



By Roland Calia

Chicago's budget debate has increasingly focused on whether the City should adopt stricter standards for structural budget balance and long-term financial planning. This report examines how major U.S. cities prepare budgets and compares Chicago's flexible budgeting with New York City's stringent budget-preparation requirements.

Budgeting vs. GAAP

Generally Accepted Accounting Principles (GAAP) are the set of rules, procedures, and guidelines that U.S. organizations must follow when preparing and presenting their financial statements. While GAAP governs audited financial reporting, it does not apply to budget preparation.

- Most U.S. local governments use budgetary bases (cash, modified cash, or modified accrual) that focus on the inflow and outflow of current financial resources rather than full accrual (GAAP) measurement of long-term assets and liabilities.
- Both the Governmental Accounting Standards Board and the Government Finance Officers Association recognize that governments adopt non-GAAP budgets; GAAP budgeting is not considered a best practice
- Non-GAAP budgetary bases can promote short-term public sector fiscal accountability by focusing on how current revenues are to be expended within a specific fiscal year. However, such budgets do not always provide a complete view of liabilities and infrastructure conditions.

Common practices across major U.S. cities

None of the ten largest U.S. cities prepare budgets on a full accrual accounting basis. Instead, they primarily use modified accrual or modified cash approaches, often with adjustments such as:

- Treating encumbrances as expenditures
- Expensing capital outlays upfront
- Recognizing revenues based on availability
- Excluding a complete view of long-term liabilities and infrastructure conditions.

New York City's Basis of Budgeting

New York City is legally required to adopt a structurally balanced operating budget and multi-year financial plan under the New York State Financial Emergency Act (FEA) and its City Charter. New York's budget uses a modified accrual-based framework, excludes capital items from structural balance, and includes reconciliation to GAAP financial statements.

Chicago's Basis of Budgeting

The City of Chicago primarily uses modified accrual budgeting, with notable exceptions:

- Property taxes are budgeted based on a levy and collection forecast
- Enterprise funds are presented using a condensed, accrual-oriented framework
- Several departures from GAAP exist (e.g., treatment of encumbrances, transfers, and lack of certain accrual adjustments)
- Unlike New York City, Chicago does not have a legal requirement for structural balance or a multi-year financial plan.

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