

Municipal Budgeting

**Budget Basics
and a little more**

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Presentation Outline

- Budget Definition and Challenges
- Statutory Requirements
- Required Budget Information
- Budget Format
- Budget Basics
- Budget Process
- Art and Science of Budgeting
- Rules for Budgeteers
- What does it all mean?
- Questions

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A "BUDGET" IS ...



A policy document that allocates financial resources to create desired service outcomes; covers one year period.

Allocation decisions are statements of the governing body priorities

Includes Revenue and Expenditures, operating, one time and capital expenditures.ongoing and one time expenditures.



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A budget document should clearly...

- Identify governing body policy goals
- Identify service levels/outcomes which implement policy goals
- Prioritize service levels/outcomes
- Allocate resources to outcomes



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Challenges and key points

- Identifying and agreeing on priorities and outcomes can be difficult
- Governing body ability and willingness to make decisions to allocate resources to priorities and outcomes make or break an effective budget



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Key items that bear repeating..

- Budgets set and state policy
- Policy values shown by resource allocation
- Resources are assigned to outcomes/services/results
- Scarce resources require prioritization
- Prioritization requires decisions by governing body



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Missouri Statutory Requirements

- Annual budget required
- Budget must be balanced in each fund
- *Budget Officer* prepares / submits budget & required legislation
- Budget adopted by governing body majority prior to fiscal year

Ch. 67.010 - 67.100 RSMO



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More Statutory Requirements

- All expenditures must be authorized by budget
- Increases require Resolution
- Must include required information
- No budget means previous budget governs

Ch. 67.010 - 67.040 RSMO



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Required budget information

- A budget message from Budget Officer
- Estimated revenues + actual & estimated revenue for last two years
- Proposed expenditures + actual & estimated expenditures last two years
- Debt service requirements
- A general budget summary



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Budget Message Items

- Budget message is a key component, no set format but...
- Message should provide readers all they need to know about the City budget
 - Budget goals and objectives
 - Total revenue and expenditure
 - Significant revenue/expenditure changes from previous budgets
 - Significant purchases/projects/staff changes
 - Debt information



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Notes on budget format

- Budget format is not specified by law
- GFOA budget document structure is most common format/guide
 - Budget message
 - History of City
 - Organizational Structure
 - Explanation of Funds
 - Revenue Overview
 - Fund and Program Outcome and Expenditures



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Last words on budget format

- Line item format is building block of all budgets but may not be most effective for communicating and approving the budget
 - Line item format/approval more often used by small cities and towns
 - Expenditure category format more often used by medium/large cities



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BUDGET BASICS

- Budgeting is a political process
- Budgets should answer the question, "What services, at what levels are we willing to pay for?"
- THE BUDGET MUST BE BALANCED
- Revenues drive the budget
- Budgets control spending
- Budgeting involves balance of values

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BUDGET BASICS



If you have City Utilities, you may have more than one budget

If you have a Park Board, you may have more than one budget

The general fund, park fund and utility funds all must be individually balanced



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BUDGET BASICS



A "BALANCED BUDGET"
Expenditures < or = Revenues
+ Available Reserves

"Deficit"
Expenditures > Revenues

You can have balanced budget & deficit

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Budget Process

- Process starts and ends with elected officials
- Elected officials set priorities, provide guidance to staff;
- Decide on outcomes, results, service levels, answer the question, what do we want to accomplish?
- Revenue forecast comes first, you cannot spend, what you do not have
- Departments submit operating budget request
- Mayor/Budget Officer/Administrator reviews department operating requests
- Departments submit capital requests (repeat step above)

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BUDGET PROCESS

- Mayor/Budget Officer/Administrator creates unified budget
- Don't forget to provide residents a voice
- Unified budget submitted to Board/Council
- Give yourselves several meetings to review/discuss/change before vote
- Board approves, Mayor signs
- Staff implements with Board oversight

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ART & SCIENCE OF BUDGETS



- Have a long term plan, even if not written down. Spend time before budget on strategic planning
- Make sure budget complies with existing ordinances
- Develop and use budget and fiscal policies,
- Consider using subcommittees to work with departments when possible
- Complaints about services are a good gauge of resident priorities and city service levels
- Discuss operating budget separately from your capital budget although they are in the same document.

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ART & SCIENCE OF BUDGETS

- Focus on big picture (mission, priorities)
- Start with outcomes and service results
- Identify revenues before considering expenditures
- Define process: negotiation or last/best
- Be conservative
- Learn how to disagree, seek common ground. Every city suffers when elected officials cannot work together
- Elected board, staff and residents all win if board can bridge their differences.
- Do not let budget process fail over small amounts
- When seeking agreement, return to focus on priorities and desired outcomes

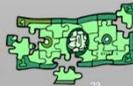


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ART & SCIENCE OF REVIEWING BUDGET REQUESTS

- Be objective
- Check for sufficiency of funds
- Review the data
- Demand justification
- Ask questions
- Spend most time on expenditures that are:
 - Discretionary, not mandatory
 - Large, not small
 - Increasing, not decreasing or stable



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RULES FOR BUDGETEERS



- Nothing lasts forever, have replacement reserve funds
- You get what you pay for, consider all costs, not just lowest purchase cost
- $2 + 2 = 4$ Do not give in to temptation to inflate revenue forecast to make budget work.
- In government budgeting, there are some things you just have to pay for; don't save pennies that will cost you dollars (insurance, attorney, quality purchases)
- You can't have it all (this speaks for itself)
- The answer sometimes depends on why you want to know. Be straightforward with your budget staff to get better results. If you have an agenda, be upfront with it

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RULES FOR BUDGETEERS

- Protect your general fund
- Utility operations need to pay for themselves & then some
- It's a disservice to the community to keep fees low knowing future costs will be high
- Know how and why to use interfund charges
- Know how and why to use in lieu of fees
- You can use reserves to balance the budget, but you can't do it very long. If you are in year three, it is time to take a good look at expenditure structure
- When possible, use reserves only for 1 time expenses
- Use 1 time revenue for 1 time expenses
- When possible, build replacement funds into your budget, even a little bit each year helps when it's time for that new truck

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RULES FOR BUDGETEERS

- **Budget conflicts are inevitable, do not take it personally**
- There will always be more requests than resources
- Elected officials will generally want more control, employees will generally want more flexibility
- Use your budget process to learn how to work with residents and other elected officials, even if you disagree on budget issues.
- There will be conflict between residents as service users vs residents as taxpayers (and they may be the same person)
- There are times when the Public Will is not the same as the Public Welfare (and you are in the middle)

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What does it all mean

- There are always more wants than resources
- Budgeting requires decisions and value judgements
- It is tempting to focus on one time outcomes (CIP, purchases) and forget operational outcomes
- It is tempting (and sometimes necessary) to only fund today, but someday the future will arrive.
- The process can be exhausting, at the end, it is hard to force all involved to review to ensure that final decisions still match policies and desired outcomes.
- **BUDGETS ARE A BALANCING ACT TO WHICH THERE IS NO "RIGHT" SOLUTION**

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