Expenditures and Revenues Matrix and Summary

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In this summary, it will discuss the three revenue sources that are income taxes, licenses and permits, and grants for the State of Illinois.

1. City-collected income taxes are augmented with their share of state income tax and the same is accounted for under the General or Corporate Fund, sub-category Inter-governmental Revenue (Freeman, Shoulders, Allison, Patton & Smith, Jr., 2011).
2. The local government itself collects a variety of licenses and permits, e.g. taxes and fees levied on utilities, hotel occupancy, city sales tax, real estate transfer tax, liquor tax, business licenses and permits, and transfers from municipal corporations. These are included in either Corporate or Special Revenue Funds under the applicable sub-categories Public Utility T&F, City Sales Tax, Transaction, Transportation, Recreation, Business Taxes, or Licenses & Permits (Freeman, Shoulders, Allison, Patton & Smith, Jr., 2011).
3. Grants may be for designated for capital expenditure, health care or educational subsidies. As such, they are tracked under Government-mandated non-exchange transactions in the general category Intergovernmental Transfers (City of Chicago, 2013).
4. **Importance of Informed Financial Decisions**

Financial planning is a means to an end. In the public and nonprofit sectors, the stakes are vast because those affected are so numerous. Financial decisions can affect the welfare of every one of millions of constituents in densely populated New York or Los Angeles. Ill-informed about business prospects and consumer price inflation in the coming fiscal year can lead to overestimated business activity (and business income taxes), inaccurate estimates for employment (such as the 11% blighting the future of Chicago residents and hence, raising the demand for welfare, food stamps and make-work programs), and possibly another round of oil price inflation (with that implies for diminished vehicle demand, lower income from parking and licenses, scarcity of heating fuel in the winter months, and reduced airport user’s tax inflows). Plainly, failing to monitor the economic health of constituents can only disrupt tax projections and lead to wrong financial decisions.

1. **Financial Analysis Tools Used**

Rosen and Gayer (2010) suggest that both positive and normative analysis apply to public-sector budgeting. The former class of tools includes taking a hard look at economic theory about the substitution and income effects, how consumers behave toward “normal” or luxury goods when income prospects change, rigorous about correlation versus causation, and how reliable different research designs can be with respect to real-world phenomena as opposed to ideological pipedreams.

Normative analysis, on the other hand, manifests most frequently in the general tendency toward welfare economics. Here, macroeconomic theory holds out the ideal of Pareto efficiency and improvement that it is possible to raise quality of life for one constituency without making others worse off. Clearly, the current debates about the Federal deficit have been clouded by ideological biases, welfare, and health care subsidies can be increased only by ramming through higher effective tax rates (Smith & Lynch, 2004).

1. **Organizational Financial Analysis Alternatives**

The focus here on the two main models typical of the budgeting process. The incremental-change model argues for gradual change and social consensus on the grounds that current-year budgets are themselves the outcome of past compromises. The truth is, this reflects the rough-and-tumble of modern political processes. An agency recommending a new revenue or expenditure is virtually forced to coopt like-minded alliances or advocacy groups, rapidly exploit temporal opportunities, and bewily about getting approval at every layer of the bureaucracy.

The rational approach is goal-based, undertakes systematic analysis of alternatives, and eventually selects one that best meets those goals (Smith & Lynch, 2004). While evidently a worthwhile alternative during periods of significant change, the rational model had to adopt the satisficing variant by accommodating time limits and even feedback from those ideologically opposed to the recommendation.

References

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