



Government Finance Officers Association

Budget policies

Section 8

Agenda

- Objectives of budget policies
- Examples of topics typically included
- Initial establishment of budget policies
- Maintaining relevant budget policies
- Effectively utilizing budget policies in budget development and management

Objectives of Budget Policies

- Describe roles of the participants
 - Potential roles to include: policy, citizen / community, business sector, management, labor
- Documenting budgeting purpose and ideals
 - Role of strategic planning in the budget process
- Type and use of budget development
 - Incremental vs. Zero Based vs. Budget by Objectives, etc.
 - Schedule

Essential Budget Features

- Scope
 - What funds or units will be included?
- Length of the budget period
 - Annual or biennial?
- Basis of budgeting
 - Will you budget in accordance with GAAP?
- Level of control
 - Not to much, not to little!

Define a Balanced Budget

- State/provincial law often calls for a “balanced budget”
 - However, this may only mean that sources = uses
 - This may not, in fact, be sustainable
- Develop a local standard for a balanced budget
 - Strict: recurring revenues = recurring expenditures
 - Less strict: operating revenues = operating expenditures

Examples

- Long Beach, CA

- The annual budgets for all funds will be structurally balanced throughout the budget process. Recurring revenues will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets...*

- San Luis Obispo, CA

- The City will maintain a balanced budget over the two-year period of the [biennial budget]. This means that:*
 - *Operating revenues must fully cover operating expenditures, including debt service.*
 - *Ending fund balance (or working capital in the enterprise funds) must meet minimum policy levels.*
- Under this policy, it is allowable for total expenditures to exceed revenues in a given year; however, in this situation, beginning fund balance can only be used to fund capital improvement plan projects, or other “one-time,” non-recurring expenditures.*

Principles for Budgeting

- Link the budget to long-term, strategic plans
 - Establish intent to link budget to plans
- Critically examine past patterns of spending
 - Establish intent to avoid incrementalism
- Prioritization of services
 - Establish intent to prioritize services based on evidence of effectiveness of meeting goals
- Fund liabilities
 - Establish intent to fund current portions of long-term liabilities like pensions, OPEB, or asset maintenance

Examples

- **Prioritization in Sarasota, FL**
 - *essential services will receive first priority for funding. The City will attempt to maintain current service levels for all essential services. The City will identify low priority services for reduction or elimination, if necessary, before essential services.*
- **Liabilities in Gwinnett Co, GA (draft)**
 - *The County shall fully fund current portions of long-term liabilities in order to maintain the trust of creditors and avoid accumulating excessive liabilities over the long-term.*
- **Avoiding incrementalism in Gwinnett Co, GA (Draft)**
 - *The County seeks to maximize the value the public receives through its spending. Accordingly, staff should develop budget tools and methods to measure and maximize value, particularly by critically examining existing spending patterns to make sure they continue to provide value.*

Operating Budget vs. Capital Budget

- Definition of “capital”
 - If not capital, then must be operating
 - Recurring capital
 - Equipment replacement
- Length of time period covered
 - Five years very common
- Funding of capital plans
 - Pay as you go, connection to debt strategy, connection to rate setting strategy
- Relationship to operating budget

Budget Control System

- Budget control ensures actual expenditures do not exceed budget
- A board policy should hold managers accountable for budgets
- A policy should also charge finance with providing useful reports
- A policy could also create incentives or disincentives for budgetary control

Budget Reporting

- Frequency

- At least quarterly to policy body (monthly may be preferred)
- At least monthly to management

- Type

- Written
- In person

- Availability

- At council / board meetings
- On web site

Budgetary Amendment Policy

- Who approves amendments
 - Board only or can staff approve?
- The amount of approval
 - Does the amount of the amendment impact approval authority?
- Criteria for acceptable amendments
 - What is the impact of the amendment on the structural balance of the budget?

Example

- San Luis Obispo

- *The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council members. The City Manager has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end fund balances.*

Using the Policies

- Finance officers should be:
 - Alert to policy level discussions when they occur
 - Is the topic in the existing policy?
 - If so, is the policy guiding the discussion?
 - If not, should the policy be amended
(bring the discussion into the policy context)
 - Alert to policy body discussions that are not really policy
 - Is it a management topic?
 - If yes, is it appropriate for policy body to be discussing?
 - If yes, advise of the policy guidance and how it will be used₁₄

Connecting Budget Policy to your Budget Process

- Evaluate the planned process
 - Does the policy provide sufficient proscriptive policy level guidance for the discussion?
- Evaluate the completed process
 - Did you note gaps in budget policy which should be addressed before the next budget process?
 - Determine how you would propose to close those gaps.