

FUNDAMENTALS OF BUDGETING AND FINANCE

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Overview

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- Topics organized in relation to Fiscal Policy Statements
 - Accounting
 - Budget
 - Other Policies
- Tool Box
 - Other Policy Concepts
 - Calendar Items
 - State Law
 - Budget Structure

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FISCAL POLICY STATEMENTS

Policy - Purpose & Principles:

□ PURPOSE:

- Provide **fiscal discipline**
- Helps achieve and maintain long-range **stable and positive** financial condition
- Provides guidelines for day-to day planning and operations of City's financial management and **continuity** in approach

□ Principles/Values:

- Integrity – for the good of all/most, due process is healthy
- Stewardship – public funds at risk, safeguard/protect assets
- Planning – strategic, intergenerational impact, little short-term change
- Accountability – transparent, full-disclosure
- Credibility – mutual respect, listening to build trust

Formalized Fiscal Policy Statements: Scope and Content

- Accounting, Auditing and Financial Reporting
- Fiscal Monitoring
- Internal Control
- Risk Management
- Intergovernmental Relations
- Economic Development
- Budget Process & Balancing
- Fund Balances/Reserves
- Revenue Management
- Grants/Donations
- Expenditure Control
- Capital Expenditures and Improvements
- Debt Management
- Investments
- Purchasing

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ACCOUNTING, AUDITING, &
REPORTING

Financial Reporting Policies: *What governs financial reporting?*

- State Law (TML resources)
- Local Charter
- Federal agencies (SEC/MSRB)
- Industry Standards (GASB)
- Management Policies

What are funds? Why use them?

- City finances are organized, reported and accounted for on the basis of “Funds”
- Each Fund is a separate, self-contained, balancing set of accounts
- Smaller cities may be able to operate with only one fund if books accounts are set properly
- Each fund must operate as a separate entity
- Established for legal or management purposes

What types of Funds are there?

- Governmental Funds – modified accrual basis of accounting
 - General Fund – largest, least restrictive
 - Special Revenue Funds
 - Capital Projects Funds
 - Debt Service Funds
- Enterprise/Proprietary Funds – full accrual “business” activities
 - Used to separately manage and charge-out based on consumer usage for full cost recovery
 - Examples: Water & Sewer, Drainage, occasionally Golf, Solid Waste
- Agency/Fiduciary Funds

Structure within each fund

- Consistent Chart of Accounts
 - Type - Revenues, Expenditures/Expenses, Transfers
 - Revenues
 - Class – Tax, Fines, Fees
 - Detail - Property Tax, Sales Tax, Franchise Fees
 - Expenditures/Expenses
 - Function – Police, Fire, Public Works
 - Category – Personnel, Supplies, Maintenance
 - Detail – Payroll, Taxes, Health Insurance

Fund Examples/Legal Reference

Fund Type/Name	Nature/Restrictions & Assignments	Reference/ Authorization
Governmental:		
General Fund	Least restrictive	Annual Budget and Amendments via local ordinances
Library Special Revenue	Donations, Friends designations from utility bill	Local budget ordinance; Govt accounting standards Local Govt Code Chp 51
Recreation Special Revenue	Tree Restoration, Special Events, Donations, Grants, Utility Bill	Local budget ordinance; Govt accounting standards; Local Govt Code Chp 332 Local Govt Code Chp 51

Fund Examples (cont'd)

Fund Type/#/Name	Nature/ Restriction	Reference/ Authorization
Governmental:		
Municipal Court Special Revenue	Technology Fee, Building Security, School Crossing, Teen Court, Juvenile Case Manager	Code of Criminal Procedure: Chp 102 (tech & bldg); Chp 45 (juve)
Public Safety Special Revenue	Donations & Grants, Forfeiture, Seizure	Criminal Code: Chp 59
Cable Franchise PEG	Percent of Franchise Fee; used for Public Educational and Govt Access Channels	Utilities Code: Chp 66 (Also Sec 622 (g)(2)(c) of the Cable ACT)

Fund Restrictions (cont'd)

Fund Type/#/Name	Nature/ Restriction	Reference/ Authorization
Governmental – Debt Related/Emphasis		
Debt Service	Property Taxes restricted to pay bonds or certificates issued for general use	Interest and Sinking Fund (I&S) for all outstanding debt, backed by tax pledge
TIRZ I&S	Incremental Taxes to pay bonds or certificates for specific projects in Zone	Bond covenants
Community Development Corp	Special revenue from sales tax allocation for only "Type 4(b)" uses; mostly projects and debt costs	Local Ord/Election; Local Govt Code; Chp 505

Fund Examples (cont'd)

Fund Type/#/Name	Nature/ Restriction	Reference/ Authorization
Governmental - Project Related		
Capital Projects	Projects funded by taxes via GO/CO or accumulated savings	Individual bond ordinances, TXDOT grants
Roadway impact fees	Impact fees restricted for specific growth-related projects	Local Govt Chp 395
Street, Sidewalk and Drainage	Sales tax dedication	Election
Equipment Fund	Interfund charges to departments to build reserves for equip	Local Budget ordinance; Govt Accounting Standards

Fund Examples (cont'd)

Fund Type/Name	Nature/ Restriction	Reference/ Authorization
Proprietary/Enterprise: (business activities)		
Water & Wastewater	Rates for water consumption; used to manage operations and transfers to debt	Local Govt Code: Chp 552(A) and (B)
Utility Capital Projects	Funded through bonds, COs, or operating savings for system improvements	Bond ordinances
Water & Wastewater Impact fees	Impact Fees collected and restricted for growth related projects	Local Govt Code Chp 395

How are Funds Managed & Reported?

- **Budgeted Funds**
 - All funds should be budgeted
 - CIP sometimes happens off-season, but have an annual appropriation
 - Some small funds do not show up in annual budget process
- **Audited Funds**
 - All funds included in annual audit
 - Sometimes as discretely reported component units (separate reports)
- **Differences**
 - Methods of budget and accounting may vary
 - Some funds get collapsed in reporting
 - Timing of information availability

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Financial Monitoring

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- Sources: Policies, Charter, Best Practices

Individual	Frequency of Review	Level of detail
Managers	Time of purchase & monthly	Invoice and Line Item
Department Head	At least monthly	Invoice, Line Item, Department & Fund
City Manager	At least monthly	Line Item, Department & Fund
City Council	At least quarterly	Legal Level of Budget Control (Department & Fund)

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BUDGET PROCESS

BUDGET BASICS

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- What is a budget?
 - An annual policy statement that sets the tone for the year and specifically governs the City's use of its funds
 - A "work plan" that includes a set of priorities for the year and reflects the implementation of established long-range planning items
 - A financial plan that lays out the state of the City's finances and what to expect in terms of revenues and expenditures
 - An effective communication piece for the public to be able to easily understand the City's plan for the next budget year
 - Most importantly, it is LAW since it is adopted by ordinance

BUDGET BASICS (cont.)

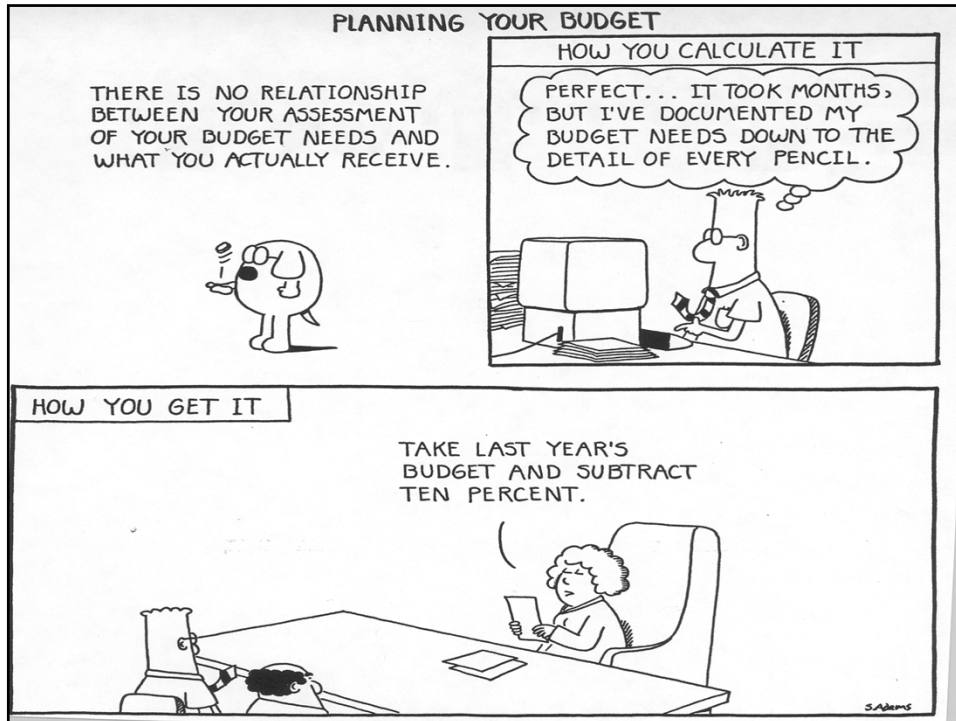
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- What does a good budget document look like?
 - ▣ (1) It should tell a complete story of the City's financial plan for the coming year by showing past, present and future information for both operations and projects.
 - ▣ (2) Should reflect the goals of the Council, the values of the community, efficient & effective use of tax revenues, and the overall management approach of the organization
 - ▣ (3) Should be realistic, balanced & sustainable
 - ▣ Use charts, graphs and other illustrations along with text to get your point across
 - ▣ (4) Should be EASY to understand... for EVERYONE...

DIFFERENT APPROACHES

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- Budget Philosophy
 - ▣ You can approach the budget by using one or more of several budget philosophies:
 - ▣ Zero-based budgeting
 - ▣ Incremental budgeting
 - ▣ Performance based budgeting
 - ▣ Line – item budgeting
 - ▣ Target based budgeting



SETTING THE STAGE

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- Community profile
- Comp plan
- Council goals
- Other long term plans
- Departmental plans
- CIP
- Annual Budget

City Council

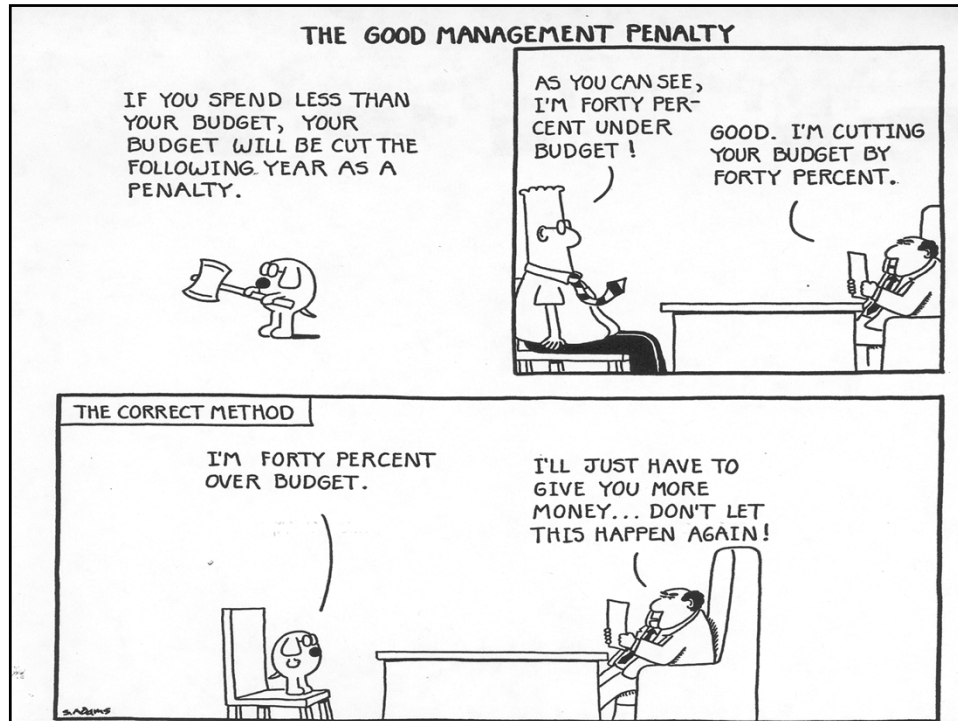
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- Group Planning Sessions / Workshops
- One on One
- Area politics
- Individual interests/ pet projects
- Feedback from public

Departmental Needs

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- Everyone needs more of something:
 - Performance Measurement
 - Service Levels
 - Perceived Needs
 - Departmental Goals
 - Ranking of priorities
- Proper Planning ≠ More \$\$\$



Citizens/Stakeholders

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- Public Hearings
- Responsiveness
- Proactive/Reactive Feedback
- Surveys?
- Public perception
- Electoral Process
- Service demands

Executive Leadership

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- Attempt to Balance:
 - Growth
 - Redevelopment
 - Change
 - Political Climate
 - Internal organizational issues
 - Ethical challenges
 - Fiscal realities

How to do it.

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1. Inputs from 4 sources
2. Sort – three categories base budget request, adjustments to base, and enhancements
3. Determine resources
4. Prioritize needs
5. Propose draft budget
6. Accept feedback (criticism)
7. Propose change
8. Lather/rinse/repeat as necessary

Additional Policy Issues

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- **Balanced Budget**
 - Recurring revenues equal or greater to recurring expenditures – “Structurally Balanced”
 - Address use of one time revenues/cash reserves/fund balance for non-recurring/non-operating expenses
 - Capital Purchases
 - Construction Projects
- **Specified Legal Level of Appropriation**
 - Fund, Function, Department, Category, Line Item

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Fund Balance & Reserve Policies

Cash vs. Fund Balance vs. Reserves

Cash/Investments	Fund Balance
Where can these amounts be found?	
An Asset on the Governmental Funds Level Balance Sheet	An Equity-type on Governmental Funds Balance Sheets
What classifications can be used and what do they mean?	
<p>“Current” means an asset that is liquid, such as cash, accounts receivable</p> <p>“Restricted” means that it has been identified to a particular item, either by legal or policy requirements. This is not as closely defined as Restricted Fund Balance</p>	<p>“Non-Spendable” – items not in spendable form, such as inventory or pre-paid expenses</p> <p>“Restricted” – legal determinations external to organization – bond funds, debt service, statutory provisions</p> <p>“Assigned” – Specific policy direction on use of funds, ex: Subsequent year’s Appropriation</p> <p>“Unassigned” – is least restrictive and can be used for most all legal purposes</p>

Financial “Reserves”

- Operating “contingency” reserves (unassigned fund balance)– general rule, the more volatile the revenue stream and the more fixed the costs, the higher levels of reserves are needed to cushion economic cycles
 - General Fund
 - Typically correlate to Unassigned Fund Balance in CAFR
 - 60-90 (15-25%) day reserve typically recommended for General Fund
 - Utility Funds
 - Typically use a ‘working capital’ method from CAFR
 - Tend more toward 90 days due to volatile nature and timing of cash flows
- Debt Reserves (legal definition)
 - Ratios set by bond covenants

Pros and cons of fund balance levels/conservative budgeting

- Advantages of Higher Fund Balance targets:
 - Reserves to cushion high variance in revenue streams that are more volatile
 - Cushion for retraction economic conditions
 - Favorable view from rating agencies with potential cost savings
 - Flexibility to spend on special projects on shorter notice if budget is proving to be strong
- Disadvantages of Higher Fund Balance targets:
 - Commits and restricts funds without ability to use
 - Often invested at much lower interest rates than borrowing costs
 - Public perception that surpluses may be too large and therefore rates, taxes or fees may be too high

Revenue Management Policies

- Define “conservative” revenue projection philosophy
- Emphasis on diversification
- User-based fees and service charges
 - “Cost of service”
 - Identify cost recovery philosophy
- Property Tax Revenues/Tax Rate
 - Strategy for effective rate and rollback rate
 - Portion allocated to Operations vs. Debt
- Sales Tax Structure & Volatility
 - Periodic Review of detail

Revenue Mgmt. Policies (cont.)

- Revenue Offset Contingencies
 - Street Maintenance, Low priority PAYGO CIP, etc.
 - Mid-year deficit avoidance policy
- Inter-fund revenues
 - Administrative Services Charges
 - PILOT – Payments In Lieu Of Taxes
 - Internal Services Charges
 - Franchise Fees
 - Transfers

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Grant/Donation Policies

Donations/Grant Management

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- Considerations
 - Capital improvements vs operations
 - Maintenance & operations of new facilities
 - Future repair/replacement of assets
 - Weaning off grant (public safety grants)
 - Endowments
 - External control and influence
 - Nothing is ever free...
- Use of funds policy – address that donations or grants to be spent first

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Capital Management Policies

Capital Management Policies

- City commits to full comprehension of its fixed assets investment; Full reporting of assets costs and tracking, including useful life and expected depreciation
- Minimum of 5 year CIP planning for **existing deficiencies** as well as growth
- **Asset management plan** for infrastructure inventory; strategy or plan for maintenance, rehab, replacement
- Full recognition and awareness of **developer contributions**

City of Woodstock

CUMULATIVE GPA

D+

Infrastructure Report Card

The City of Woodstock

- Each asset category was rated on two key, equally weighted (50/50) dimensions: Condition vs. Performance, and Funding vs. Need.
- See the "What condition is it in?" section for each asset category for its star rating on the Condition vs. Performance dimension.
- See the "How do we reach sustainability?" section for each asset category for its star rating on the Funding vs. Need dimension.
- The "Overall Rating" below is the average of the two star ratings converted to a letter grade.

Asset Category	Condition vs. Performance	Funding vs. Need	Overall Grade	Comments
Road Network	C	C	C	The majority, 60%, of the municipality's road network is in good to excellent condition, with the remaining 40% in fair to critical condition. The average annual revenue required to sustain Woodstock's paved road network is approximately \$4,926,000. Based on Woodstock's current annual funding of \$3,056,000, there is an annual deficit of \$1,870,000.
Bridges & Culverts	C+	F	D	About 77% of the municipality's bridges & culverts are in good to excellent condition. The average annual revenue required to sustain Woodstock's bridges & culverts is \$198,000. Based on Woodstock's current annual funding of \$62,000 there is an annual deficit of \$136,000.
Storm Sewer Network	B+	F	D+	Over 98% of the municipality's storm sewer mains and SWM facilities are in good to excellent condition. About 74% of catch basins and manholes are in good to excellent condition. The average annual revenue required to sustain Woodstock's storm sewer network is approximately \$710,000. Based on Woodstock's current annual funding of \$306,000 there is an annual deficit of \$404,000.

Public Sector Digest

City of Woodstock

Infrastructure Funding Deficit

Table 1. Summary of Infrastructure Requirements & Current Funding Available

Asset Category	Average Annual Investment Required	2013 Annual Funding Available				Annual Deficit/Surplus
		Taxes	Gas Tax	Capital Reserve	Total Funding Available	
Road Network	4,926,000	1,963,000	1,093,000	0	3,056,000	1,870,000
Bridges & Culverts	198,000	62,000	0	0	62,000	136,000
Storm Sewer Network	710,000	306,000	0	0	306,000	404,000
Total	5,834,000	2,331,000	1,093,000	0	3,424,000	2,410,000

Public Sector Digest

Other Tools & Best Practices

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- Capital Replacement Schedules and/or Reserves
 - Schedule based on useful lives
 - Outdated equipment acts like a liability (maintenance issues)
 - Depreciation / Capital Replacement (Reserve/Transfer?)
- High Technology Replacement Schedule and/or Reserve

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DEBT MANAGEMENT POLICIES

Debt Management Policies

- Other financing alternatives will be considered prior to issuing debt
- Debt may be issued to fund capital projects
 - Generational Equity - future beneficiaries are future payers
 - Long-term benefit to community & match life of project to duration of debt
- Types of Debt can include:
 - General Obligation – Typically Tax Supported
 - Certificates of Obligation – Tax or revenue supported
 - Revenue Bonds – Used by enterprise funds, typically have reserve requirements
 - Other legal instruments of the state

Debt Management Policies

- Address Structure
 - Back loading
 - Interest only and capitalized interest
 - Dependence on growth or appreciation
- Affordability Targets/Ratios will be considered:
 - *Debt per capita,*
 - *Debt as a percent of taxable value,*
 - *Debt service payments as percent of current revenues,*
 - *Debt tax rates as percent of total tax rate*
- Full and Continuing Disclosure

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50 OTHER POLICY CONCEPTS

- Tax Rate Policy
 - ▣ Effective M&O + %
- Multi Year Fiscal Forecast
 - ▣ Future liabilities, growth characteristics, contingency planning
- Contingent Uses
 - ▣ % of dynamic revenue source for deferrable expenses
 - 10% Sales Tax for Street Maintenance
 - Pay As You Go Capital Projects

OTHER POLICY CONCEPTS (cont.)

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- Amendment Policy / Charter
 - ▣ Frequency, Triggers, Appropriateness
 - ▣ Amendment vs Line Item Transfer
- Performance Measures
- Recovery Planning – disaster management

BUDGET CALENDAR ITEMS

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- Why do a Budget Calendar?
 - ▣ You should plan out your process well in advance and incorporate important milestones with other steps and processes to ensure you have enough time to complete the process as needed.
 - ▣ Tax and Local Government Code provisions have specific timing requirements
- Some hints ...
 - ▣ Appraisal districts timing – are they on time? Do you have contractual requirements with a collection agency (Dallas County)?
 - ▣ Schedule time with your departments first so that everyone is on the same page when Council sees the budget.
 - ▣ Give allowances for additional Council workshops if need be. Council will need to feel comfortable in order to proceed and support the budget it is adopting. Specially called meetings may be required. Plan for it.
 - ▣ Check your charter.

STATE LAW

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- State Law provides certain parameters for municipal budgeting. Ch. 102 of the Local Government Code lists out certain parameters for the budget process:
- 102.001 – Identifies the Mayor or the City Manager as the budget officer. In most instances, creation of the budget is a team effort involving many members of staff and coordination with the City Council
- 102.002 – Requires an annual budget to be created to cover proposed expenditures for the upcoming year
- 102.003 – Lists out what must be included in an annual budget. Some of those items include details of funds received from the previous and upcoming years, the proposed tax rate, obligations of the city, revenue sources and cash on hand
- 102.004 – Budget officer can get information as needed to prepare the budget
- 102.005 – The proposed budget must be filed with the municipal clerk 30 days prior to the establishment of the tax levy

STATE LAW

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- 102.006 & 102.665 – Cities are required to hold a public hearing to allow the public a chance to comment on the proposed budget. Specific notices regarding the hearing are also required
- 102.007 – Specifies that the Council takes action on the budget after the public hearing
- 102.008 – Requires that the adopted budget be placed on file with the municipal clerk
- 102.009 – Specifies that taxes must be levied & expenditures must be made in accordance with the budget except in cases of an emergency. This section also states a copy of the budget must be filed with the county clerk
- 102.010 – Allows for budget changes (via budget amendment) for municipal purposes
- 102.011 – This section outlines that specific charter provisions may trump state law as long as a public hearing is conducted and properly filed.

STRUCTURE IS IMPORTANT

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- How should a budget be structured?
 - Management letter
 - Tax rate
 - All-funds summary
 - Revenue projections
 - Allowances for reserves
 - Breakout by fund/department
 - Organizational Chart
 - Level of Detail? Transparency vs Flexibility

Financial Management Tools

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- Council education and orientation
- Staff development and training
- Current and Good policies

Questions or other Hot Topics?

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Technical Resources

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- TML (www.tml.org)
 - ▣ Revenue Manual for Texas Cities
- GFOA – (www.gfoa.org)
 - ▣ Best Practices
 - ▣ Elected Officials Guide Series
- GFOAT(www.gfoat.org)
 - ▣ Memberships \$60/\$80
 - ▣ Forum
 - ▣ Conferences
 - ▣ Training – CGFO

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