

# A GUIDE FOR THE FORMULATION OF MULTIANNUAL BUDGET

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*Leaders at the Core of Better Communities*

**ICMA-Latin America\***

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## I. INTRODUCTION

Credit rating has been gaining greater importance as the global financial crisis has restricted access to liquidity in the capital markets, where vendors of credits have taken a more critical look at the creditworthiness of potential borrowers. Therefore it is imperative that public entities acquire tools to optimize their solvency, in order to have access to financial resources in the best possible conditions.

A support tool in significant financial administration is the proper management in the formulation of a multi-year budget. Multiannual budgets underpin the structuring for the planning and scheduling in projections beyond the fiscal year.

This guide has been prepared to assist local governments in the process of preparing their multiyear plans and operative programs. A practice which helps to improve financial projections in order to reflect possible future conditions and to be able to establish preventive mechanisms to ensure healthy finances. The operation a land financial soundness of entities is the basis for attaining improved credit ratings.

The Guide in itself has been designed to be used by subnational governments in Latin America. The recommended format looks to simplify the presentation of information to facilitate its implementation. Using the proposed model is not intended as a substitute for the requirements of the applicable regulations, but it can be added as a complement to facilitate financial planning. In that sense, it respects the legal regulations of each country, and the recommendation is on the relevance of having this instrument as an additional tool, without affecting the legal obligations to prepare plans for annual income and expenditure.

This is important because one of the reasons why some sectors are against multi-year budgets is that the estimates for medium and long term, especially on the income side, may be somewhat inaccurate. So having budgets of more than a year involves processes that can be debilitating for the administration, thus losing one of its advantages, which is to maximize the efforts of staff to the development of budgetary projects. However, limiting to only observe the operation for the term of a one year period, significantly impacts the analysis of the implications in the immediate medium-term.

Thus, we are not facing a proposal that intends to eliminate the obligation to elaborate annual budgets, but rather, as already stated, to have an additional tool. One, which will induce the municipal administration to anticipate their spending and investment plans, based on their funding sources. Accordingly, you ensure that decisions reflect a better long-range understanding and strategic planning, for their efforts to be consistent with a vision beyond short-term commitments.

Finally, this guide is an option that is recommended to local governments to have a tool that facilitates the capture of their medium-term strategic objectives, by making it easier to consider the impact of the allocation of resources (own and borrowed) to finance their governance, including their intended investment and spending in the medium term.

## II. TECHNICAL TEAM SELECTION

To formulate multi-year budgets successfully implies the preparation of an instrument that actually facilitates the execution of actions within the framework of the strategic objectives. This requires several fundamental conditions to be present.

Among the basic conditions that must exist we can include:

- A full support from the highest political and administrative authorities of the Municipality.
- Conformation of an interdisciplinary team with at least three years of experience in the formulation of budgets.
- Clear understanding of the importance of the tool, its scope and limitations.
- In case they do not exist, to establish clearly documented and respected policies and procedures, contributing to achieve a consolidated administrative management.
- In case of absence, to develop care plans for long-term credit financing incurred by the Municipality.

As noted above, these are the relevant conditions that must be present. In case of absence, it is appropriate to develop them so the "multi-year budgets" can offer the intended added value.

Thus, one of the conditions that must exist for the process to generate a projection of the financial situation of the municipality is to count with all the conviction and support of senior management. Equally appropriate is the participation of officials with experience and sufficient knowledge of the accounting structure and financial performance of the municipality.

For that purpose, there should be participation of not only the people belonging to the Accounting / Finance department or unit, but also of the senior management and of key actors in the generation of municipal income themselves, as well as those responsible for the execution of the most important items in the spending and investment structure. Among them, those presumed to be responsible for human resource management, the provision of services and the execution of municipal works.

Once constituted the "team" responsible for developing the multi-annual budget, they should start with an interaction with the political authorities of the municipality, headed by the Municipal Executive (Mayor or leading officials, as the case may be).

In this process of induction, the priorities set by the authorities for the management of their administration should be established with crystal clarity. Without these guidelines properly established, the administration may propose multiyear budgets that only project historically registered income and expenditure structures, without reflecting the strategic actions the political authorities want in their management.

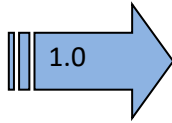
Therefore, in this inductive process, the tax policy of the municipality, the management to relate the charges for services to the cost of providing them, as well as the definition of the

subsidy policy, should all be clearly stated (albeit implicit). Similarly, policies for credit, for municipal employment and for priority in the execution of works must be generated, as well as selection, and coverage of services policies. It will be essential to make it absolutely clear to the municipal authorities, the legal obligations to which they must adjust the structure of income/revenues and expenditures. Especially regarding the receipt of transfers and the allocation of resources received from other government instances/bodies (e.g., if a rule requires to set aside a certain percentage of the transfers received towards health infrastructure, or, if receiving transfers from the tax collection achieved by local government is conditioned by the management).

This process, if carried out properly, will provide a solid foundation to proceed to develop multiannual plans that contribute to better management of municipal administration. It is vital to assemble an ideal professional team of academic qualifications, but also with vast experience in the budgetary execution of the municipality.

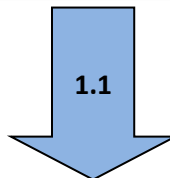
As municipal governments have diverse academic background in their human resource structure, balancing academy /experience should be consistent with the reality of each government.

**PHASE I:**

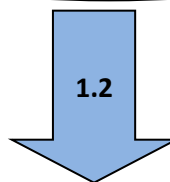


**MAYOR'S DECISION TO DEVELOP MULTIANNUAL BUDGETS /**

Definition of Term: 3 – 4 – 5 years  
(It is recommended that the City Council approve the obligation to develop and update multi-year budgets)



**SELECTION OF MUNICIPAL OFFICIALS FOR DEVELOPMENT OF MULTIANNUAL BUDGET**  
(Recommended using existing instances) en



**INDUCTIVE PROCESS BETWEEN MUNICIPAL AUTHORITY/SENIOR MANAGEMENT/SELECTED TEAM:**

- Establishing Policies and Priorities
- Knowledge of regulations and fiscal normativity.

### III. HISTORICAL BEHAVIOR.

Once the technical staff is installed and has performed the induction process with senior management, the next task is to proceed to develop a database or a structure that integrates relevant information about the behavior of municipal finances, of at least three years prior to the period in which the first multi-annual budget will be developed.

For the purposes of this Guide, the year that the first multi-annual budget is developed will be named "Year 0". The database should contain information about the budgeting and execution for at least the years -3, -2 and -1.

Learning the behavior the municipal government has had in recent years is vital to projecting the future behavior. What is sought is to not obviate aspects that have been recurrent, so that once identified, it can be properly decided if these features can be or are wanted to be changed in subsequent periods.

The information that must be known in detail must be established in accordance with accounting regulations to which the municipality is subject in the respective countries. Similarly, the structure of the offices/agencies responsible for executing the budget allocations is set according to existing norms.

An example of the general structures, which should be known in detail, is shown below:

Conceptos	AÑO (-3)			
	Presupuesto Inicial	Ejecución Final	% de Cumplimiento	Importancia Relativa de Ejecución
	(a)	(b)	(b)/(a)	(b) / (z)
<b>Ingresos propios</b>				
Impuestos				
Predial ó a la Propiedad				
Adquisición de bienes inmuebles				
Diversiones y espectáculos				
Loterías, rifas y sorteos				
Derechos				
Tasas por servicios				
Otros Ingresos Propios				
<b>Transferencias</b>				
Trasferencias Corrientes				
Transferencias de Capital				
<b>Ingresos por Endeudamiento</b>				
<b>INGRESOS TOTALES</b>	<b>(x)</b>	<b>(z)</b>	<b>(z) / (x)</b>	



Concepto (agregados)	AÑO (-3)			
	Presupuesto Inicial	Ejecución Final	% de Cumplimiento	Importancia Relativa de Ejecución
	(a)	(b)	(b)/(a)	(b) / (z)
<b>Corrientes</b>				
Materiales y suministros				
Servicios personales				
Servicios no personales				
Transferencias corrientes				
<b>Capital</b>				
Transferencias de Capital				
Compra de propiedades, planta y equipo				
Servicio de la deuda				
<b>Total</b>	<b>(x)</b>	<b>(z)</b>	<b>(z) / (x)</b>	

It is important to use properly audited data, or validated by external audit (be it an organ/body of state or a foreign firm).

The more detailed the accounts, including division by department or office responsible for the execution of expenditure, the better analysis can be done on the behavior of municipal finances. For instance, on the income/revenue side it would be ideal to detail what was budgeted and generated for each of the services provided by the municipality. Similarly, on the expenditure side, it is at least expected to have properly classified the costs associated to the service provision and / or program. In case you have subsidies in the provision of services and / or programs, they must be punctually identified and assessed.

Once generated the database, it is important to establish fundamental behaviors. One important aspect is to know what level of fulfillment of goals has been achieved in the municipality. This requires knowing the level of compliance or noncompliance for each period analyzed (previous years, -1, -2 and -3) in order to identify if it has varied substantially within those years.

For this purpose you must analyze the results of the columns labeled "% of Compliance". The greater the homogeneity of the results, the "easier" it will be to anticipate the "normal" behavior to be expected in the future. When you say "normal", it must be understood as a behavior that can be expected, provided there are no changes in the structure of income and expenditure. That is, if there are no tax items changes that lead to policy changes in the recruitment of human resources, improvements in services or significant adjustments in the investment programs.

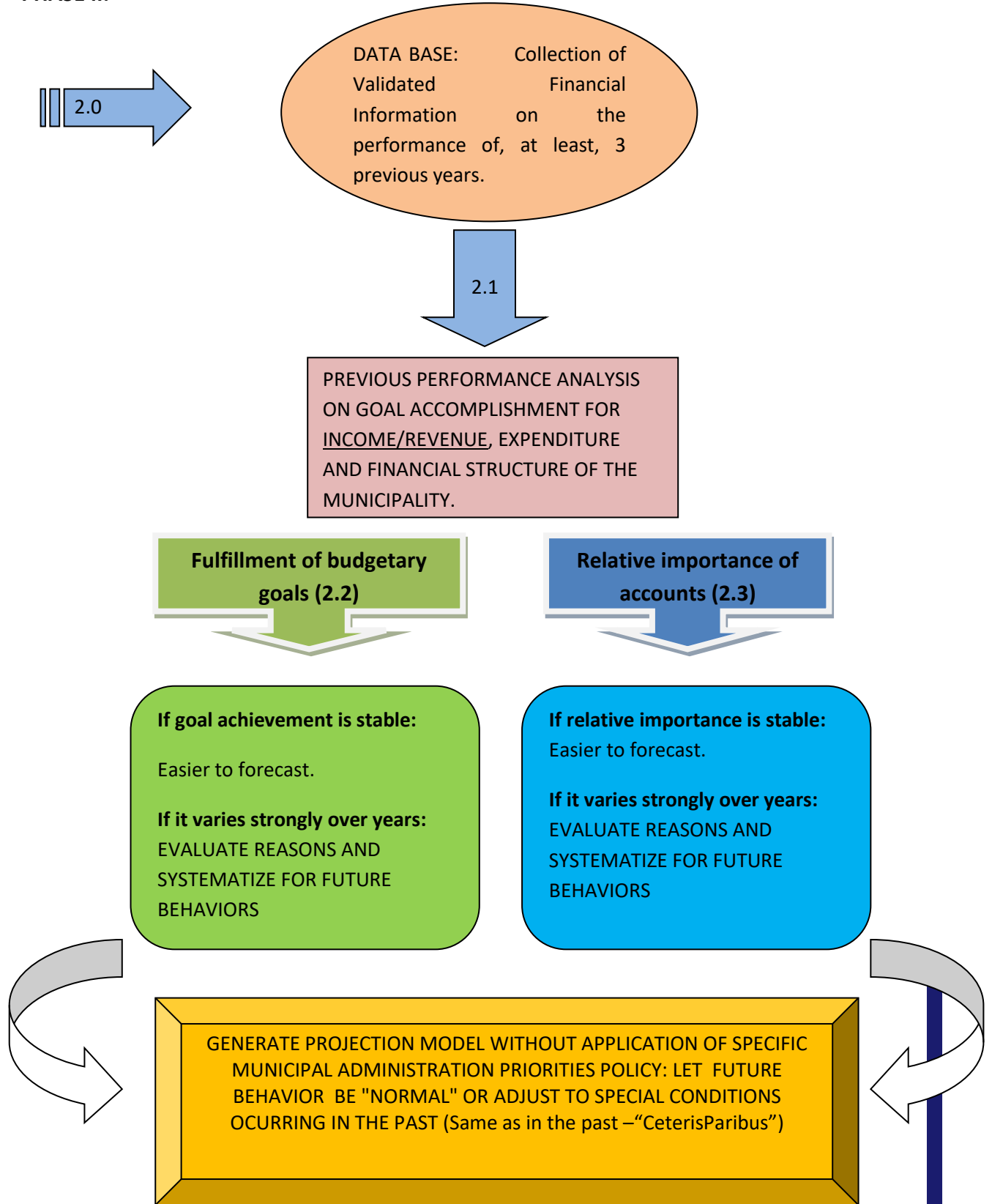
The other aspect that should be analyzed in detail is the behavior of the relative importance of the different items of income and expenditure. Knowledge of this behavior derives from the analysis of the results of the column labeled "Relative Importance of Execution".

Insofar as each item maintains a stable relative importance over the years, it will be easier to predict the "normal" behavior to be estimated for the future. For example, if the income from property tax has a significance of 25% of total revenue over the period analyzed, one would expect that if there are no changes in the structure of the tax base, or rates, or administrative billing policies (including reduction of delinquency), it can be expected that over the next few years the tax continues to maintain a similar relative importance.

The same applies for spending on "personal services", if they do not change significantly, the projection could be easier. But if in recent years there are large variations in its importance, we must begin a detailed analysis of the behavior of the accounting concept, to determine the reasons that led to these changes and clearly identify them in order to assess whether those conditions could again present themselves in the coming years.

After establishing these usual behaviors (if any) or major changes in the items/lines, is that you must start the process of projection. Before applying the measures to reflect the political will implicit within the scope of the strategic objectives, we need to know if you can project behaviors repeating the inherited structures ("ceteris paribus") or by identifying the causes of major variations, in order to project future behavior.

**PHASE II:**



## IV. THE EXPECTED ENVIRONMENT

Once generated the relevant database, the technical team should focus on the analysis of the expected conditions of the behavior of the economy in the next years. This is a task that may require the advice of specialists in economics. In case the conditions of the municipality prevent from counting on this kind of consulting, the appointed team must access relevant public information available in their country and/or area of greater influence. Among the resources to consult are central banks, universities or other prestigious organizations.

Likewise, the analysis should ideally be done aiming at estimating the behavior of the local economy, which most affects the municipal government. This situation varies greatly between countries. If you are in a country with a federal organization, it is likely that internal conditions differ greatly between regions; while in countries with unitary governments, these changes will be minor.

To do the analysis we must take into account the cyclical behavior of economies. Although we cannot specify the time spans in which each cycle will develop, it will be very relevant to establish the presumed base conditions at the beginning of the multiannual budget period. Among those to be considered, we have: employment conditions, inflation, investment attraction and construction projects, among others. We must also identify if we are in a recession (crisis) or a period of stability after a crisis; if there is growth, or stability after a period of expansion. In this sense, the analysis can anticipate different effects on the state of municipal finances according to the usual effects, although it is important to note that there might be special situations in the municipality that must be indicated in the analysis:

ETAPA DEL CICLO ECONÓMICO EN AÑO 0	EFECTO ESPERADO EN FINANZAS PÚBLICAS
Crisis (Alto desempleo, baja inversión)	Disminución real en los ingresos municipales
Estabilidad después de Crisis	Sin mayor crecimiento en los ingresos reales
Crecimiento (Mejora empleo, construcciones)	Aumento real en los ingresos municipales
Estabilidad después de Crecimiento	Sin mayor crecimiento en los ingresos reales

Likewise, we should analyze the behavior of interest rates, particularly if the municipality has existing credit commitments with variable interest rates.

Similarly, a study should focus on the behavior that the most important activities of the municipality are showing. Among those that should be included are commercial activities, agriculture, services (tourism, for example), the behavior of education and health rates; and even more importantly, to monitor activities that generate income to the municipality.

In the latter sense, the approach to be followed then includes different levels of analysis, according to the structure of the income obtained from the database developed by the technical team.

Thus, if the majority of income/revenue comes from the national budget, the emphasis should be on knowing the conditions expected for the national finances; in the sense that if you expect fiscal crises in the national government, a contraction is to be expected in transfers (both in amount as in opportunity for disbursements) to be performed in the near future. A bond/ligament should be made between the central government tax income/revenue in the past and transfers received during these periods, to determine the degree of relationship that exists between the two variables.

Therefore, if the administration that originates the transfers announces an aggressive and expansive policy for income/revenue collection, increases in the transfer of resources to subnational governments can be projected. Likewise, if a restrictive policy is announced by the national treasury, municipal income/revenue estimations based on the transfers must be done in a conservative manner. In both cases, it is pertinent to analyze what occurred in the past in order to identify the scenarios in which the conditions were given and how similar scenarios can be anticipated in the future.

Likewise, the analysis should include the sectors that originate other income. If, for example, there is a real estate property tax (praedial tax), it will be essential estimating the projected investment in construction that could be generated in the region of the municipality.

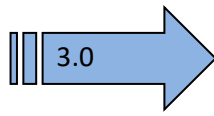
Determining whether more people from other places are moving to the municipality or moving away, are aspects that will directly affect non-tax revenue issues, based on the services directly provided by the municipality, including the collection of fees for garbage collection, water supply, and registration certificates, among others.

Under these conditions, after obtaining the database and performing the analysis suggested in the previous chapter, the behavior of income/revenue in recent years should be determined. If the behavior persists, it is called "normal" or vegetative. Or if there is a different behavior, we can determine if this will vary significantly in the following years.

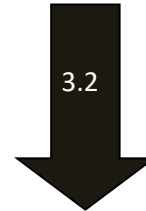
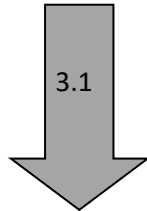
The last aspect, which is relevant to review and is the one used in most cases when estimating budgets-, is the behavior of inflation. If you expect high levels, the impact on nominal income and expenses, will make the estimates rise at similar levels in currency, contrary to expecting stable processes. We address the behavior of inflation lastly, to

underline that this is one more aspect to be analyzed and not the only one to be taken into account when estimating future behavior.

FASE III:



ANALYSYS OF ECONOMIC ENVIRONMENT



Anticipation of behavior of MACRO variables in National/ Regional Economy:

- State of Economic Cycle (Growth, stability after growth, Crisis, stability after crisis)
- Inflation
- Fiscal Situation
- Behavior of Interest Rates

Analysis of the issues that directly affect the structure of municipal income/revenues:

- Migration of people, including the provision of education and health services.

Behavior of the activities pertaining to the municipality, and subject to municipal taxes and fees.

## V. ANALYSIS OF INCOME/REVENUES.

Fulfilling the previous stages ends the administrative and technical preparation, which is required to start the work of specific estimates. This preparation, which includes the definition of the higher authorities as to setting their priorities of action, allows the technical team to start preparing the contents of the budgeting estimated for the following years.

To proceed to establish the "budget ceilings" in direct function of income (upper limits) that must be known to estimate expenditures and to later on make the corresponding adjustments. It begins with the breakdown of the income/revenue structure of the municipality.

The administration already has such a structure, which must be the same as that used for establishing the current annual budget.

We have the historical behavior of the components and the "vegetative growth" that we would get if we don't do any different than what was done in previous periods. Likewise, at this point the municipal team also has a clear understanding of the structure, and of the relative importance each concept has been having in the usual structure of municipal performance.

With this entire panorama previously constructed, the team should engage in the following tasks:

- Analyzing the policies of the municipal authorities, in terms of income generation:
  - In that sense, the policy must be assessed as actions pertaining to the powers of local government authorities:
    - Is there a policy to increase or decrease fees for municipal services?
    - Is there a will to expand coverage of municipal services?
    - Is there to be a promotion of a local tax reform that will lead to increasing or decreasing the tax base (number of taxpayers) or the fees paid? Or, will new taxes be created?
  - Are there or will there be advanced efforts for the instances of state or central /federal government to vary the amounts of the transfers received by the municipality?
  - ¿Hay una política para que la municipalidad gestione o suscriba nuevos créditos o financiamientos para sus obras?
- Likewise an analysis should be made of state or national policies that are being promoted and which may affect the generation of income/revenue for the municipality:
  - Is there a strong processing of laws that would modify (broaden or restrict) the municipal taxation powers?



- Are there major changes expected in the distribution structure of transfers received by the municipalities?

With these issues analyzed, we can proceed to comply fully with the estimation of income, adding to the endogenous aspects (typical of what the municipality has been experiencing over the past three to five years). Also, we must consider those that are specific to actions that the municipal authorities decide to make to meet their objectives and also the actions of national (and state) authorities that can be estimated, by clear announcements in municipal matters, which would directly affect the income/revenue structure of local governments in general.

**FASE IV:**

ANALYSIS OF PREVIOUS BEHAVIOR OF INCOME/REVENUES AND OF FINANCIAL STRUCTURE OF THE MUNICIPALITY

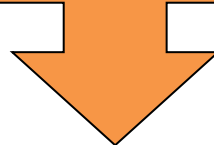


ELABORATION OF "NORMAL" PERCENTAGES OF INCREASE/REDUCTION OF THE ITEMS OF INCOME/REVENUE:  
Current Income  
Tributary  
Non-Tributary  
Capital Inflows  
Transferences  
Credits

4.1 ANALYSIS OF THE IMPACT OF MUNICIPAL GOVERNMENT POLICIES ON THE INCOME:  
Taxes + Services + Credit

4.2 ANALYSIS OF THE IMPACT OF NATIONAL /STATE GOVERNMENT POLICIES ON THE INCOME.

4.3 ELABORATION OF ANNUAL GROWTH PERCENTAGES FOR EACH COMPONENT OF THE INCOME STRUCTURE OF THE MUNICIPALITY.



**4.4. ALLOTMENT OF BUDGETARY CEILINGS FOR EACH ONE OF THE YEARS PROJECTED.**

## VI. RECAPITULATIVE EXERCISE:

By way of example and to exemplify the recommendations so far, the scenario is displayed following usual structures of municipal income/revenues.

For this chapter we have chosen some typical items in the financial structures of the municipalities:

### 6.1 Property Taxes:

- Reviewing the performance of this tax it is determined it has had a very stable behavior and that during the previous five years, its collection has been between 38 and 43% of total revenue of the municipality. In addition, revenue has grown annually by 1 or 2 points above inflation in the country.
- The Municipal Council, in alliance with other neighboring municipalities, is approving an ordinance in order to significantly lower delinquency in the payment of this tax. For the year 0, it is estimated that delinquency has reached 60% of the collection. It is also expected that with the help of government (regional or national), the municipality shall have for the year +3 a modern cadastral system, which will allow to implement better controls and generate a higher collecting projection.
- As for the behavior of the economy for the next 3 years, it is expected to have a significant upturn after having overcome the crisis and is expected that construction grows strongly in the municipality thanks to a housing development project in the area.
- Therefore, it is expected that the revenue from property taxes continues to grow above inflation. For the year +1, we would expect the growth rate to be greater than 3 points; in the year +2, an actual rate of more than 5 points in the collection and for year +3 an actual growth rate of 10% higher than the tax collection of year +2.
- So, if inflation is expected to be +5%, +6% and +7% in the following years, and it is expected that the revenue from property taxes will be 55.2 million; the revenue from this tax for year +1 would be 59.6 million, for year +2 : 66.2 million and for the year +3 : 77.4 million.
- It is also considered that, as increasing collection and lowering delinquency in the collection of this tax will be a priority element of the Administration and as an upturn is expected in housing construction and other businesses, this tax is estimated to represent between 45% (Year +1) and 48% (year +3) of the total revenue of the municipality.

### 6.2 Fee (charge) for Street Cleaning Service:

- Since this service in the municipality is collected jointly with the Property Tax, the behavior of its collection has been very similar to the collection of the said tax.
- Following with this, idea the technical team accepts the assumption that the growth rate of income collection for this concept will be similar to that established for the collection of the tax.
  - For the current year, we expect a collection of 312.000, so for theyear (+1) one would expect a collection of 337.000; for the year (+2): 374.000 and for the year (+3), a collection of 437.000.

### 6.3 Capital Transfers (Resources / Taxes)

- For the previous years, this line has come to account every year for 40-42% of the revenue of this municipality, being that 90% of these resources come from the allocation by law that is granted by National Government.
- Since the transfers are related to the collection of revenue made by the Central / National Government, it is important to note that a situation of constant improvement in tax collection is expected in the country, once the crisis is overcome. This improvement will not be significant, since no major changes are expected in the collection and it is believed that the fiscal deficit will remain at levels similar to previous years.
- It is known that there is an initiative in Congress to change the form of distributing resources for this concept. This initiative has strong support from national and international organizations and is intended to provide a higher percentage to municipalities that increase their own revenue percentages more strongly from one year to the next. On the other hand, they will seek to reduce the percentage in which resources are distributed equally among the municipalities. It is estimated that these changes will be approved and will take effect in the year (+2).
- Municipal authorities, as stated above, have decided to dedicate efforts to improve their own collection in the coming years, reducing the percentages of delinquency.
- It is estimated that the municipality will receive in the current year (0) a total of 52.6 million for transfer of capital / resources. In light of this it is expected that for the year (+1) the increase is to be slightly above inflation (6%): 55.7 million, but for the year(+2) one would expect a larger

increase, given the reform to the respective law. Hence, one would expect resources transferred that year to increase by 15% compared to year (+1): 64.1 million, by year(+3) it would return to present rates of 2 percentage points above inflation: 69.9 million.

#### 6.4 Indebtedness:

- The municipal authorities have decided to manage more credit resources for the municipality for the year +2 through the issuance of bonds in the capital market, as is facing the need for significant infrastructure works to achieve the sustainability of regional development.
- It is important to take into account that for the year (0) the final disbursement of a large loan was received to buy more equipment for the repair and maintenance of roads, accounting that year for 5% of the income received by the Municipality.
- Given this situation, it is important to consider that the income of 6.2 million that occurred in year (0), may not be projected for the next three years on account of that final disbursement.

Thus, following a similar performance analysis for each of the most important items of the income structure, we must proceed to establish the upper limits of the resources that the City may count on in the coming periods, as shown in the following table

:

CONCEPTO	Esperado	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación
	Año 0	Crecimiento	relativa	AÑO +1	Crecimiento	relativa	AÑO +2	Crecimiento	relativa	AÑO +3	Crecimiento	relativa
INGRESOS CORRIENTES			100.0%			100%			100.0%			100.0%
<b>Ingresos Tributarios</b>			46.3%			49%			46.9%			49.4%
<i>Impuesto a la Propiedad</i>	55.2	6%	43.0%	59.6	8%	44%	66.2	11%	42.5%	77.4	17%	45.6%
Arbitrio (Impuesto) 1	1.2		0.9%	1.8		1%	1.6		1.0%	1.2		0.7%
Arbitrio (Impuesto) n	0.8		0.6%	1.1		1%	1.3		0.8%	1.4		0.8%
Servicio 1	0.5		0.4%	0.9		1%	1.2		0.8%	1.3		0.8%
<i>Limpieza de Calles</i>	0.3	6%	0.2%	0.3	8%	0%	0.4	11%	0.2%	0.4	17%	0.3%
Servicio n	0.9		0.7%	1.9		1%	1.5		1.0%	1.1		0.6%
Patentes Comerciales	0.5		0.4%	0.7		1%	0.9		0.6%	1		0.6%
<b>Ingresos No Tributarios</b>			7.4%			8%			7.4%			7.5%
Derechos	0.6		0.5%	0.7		1%	0.8		0.5%	0.9		0.5%
Certificaciones	0.2		0.2%	0.3		0%	0.5		0.3%	0.6		0.4%
Otros Ingresos No Trib.	0.1		0.1%	0.4		0%	0.2		0.1%	0.2		0.1%
Transferencias Corrientes	8.6		6.7%	9.5		7%	10		6.4%	11		6.5%
INGRESOS DE CAPITAL			46.3%			43%			45.7%			43.1%
<i>Transferencias de Capital</i>	52.6	5%	41.0%	55.7	6%	41%	64.1	15%	41.1%	69.9	9%	41.2%
Venta de Activos	0.3		0.2%	2.6		2%	0		0.0%	0		0.0%
<i>Endeudamiento</i>	6.2	24%	4.8%	0	-100%	0%	0	0%	0.0%	0	0	0.0%
Otros Ingresos de Capital	0.3		0.2%	1.1		1%	7.2		4.6%	3.3		1.9%
<b>TOTAL INGRESOS</b>	<b>128.3</b>	<b>5%</b>		<b>136.6</b>			<b>155.9</b>			<b>169.7</b>		

## VII. WHERE ARE EXPENSES GOING?

Having established the budgetary limits, we must continue with the development of estimates of cost or expenditure that the municipality will have the following periods.

Traditionally budgets have been developed and operated in terms of the object of expenditure. In recent years it has been promoted and succeeded in adopting program budgets. Even in most advanced organizations, the budget is based on clearly defined outcomes, which in turn are associated with programs.

Regardless of the budget structure used, finally, whether it is programs, agencies or operating areas, the final accounting is done by types of expenditure (Purpose of expenditure). Therefore, for purposes of this Guide, reference is made to the final structure of the associated expenses under the principles of the purpose of expenditure. Emphasizing that the structures that are mostly recommended, which is result-based programs, each program would have a structure by the object of expenditure.

For each program or for the budget as a whole we should review the results of the elaboration of the historical database, in order to determine the "vegetative" behavior of spending. That is, initially future spending behavior is projected, maintaining past behavior. Thus, if the expenditure on wages has represented 35% of total expenditures in the coming years, and this has been a constant ratio, it is to be expected, if there are no different measures from the administration, that these expenditures continue to grow at the same pace as they have; they will most likely continue to grow in a constant ratio to the growth of prices in the economy.

In case we do not have an accounting that separates costs by program, then you must at least have historical behavior separated by administrative units. Since they must be, ultimately, directly responsible for the execution of budgeted expenditures.

Once you have the panorama of "normal" behavior of the expenses, you can make a projection assuming a similar behavior. In this part, the projection should be revised to comply with legal regulations that must be followed when planning municipal spending; for example, if it has been established in the country that current expenses cannot exceed some percentage of the budget, or, make sure that capital transfers received are devoted as provided in the regulations. It is also important to incorporate those costs associated with the operation and maintenance of completed infrastructure or equipment purchased in the current year. Including those expenditures, especially maintenance, which are to be made not in the first year of operation, but in later years.

One of the issues that should always be taken into account is the payment schedule in the care of debts. It is common to have committed credit with a variable rate, it is important to estimate the expected behavior of market interest rates in the coming years.

As from the above analysis, it is necessary to review priorities for changes and adjustments by senior management of the municipality. These changes or adjustments may be of different kinds.

Programs may have been modified or created, as well as adjustments made to the desired results. For example, if the municipality has decided that one of the priority tasks is to reduce the delinquency, the work must be performed safely with an increase of Income/Revenue Administration personnel. It is also possible that more teams are needed to improve the identification of taxpayers; therefore this additional expense, which did not exist in the past, must be considered.

On the other hand, if the City decides to improve the coverage of garbage collection in its territory, it will be necessary to include in the projection of expenses, those expenses that will arise from the implementation of that plan. Among those possible expenses you have: the purchase of collection vehicles, the hiring of new staff, and the increase in disposal costs of the collected garbage, among others.

We must not forget to include an estimate in case there is anticipation of new disbursements to be made by the municipalities. As it may be the case that the legislation has firm intentions of transferring tasks that pertained to the national government and that, through a de-centralization process, will become part of the municipal responsibilities. E.g. security services, health and education.

Upon completion of the first full estimate of expenses, it becomes necessary to do a recapitulation, to establish the compliance status for the budgetary ceilings. It is highly probable, that in this initial estimate there could be imbalances in the budget. From that point we should start a comprehensive work to review the associated expenses by program and/ or results (or by operational area or office), in order not only to meet the total amounts required, but also to comply with the legal provisions that the municipality must abide by.

**PHASE V:**



ELABORATION OF "NORMAL" GROWTH PERCENTAGES (REDUCTION) OF EXPENDITURE ITEMS BY PROGRAM (preferably):

- Current Expenses
  - Human Resources
  - Goods and Services Purchases
  - Non-personal services
  - Current Transferences
- Investment Expenses (Capital)
  - Transferences
  - Equipment Purchases
  - Construction of Works
  - Care of Debt

5.1 IMPACT ANALYSIS OF MUNICIPAL GOVERNMENT POLICIES ON EXPENDITURE:  
Cuts + Services + Improvements

5.2 ANALYSIS OF COMPLIANCE WITH BUDGETARY OBLIGATIONS

5.3 ANALYSIS OF NEW SPENDING OBLIGATIONS (De-centralization?) BEING PASSED

5.4 ELABORACIÓN DE PORCENTAJES DE CAMBIO ANUAL DE CADA UNO DE LOS COMPONENTES DE LA ESTRUCTURA DE EGRESOS DE LOS PROGRAMAS DE LA MUNICIPALIDAD

5.5 COMPLIANCE REVIEW PROCESS ON BUDGETARY CEILINGS FOR EACH ONE OF THE YEARS

5.6 EXPENSE ADJUSTMENT AGREEMENT IN ORDER TO ACHIEVE BUDGETARY BALANCE AND MEET LEGAL OBLIGATIONS





## VIII. RECAPITULATIVE EXERCISE (Part 2):

As was done in Chapter V, by way of example, the exercise begun earlier is complemented. It is recalled that inflation rates of 5% (Year 0), 5% (year +1), 6% (Year +2) and 7% (year +3) have been estimated. It is also known that for this country, capital spending must be at least equal to 55% of total expenditure of the municipality.

### 8.1 Personal Services:

- In recent years, this component of expenditure has had a special behavior, since, in the year (-3) spending rose 5 percentage points above inflation, but later, in the following years the growth rate decreased to 2 points above inflation and 1 point below in the year (-1); for the year running, it is expected that the expenditure on personal services remains the same as inflation (5% growth).
- The City Council following the strategy of provoking higher transfer revenue, has decided to improve tax collection. To this end, work has been focused particularly in lowering delinquency rates, for which purpose it has decided to increase staff recruitment for tax administration. Specifically studying the behavior of the expenditure structure of that Unit, you come to consider that by the year +1, personnel costs will increase 2 points above inflation, although, for subsequent years, major changes in the staff of the municipality are not expected.

### 8.2 Purchase of office supplies:

- These expenses have had an irregular behavior over the years, not only in the total amount executed, but in the execution of this concept by different agencies. Thus, while in the year (-3) it showed an actual decrease of 2 percentage points, in the year (-1) it increased at double the inflation. Observing the different departments or offices of the municipality, it is estimated that this year (0) the expenses to be executed will grow by 8% over the previous year.
- From the meeting with higher authorities, there were guidelines for the expenses included under this concept. Therefore, the administration will issue instructions so that there is a better management of those accounts and so that purchases are made according to actual needs, and to stop giving out contracts the municipality does not require; and to have previous studies of inventory stocks, as in many cases they keep accumulating.
- With the above conditions, it is expected that purchase of office supplies decreases less than the growth of inflation in the years (+1) and (+2), and has an actual growth of zero in the year (+3).

### 8.3 Investment in works:

- Although the distribution of spending that is executed in the municipal works depends on the consensus process that local authorities carry out with citizen participation organizations, the total amount allocated, is always determined by the conditions of the municipality. The two major sources to finance the investment is the collection of property taxes and capital transfers from the central government.
- As observed in the past, the growth of these expenditures has been occurring well above inflation, at an average rate of 5 percentage points higher than the growth in prices.
- The resolution adopted by the higher authorities is that the allocation for construction of municipal works keeps growing in the coming years.
- Since it is expected that the revenue from property taxes and transfers of capital grow strongly in the near future, it is established that this item will continue to increase above inflation. For the year (+1) it would be expected a similar growth to what has been experienced, but for the year (+2) one would expect an even greater growth of 15%, which would be 1.5 times the expected inflation; although the following year (+3) it would return to similar growth rates which have been maintained until now (12% over the previous year).
- With the issuance of bonds, the City will count with XXX million that will be applied in the years +2 and +3 for infrastructure works laid down in the proposed bond issue. Starting in +3 debt service is adjusted to reflect the payments required by the bond issue.
- From the year +4 it should be reflected in operating expenses and maintenance of the infrastructure built with the resources from the bond issue. This practice is necessary to be considered for any infrastructure made by the municipality, regardless of the origin of the resources.

### 8.4 Care of Debt:

- As was said before, this municipality has decided to contract new loans in the near future, so you need to adjust the debt service.
- There is a report that the expenditure to meet these commitments, grew in the years (-3) and (-2), but the pace of growth slowed in the (-1) and in the running year is expected to grow three points over expected inflation.

- It is known that one of the loans incurred before the issuance of bonds is due at the beginning of the year (+3).
- The behavior of interest rates is projected as a stable condition for the coming years; therefore, all these conditions allow predicting that this line will have a growth of 2 points above inflation in the year (+1) equal to the inflation in (+2), and for (+3) the calculations performed by the financial administration show a nominal decrease of 4%.

So again, following an analysis of similar performance for each of the most important items of the expenditure structure, we should proceed to the first estimate of the expenditures that the municipality would have in the coming periods, as shown in the following table:

CONCEPTO	Esperado	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación
	Año 0	Crecimiento	relativa		AÑO +1	Crecimiento		relativa	AÑO +2		Crecimiento	relativa
<b>GASTOS CORRIENTES</b>			42.2%			41.6%			38.3%			38.8%
<i>Materiales y suministros</i>	9.1	8%	7.1%	9.4	3%	6.8%	9.75	4%	6.2%	10.4	7%	6.3%
<i>Servicios personales</i>	36.7	5%	28.6%	39.3	7%	28.5%	41.63	6%	26.3%	43.7	5%	26.6%
<i>Servicios no personales</i>	5.4		4.2%	5.7		4.1%	6.01		3.8%	6.3		3.8%
<i>Transferencias corrientes</i>	2.9		2.3%	3.0		2.2%	3.23		2.0%	3.4		2.0%
<b>GASTOS DE CAPITAL</b>			57.8%			58.4%			61.7%			61.2%
<i>Construcción de obras</i>	53.3	10%	41.5%	58.6	10%	42.5%	72.42	24%	45.7%	74.6	3%	45.4%
<i>Transferencias de Capital</i>	2.9		2.3%	3.0		2.2%	3.23		2.0%	3.3		2.0%
<i>Propiedades, planta y equipo</i>	14.6		11.4%	15.3		11.1%	18.25		11.5%	18.6		11.3%
<i>Servicio de la deuda</i>	3.4	8%	2.7%	3.6	7%	2.6%	3.86	6%	2.4%	4.0	3%	2.4%
<b>TOTAL EGRESOS</b>	<b>128.3</b>	<b>5%</b>	<b>100.0%</b>	<b>138.0</b>		<b>100.0%</b>	<b>158.4</b>		<b>100.0%</b>	<b>164.3</b>		<b>100.0%</b>
<b>TECHO PRESUPUESTARIO</b>				<b>136.60</b>			<b>155.9</b>			<b>166.7</b>		

As can be seen according to the first approximation made for the years (+1) and (+2), it becomes necessary to cut down on projected expenses or determine absolutely feasible improvements or new sources of income (the change in unfounded income estimation would generate a nonsense in the multiyear budget itself). However, for the year (+3) the opposite would happen; measures would have to be taken to expand the projected expenditure or reduce revenue projections.

Adjusting only the expenses, you would have the following situation:

CONCEPTO	Esperado	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación	PROYECTADO	%	Participación
	Año 0	Crecimiento	relativa		AÑO +1	Crecimiento		relativa	AÑO +2		Crecimiento	relativa
<b>GASTOS CORRIENTES</b>			42.2%			41.6%			38.3%			38.8%
<i>Materiales y suministros</i>	9.1	8%	7.1%	9.4	3%	6.8%	9.75	4%	6.2%	10.4	7%	6.3%
<i>Servicios personales</i>	36.7	5%	28.6%	39.3	7%	28.5%	41.63	6%	26.3%	43.7	5%	26.6%
<i>Servicios no personales</i>	5.4		4.2%	5.7		4.1%	6.01		3.8%	6.3		3.8%
<i>Transferencias corrientes</i>	2.9		2.3%	3.0		2.2%	3.23		2.0%	3.4		2.0%
<b>GASTOS DE CAPITAL</b>			57.8%			58.4%			61.7%			61.2%
<i>Construcción de obras</i>	53.3	10%	41.5%	58.6	10%	42.5%	72.42	24%	45.7%	74.6	3%	45.4%
<i>Transferencias de Capital</i>	2.9		2.3%	3.0		2.2%	3.23		2.0%	3.3		2.0%
<i>Propiedades, planta y equipo</i>	14.6		11.4%	15.3		11.1%	18.25		11.5%	18.6		11.3%
<i>Servicio de la deuda</i>	3.4	8%	2.7%	3.6	7%	2.6%	3.86	6%	2.4%	4.0	3%	2.4%
<b>TOTAL EGRESOS</b>	<b>128.3</b>	<b>5%</b>	<b>100.0%</b>	<b>138.0</b>		<b>100.0%</b>	<b>158.4</b>		<b>100.0%</b>	<b>164.3</b>		<b>100.0%</b>
<b>TECHO PRESUPUESTARIO</b>				<b>136.60</b>			<b>155.9</b>			<b>166.7</b>		

However, it should be taken into account that often, the adjustments are not simple on the expenditure side, so you to using the revenues, including the expansion of credit sources.

It should be noted that the proportion of capital expenditure over current expenses is always greater than 1, and it complies with the norm to devote at least 55% of expenditure to long-term investment (Capital Expenditure); for the year (0) it is

expected that this percentage reaches 58%, likewise in the year (+1); and it would increase to 60% in (+2), and 61% in (+3).

## IX. AN APPROPRIATE PROJECTION TOOL.

There are definitely tools that facilitate the processes of financial and budgetary projections, especially based on sophisticated econometric programs. This Guide has been developed in the knowledge that these programs, and the training necessary for their proper use, are not always available to municipalities in much of Latin America. Anyway, to use this most sophisticated tool it is required that we do the exercises described above, except that such "software" certainly will facilitate the management of the largest databases that are available to us. Therefore this proposal is designed for multi-year budgeting, using conventional spreadsheets (Microsoft Excel), such as the one followed in the Appendix of this guide, or if you have the means, using modern econometric programs. The important thing is to understand well the proposed process and make projections with the proper basis, even more than having the tools to help you.

In that sense, ICMA Latin America, according to the purposes outlined at the beginning of this guide in meeting the specific objectives of the Fund for Assistance Advisory, Public-Private Infrastructure Facility (PPIAF, for its acronym in English) has developed a model Excel-based, application requirements for accounting and budget classification to be followed by municipalities in Mexico.

That model, is attached and is an integral part of this Guide; in it, we take into account the financial results for the years 2008 and 2009; the estimate of the execution of 2010; and the budget is projected for the years 2011 and 2012. Following are the contents of each of the "leaves" that make up the model:

### A. Considerations:

This sheet presents the premises and assumptions to develop the corresponding projection, both for income and expenses.

PREMISAS Y ACLARACIONES A LA PROYECCIÓN:		
<b>INGRESOS</b>		
Se analizan los siguientes ejercicios:		
2008	Información de los Estados Financieros aprobados por el Cabildo y la Contraloría del Estado	
2009	Información de los Estados Financieros aprobados por el Cabildo y presentados a la Contraloría del Estado	
2010	Información de la Ley de Ingresos autorizada por el Cabildo y el Congreso del Estado, Presupuesto 2010.	
2011	Datos de proyección	
2012	Datos de proyección	
Se consideran los ingresos propios con un crecimiento		
2008 - 2009	19.55% Variación real	
2009 - 2010	-17.11% Variación real presupuestal	
2010 - 2011	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
2011 - 2012	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
Se consideran los ingresos por Participación del Ramo 28		
2008 - 2009	1.14% Variación real	
2009 - 2010	-17.11% Variación real presupuestal	
2010 - 2011	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
2011 - 2012	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
Se consideran los ingresos por Aportaciones del Ramo 33		
2008 - 2009	4.24% Variación real	
2009 - 2010	1.97% Variación real presupuestal	
2010 - 2011	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
2011 - 2012	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
Se consideran los ingresos por otros ingresos, incluyendo financiamientos		
2008 - 2009	17.45% Variación real	
2009 - 2010	-20.40% Variación real presupuestal	
2010 - 2011	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
2011 - 2012	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.	
* El Fondo Monetario Internacional (FMI), estima que México puede enfrentar inflaciones crecientes a partir de 2010, por encima de lo esperado. (4.5%)		
El Banco de México, (BANXICO), estima que entre 2010 y 2011, México debido a la recuperación económica, marcará inflaciones entre 4.75% y 5.25 %		
Como parámetro básico para la proyección, consideramos un incremento porcentual del 5% anual, generando variaciones del 4.7619%		
** No se adjunta hoja de trabajo con analítico de ingresos, carecemos de detalle.		
** No se incluye en la pestaña de ingresos, analítico por tipo de ingresos, ya que no contamos con este dato.		
*** En el caso del ejercicio 2008, se hace una combinación de las Cuentas Públicas cierre 15 de Febrero 2008 y periodo 15 de Febrero al 31 de Diciembre 2008		

PREMISAS Y ACLARACIONES A LA PROYECCIÓN:	
<b>EGRESOS</b>	
Se consideran los egresos por capítulo de gasto, de acuerdo al Clasificador por objeto del Gasto:	
<b>1000</b>	Servicios Personales
<b>2000</b>	Materiales y suministros
<b>3000</b>	Servicios Generales
<b>4000</b>	Transferencias y Subsidios
<b>5000</b>	Bienes muebles e inmuebles
<b>6000</b>	Obra Pública
<b>7000</b>	N/A
<b>8000</b>	N/A
<b>9000</b>	Deuda Pública
Se consideran los cambios en los egresos de acuerdo a los siguientes porcentajes:	
<b>2008 - 2009</b>	19.48% Variación real
<b>2009 - 2010</b>	-16.76% Estimado bajo Plan de Contingencia Económica, Reducciones Federales.
<b>2010 - 2011</b>	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.
<b>2011 - 2012</b>	4.76% Resultado de variación por aplicación del 5% sobre base anual anterior.
<b>En los casos de proyección 2011 y 2012, se ajusta el nivel de gasto al ingreso esperado, siguiendo la política conservadora.</b>	
<b>Otras consideraciones:</b>	
**	A partir de la proyección del 2010, se elimina la asignación presupuestal para la Coordinación Ejecutiva de la Presidencia. Dicha dependencia desaparece por acuerdo de Cabildo de fecha 11 de Agosto de 2009.
**	No se adjunta hoja de trabajo con el detalle del destino de gasto, más existe de acuerdo a la estructura de los Programas Operativos Anuales, derivados del Plan Municipal de Desarrollo, el esquema de metas específicas y productos que establece el Plan Municipal de Desarrollo.

The difference between this case, and the exercise and steps followed in the chapters of the Guide, is that it is recommended to apply a percentage of growth in a discriminatory manner, by analyzing the isolated behavior of each item of income and expenditure; whereas, in the model followed in the addendum (based on the reality of Mexican subnational entities) and the preceding tables, homogeneous change rates have been applied, which makes the work easier in the preparation of plans, but they should remain open to the possibility of making adjustments, and to the appreciation of wills and prioritization from senior management.

Therefore, instead of applying only one rate of growth to the different items of expenditure (personal services, materials and supplies, utilities, etc.), Eg 4.76% for the change from 2010 to 2011, apply different growth rates to each concept, according to the specific analysis conducted.

However, the annex is an excellent example, and can be easily adjusted to the principles recommended in this Guide.

**B. Balancing:**

In this sheet are entered only the total amounts; it should be noted that for the past years the (total?) execution is used (obviously, the amounts are different); for the current year (2010), the approved budget is used (equal amounts), as well as for projections for the following years:

PRESUPUESTO BALANCEADO																						
	2008		2009		variación 2008-09		2010		variación 2009-10		2011		variación 2010-11		2012		variación 2011-12					
	concepto		concepto		\$	%	concepto		\$	%	concepto		\$	%	concepto		\$	%				
INGRESOS	\$	2,711,255,000.00	\$	2,974,281,603.00	\$	263,026,603.00	8.84%	\$	2,470,260,000.00	-\$	504,021,603.00	-20.40%	\$	2,593,773,000.00	\$	123,513,000.00	4.76%	\$	2,723,461,650.00	\$	129,688,650.00	4.76%
EGRESOS	\$	2,322,579,200.44	\$	2,884,330,112.95	\$	561,750,912.51	19.48%	\$	2,470,259,998.16	-\$	414,070,114.79	-16.76%	\$	2,593,772,998.09	\$	123,512,999.93	4.76%	\$	2,723,461,647.99	\$	129,688,649.90	4.76%
	\$	388,675,799.56	\$	89,951,490.05	\$	298,724,309.51	0.11	\$	1.84	-\$	89,951,488.21	-0.04	\$	1.91	\$	0.07	0.00	\$	2.01	\$	0.10	0.00

C. Income:

This sheet presents the results of the projection of income, in summary. Perhaps it is the topic that needs to be expanded more from the model of the annex and attach a whole deeper analysis, such as the one proposed in this Guide.

Conceptos (de la ley de ingresos 2009)	2008		2009		2010		2011		2012	
	parcial	concepto	parcial	concepto	parcial	concepto	parcial	concepto	parcial	concepto
<b>Ingresos propios</b>										
Impuestos	\$ 346,861,000.00	\$ 400,333,247.00	\$ 53,472,247.00	\$ 392,399,000.00	\$ 7,944,247.00	\$ 412,008,450.00	\$ 19,619,450.00	\$ 432,608,872.50	\$ 20,600,422.50	\$ 260,600,422.50
Derechos	\$ 259,613,000.00	\$ 237,961,907.00	\$ 21,651,093.00	\$ 251,319,000.00	\$ 13,357,093.00	\$ 263,884,950.00	\$ 12,565,950.00	\$ 277,079,197.50	\$ 13,194,247.50	\$ 13,194,247.50
Productos	\$ 2,651,000.00	\$ 2,831,137.00	\$ 180,137.00	\$ 3,147,000.00	\$ 315,963.00	\$ 3,304,350.00	\$ 157,350.00	\$ 3,469,567.50	\$ 165,217.50	\$ 3,729,967.50
Aprocheamientos	\$ 57,874,000.00	\$ 78,607,372.00	\$ 20,733,372.00	\$ 71,047,000.00	\$ 7,560,372.00	\$ 74,599,350.00	\$ 3,552,350.00	\$ 78,329,917.50	\$ 3,729,967.50	\$ 1,805,895.00
Extraordinarios	\$ 41,822,000.00	\$ 161,315,940.00	\$ 119,493,940.00	\$ 34,398,000.00	\$ 126,917,940.00	\$ 36,117,900.00	\$ 1,719,900.00	\$ 37,923,795.00	\$ 1,805,895.00	\$ 39,495,750.00
<b>Suma de Ingresos propios</b>	\$ 708,821,000.00	\$ 881,049,603.00	\$ 172,228,603.00	\$ 752,300,000.00	\$ 128,749,603.00	\$ 789,915,000.00	\$ 37,615,000.00	\$ 829,410,750.00	\$ 39,495,750.00	\$ 129,688,650.00
Participaciones Ramo 28	\$ 1,040,525,000.00	\$ 1,052,544,000.00	\$ 12,019,000.00	\$ 923,297,000.00	\$ 129,247,000.00	\$ 969,461,850.00	\$ 46,164,850.00	\$ 1,017,934,942.50	\$ 48,473,092.50	\$ 41,677,230.00
Aportaciones Ramo 33	\$ 745,209,000.00	\$ 778,176,000.00	\$ 32,967,000.00	\$ 793,852,000.00	\$ 15,678,000.00	\$ 833,544,600.00	\$ 39,892,600.00	\$ 875,221,830.00	\$ 41,677,230.00	\$ 42,577.50
Otros Ingresos	\$ 216,700,000.00	\$ 262,512,000.00	\$ 45,812,000.00	\$ 811,000.00	\$ 261,701,000.00	\$ 851,550.00	\$ 40,550.00	\$ 894,127.50	\$ 42,577.50	\$ 42,577.50
<b>Total de Ingresos</b>	\$ 2,711,255,000.00	\$ 2,974,281,603.00	\$ 263,026,603.00	\$ 2,470,260,000.00	\$ 504,021,603.00	\$ 2,593,773,000.00	\$ 123,513,000.00	\$ 2,723,461,650.00	\$ 129,688,650.00	\$ 129,688,650.00

D. Expenditures by Chapter:

In accordance with the expenditure structure that must be followed by Mexican municipalities, this model gives a breakdown of each of the offices of the municipality and, in the following sheets, details the expenditure behavior. In this case according to each of the "chapters" or budgetary concepts in which expenditures are to be classified. As will be shown, the total amounts that appear in this sheet and the next, come from the breakdown of the final sheets.

This table is similar to that described in the Guide:

Conceptos (presupuesto egresos 2008)	2008		2009		2010		2011		2012	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>Servicios Personales</b>	\$ 632,078,046.38	27.21%	\$ 743,117,831.19	25.76%	\$ 761,566,369.62	30.83%	\$ 799,644,688.10	30.83%	\$ 839,626,922.51	30.83%
<b>Materiales y Suministros</b>	\$ 125,237,943.16	5.39%	\$ 114,459,399.17	3.97%	\$ 193,315,495.04	8.07%	\$ 209,281,269.81	8.07%	\$ 219,745,333.30	8.07%
<b>Servicios Generales</b>	\$ 487,200,854.50	20.98%	\$ 625,171,843.10	21.67%	\$ 503,119,007.95	20.37%	\$ 528,274,958.35	20.37%	\$ 554,688,706.26	20.37%
<b>Transferencias y Subsidios</b>	\$ 447,603,686.95	19.27%	\$ 504,215,463.63	17.48%	\$ 497,833,465.96	20.15%	\$ 522,725,139.26	20.15%	\$ 548,861,396.22	20.15%
<b>Bienes muebles e inmuebles</b>	\$ 135,536,721.02	5.84%	\$ 179,761,115.85	6.23%	\$ 49,203,436.59	1.99%	\$ 51,663,608.42	1.99%	\$ 54,246,788.84	1.99%
<b>Obra Pública</b>	\$ 435,099,948.36	18.73%	\$ 679,241,231.67	23.55%	\$ 392,000,000.00	15.87%	\$ 411,600,000.00	15.87%	\$ 432,180,000.00	15.87%
<b>otro 1</b>	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
<b>otro 2</b>	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
<b>Deuda Pública</b>	\$ 59,822,000.07	2.58%	\$ 38,363,228.34	1.33%	\$ 67,222,223.00	2.72%	\$ 70,583,334.15	2.72%	\$ 74,112,500.86	2.72%
<b>total</b>	\$ 2,322,579,200.44	100.00%	\$ 2,884,330,112.95	100.00%	\$ 2,470,259,998.16	100.00%	\$ 2,593,772,998.09	100.00%	\$ 2,723,461,647.99	100.00%

E. Expenditures by Office and Chapter:

This sheet is subdivided in expenditures by concept or chapter and are classified according to the responsible office; in the Mexican case, we have identified 21 agencies (21 rows), and in this fact sheet is presented the accumulated detail by Office and by Chapter (9 concepts accumulated in the columns):

Proyección de Egresos Conceptos presupuestales de Clasificador general. Por dependencia/capítulo gasto	CAPÍTULO 1000 SERVICIOS PERSONALES					CAPÍTULO 2000 MATERIALES Y SUMINISTROS					CAPÍTULO 3000
	2008		2009		2010		2011		2012		
	\$	%	\$	%	\$	%	\$	%	\$	%	
<b>Cabildo Municipal</b>	20,462,998.06	23.161,606.63	25,221,330.00	26,482,396.50	27,806,516.33	337,166.61	884,349.00	279,719.05	293,705.00	308,390.25	629,675.92
<b>Presidencia Municipal</b>	10,782,551.50	13,272,098.99	5,622,933.00	5,904,079.65	6,199,283.63	1,160,462.35	1,249,891.28	377,322.59	396,188.72	415,988.16	2,307,388.27
<b>Coordinación Ejecutiva de la Presidencia Municipal</b>	6,759,824.26	6,739,441.96	0.00	0.00	0.00	102,765.79	133,637.96	0.00	0.00	0.00	608,445.94
<b>Sindicatura Municipal</b>	14,737,612.52	16,031,110.21	17,971,904.68	18,870,499.91	19,814,024.91	329,880.07	425,142.96	372,068.80	390,672.24	410,205.85	3,727,973.31
<b>Secretaría del H. Ayuntamiento</b>	26,862,395.30	30,148,707.09	34,050,843.01	35,753,385.16	37,541,054.42	127,191.86	406,500.21	1,032,067.20	1,083,660.06	1,137,843.08	2,507,386.76
<b>Tesorería Municipal</b>	63,200,386.68	60,894,467.28	69,776,816.98	73,956,667.81	76,926,940.72	892,273.32	1,662,862.89	1,667,846.24	1,751,238.55	1,838,800.61	33,736,000.76
<b>Contraloría Municipal</b>	18,042,867.55	19,635,450.37	22,341,234.98	23,458,296.73	24,631,211.57	146,280.96	390,784.26	767,491.13	805,865.69	846,158.97	4,059,405.23
<b>Coordinación de Comunicación Social</b>	7,960,521.82	8,324,134.55	9,846,014.00	10,338,314.70	10,855,230.44	548,036.03	724,712.00	630,298.00	661,812.90	694,903.56	10,564,285.67
<b>Secretaría de Gobernación Municipal</b>	35,003,225.98	41,945,983.63	39,956,985.01	41,954,835.31	44,052,577.08	830,844.02	481,707.36	389,873.78	409,367.47	429,835.84	1,376,328.19
<b>Secretaría de Desarrollo Social</b>	19,701,818.86	22,597,680.74	24,134,759.98	25,341,497.98	26,608,572.85	542,972.22	1,911,900.88	2,260,691.25	2,373,725.81	2,492,412.10	2,420,053.42
<b>Secretaría de Gestión Urbana y Obra Pública para el Des. Sust.</b>	119,366,500.59	143,298,037.99	152,039,319.98	159,641,285.98	167,623,350.28	53,648,807.89	24,572,664.23	45,760,699.00	48,048,733.97	50,451,170.67	152,384,722.57
<b>Secretaría de Desarrollo Económico, Turismo y Competitividad</b>	20,928,217.72	32,687,814.39	37,336,437.00	39,203,258.85	41,163,421.79	330,910.73	1,163,598.40	3,548,709.00	3,726,144.45	3,912,451.67	6,038,341.61
<b>Secretaría de Administración y Tecnologías de la Información</b>	105,166,770.17	124,637,621.13	132,408,803.00	139,029,243.15	145,980,705.31	40,995,421.08	57,652,420.02	73,295,523.00	78,962,299.15	80,608,314.11	157,094,943.17
<b>Secretaría de Seguridad Pública y Tránsito Municipal</b>	148,850,369.31	183,997,911.70	178,634,707.00	187,566,442.35	196,944,764.47	24,401,024.90	22,417,957.24	66,737,754.00	70,074,641.70	73,578,373.79	26,504,088.81
<b>Sistema Municipal DIF</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Organismo Operador del Servicio de Limpia</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Coordinación General de Transparencia</b>	1,460,687.19	1,622,795.72	1,910,232.00	2,005,743.60	2,106,030.78	39,640.64	33,556.62	162,456.00	170,578.80	179,107.74	153,546.13
<b>Instituto Municipal de Arte y Cultura de Puebla</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Coordinación General de Políticas Públicas e Innovación Gub.</b>	8,761,299.89	14,133,009.41	10,314,048.00	10,829,750.40	11,371,237.92	694,268.69	327,873.86	2,032,986.00	2,134,635.30	2,241,367.07	12,978,189.74
<b>Instituto Municipal del Deporte</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Industrial de Abastos</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total por Capítulo</b>	632,078,046.38	743,117,831.19	761,566,369.62	799,644,688.10	839,626,922.51	125,237,943.16	114,459,399.17	199,315,495.04	209,281,269.81	219,745,333.30	487,200,854.50

- a. Finally, a breakdown is presented for each of the 21 existing agencies in a municipality; so, Sheet 1 corresponds to the "City Hall" and so on; Sheet 21 (final) to the department called "Industrial Supplies".

egresos	Cabildo Municipal		2008		2009		2010		2011		2012	
	conceptos (presupuesto egresos 2008)		\$	%	\$	%	\$	%	\$	%	\$	%
1000	Servicios Personales		\$ 20,462,998.06	0.95	23,161,606.63	90.21%	\$ 25,221,330.00	96.14%	\$ 26,482,396.50	96.14%	\$ 27,806,516.33	96.14%
2000	Materiales y suministros		\$ 337,166.61	0.02	884,349.00	3.44%	\$ 279,719.05	1.07%	\$ 293,705.00	1.07%	\$ 308,390.25	1.07%
3000	Servicios Generales		\$ 629,675.92	0.03	1,495,168.15	5.82%	\$ 734,260.28	2.80%	\$ 770,973.29	2.80%	\$ 809,521.96	2.80%
4000	Transferencias		\$ -	-	-	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
5000	Bienes muebles e inmuebles		\$ 168,066.11	0.01	134,453.74	0.52%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
6000	Obra Pública		\$ -	-	-	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
7000	otro 1		\$ -	-	-	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
8000	otro 2		\$ -	-	-	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
9000	Deuda Pública		\$ -	-	-	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
	total		\$ 21,597,906.70	1.00	25,675,577.52	100.00%	\$ 26,235,309.33	100.00%	\$ 27,547,074.80	100.00%	\$ 28,924,428.54	100.00%

egresos	Cabildo Municipal		2008		2009		2010		2011		2012	
	conceptos (presupuesto egresos 2008)		parcial	concepto	parcial	concepto	parcial	concepto	parcial	concepto	parcial	concepto
1000	Servicios personales		\$ 10,913,520.80	\$ 20,462,998.06	\$ 11,157,238.90	\$ 23,161,606.63	\$ 13,229,799.02	\$ 25,221,330.00	13,891,288.97	\$ 26,482,396.50	\$ 14,585,853.42	\$ 27,806,516.33
1000.1	REMUN. FUNCIONARIOS		\$ 645,440.89		\$ 1,263,464.63		\$ 1,192,081.34		1,251,685.41		\$ 1,314,269.68	
1000.2	PRESTAC A FUNCIONARI		\$ 6,190,995.78		\$ 7,622,035.00		\$ 8,393,602.40		8,813,282.52		\$ 9,253,946.65	
1000.3	REMUNA EMPLEADOS		\$ 2,713,040.59		\$ 3,118,868.10		\$ 2,405,847.24		2,526,139.60		\$ 2,652,446.58	
1000.4	PRESTAC A EMPLEADOS											
2000	Materiales y suministros		\$ 337,166.61		\$ 884,349.00		\$ 279,719.05		\$ 293,705.00		\$ 308,390.25	
2000.1	MATERIALES ADMIN		\$ 21,598.38		\$ 289,147.16		\$ 61,771.31		64,859.88		68,102.87	
2000.2	MAT TRAB Y PRODUCCO		\$ 3,289.11		\$ 10,993.84		\$ 62,936.51		66,083.34		69,387.50	
2000.4	PRO QUIM. FARM Y LAB		\$ 5,352.45		\$ 4,635.85							
2000.5	COMB. LUBRIC Y ADIT											
2000.6	BOP PRE TRAB ART DEP											
2000.7	MAT EXPLOSM. SEG PUB											
2000.8	ALIMENT Y UTENSILIOS		\$ 305,930.67		\$ 577,828.15							
2000.9	OTROS		\$ 996.70		\$ 1,744.00		\$ 155,011.23		162,761.79		170,899.88	
3000	Servicios Generales		\$ 629,675.92		\$ 1,495,168.15		\$ 734,260.28		770,973.294		\$ 809,521.96	
3000.1	SERVICIOS BASICOS		\$ 1,588.06		\$ 954.75		\$ 110,722.00		116,258.10		122,071.01	
3000.2	SERV. ARRENDAMIENTO		\$ 47,800.00		\$ 19,050.00							
3000.3	SER ASESO EST E IN/E		\$ 25,106.00				\$ 124,707.72		130,943.11		137,490.26	
3000.4	COMERCIAL Y BANCARIO				\$ 4,500.00							
3000.5	SERV MITO CONS E INS		\$ 5,314.00		\$ 18,715.86		\$ 498,830.56		523,772.09		549,960.69	
3000.6	SERV IMPR DIFUS E INF		\$ 24,190.13		\$ 53,574.35							
3000.7	SERV DE TRANSPORTACI		\$ 284,827.39		\$ 129,464.94							
3000.8	SERVICIOS OFICIALES		\$ 240,850.34		\$ 1,268,908.25							
3000.9	DIVERSOS											
4000	Transferencias		\$ -		\$ -		\$ -		0		0	
4000.1	AY SEC SOC PRI Y PUB		\$ -		\$ -							
4000.2	TRANSFERENCIAS OFIC		\$ -		\$ -							
4000.3	CANCELACIONES		\$ -		\$ -							
4000.6	INDEMNIZ SINIESTROS		\$ -		\$ -							
4000.7	DIVERSOS		\$ -		\$ -							
5000	Bienes muebles e inmuebles		\$ 168,066.11		\$ 134,453.74		\$ -		0		0	
5000.1	MOBILIARIO Y EQUIPO		\$ 168,066.11		\$ 134,453.74							
5000.2	EQ. SEG PUBLICA											
5000.3	EQUIPO DE TRANSPORTE											
5000.4	MAQUINARIA Y EQUIPO											
5000.5	HERRAM Y MAQ-HERRA											
5000.6	BIENES INMUEBLES											
6000	Obra Pública		\$ -		\$ -		\$ -		0		0	
6000.1	OP tipo uno											
6000.2	OP tipo dos											
6000.3	OP tipo tres											
6000.4	OP tipo cuatro											
6000.5	OP tipo cinco											
6000.6	OP tipo seis											
7000	otro 1		\$ -		\$ -		\$ -		0		0	
7000.1	otro 1 tipo uno											
7000.2	otro 1 tipo dos											
7000.3	otro 1 tipo tres											
8000	otro 2		\$ -		\$ -		\$ -		0		0	
8000.1	otro 2 tipo uno											
8000.2	otro 2 tipo dos											
8000.3	otro 2 tipo tres											
8000.4	otro 2 tipo cuatro											
9000	Deuda Pública		\$ -		\$ -		\$ -		0		0	
9000.1	AMORTIZACION DE CAPITAL											
9000.2	INTERESES DE CREDITOS VIGENTES											
9000.3	ADELUDOS DE EJERCICIOS FISCALES ANTERIORES											
	total		21,597,906.70		25,675,577.52		26,235,309.33		27,547,074.80		28,924,428.54	

b.



## X. SCHEDULING.

So far we have led city officials to develop a multi-year budget, but it is not done once done again until the projected years have passed (for the following case, it would be until the year (+3) ).

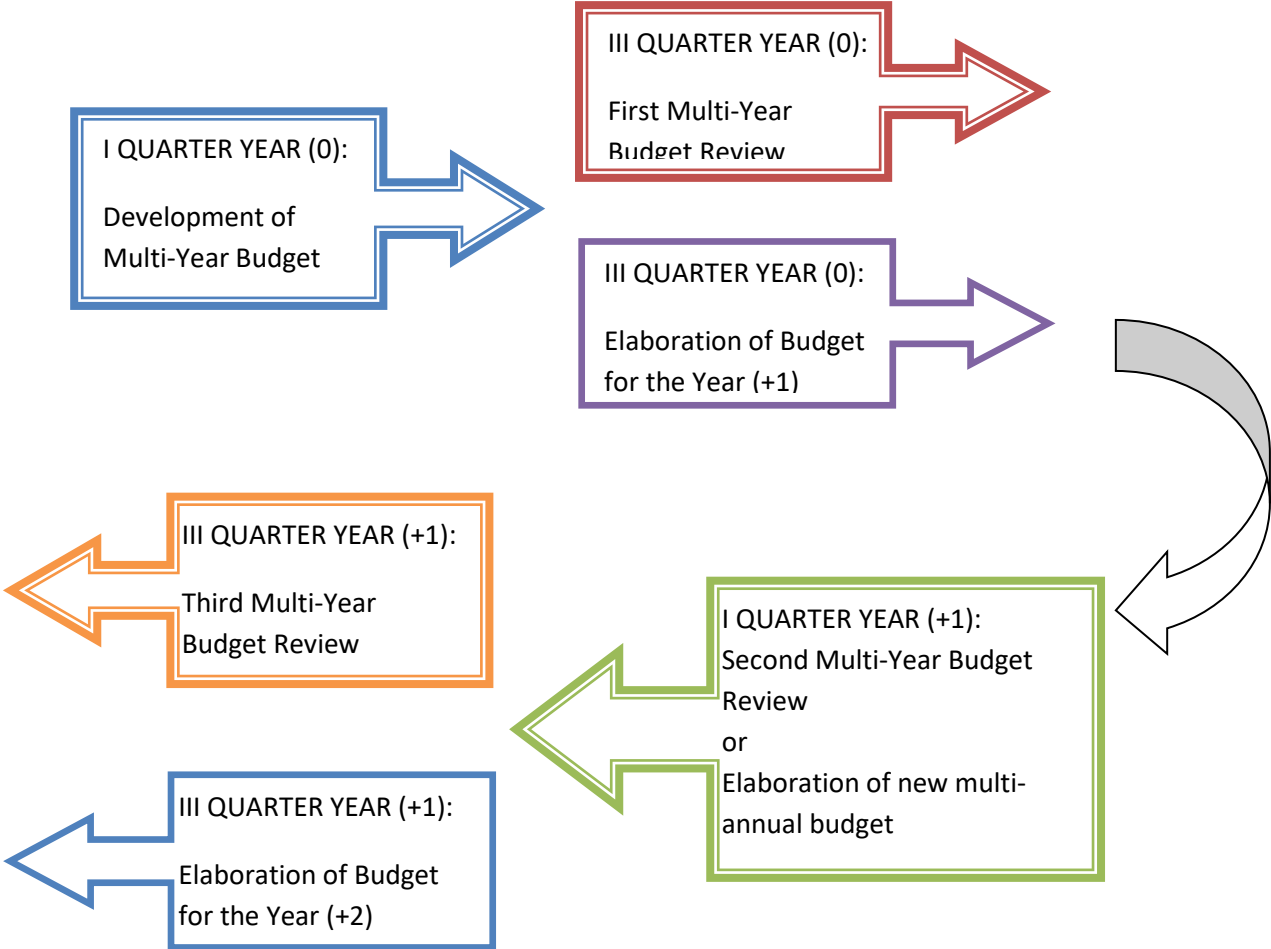
There are two alternatives for working with multi-year projection: On the one side, the projection is done for three or five years, and then, twice a year, the content of the goals of income and expenditure behavior projected are reviewed; or rather, the initial budget is updated, then the year (+1) comes to be the year (0) ...and the year (+3) becomes the (+2) and the new year would become the new (+ 3).

The first option demands less projecting effort from the team, for it only updates the assumptions and behaviors according to the new conditions existing in the municipal environment and the current year's budget execution, while the second option, although requiring more effort, allows the municipality to maintain a long-term vision on a permanent basis.

Either alternative followed, will generate the need to enter a process of continual reviewing of the estimated budget plans; so it is crucial that there be an annual calendar for the reviewing or updating of the multi-year budget.

Given the relationship of these estimates with the elaboration of the annual budget that municipal governments must execute, it is recommended that both processes are established in a harmonious manner; thus, there will be a mutual assistance between the two processes. The multiannual budget already considers the following year's goals for which we must prepare the respective plan; while conditions that are followed preparing the budget for the coming year will be critical for the revision of the goals established in the multi-year plan.

This suggests continuing with the following scheduling:



## XI. CONCLUSIONS

As indicated from the start, this is a proposal that intends to guide authorities and city officials in Latin America, to improve their actions tending to generate a better planning of political actions that are executed from the local governments; those public organizations closer to the population.

Managing to have a multi-year budget, allows the municipality, to be clear about the direction the government will follow, but at the same time, it will help generate better governance.

During the last years there have been in Latin America concrete actions to achieve a greater transparency in the actions of their rulers, especially in the use of public resources that have been placed under their care, but at the same time, actions have been strengthened so that the civil society, the electorate, may have a direct influence on the decisions taken by the authorities; to improve the living conditions of the inhabitants of the municipality.

In that sense, a multiannual budget not only will allow the administration a better planning for its management, that reflects the priorities and objectives that the territory seeks to achieve; but it will also allow the civil society, through citizen participation processes, detailed insight into the intentions and limitations of those who have been elected to manage their local government.

The term "implementation of participatory budgeting", has often been mistaken for the practice of splitting existing resources between different regions of the municipality or between different groups of citizens to assign to the execution of works; generating often times with this process, annoyance among claimants and increased unruliness.

If you have a projected budget for the following years, from early on, not only can the municipal authorities plan their actions and more efficiently manage their administration, but also the civil society itself, through participatory processes, can learn the limits that will exist in the future; know the policies intended to be promoted and thereby influence their conformation; and know the limitations prevalent for the future.

As can be seen easily, multiannual budgeting is not a moment in time every three to five years; it is rather the beginning of a permanent process of development, revision, implementation and continuous adjustment of the plans, which are to be followed to achieve the municipality's development.

It should be a living tool, in permanent evaluation, useful for medium and long term decisions to be endorsed by the political class; of the knowledge of those responsible for municipal administration; but, above all, a tool that will guide properly the actions of voters, in their responsibility to keep watch, so that local government aims its actions at the goals of greater benefit for the municipal territory.

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