

Municipal Budgeting

Certified Government Finance Officer Review Session

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Agenda

- Budget Process/Budget Types
- Fiscal Policies & Best Practices
- Performance Measurement
- Revenue Management and Forecasting
- Capital Improvement Budget & Financial Planning
- Budget Presentation Award

Budget Process/Budget Type

Budget Basics

- Governments allocate funds to programs and services through the budget process
- The Budget provides the legal authority to expend funds
- Allocations refers to the distribution of scarce resources amount competing activities or the mix of goods to be produced
 - ❖ Indicate goals and priorities for the upcoming year
 - ❖ Reflects the choices made by the governing body

Budget Basics

- Must be responsive to constituents' needs and desires
- Governments should engage in long-term financial planning, including multi-year revenue and expenditure projections
- The budget process regulates the flow of decisions – who will have a say and at what point in the process

Budget Basics

- Process should effectively involve major stakeholders and reflect their needs and priorities
- Appropriations are normally not held over for future use if they were not expended in the year they were appropriated
- Appropriations in the annual budget are typically authorized for a single year

Budget Basics

- The budget process should:
 - ❖ Incorporate a long-term perspective
 - ❖ Establish linkage to broad organization goals
 - ❖ Focus decisions on results and outcomes
 - ❖ Achieve stakeholders' acceptance of decisions related to goals, services, and resource allocation

Budget Basics

- The budget is a plan – how do you know when you are done without a plan?
- Benefits of the budget:
 - ❖ Stable service delivery
 - ❖ Impact of current decisions
 - ❖ Thoughtful responses
 - ❖ Identifies future trends early
 - ❖ Builds credibility
 - ❖ Transparency

Budget Approach

- Budget Process approaches are designed to provide more and better information to decision makers increasing the rationale for budget decisions
- Approach depends on management and legislative body

Budget Approach Types

- Executive Budgeting
- Incremental Budgeting
- Performance Budgeting
- Program Budgeting
- Zero-Based Budgeting
- Budget Allotment
- Priority-Based Budgeting

Executive Budgeting

- Control of budget preparation lies with the chief executive officer or city manager
- Earliest version used a simple line item format
- Cities and states were the first to adopt to this format

Incremental Budgeting

- Current year's budget forms the basis for the upcoming year's budget
- Works best during periods of stable revenues and expenditures
- Works reasonably well in mature communities that have stable service demands
- Inadequate method for addressing revenue shortfalls, sharply increasing service demands or during other volatile periods

Performance Budgeting

- First major reform after executive budget format
- Major feature is the inclusion of various workload measures that emphasize purposes and accomplishment
- Expenditures are based on measurable performance activities and programs
- Sets primary focus on evaluation of the efficiency of existing activities

Program Budgeting

- A budget wherein expenditures are based on program of work and on character and object class
- Organized by specific functions
- Functional areas show related revenues and expenditures
- Links revenues and expenditures to goals, objectives, and outcomes

Zero Base Budgeting

- Continued existence of programs and activities must be justified annually
- Purpose is to force conscious decisions between disparate goals
- Designed to address the appropriateness of each goal, rather than the most cost effect program to achieve the goal

Budget Allotments

- A portion of the budget is allocated to an interim period based on historical spending patterns and needs
- Advantages include:
 - ❖ Avoidance of rushed year-end spending
 - ❖ Aids planning cash flow needs
 - ❖ Helps managers plan inventory needs

Priority Based Budgeting

Resources allocated according to how effectively a program or service achieves goals and objectives that are of great value to the community:

- Also known as Budgeting for Results/Outcomes
- Strategic alternative to incremental budgeting
- Philosophy of how to budget scarce resources and a flexible structured process for achievement

Priority Based Budgeting

- Priority based budgeting process
 - ❖ Government identifies its most important strategic priorities
 - ❖ Programs and services are ranked according to alignment with the priorities using a collaborative evidence-based process
 - ❖ Funding is allocated according to the ranking
- Useful tools to align expenditures more closely with community values

Phases of the Budget Process

- Budget manual (call)
- Agency/Department budget requests
- Preparation of the proposed budget
- Legislative consideration and adoption
- Implementation
- Audit and evaluation

Budget Process - Manual

- Chief executive officer is responsible – budget guidance outlining fiscal positions
- Contains instructions for preparing and submitting the operating and capital budgets
 - ❖ Description of budget process
 - ❖ Budget calendar
 - ❖ Assumptions to be used for requests
 - ❖ Forms to be used with instructions

Budget Process

Department Requests

- Transmittal memo that outlines its major objectives and initiatives for the budget year
- Budget schedules that detail the amount requested
- Narrative justification of requested amount
- Workforce ratios for some expenditure items

Budget Process

Department Requests

Narrative justifications include:

- Description of current services
- Identify additional needs with supporting detail
- Discuss implications of not funding the requested amounts
- Supporting documentation

Budget Process - Preparation

- Budget staff reviews requests to ensure:
 - ❖ Compliance with budget instructions
 - ❖ Revenues and expenditures balance
 - ❖ Realistic revenue projections
- Works with chief executive and management team to determine which requests and funding levels will be included in the budget
- Compiles the approved requests into a proposed budget document that is submitted to the legislative body for review and decision

Budget Process – Legislative Consideration and Adoption

- Proposed budget is presented to legislative body for consideration
- Reviews budget to ensure constituent needs are addressed
- Holds public hearing in accordance with Florida Statutes and local ordinances

Budget Process – Legislative Consideration and Adoption

Budget document should:

- Provide summary information to the public\media
- Include a transmittal letter that outlines key policies and strategies
- Be readable and understandable
- Explain events/conditions that require changes in operations to ensure financial stability
- Be posted on the taxing authorities official website at least two days before budget hearing

Budget Process – Legislative Consideration and Adoption

Chapter 200, Florida Statutes – Truth in Millage (TRIM)

- Open discussion of millage rates and budgets
- Purpose is to provide transparency in how local taxing authorities proposed and approve millage rates
- Outlines requirements to be in TRIM compliance
- Determine if there is a tax increased proposed based on the rolled-back rate

Budget Process – Legislative Consideration and Adoption

Truth in Millage (TRIM) Process:

- Maximum millage rate for cities and counties is 10 mills
- Defines a “county of special financial concern” as a county where 1 mill raises less than \$100 per capita
- Outlines requirements to be in TRIM compliance
- Department of Revenue is responsible for enforcing compliance of the TRIM (property tax ad valorem) process

Budget Process – Legislative Consideration and Adoption

Rolled-Back Rate

- The millage rate necessary to raise, the aggregate, the same amount of money this year from the taxpayers on last year's tax roll that was raised a year ago (excludes new construction)
- Levying a millage rate higher than the rolled-back rate requires the taxing authority to advertise a tax increase

Budget Process – Legislative Consideration and Adoption

Truth in Millage (TRIM) Process:

- Tax revenue is based on Certification of Value provided by the Property Appraiser and is the valuation of the taxable value within the jurisdiction
- Requires taxing authorities to utilize a minimum of 95% of the certified taxable value
- Requires two public hearings for open discussion of millage rates and budgets

Budget Process – Legislative Consideration and Adoption

Truth in Millage (TRIM) Process:

- Trim Day 1 is July 1 or the date of certification, whichever is later
- NLT Trim Day 35 – advise property appraiser of its proposed millage rate and first public hearing date
- NLT Trim Day 55 – property appraiser distributes Notice of Proposed Taxes (TRIM Notice)

Budget Process – Legislative Consideration and Adoption

Truth in Millage (TRIM) Process:

- Between day 65 (September 3) and day 80 (September 18) taxing authority must hold its first public hearing
- Within 15 days of holding the first public hearing the taxing authority must publish an advertisement to adopt the final millage and budget

Budget Process – Legislative Consideration and Adoption

Truth in Millage (TRIM) Process:

- Second Public hearing must be held between 2 and 5 days after the advertisement has been published
- Submit TRIM package to DOR for review and approval

Budget Process – Legislative Consideration and Adoption

Public Hearings:

- At both hearings, millage rate must be discussed first before the budget; increase over the rolled-back rate must be announced
- General public is allowed to speak before governing body can take any action
- Millage must be adopted before budget adoption

Budget Process – Legislative Consideration and Adoption

Maximum Levy Limits:

- Majority vote – Rolled-back rate (RBR) plus per capita personal income change
- Two-thirds vote – 110% of RBR adjusted for per capita personal income
- Unanimous vote (3/4 if 9 or more) – up to 10 mill cap
- Referendum – up to 10 mill cap
- Super-majority vote is of the membership of the governing body, not the members who are present

Budget Process – Legislative Consideration and Adoption

No adopted budget – FS allows taxing authorities to readopt its prior year's adopted final budget, as amended, and expend moneys based on that budget until such time as the tentative budget is adopted if the fiscal year begins prior to adoption of the tentative budget

Budget Process – Implementation

- Budget officer implements
- Budget is uploaded into the financial system as approved by the legislative body
- Manage position control process
- Work closely with the finance office

Budget Process – Audit and Evaluation

- Monitor the budget monthly and/or quarterly
- Report actual compared to budget
- Adjust the budget as necessary
- Monitor progress toward objectives

Multi-Year Budgeting

Budgets are adopted for two or more years:

- Classic (traditional) – both the spending and revenue plan for each budgetary year are approved at the same time
- Rolling – each year's appropriations are adopted in each subsequent year

Multi-Year Budgeting Advantages

- Improves:
 - ❖ Financial planning
 - ❖ Long-range strategic planning
 - ❖ Program monitoring and evaluation/benchmarking
- Reduces staff time in budget development
- Links operating and capital activities/spending
- Reduces surprises
- Pinpoints problem areas early

Multi-Year Budgeting Disadvantages

- Difficult to project into the future
- Could reduce responsiveness to emergencies if too restrictive
- Initial year may increase work and stress in departments

Multi-Year Budgeting Safeguards

- Amend existing financial and budget policies:
 - ❖ Allow carryovers from one year to the next
 - ❖ Budget adjustment levels
 - ❖ Use of revenue reserves for unanticipated expenditures
- Create financial policies
 - ❖ Balance budget
 - ❖ Revenue diversification
 - ❖ Debt capacity
 - ❖ Fund balance

Multi-Year Budgeting v. Financial Plan

Budget:

- Includes goals or objectives
- Public documents
- Approved by governing body

Financial Plan:

- Includes goals or objectives
- Public documents
- Not formally adopted by the governing body

Accounting Basis

➤ Governmental fund:

- ❖ Used to account for most, if not all, of a government's taxable supported activities
- ❖ Uses modified accrual basis of accounting

➤ Five governmental fund types:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds

Accounting Basis

➤ Proprietary funds:

- ❖ Used to account for a government's business activities and service internal and external customers
- ❖ Uses accrual basis of accounting

➤ Two types of proprietary funds:

- ❖ Enterprise Funds
- ❖ Internal Service Funds

Accounting Definitions

- Encumbrances – obligations incurred for which receipt of goods or services have not occurred
- Mandate – when a higher level of government requires a lower level of government to perform a specific task or to meet a standard

Revenue Management and Forecasting

Forecasting Revenue

- Estimating revenue is the first step in determining level of resources that will be available for budget appropriations
- Influenced by the following factors:
 - Administrative
 - Economic
 - Political
 - Policy Context
- Stability of revenue stream improves the forecast – utilities have an advantage over governmental revenues

Forecasting Revenue

- Involves use of analytical techniques to estimate
- Should be decentralized with each program following a common set of assumptions and methods
- Used to establish spending targets
- Assists in projecting future financial conditions
- Projects capital project pay-go and debt financing
- Should be extended at least three (3) years

Revenue Manual

- Documents revenue sources and factors relevant to projecting current and projected collection levels
- Promotes better understanding of government's resources
- Supports decision-making
- Internal staff training tool

Revenue Manual

For each revenue source, describe:

- Title and brief description of the revenue source
- Authorization and limitations of the revenue source
- Collection methodology
- Collection history

Qualitative Methods

Qualitative revenue forecasting methods rely on judgements about future revenues

➤ Consensus:

- ❖ Group collectively reaches agreement on revenue projections based on previous collection patterns, experience ,and knowledge
- ❖ May be used for new revenues or sources that have inadequate or unreliable data

Qualitative Methods

➤ Judgmental:

- ❖ Informed decision based on history and general economic conditions
- ❖ May be used for revenues with a high degree of uncertainty

➤ Expert:

- ❖ Uses economists, demographers, etc. to study trends
- ❖ May be used for revenues affected by national and/or regional trends

Qualitative Methods

Weaknesses:

- Responds to political pressures
- Focus on current issues/events
- Lack of comparability over time

Quantitative Methods

- Relies on numerical data – this enables testing to see if underlying data assumptions are met.
- Requires extensive amounts of historical data to generate dependable projects
- Should collect at least **40** data points

Forecasting Revenue Methods

- Trend analysis – forecasting future revenues based on its short-term historic trend
- Simple linear and multiple regression analysis
- Time series analysis – forecasting revenue based on financial data over extended periods (e.g., 40 or more periods) collected at equally spaced intervals

Forecasting Revenue Methods

Econometric forecasting involves projecting future revenues by taking into account the economic factors that influence the revenue

- Generates revenue forecast using an equations that includes a number of variable that influence the revenues being project
- Sales Tax
- User Chargers (building permits)
- Utility (Public Service) Tax

Break-Even Analysis

- Simple technique for determining whether a project will break even (e.g., Revenues = Costs)
- Four variables:
 - ❖ Revenue per unit
 - ❖ Fixed costs
 - ❖ Variable costs
 - ❖ Number of units or uses

Calculate Net Present Value

Method of comparing the long-term financial costs of different alternatives

$$\text{The value of the promise today} = \frac{\text{\$ Promised in future}}{\text{Discount factor}}$$

Example: Benefit today of receiving \$200,000 in a year's time given a 5% discount rate is \$190,476 (\$200,000 divided by 1.05)

Revenue Restrictions

- Forming a Community Redevelopment District
 - Must adopt a finding of necessity
- Establishing a business tax – requires an equity study
- Revenue Sharing:
 - Two components – guaranteed entitlement and growth
 - Constrains use of debt service in excess of the guaranteed entitlement amount

Capital Improvement Program and Financial Planning

Capital Assets

- Capital assets are government facilities, infrastructure, equipment, or networks that enable the delivery of essential public sector services
- GFOA recommends governments establish a system for assessing their assets
- Plan and budget for any capital maintenance and replacement needs

Capital Assets Inventory

- Complete inventory and periodic measurement of the physical condition should be conducted no less than annually
- Inventory should include:
 - ❖ Location
 - ❖ Engineering Description
 - ❖ Book Value
 - ❖ Condition
 - ❖ Replacement Costs
 - ❖ Operating Costs

Capital Improvement Program (CIP)

- A plan of capital investment for a period of time, usually 5 to 7 years
- Prioritizes projects and identifies funding sources.
- Should include citizen recommendations
- Should be included and adopted at the same time as the budget
- Is a decision making tool

Capital Improvement Program (CIP)

- Provides transparency on projects the governmental agency is constructing/ implementing
- Advantages of adopting a formal plan:
 - ❖ Financial management tool
 - ❖ Contributes to long-range planning
 - ❖ Reduces the influence of political considerations in determining which projects to fund

Capital Improvement Program (CIP)

- Is the outcome of the organization's long-term strategic planning process
- Multi-year program:
 - Budget year (first year) are included in the adopted budget
 - Future years are waiting funding and move up until included in the adopted budget
- Projects are based on priorities and may be not receive funding for other higher priority projects

Capital Improvement Program (CIP)

Steps to identify Capital Improvement Projects:

- Review status of previously approved project
- Identify new projects
- Assess alternatives
- Complete forms
- Evaluate ability to fund

Capital Improvement Program (CIP)

Evaluate new Capital project:

- Project description
- Location
- Justification
- Cost by year
- Impact of future revenues
- Future operating costs
- Discount capital costs to present value (e.g., measure the benefit given up today when committing to future costs)

Capital Improvement Program (CIP)

- Ranking Capital Project criteria:
 - ❖ Should be developed to select and rank
 - ❖ Agreed upon by decision makers
- Consider:
 - ❖ If taxes will have to be raised
 - ❖ How many citizens will benefit
 - ❖ Public safety issues
 - ❖ Ongoing operation costs of the project

Methods to Finance Capital Projects

- Current revenues (pay-as-you-go):
 - ❖ Impact fees
 - ❖ Gas taxes
 - ❖ Infrastructure surtaxes
- Debt
 - ❖ Long-term
 - ❖ Short-term
- Grants

Methods to Finance Capital Projects

Pay-as-you-go revenues requires current revenues to be saved for the project

➤ Advantages

- ❖ No interest or financing costs
- ❖ Suited for smaller projects not feasible to finance

➤ Disadvantages

- ❖ Current taxpayers pay the project's entire cost but will be enjoyed by future taxpayers
- ❖ Reduces future financial flexibility

Methods to Finance Capital Projects

Debt Financing is the issuance of bonds, commercial paper, and/or bank note

➤ Advantages:

- ❖ Intergenerational equity
- ❖ Preserves reserves
- ❖ Suited for larger projects

➤ Disadvantages

- ❖ Interest and finance costs
- ❖ Dedicated revenue stream restricts future use

Methods to Finance Capital Projects

- Tax increment financing requires a finding of necessity that blight exists within the CRA's boundaries
- Must be used within the CRA's boundaries and used to revitalize the area