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## Budgeting for Community Services

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# Economics Newsletter

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## BUDGETING FOR COMMUNITY SERVICES

by

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How to provide and pay for community services has long been a critical problem in South Dakota. The State's relatively sparse population has always made it difficult to provide good quality services at costs acceptable to taxpayers. However, several forces are now causing renewed interest in local policies about provision and financing of community services.

First, many South Dakota counties are now beginning to grow, after having experienced decades of decline. Increased population density may enhance local ability to support various services. However, even within growing counties, many small towns continue to lose population, thus increasing the difficulty of maintaining services for those who remain behind. Moreover, many of the growing towns face problems in rapidly expanding their community services.

The changing age structure of the State's population is another factor. The number of persons 65 years of age or older increased in 59 of South Dakota's 67 counties between 1970 and 1975. The proportion of South Dakota's population in older age categories is also increasing. This signals the need for many communities to increasingly deal with the service needs of an older population, while at the same time trying to maintain quality services for younger persons and families.

Finally, there is the growing pressure in many communities to restrain increases in public expenditures as much as is practically possible.

With these forces in mind, local

governments and citizen groups are giving increasing care to budgeting the expected costs and revenues associated with proposed new services and alternatives for provision of particular services. Research and extension economists at several Land Grant universities around the country have aided this effort in the last few years by developing budgets for various community services.

The type of budgets developed provide information to local decision makers on the capital costs, operating costs, and revenues that are expected to be associated with a new or expanded service or with alternative methods of providing a community service. A recent budgeting analysis of community health clinics by economists at Oklahoma State University illustrates the type of cost and revenue items typically included in community service budgets. See Example 1 on the back.

This type of information makes clear what level of charges would be necessary for the service to be self-supporting. In the Oklahoma case, monthly rental charges of nearly \$600 per physician would be necessary for the clinic to break even.

A different example is provided by a University of Minnesota study of transportation service alternatives for elderly in a rural county. Budgets were constructed for several alternative methods of providing transportation on a regular basis to elderly citizens of the county. The resulting comparison of costs is shown in Example 2.

These examples illustrate that budgets constructed prior to final decisions

about whether and how to provide a particular community service can provide valuable information on (1) which method is likely to be the least costly and (2) the charges, taxes, or other revenues that will be necessary to cover full costs.

Budgets are now available, or soon will be, for the following community services:

- ambulance services
- rural health clinics
- small hospitals
- fire protection
- rental apartment housing
- transportation for the elderly
- rural water systems
- solid waste disposal
- law enforcement services

Example 1: Yearly Costs and Revenues for a Health Clinic in a Rural Oklahoma County

| <u>Capital costs</u>                              | <u>Amount</u> |
|---|---------------|
| Depreciation & interest on building               | \$10,566      |
| Depreciation & interest on equipment              | 5,961         |
| Total capital costs                               | \$16,527      |
| <u>Operating costs</u>                            |               |
| Water, sewer, & garbage                           | 480           |
| Heating & air conditioning                        | 5,560         |
| Insurance   | 414           |
| Janitor   | 3,360         |
| Maintenance                                       | 720           |
| Total operating expenses                          | \$10,534      |
| Total yearly costs                                | \$27,061      |
| -----   |               |
| <u>Possible revenues (assume four physicians)</u> |               |
| If monthly rental per physician is \$500:         | \$24,000      |
| If monthly rental per physician is \$600:         | 28,800        |
| If monthly rental per physician is \$700:         | 33,600        |

Most of the budgets are representative of rural conditions found in the Midwest, Plains, or West. Many are accompanied by forms which can be used in reestimating costs to fit local conditions and current price levels.

Community service budget studies which are most pertinent to South Dakota conditions are located and can be examined in local County Extension Offices throughout the State. Individual copies of these and other budget studies are available through the Economics Department at SDSU, as is Extension Mimeo Circular 806, which contains a listing and brief description of various budget studies currently available. Assistance in use of the budgets can also be requested through the Economics Department.

Example 2: Comparison of Yearly Costs for Methods of Providing Transportation to Elderly in a Rural Minnesota County

| <u>Transportation method</u>                             | <u>Costs (given certain routes and ridership)</u> |
|--|---|
| Volunteer drivers, with reimbursement on a mileage basis | \$ 8,354  |
| Community-owned 11-passenger van                         | 13,171  |
| Community-owned 44-passenger school bus                  | 10,477  |
| Rented 44-passenger school bus                           | 12,077  |

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