

the preparation of the executive budget, which is released in May, and includes another updated financial plan.<sup>1</sup> When financial plans trigger requests for legislative modification more frequently, changes by the executive. The New York might be called “continuous budgeting” is unusual among governments, which usually do not provide as much data, nor New York City.

often show changes from prior periods to help readers see. In the financial plans included in proposed or adoptedances will show changes from the prior year. In updates, the variances may reflect changes from the most recent formats may also include simple calculations of percentage tax source or a department as a share of total revenues or suggested above, this information helps readers understand some from, where they are going, and how these allocations are prior periods.

projected growth in the general property tax in Table 6.1 the first two years (FY 2008 to FY 2009) while other projected to decline by 3.4 percent during the same period.

## Income and Budget Decision Making

ation proceeds, executives are often faced with financial rejected deficit in budgets. To close a projected gap, the likely as a mayor or government to consider proposals to spending, or both. Few elected officials relish either of as and will search instead for options that do not involve increases or cuts in services or jobs. Sometimes the options difficult choices provide budget relief in the short run, but “ring gap-closing benefit. Delays in the initial implementation for example, might reduce projected spending in its first parts of the program will remain in later years when the initiative is in.

ms to close projected gaps even increase budget gaps in the case of a revenue-producing asset—a city-owned building, for example, produce significant one-time resources for balancing the budget receipts every year in the future. Similarly, a decision pending for capital and increase borrowing will produce debt service as long as bonds are outstanding.

In most jurisdictions, the primary focus of budget preparation is on the year under review, and much less attention is given to budgets further in the future, sometimes called the “out years.” As we will see in a later chapter, the process of developing a multiyear plan is slow and cumbersome, and most budget offices cannot produce full updates frequently during budget preparation. However, it is possible to show out-year impacts for individual new initiatives and budget-balancing actions, or at least show the full annual impact of the proposal. Thus, the recommendation to delay program implementation discussed above would be presented in a format similar to what is shown in Table 6.2.

This presentation helps the decision maker understand that this portion of the budget gap will recur in the year following and that closing it will require additional difficult choices.

A presentation that shows out-year impacts will also help the analyst who maintains the multiyear plan make adjustments after decisions are made. All budgets for large jurisdictions include some nonrecurring spending, savings, and revenues, but overreliance on one-time actions to solve recurring budget gaps simply pushes the day of reckoning into the future. Permanent savings or recurring revenues will eventually be needed to achieve long-term budget balance.

## Summary

A financial plan is a summary of projected revenues and expenditures. Financial plans are useful because they permit policymakers to determine whether future budgets are balanced, they strongly encourage policymakers to choose alternative spending plans if the financial plan is unbalanced, and they educate the public about the sources of revenue in a city’s budget.

## Exercise

1. Examine Table 6.1 (a spreadsheet version of which is available on the attached CD in the folder labeled “Budget Tools Chapter 06 Exercise”) to answer the following questions:

- Are total revenues growing faster or more slowly than expenditures? Show the annual growth rates for revenues and expenditures in a table.

TABLE 6.2

### Sample of Table Showing the Effect of Out-Year Spending

Proposal	Gap-closing impact	Full annual impact
Delay implementation of expansion of state child health insurance program for six months	\$20,000,000	No savings