



Municipal Budgeting

For elected officials

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City of Mercer Island, WA – January 24-25, 2020

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Agenda

- Some terminology
- Funds – what are they?
- Requirements for municipal budgets
- Key elements of budget best practices (aka: budget policies)
- Getting the most from your budget process
- Additional Resources



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Creating the Best Budget



Budgeting is a team sport (time for a sports analogy – continued)

City Manager (and leadership) are the coaches

- They create the plays that produce results

- They put the right players in the best positions for success (individually and collectively)

- They monitor the activity and make “in the moment” adjustments

Staff are the players – the “boots on the ground”

- They deliver the service and the results

- They represent you – they wear your colors

- They become your connection to the community

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Creating the Best Budget



Budgeting is a team sport (time for a sports analogy)

Citizens are the owners

- You don't want them calling the plays or on the field, but...

- They own the team (and can make organizational changes)

You are on the board (or on the leadership team)

- What is the mission / vision?

- What are the right strategies?

- How do you make progress?

- How do you know progress is being made?

- How much should progress cost?

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A Budget Construct



GFOA's Budget Peer Review Program Framework

GFOA – Government Finance Officers Association

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Roles of the Budget Makers



Policy makers (council) – make policy!

Provide policy guidance at the beginning
 Confirms budget meets direction by adoption
 Monitors for conformity and results

CEO/CAO (Mayors, city managers) –

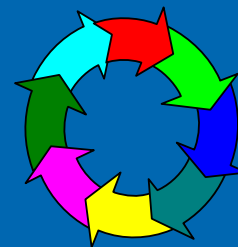
Propose policy at the beginning
 Develops organization strategy to implement policy

Departments

Develop operational strategy
 Provide service (departments can be passionate about this!)
 Accountable for “day-to-day”

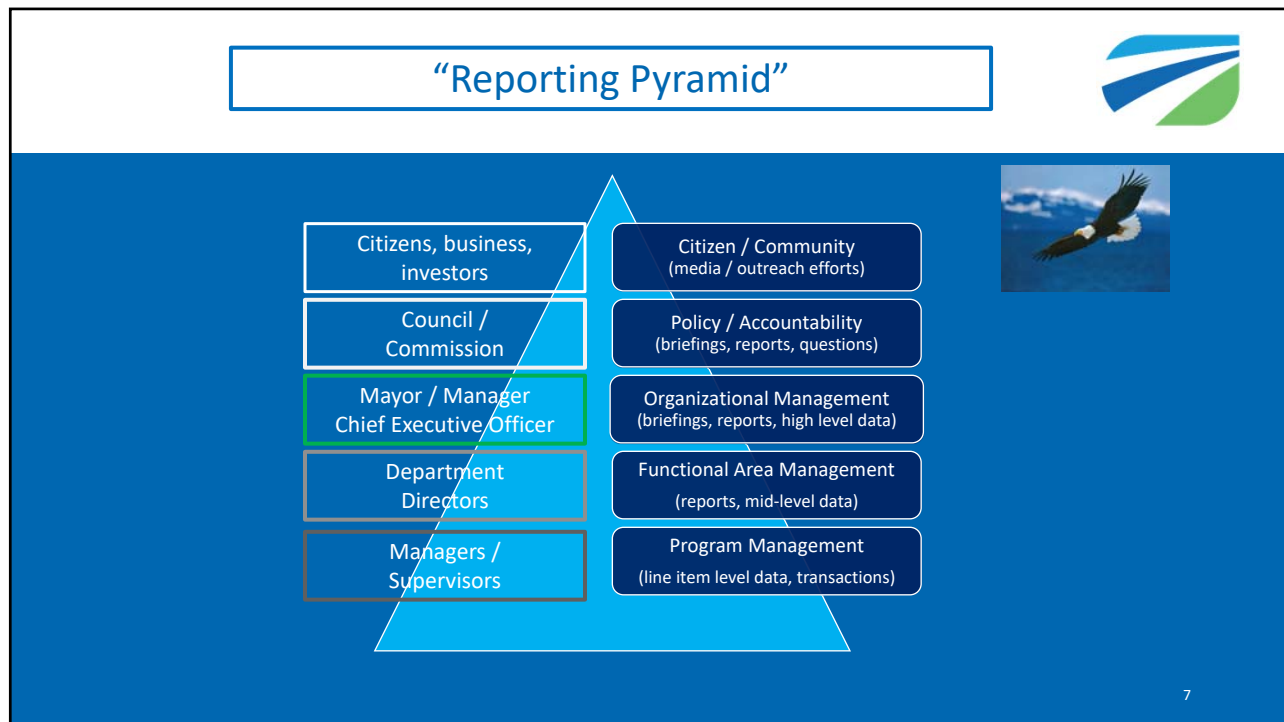
Public – “stakeholders”

Observes results and “counsels” policy makers



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Government Accounting Terms and Acronyms

- **BARS** – Budgeting, Accounting & Reporting System (WA)
- **GAAP** – Generally Accepted Accounting Principles
- **Cash Basis aka: OCBOA** – Other Comprehensive Basis of Accounting
- There is a “**BARS Manual**” for both GAAP and Cash

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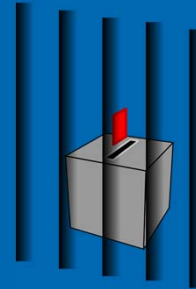
“BARS” – What is it?



Budgeting, Accounting and Reporting System

Legal authority (RCW 43.09.200):

- The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class
- Provides a common chart of accounts for local government comparative statistics (LGFRS)



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More Accounting Terminology



- **Appropriation** – Legal authorization granted by council to make expenditures
- **Reserved Fund Balance** – balance not available for appropriation because it is legally restricted
- **Unreserved Fund Balance** – balance available for appropriation, may also be known as “ending” fund balance
- **Inter-Fund Transfer** – Flow of assets (such as cash) without equivalent flow in return and without requirement to repay
- **Inter-Fund Loan** – Loan mechanism authorized between funds if legislative authority adopts, provides for concise repayment plan
- **GO Debt** – General obligation debt. Repayment obligation uses property tax revenues as funding source
- **Revenue Debt** – Typically associated with proprietary funds; repayment obligation funded with user fees

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What is “Fund Accounting”?

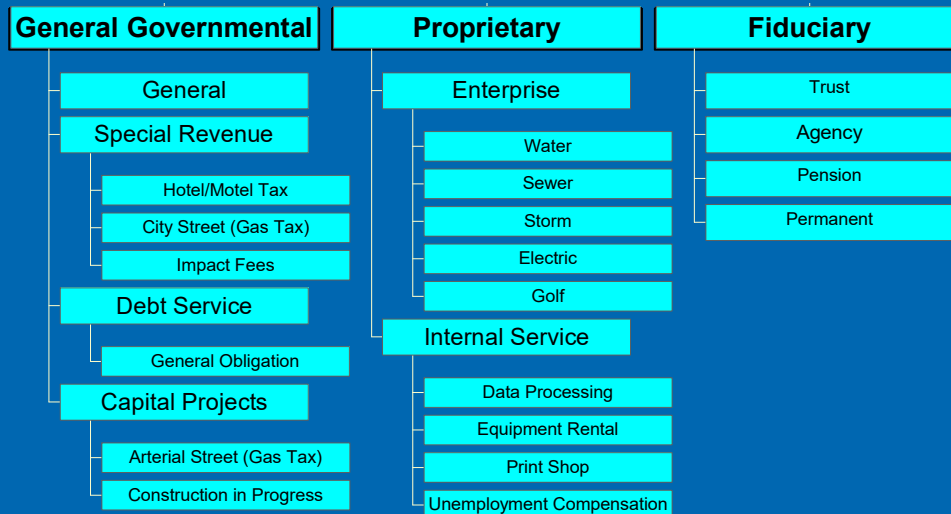


- Government accounting systems are organized and operated on a **fund** basis
- Used to segregate resources related to specific activities
- Often used to segregate restricted resources
- Defined as a fiscal and accounting entity with a self-balancing set of accounts



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Basic Fund Types



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Governmental Fund Types



General Fund (aka: Current Expense)

- Chief operating fund of state/local government
- Used to account for all financial resources *except* those required to be accounted for in another fund (everything not in other funds)



Special Revenue Funds

- Account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes
- Examples: Street fund, hotel/motel tax, real estate excise tax

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Governmental Fund Types (cont.)



Capital Projects

- Account for financial resources to be used for acquisition or construction of major capital facilities
- Does not include capital facilities financed by proprietary funds/trust funds

Debt Service

- Account for accumulation of resources for, and payment of, general long-term principal and interest (debt payments)



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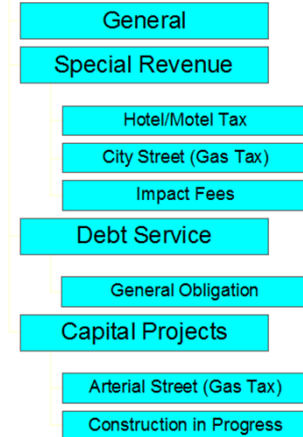
Primary Resources of Governmental Funds



Revenue Types:

- **Taxes** –
 - Property tax
 - Retail Sales tax
 - Business & Operations and Utility taxes, gambling, leasehold, motor vehicle fuel tax, etc.,
- Charges for services
- Licenses/permits
- Intergovernmental – state shared revenues and grants
- Rental fees
- Assessments

General Governmental



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Restricted Revenues & Funds



SHOULD BE SEPARATE FUNDS

- Real Estate Excise Tax
 - RCW 82.46.010 (REET 1)
 - RCW 82.46.035 (REET 2)
- Hotel/Motel Tax
 - RCW 67.28.181
- Criminal Justice Tax
 - RCW 82.14.340



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Proprietary Funds

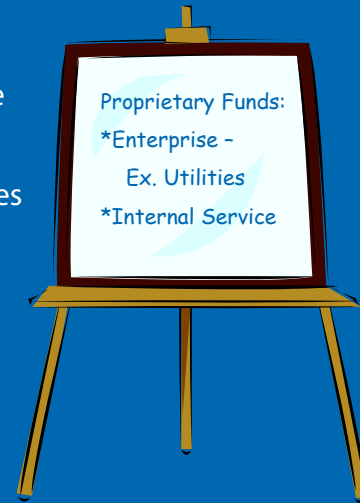


Enterprise Funds

- Operated/financed similar to private business, where intent of governing body is cost recovery
- Account for operations financed through user charges

Internal Service Funds

- Finance goods/services provided by one department/agency to other government departments
- Used to allocate cost of providing services to other funds



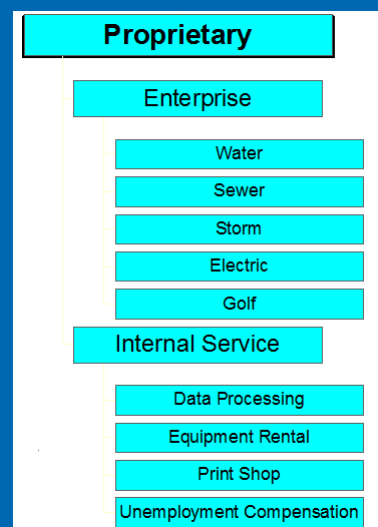
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Primary Resources for Proprietary Funds



Revenue Types:

- **Charges for services**
- Connection fees
- Sale of merchandise
- Inter-departmental costs
- Rental fees
- Assessments
- Grants/loans/bonds



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Fiduciary Funds



Trust & Agency Funds

- Assets held by governmental entity in trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds
 - Expendable trust funds
 - Non-expendable trust funds
 - Pension and Investment trust funds
 - Agency funds



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Key Elements of City Finance



- **Budgeting**
 - Appropriation ordinance for immediate needs
 - Strategic planning (long-term)
- **Reporting**
 - Internal and external
- **Oversight (Internal Control)**
 - Review
 - Monitoring
 - Policies



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Budgeting



- Budget is economic plan that focuses entity's financial & human resources on the accomplishment of specific goals & objectives established by policymakers
- Establishes annual (or biennial) expenditure levels for all departments & funds
- Expenditure levels are called appropriations & represent spending limits



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Budgeting Mission



Mission of budget process is:

- Help decision makers make informed choices about provision of services and capital assets
- Promote stakeholder participation in the process



Source: National Advisory Council on State and Local Budgeting

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Requirements



Fundamentally - Budget adopted prior to start of fiscal year

Steps:

1. Request for budget estimates (RCW 35.33.031)
2. Estimates filed with Clerk (RCW 35.33.031)
3. Clerk presents preliminary estimates to CAO (RCW 35.33.051)
4. CAO presents Preliminary Budget to Legislative (RCW 35.33.135)
5. CAO files "Final Budget Proposal" with Clerk (RCW 35.33.055)
6. CAO Files "Final Budget Proposal / Budget message" with Legislative (RCW 35.33.057)
7. Publication and conduct of hearings (RCW 35.33.061 & 057 & 071; also RCW 84.55.120)
8. Legislative Adopts a Budget (RCW 35.33.075)

Month	Key Dates / Events
March/August	Pre-Budget Items Council election Update and/or adopt financial policies Public hearings for capital budget plan updates Public forums re community outreach tax community priorities Mayor/Manager communicate budget objectives to staff
September	Sept 10 Budget request to all department heads. Sept 10-23 Department heads prepare estimates of revenues and expenditures. Clerk prepares estimates for debt service and all other estimates. Sept 24 Budget estimates from department heads filed with clerk. Sept 25 Implicit price deflator (calculated only applies to cities of 10,000+ population)
October	Oct 1 Clerk provides estimates filed by department heads to Mayor/Manager showing complete financial program. Mayor/Manager provides Council with estimates of revenues from all sources including estimates prepared by clerk for consideration of setting property tax levy. Mid-October to Mid-November (suggested) Public hearing on revenue sources including possible increases in property tax.
November	Nov 2 Mayor/Manager prepares preliminary budget and budget message. Files with clerk and council. Nov 2-20 Publication notice of preliminary budget and final hearing. Nov 2-29 Public hearings on preliminary budget. Public hearing on revenue sources for levy setting. Nov 19 Closure of budget committee to public. Nov 30 Property tax levies set by ordinance and filed with the County
December	Dec 3 Final budget hearing Dec 31 Budget execution

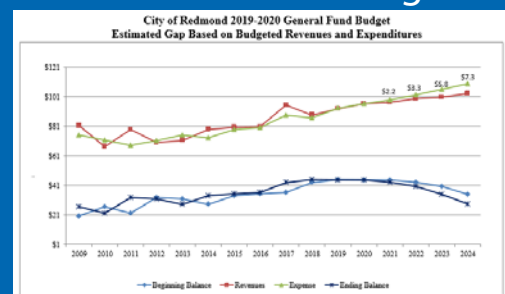
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Budget Policies



Sample topics to consider:

1. Type of budget (program, department, outcome / results, line item)
2. Duration (annual or biennial)
3. Use of one-time resources / definition of balanced budget
4. Fund balance targets
5. Amending the budget
6. Budget calendar / approach
7. Fees / user charges



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Fund Balance (Reserve) Policies



- What is the recommended level of reserves??
 - Answer: "It depends" on:
 - Economic context for the community
 - Revenue types (volatile vs. stable)
 - Risks – what could happen that would pull on reserves?
 - When would you use it – what would you use it for
- GFOA Best Practice – "It depends" but...
2 months

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Getting the Most...



Policy Elements

- Strategic focus / alignment with policy goals
- High level description of value delivered
 - Budget message
 - Budget "highlights" section
- Financial Policies
- Capital investments
- Debt program

MANAGING FOR RESULTS

Priority: Transportation
Enhance access to and use of transportation systems to reduce traffic congestion

Strategic Goals:

- By 2015, 25 percent of Chester County resident workers will use alternative means of transportation to work.
- By 2015, 60 percent of Chester County residents will have access to alternative modes of transportation within 1/2 mile of their domicile (except trails).



Priority: Growth

Manage growth and land use to preserve and optimize the quality of life in the community

Strategic Goals:

- By 2015, 30 percent of the acreage in Chester County will be preserved for open space, consistent with the goals of *Landscapes 2*.
- By 2012 Chester County will be recognized as the #1 community in the nation to raise a family (as determined by *Forbes magazine criteria*).
- By 2012, 50 percent of all development investments from all sources will be made in targeted areas for revitalization, consistent with the goals of *Landscapes 2*.



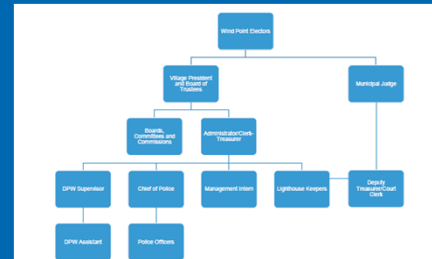
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Getting the Most...



Operations

- Translating policy guidance into action
 1. Organization chart
 2. Authorized employees (with comparison)
 3. Department descriptions
 1. Or similar organizational unit information
 2. Goals, accomplishments, action plans, performance data



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Getting the Most...



Financial Elements

- Strategic Financial Plan
 1. Sources and uses of funds (including the appropriation)
 1. Multiple years for comparison
 2. Operating unit budgets (departments, divisions)
 3. Description of revenues / basis for forecasts
 4. Long-range forecast (description and schedule)


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FY 2018/19 BUDGET SUMMARY FOR ALL FUNDS

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	ENTERPRISE FUNDS	ALL FUNDS
REVENUES:						
Taxes:						
Ad Valorem	\$ 3,816,814	\$ -	\$ -	\$ -	\$ -	\$ 3,816,814
Sales and Use Taxes	-	4,257,800	-	-	-	4,257,800
Utility Service	2,935,950	-	-	-	-	2,935,950
Licenses and Permits	143,100	-	-	-	793,300	936,400
Intergovernmental Revenue	2,919,860	1,275,313	-	2,512,317	-	6,707,490
Charges For Services	494,902	-	-	-	1,849,455	2,344,357
Fines and Forfeitures	50,500	1,000	-	-	-	51,500
Franchise Fees	1,394,340	-	-	-	-	1,394,340
Stormwater Assessment	-	1,995,000	-	-	-	1,995,000
Recreation Impact Fees	-	163,800	-	-	-	163,800
Miscellaneous Revenue	321,350	211,145	900	-	43,675	577,070
TOTAL REVENUES	12,076,816	7,904,058	900	2,512,317	2,686,430	25,180,521
Transfers-In (1)	95,000	296,534	402,914	5,238,926	38,368	6,071,742
Cash Balances Brought Forward	-	481,117	-	-	-	481,117
TOTAL REVENUES, BALANCES AND TRANSFERS	\$ 12,171,816	\$ 8,681,709	\$ 403,814	\$ 7,751,243	\$ 2,724,798	\$ 31,733,380
EXPENDITURE EXPENSES:						
General Government	\$ 3,805,222	\$ -	\$ -	\$ 190,000	\$ -	\$ 3,995,222
Public Safety	5,822,382	-	-	474,000	791,070	7,087,452
Physical Environment	-	2,111,587	-	1,686,137	-	3,797,724
Transportation	1,206,872	119,550	-	5,028,106	424,354	6,778,882
Economic Environment	-	-	-	-	-	-
Culture and Recreation	1,219,319	-	-	373,000	1,238,495	2,830,814
Debt Service	-	243,177	403,659	-	86,891	733,727
TOTAL EXPENDITURE/EXPENSES	12,053,795	2,474,314	403,659	7,751,243	2,540,810	25,223,821
Transfers-Out (1)	-	5,993,374	-	-	78,368	6,071,742
Increases to Cash Reserves	118,021	214,021	155	-	105,620	437,817
TOTAL EXPENDITURES/EXPENSES, TRANSFERS AND RESERVES	\$ 12,171,816	\$ 8,681,709	\$ 403,814	\$ 7,751,243	\$ 2,724,798	\$ 31,733,380

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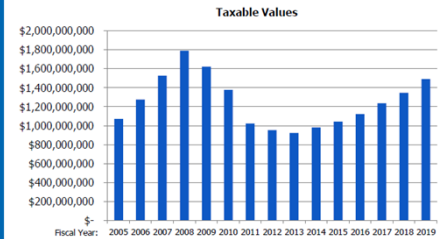
Getting the Most...



call out boxes

Communication Elements

- Organizational transparency (it's other people's money!)
 1. Budget message (again)
 1. Also highlights
 2. Clearly organized (include a table of contents / glossary)
 3. Environmental scan (what's changed that you are reacting to?)
 4. Charts, graphs



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Reports – What to Look For



Budget comparison

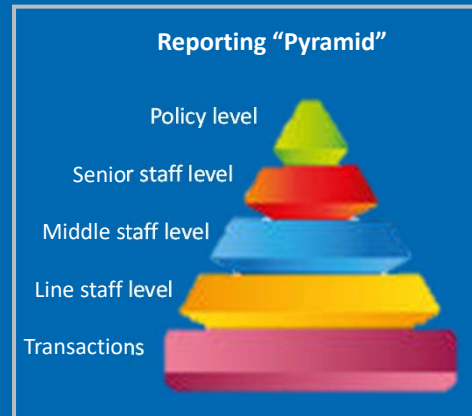
- How are year-to-date expenditures and revenue estimates compared to budget appropriations?
- Understand what the variables are

Fund balance

- Do you have any funds with cash flow issues?

Debt analysis

- Are you considering additional debt?
- Are there interfund loans?
- Do you presently reserve for future capital needs?



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State Auditor's Office



- State Auditor's Office (SAO) established by state constitution
- RCW 43.09.200 states that SAO shall prescribe the accounting and reporting to be used by governmental entities
- Center for Government Innovation "The Center"



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Resources



- **AWC** (wacities.org) – workshops/training
- **MRSC** (mrsc.org) – webpages & trainings
 - mrsc.org/financialpolicies
 - mrsc.org/budgeting
 - Call/email with questions
- **GFOA** (gfoa.org/publications)
 - Publication series for elected officials
 - Best practice series
- **WA State Auditor's Office** (sao.wa.gov)
 - The Center – performance@sao.wa.gov
 - SAO Helpdesk

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Questions?



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