Municipal Budgeting

Budget Basics

and a little more
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
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.
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
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
Key items that bear repeating...

- Budgets set and state policy through funding decisions
- Board values/priorities are clearly shown by funding decisions
- Resources are assigned to outcomes/services/results
- Scare resources require prioritization, there is rarely enough money to do everything you would like to do
- Prioritization usually requires hard decisions by the governing body
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
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
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
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
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
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
## LINE ITEM FORMAT

### REVENUES

**Property Taxes**

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<tr>
<td>000-41100</td>
<td>Current Property Tax (General)</td>
<td>332,005</td>
<td>327,798</td>
<td>329,770</td>
<td>329,417</td>
<td>347,000</td>
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<td>000-41130</td>
<td>Current Prop Tax (RR/Utility)</td>
<td>5,334</td>
<td>6,206</td>
<td>6,261</td>
<td>5,024</td>
<td>5,900</td>
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<td>000-41220</td>
<td>Delinquent Property Tax (Gnl)</td>
<td>3,599</td>
<td>4,016</td>
<td>2,591</td>
<td>1,872</td>
<td>2,500</td>
<td>74.90</td>
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<td>000-41230</td>
<td>Merchant &amp; Manufacturers Taxes</td>
<td>31,421</td>
<td>31,460</td>
<td>30,787</td>
<td>32,269</td>
<td>31,000</td>
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<td>SUBTOTAL Property Taxes</td>
<td></td>
<td>372,558</td>
<td>369,661</td>
<td>368,909</td>
<td>365,383</td>
<td>386,400</td>
<td>95.60</td>
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**Other City Taxes**

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<tr>
<td>000-42110</td>
<td>Franchise Fees - Electric</td>
<td>292,852</td>
<td>286,758</td>
<td>274,182</td>
<td>174,912</td>
<td>285,000</td>
<td>61.37</td>
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<td>000-42111</td>
<td>Franchise Fees - Natural Gas</td>
<td>83,403</td>
<td>66,269</td>
<td>66,159</td>
<td>71,601</td>
<td>80,000</td>
<td>85.60</td>
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<td>000-42120</td>
<td>Franchise Fees - Cable TV</td>
<td>55,259</td>
<td>60,708</td>
<td>60,083</td>
<td>27,152</td>
<td>59,000</td>
<td>46.02</td>
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<tr>
<td>000-42130</td>
<td>Franchise Fees - Landline</td>
<td>113,363</td>
<td>62,657</td>
<td>62,635</td>
<td>46,636</td>
<td>48,000</td>
<td>97.16</td>
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<td>000-42131</td>
<td>Franchise Fees - Wireless</td>
<td>80,527</td>
<td>68,104</td>
<td>60,086</td>
<td>35,406</td>
<td>65,000</td>
<td>48.23</td>
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<td>000-42140</td>
<td>Sales Taxes - General</td>
<td>977,727</td>
<td>1,206,774</td>
<td>972,416</td>
<td>724,984</td>
<td>975,000</td>
<td>73.39</td>
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<td>SUBTOTAL Other City Taxes</td>
<td></td>
<td>1,607,071</td>
<td>1,512,249</td>
<td>1,516,070</td>
<td>1,074,390</td>
<td>1,527,000</td>
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**Use of Money & Property**

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<tr>
<td>000-43100</td>
<td>Interest on Investments</td>
<td>25,645</td>
<td>25,499</td>
<td>30,022</td>
<td>20,039</td>
<td>20,000</td>
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<td>000-43200</td>
<td>Rents and Royalties</td>
<td>5,200</td>
<td>8,900</td>
<td>8,358</td>
<td>6,593</td>
<td>6,000</td>
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<td>000-43300</td>
<td>Land Lease</td>
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<td>000-43900</td>
<td>Profits from Sale of Property</td>
<td>0</td>
<td>0</td>
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<td>SUBTOTAL Use of Money &amp; Property</td>
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<td>34,933</td>
<td>34,399</td>
<td>34,379</td>
<td>27,431</td>
<td>26,000</td>
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**Licenses & Permits**

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<tr>
<td>000-44110</td>
<td>Beer and Liquor Licenses</td>
<td>8,595</td>
<td>8,133</td>
<td>7,403</td>
<td>7,938</td>
<td>8,000</td>
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<td>000-44930</td>
<td>Business Licenses</td>
<td>23,452</td>
<td>22,177</td>
<td>26,243</td>
<td>23,009</td>
<td>22,000</td>
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<td>000-44941</td>
<td>Fireworks Stand Licenses</td>
<td>4,500</td>
<td>6,000</td>
<td>6,000</td>
<td>3,000</td>
<td>4,500</td>
<td>66.67</td>
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<td>000-44950</td>
<td>Dog and Cat Licenses</td>
<td>1,146</td>
<td>1,176</td>
<td>936</td>
<td>906</td>
<td>1,000</td>
<td>96.60</td>
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<tr>
<td>000-44960</td>
<td>Building Permit</td>
<td>55,004</td>
<td>10,350</td>
<td>24,792</td>
<td>14,110</td>
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<td>000-44973</td>
<td>Building Permit</td>
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<td>0</td>
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<tr>
<td>000-44450</td>
<td>Street Excavation Permits</td>
<td>1,035</td>
<td>2,625</td>
<td>1,115</td>
<td>530</td>
<td>1,000</td>
<td>53.00</td>
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<tr>
<td>000-44460</td>
<td>Sign Permits</td>
<td>9,352</td>
<td>4,278</td>
<td>2,145</td>
<td>6,778</td>
<td>3,500</td>
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<td>SUBTOTAL Licenses &amp; Permits</td>
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<td>108,814</td>
<td>55,038</td>
<td>68,683</td>
<td>56,438</td>
<td>68,500</td>
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EXPENDITURE CATEGORY

FORMAT

Sanitary Sewer Operations

Responsibilities: Wastewater Operations is an enterprise utility within the Public Works Department. Wastewater operations is responsible for safely collecting, treating and releasing sanitary sewer discharge through the operation and maintenance of the City’s sanitary sewer collection system, lift stations and wastewater treatment plan. Wastewater operations staff are responsible for required sampling and testing as well as for wastewater system replacement planning and implementation.

Significant Budget Items:

- Operating expenditure increase of $21,410.
- Personnel costs increase $42,910 due to allocated staff 4% salary pool increases and increased employee insurance costs.
- Annual transfer to the Sewer Capital Improvement Fund is $110,000.
- Annual asset management transfers for vehicles, equipment and computers is $24,260.
- Debt service costs are relatively from the prior year. Annual debt payments will decrease $80,000 when the 2000 SRF bonds are paid off in 2020. Total remaining wastewater debt is $1,102,100.

320-Sewer Treatment

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<td>Personnel Services</td>
<td>168,356</td>
<td>164,281</td>
<td>166,265</td>
<td>166,265</td>
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<td>Services</td>
<td>149,820</td>
<td>141,002</td>
<td>155,186</td>
<td>145,000</td>
<td>153,305</td>
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<td>Supplies</td>
<td>63,651</td>
<td>118,245</td>
<td>163,533</td>
<td>160,000</td>
<td>135,565</td>
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<td>Capital</td>
<td>313</td>
<td>10,716</td>
<td>0</td>
<td>50</td>
<td>0</td>
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<tr>
<td>Non-Expenditure Disbursement</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>Depreciation and Amortization</td>
<td>171,689</td>
<td>205,585</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Other Administrative Expense</td>
<td>3,843</td>
<td>0</td>
<td>5,000</td>
<td>0</td>
<td>5,000</td>
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<td>Debt Service</td>
<td>28,991</td>
<td>43,774</td>
<td>192,298</td>
<td>192,298</td>
<td>200,647</td>
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<td>Other Sources &amp; Uses</td>
<td>140,175</td>
<td>1,588,280</td>
<td>143,340</td>
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TOTAL EXPENDITURES $726,837 $2,271,883 $825,622 $806,953 $847,032
Final last words on budget format

- Budgets are also a communication medium
- Budgets may include appendix information of interest to the Governing Body, residents and staff
  - Staff salaries
  - Line item detail
  - Debt map
  - Property tax pro forma
  - Property tax rate/revenue over time
  - Supplemental budget requests (approved or not)
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
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.
BUDGET BASICS

A “BALANCED BUDGET”
Revenues + Available Reserves - Expenditures must be >= to 0

Budgets can be balanced using reserve funds

“Deficit”
Expenditures > Revenues

You can have both a balanced budget & a deficit
(but not for long)
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)
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
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.
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
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
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
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
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)
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
QUESTIONS?