments, or charges imposed by a government.

**Liability**—Debt or other legal obligations, arising out of transactions in the past, that must be liquidated, renewed, or refunded at some future date. Note: This term does not include encumbrances.

**Line-Item Budget**—A budget prepared along departmental lines that focuses on what is to be bought.

**Liquidity**—The ability to convert an investment to cash promptly with risk to principal or accrued interest.

**Long-Term Debt**—Debt with a maturity of more than one year after the date of issuance.

**Management Plan**—The written strategy defining a department's public services and how those services will be delivered.

**Mandate**—Any responsibility, action, or procedure imposed by one sphere of government on another through constitutional, legislative, administrative, executive, or judicial action as a

direct order or required as a condition of aid.

**Materials and Supplies**—Expendable materials and operating supplies necessary to conduct departmental operations.

**Maturities**—The dates on which the principal or stated values of investments or debt obligations mature and may be reclaimed.

**Modified Accrual Basis of Accounting**—Accounting method that records expenditures at the time liabilities are incurred except for accrued interest on general long-term debt and revenues when received in cash except for material and/or available revenues that should be accrued to reflect properly the taxes levied and revenue earned.

**National Accounting Standards**—Uniform minimum standards for financial accounting and recording, encompassing the conventions, rules, and procedures that define accepted accounting principles.

**Objective**—Something to be accomplished in specific, well-defined, and measurable terms and that is achievable within a specified time frame.

**Object of Expenditure**—An expenditure classification that refers to the lowest and most detailed level of classification (e.g., electricity, office supplies, asphalt, and furniture).

**Obligation**—Amount a government may be legally required to meet out of its resources. Includes not only actual liabilities but also encumbrances not yet paid.

**Operating Expenditure**—Payment for day-to-day operations (e.g., office supplies, maintenance of equipment, and travel); excludes capital costs; also known as operating and maintenance costs.

**Output Indicator**—A unit of work accomplished, without reference to the resources required to do the work (e.g., number of permits issued, number of refuse collections made, or number of burglary arrests made). Does not reflect the effectiveness or efficiency of the work performed.

**Pay-as-You-Go Basis of Funding**—A term used to describe a financial policy that finances capital outlays from current revenues rather than through borrowing.

**Performance Budget**—A budget that bases expenditures primarily on measurable performance of activities and work programs.

**Performance Indicator (Performance Measure)**—Specific quantitative and qualitative

measure of work performed within an activity or program (e.g., total miles of streets cleaned). Also, a specific quantitative measure of results obtained through a program or activity (e.g., reduced incidence of vandalism due to new street lighting program).

**Personal Services**—Expenditures for salaries, wages, and fringe benefits of a government's employees.

**Prior-Year Encumbrances**—Obligations from previous fiscal years in the form of purchase orders, contracts, or salary commitments that are chargeable to an appropriation and for which a part of the appropriation is reserved. Cease to be encumbrances when the obligations are paid or otherwise terminated.

**Program**—A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible.

**Program Budget**—A budget that allocates money to the functions or activities of a government rather than to specific items of cost or departments.

**Program Performance Budgeting**—A method of budgeting whereby the services provided to the residents are broken down in identifiable service programs or performance units. A unit can be a department, a division, or a work group. Each program has an identifiable service or output and objectives to provide the service effectively. The effectiveness and efficiency of providing the service by the program is measured by performance indicators.

**Purpose**—A broad statement of the goals, in terms of meeting public service needs, that a department is organized to meet.

**Reserve**—An account used either to set aside budgeted revenues not required for expenditure in the current budget year or to earmark revenues for specific future purpose.

**Resolution**—A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance or statute.

**Resources**—Total amounts available for appropriation, including estimated revenues, fund transfers, and beginning balances.

**Revenue**—Funds that a government receives as income. May include tax payments, interest earnings, service charges, grants, and intergovernmental payments. The term designates an increase to a fund's assets that does not increase a liability (e.g., proceeds from a loan); does not represent a repayment of an expenditure already made, a cancellation of certain liabilities, or an increase in contributed capital.

**Revenue Estimate**—A formal estimate of how much revenue will be earned from a specific revenue source for some future period, typically a future fiscal year.

**Service Level**—Services or products that comprise actual or expected output of a given program. Focus is on results, not measures of workload.

**Service Objectives**—The specific achievements that a government hopes to make throughout the provision of a service; the intended result of an activity.

**Service Plan**—The methods by which a government plans to achieve its service objectives; the basis upon which the annual budget typically is built.

**Source of Revenue**—Taxes, fees, fines, user charges, or other income generated by or for the municipality.

**Special Revenue Fund**—A governmental accounting fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Supplemental Appropriation**—An additional appropriation made by the governing body after the budget year or biennium has started.

**Supplemental Requests**—Programs and services departments would like to have added (in priority order) over their target budget—sometimes when revenue received is greater than anticipated.

**Target Budget**—Desirable expenditure levels provided to departments in developing the coming year's recommended budget; based on the prior year's adopted budget; excludes one-time expenditures, projected revenues, and reserve requirements.

**Tax Base**—The total property valuation on which each taxing authority levies its tax rates.

**Taxes**—Compulsory charges levied by a government for the purpose of financing services performed for the common benefit of the people. Does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

**Tax Rate Limit**—The maximum legal rate at which a locality may levy a tax. May apply to taxes raised for a particular purpose or for general purposes.

**Unit Cost**—The cost required to produce a specific product or unit of service (e.g., the cost to purify 1,000 gallons of water).

**User Charges**—The payment of a fee for direct receipt of a public service by the party who benefits from the service.

**Variable Cost**—A cost that increases/decreases with increases/decreases in the amount of service provided (e.g., a salary).

**Voucher**—A written document that is evidence of the propriety of a particular transaction; typically indicates the amounts to be affected by the transaction.

**Working Cash**—Excess of readily available assets over current liabilities; cash-on-hand equivalents to satisfy cash flow needs.

**Workload Indicator**—A unit of work to be done (e.g., number of permit applications received, the number of households receiving refuse collection service, or the number of burglaries to be investigated).

**Yield**—The rate earned on an investment based on the price paid for the investment, the interest earned during the period held, and the selling price or redemption value of the investment.