

South Carolina Association of Counties


2024 Annual Conference

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**Public Budgeting**



Cooper River Center for Advanced Studies



Charleston County SCHOOL DISTRICT

STUDENTS ARE THE HEART OF OUR WORK!

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# Introduction

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## Definition of Public Budgeting

- Process of managing and allocating public funds, usually by a government or other public organization. It involves: setting priorities, estimating revenue, determining spending levels, and monitoring the use of funds.

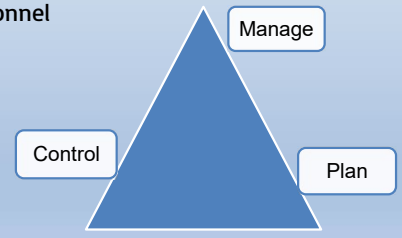
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## Function of Budget

- Plan: Used for implementing policy and to achieve goals
- Control: Use the budget document to control expenditures and to maximize accountability
- Management: Use the budget document to manage organizations and personnel



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## Purpose of Budget

- Establishes a plan for how resources will be utilized in such a way that realizes the vision and priorities of the citizens as expressed through their elected leaders and creates accountability.
- The budget is the backbone of your success in government. It is a financial plan and the means to establish spending parameters for a year but can be so much more.
  - A means to implement your Strategic Plan
  - Establishes accountability for leadership and staff
  - Sets a baseline to plan for the future
- It is required by State law.
  - Section 4-9-120: Procedures for adoption of ordinances (...)
  - Section 4-9-130: Addresses public hearing requirements
  - Section 4-9-140: Budget adoption must occur prior to beginning of fiscal year and establishes that County fiscal years must start on July 1<sup>st</sup> and end on June 30<sup>th</sup> each year

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## Goals of Public Budgeting

1. Aids in the planning of actual operations
2. Coordinates the activities of the organization
3. Communicating plans to various managers
4. Motivates managers to strive to achieve the budget goals
5. Control activities
6. Evaluate the performance of managers

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## Topics Covered

### Section One

- Budget Process
- Types of Budgets
- Revenue Sources & Forecasting
- Tax Levy and Millage Explained

### Section Two

- Expenditures
- Monitoring
- Capital Budgeting
- Policies
- Debt Administration
- Best Practices
- GFOA Distinguished Budget Award Program

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# Budget Process

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## Public Budget Process

The Budget Process involves citizens, Council/Board, and Staff. The key roles and responsibilities are as follows:

- **Financial Services** – Prepare the annual budget in coordination with Administration and Policy Body. Staff prepare revenue and expenditure projections, a base budget for departments, and work through the process to solicit and facilitate budget requests.
- **Department Heads** – Directors are responsible for requesting and monitoring their budgets based on departmental programs and objectives, Strategic Plan, community input, and required levels of service.
- **Administration** – Responsible for preparing the proposed annual budget and submitting it to the Council/Board for consideration and approval through various readings and public hearings until adopted.
- **Council/Board** – Adoption of the annual budget by ordinance or resolution to meet the needs of the citizens and organization.

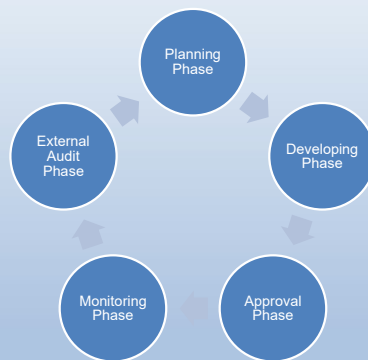
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## How to ensure a smooth process

- Administration (Administrator, Superintendent, and/or CFO) is ultimately tasked with preparing the budget but will enlist professional staff to bring the process together.
  - Empower them to meet with departments to review requests and make recommendations.
  - Encourage workshops and retreats in less formal settings to work through challenges, conflicts, and come to terms with the reality of constraints.
  - Recognize that there will be “winners and losers” in the process. Don’t let emotions rule.
  - Consider what can actually be expended in a year. This is even more important with multi-year capital projects.
- Look to the future. Use these tactics to consider long-range forecasting in order to consider funding requests over more than just one year.

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## Public Budget Process



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## Public Budget Process

Budget process is composed of five phases that take place throughout the fiscal year:

**Planning:** The budget process usually begins in January of each year with solicitation of information from departments that provide services.

**Developing:** Budget requests are submitted for analysis and review to be considered as part of the budget being developed. Recommendations are made to Administration and ultimately the Council/Board for final funding.

**Approval:** Meetings are held with Council/Board to review the proposed budget and request any changes that are deemed necessary. Public Hearing is held and multiple readings of the budget before it is adopted either by Ordinance or Resolution.

**Monitoring:** During the fiscal year, staff in the Financial areas perform monthly and/or quarterly reviews of revenues, expenditures, and transfers to ensure adherence to the budget as adopted.

**External Audit:** Financial records for the fiscal year ended are audited by an external auditor and presented to Council/Board following the close of each fiscal year.

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# Types of Budgets

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## Types of Budgets

Operating Budgets describe the expenditures and revenues used during a given period for the operations of the entity

Capital Budgets are used for planning for future purchases above a certain cost threshold or life span. Typically these are accompanied by a Capital Improvement Plan (CIP) that describes a timeline for acquisition and payment of debt.

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## Types of Budgeting

### 1. Line Item Budgeting

- Easiest to use
- Viewed as stable, predictable, and conservative
- Line-items are the main focus of analysis, authorization and control
- Typical line-items are personnel, supplies, travel, contractual services

Advantages	Disadvantages
Can be easily increased or decreased, enhancing the opportunity for compromise	Merits of the program are often overlooked when making line-item budget reductions
Easy to control with narrow accountability	Difficult to determine what a line-item budget will accomplish
Prevents funds from being spent on unauthorized purposes	Focus is on the items that are to be purchased, rather than on the type or quality of services to be produced
Permits hierarchical control before the expenditure is obligated	Difficult to evaluate the efficiency and effectiveness of an agency's activities
Provides for uniform and comprehensive control of all financial transactions	Promotes poor decision-making
Permits easy compilation of financial data	Incrementalism

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## Types of Budgeting

### 2. Target Base Budgeting (TBB)

- Establishes a departmental spending ceiling which is set based on revenue estimates
- Within prescribed limits, some shifting among expenditures is permitted
- Includes the funded service that is included within the "target"

Advantages	Disadvantages
Because targets are set at conservative levels, often a pool of resources is left to allow for new or expanded priorities	Conservative orientation leads to underestimation of revenues, which could lead to ill-advised decisions
Champions fiscal responsibility	Since it is revenue driven, it is subject to changes as revenue sources are affected by the economy
Eliminates deficits, normally generates savings or surpluses	TBB is a stop-and-go resource allocation system, does not look to the future
Budgets can easily be reduced during recessions or increased in prosperity	Can be counterproductive in growing or stable communities
Allows for "retargeting" during the year	

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## Types of Budgeting

### 3. Performance Based Budgeting

- A budget based primarily on measurable performance of activities and programs
- Requires standard unit costs be established
- Budget projections are then calculated by multiplying the standard cost by the expected number of work units
- Requires a monitoring system with benchmarks

Advantages	Disadvantages
Focuses on service efficiency	Requires a lengthy period of strong leadership
Intended to help middle-management to monitor performance	High cost of implementation
Provide useful information in reviewing operations	Staff time intensive in developing, measuring and maintaining unit costs
Improves work planning and scheduling	Emphasis on the volume of work done as opposed to the quality and effectiveness

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## Types of Budgeting

### 4. Program Budgeting

- Developed in response to dissatisfaction with line-item and performance budgeting
- Emphasizes results
- Program budget more usable to the administrator than to the accountant
- Encourages identification of program purpose, program development, and commitment to planning
- Is an extension of performance budgeting because it uses measures of output
- All costs are related to the goals and objectives in the program structure

Advantages	Disadvantages
Links planning, programming and budgeting into an integrated system	Requires massive amounts of data, expertise, and staff time
Makes long-range planning and multi-year budgeting routine	Costly to undertake

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## Types of Budgeting

### 5. Zero Base Budgeting (ZBB)

- Nothing is assumed
- Every function of every department is questioned
- Requires that managers defend every activity under their control
- Mostly viewed as a short-range tool
- Assumes a “clean slate” and estimates all costs associated with activities

Advantages	Disadvantages
Lower costs by keeping old and new expenses in check	Very time and resource intensive to develop

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## Budgetary Basis

Refers to the basis of accounting used to estimate financial sources (revenues) and uses (expenditures) in the budget.

- *Cash Basis* indicates transactions are recognized only when cash is increased or decreased.
- *Accrual Basis* indicates revenues are recorded when they are earned (whether or not cash is received at the time) and expenditures are recorded when goods and services are received (whether cash disbursements are made at the time or not).
- *Modified Accrual Basis* is the method under which revenues and other financial resources are recognized when they become both “measurable” and “available” to finance expenditures of the current period. “Available” means collectible in the current period or soon enough thereafter to be used to pay the liabilities of the current period.

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## Budgetary Basis

- Encumbrance accounting is employed in governmental funds
- Encumbrances include purchase orders, contracts and other commitments
- If an encumbrance is outstanding at the end of the year then they are reported as reservations of fund balances and are not counted as an expenditure or a liability under GAAP
- Encumbrances are carried forward to the following year and will become part of the subsequent year's budget

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## Revenue Sources and Forecasting

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## Revenue Sources

- Budget preparation begins with developing sound revenue projections.
- Forecasting methods that can be very simply to very complex
- To ensure smoothly functioning budget processes and to maintain credibility, revenue forecasts must be reasonably accurate.
- There are many types of revenues available to governments in South Carolina. Some major sources include:
  - Property Taxes
  - Federal and State Aid
  - Fees/Fines
  - Charges for Services
  - License and Permits
  - Interest
  - Transfers In from Other Funds
  - Sale Proceeds
  - Use of Fund Balance

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## Revenue Sources

- There are creative ways to diversify your revenue program related to the General Operating Fund which offer more sustainability from a long-term approach:
  - Overhead Allocations
  - Business License Program
  - Local Option Sales Tax and Credits
  - Tax Increment Financing (TIF) Districts

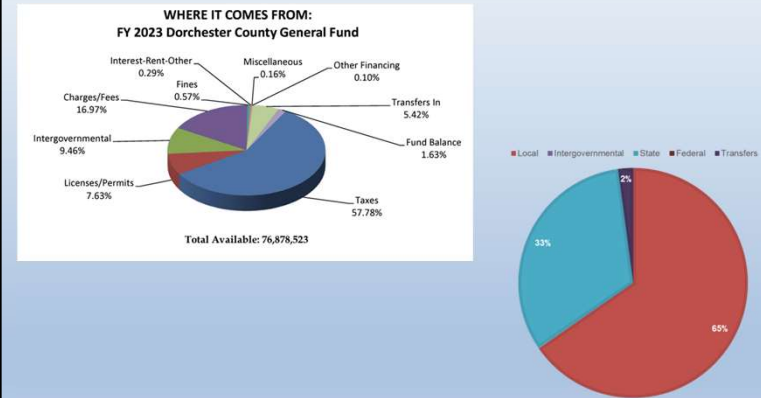
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## How to Project Revenues

- Gather as much history as possible
- Use trends to estimate
- Use knowledge of economy
- Use knowledge of new or changes to existing legislation affecting revenues
- Solicit input from other officials who may have data that provides a better insight into revenue collections
- Always err on the conservative side, you want to underestimate as opposed to overestimate

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## Revenue Sources



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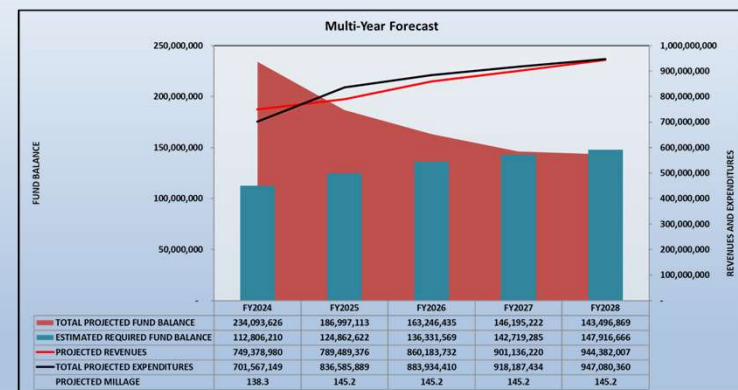
## Revenue Forecasting

National Advisory Council on State and Local Budgeting (NACSLB) recommends 10 budget practices that should be used for revenue forecasting:

1. Develop Policy on Fees and Charges
2. Develop Policy on Use of One-Time Revenues
3. Evaluate the Use of Unpredictable Revenues
4. Develop Policy on Revenue Diversification
5. Prepare Revenue Projections
6. Analyze Major Revenues
7. Evaluate the Effect of Changes to Revenue Source Rates and Bases
8. Analyze Tax and Fee Exemptions
9. Achieve Consensus on a Revenue Forecast
10. Document Revenue Sources in a [Revenue Manual](#)

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## Revenue Forecasting



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# Tax Levy and Millage Explained

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## Act 388

- Most commonly known as the Property Tax Reform Bill, signed by the Governor on June 10, 2006
- Three most prominent provisions to governments:
  1. **Sales tax swap**
    - State retail sales tax increased by one cent to 6%
    - Owner-occupied residential property exempt from all property taxes for school operations
    - Increased sales tax revenue to fully reimburse school districts for revenue loss
  2. **15% assessment cap**
    - Maximum increase in assessed value is 15% over 5 years
    - Properties that are sold go on the books at sales price as an Assessable Transfer of Interest (ATI)
    - New construction adds some growth, but for most entities, this will result in slowdown of tax base growth
    - Exception may be in areas that experience high property turnover
  3. **Levy (millage) limitations**

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## Act 388 – Millage Limitation Revised

- (A)(1) Notwithstanding Section 12-37-251(E), a local governing body may increase the millage rate imposed for general operating purposes above the rate imposed for such purposes for the preceding tax year only to the extent of the increase in the average of the twelve monthly consumer price indices for the most recent twelve-month period consisting of January through December of the preceding calendar year, plus, beginning in 2007, the percentage increase in the previous year in the population of the entity as determined by the Revenue and Fiscal Affairs Office. If the average of the twelve monthly consumer price indices experiences a negative percentage, the average is deemed to be zero. If an entity experiences a reduction in population, the percentage change in population is deemed to be zero. However, in the year in which a reassessment program is implemented, the rollback millage, as calculated pursuant to Section 12-37-251(E), must be used in lieu of the previous year's millage rate.
- (2) There may be added to the operating millage increase allowed pursuant to item (1) of this subsection any such increase, allowed but not previously imposed, for the three property tax years preceding the year to which the current limit applies.
- (B) Notwithstanding the limitation upon millage rate increases contained in subsection (A), the millage rate limitation may be suspended and the millage rate may be increased upon a two-thirds vote of the membership of the local governing body for the following purposes:
  - (1) the deficiency of the preceding year;
  - (2) any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
  - (3) compliance with a court order or decree;
  - (4) taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year; or
  - (5) compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of this section for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government.

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## Act 388 – Millage Limitation Revised

- (6) purchase by the local governing body of undeveloped real property or of the residential development rights in undeveloped real property near an operating United States military base which property has been identified as suitable for residential development but which residential development would constitute undesirable residential encroachment upon the United States military base as determined by the local governing body. The local governing body shall enact an ordinance authorizing such purchase and the ordinance must state the nature and extent of the potential residential encroachment, how the purchased property or development rights would be used and specifically how and why this use would be beneficial to the United States military base, and what the impact would be to the United States military base if such purchase were not made. Millage rate increases for the purpose of such purchase must be separately stated on each tax bill and must specify the property, or the development rights to be purchased, the amount to be collected for such purchase, and the length of time that the millage rate increase will be in effect. The millage rate increase must reasonably relate to the purchase price and must be rescinded five years after it was placed in effect or when the amount specified to be collected is collected, whichever occurs first. The millage rate increase for such purchase may not be reinstated unless approved by a majority of the qualified voters of the governmental entity voting in a referendum. The cost of holding the referendum must be paid from the taxes collected due to the increased millage rate; or
- (7) to purchase capital equipment and make expenditures related to the installation, operation, and purchase of the capital equipment including, but not limited to, taxes, duty, transportation, delivery, and transit insurance, in a county having a population of less than one hundred thousand persons and having at least forty thousand acres of state or national forest land. For purposes of this section, "capital equipment" means an article of nonexpendable, tangible, personal property, to include communication software when purchased with a computer, having a useful life of more than one year and an acquisition cost of fifty thousand dollars or more for each unit.
- If a tax is levied to pay for items (1) through (5) above, then the amount of tax for each taxpayer must be listed on the tax statement as a separate surcharge, for each aforementioned applicable item, and not be included with a general millage increase. Each separate surcharge must have an explanation of the reason for the surcharge. The surcharge must be continued only for the years necessary to pay for the deficiency, for the catastrophic event, or for compliance with the court order or decree.

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## Act 388 – Millage Limitation Revised

- (C) The millage increase permitted by subsection (B) is in addition to the increases from the previous year permitted pursuant to subsection (A) and shall be an additional millage levy above that permitted by subsection (A). The millage limitation provisions of this section do not apply to revenues, fees, or grants not derived from ad valorem property tax millage or to the receipt or expenditures of state funds.
- (D) The restriction contained in this section does not affect millage that is levied to pay bonded indebtedness or payments for real property purchased using a lease-purchase agreement or used to maintain a reserve account. Nothing in this section prohibits the use of energy-saving performance contracts as provided in Section 48-52-670.
- (E) Notwithstanding any provision contained in this article, this article does not and may not be construed to amend or to repeal the rights of a legislative delegation to set or restrict school district millage, and this article does not and may not be construed to amend or to repeal any caps on school millage provided by current law or statute or limitation on the fiscal autonomy of a school district that are more restrictive than the limit provided pursuant to subsection (A) of this section.
- (F) The restriction contained in this section does not affect millage imposed to pay bonded indebtedness or operating expenses of a special tax district established pursuant to Section 4-9-30(5), but the special tax district is subject to the millage rate limitations in Section 4-9-30(5).
- (G)(1) Notwithstanding the limitation upon millage rate increases contained in subsection (A), a fire district's governing body may adopt an ordinance or resolution requesting the governing body of the county to conduct a referendum to suspend the millage rate limitation for general operating purposes of the fire district. If the governing body of the county agrees to hold the referendum and subject to the results of the referendum, the millage rate limitation may be suspended and the millage rate may be increased for general operating purposes of the fire district. The referendum must be held at the time of the general election, and upon a majority of the qualified voters within the fire district voting favorably in the referendum, the millage rate may be increased in the next fiscal year. The referendum must include the amount of the millage increase. The actual millage levy may not exceed the millage increase specified in the referendum.
- (2) This subsection only applies to a fire district that existed on January 1, 2014, and serves less than seven hundred homes.

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## Act 388 – Millage Limitation Revised

- (H) Notwithstanding the limitation upon millage rate increases contained in subsection (A), the governing body of a county may adopt an ordinance, subject to a referendum, to suspend the millage rate limitation for the purpose of imposing up to six-tenths of a mill for mental health. The referendum must be held at the time of the general election, and upon a majority of the qualified voters within the county voting favorably in the referendum, this special millage may be imposed in the next fiscal year. The state election laws apply to the referendum mutatis mutandis. This special millage may be removed only upon a majority vote of the local governing body. The amounts collected from the increased millage:
  - (1) must be deposited into a mental health services fund separate and distinct from the county general fund and all other county funds;
  - (2) must be dedicated only to expenditures for mental health services in the county; and
  - (3) must not be used to supplant existing funds for mental health programs in the county.

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## Valuation

- The property listed by the taxpayer is valued by the County Assessor (real property), the County Auditor (personal property), or SC DOR (manufacturing and utility property).
- To this valuation is applied the assessment ratio, as stated in Article X of the SC Constitution and SC Code 12-43-220. The valuation multiplied by the assessment ratio equals an "assessment".  

$$\text{Valuation} \times \text{Assessment Ratio} = \text{Assessment}$$
 Example: \$100,000 value x .04 assessment ratio = \$4,000 assessment
- The assessment is then multiplied by the millage as set by the taxing entity to equal the tax due.  

$$\text{Assessment} \times \text{Millage Rate} = \text{Tax Due}$$
 Example: \$4,000 assessment x .1127 millage rate (as a percentage) = \$450.80 tax due
- Any credits or exemptions are applied and then the total, adjusted tax due is paid by each taxpayer.

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## Calculating Property Taxes

- Taxes on real property are computed by multiplying the assessment by the tax levy or millage rate (tax rate or percent).  

$$\text{Assessment} \times \text{Tax Levy} = \text{Base Tax Amount}$$
- Assessment is derived by multiplying the appraised value times the assessment ratio (tax rate)
  - 4% Legal Residence
  - 6% Other (second homes, rental property, vehicles)
  - 4% and 6% Agricultural Use
  - 10.5% Industrial Property
- State law requires that every entity that assesses millage conduct a countywide reassessment every five years. This requires an appraiser from the Assessor's Office personally visit every property and prepare an appraisal for each one. This is to ensure that each piece of property is fairly valued, relative to all other real property values in the County.

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## Property Tax Calculations

Here are some examples, including how to calculate a tax bill, the value of a mill, and the impact of a 1 mill tax increase. Take this slide and fold a tab over it and the two that follow.

CURRENT VALUES & PRIOR YEAR TAX INFORMATION			
LOTS/BLDG/SMP/L	0	ACRES	0.13
TOTAL TAXABLE VALUE	290,000	ASSESSMENT RATIO	4%
TOTAL ASSESSED VALUE	11,920		
PRIOR YEAR TAX	\$2,148.75		
INCLUDES TAXES AND FEES			
TAX CALCULATION			
Assessed Value	11,920		
X Tax Rate	0.36090		
= Taxes before credits & fees	4,301.93		
- School Tax Credit	-2,290.18		
- Homestead Exemption	0.00		
= Fee Totals	807.45		
TOTAL AMOUNT DUE:	2,811.20		
DUE BY:	Jan 17, 2023		

GOVERNMENT AGENCIES RESPONSIBLE FOR MILLAGE & TAX DOLLARS			
% OF BILL	TAXING ENTITY	MILLAGE	TAXES
10.20%	County Operating	54.00	\$644.80
2.35%	County Debt	8.50	\$101.32
1.02%	County Library	5.50	\$65.54
1.88%	County Capital Improvements	6.80	\$81.06
2.7%	Children in Crisis	1.00	\$11.92
5.2%	Senior Citizens Centers	1.90	\$22.85
5.8%	200 Summers Center	21.20	\$252.79
10.07%	School Operating	101.00	\$12,049.92
10.01%	School Debt	60.00	\$714.80
2.4%	School Vocational	9.20	\$109.66
9.7%	School Student Tech	3.30	\$39.34
100.00%	Sub Total		\$4,301.93
	Less SC Homestead		\$0.00
	Less School Tax Credit Savings		(\$2,290.18)
	Plus School District/County Use Fee		\$80.00
	Plus SUMCA (Summers Center A)		\$682.45
	Plus STIMM (Stormwater Management Fee)		\$60.00
	Grand Total		\$2,811.20

## Property Tax Calculations

- Property Taxes (Value of a Mill)

Assessed Value	\$736,345,545
÷	1000
= Value of Mill	\$736,345

- What's in the calculation?

The total assessed value includes assessed value for all real and personal property. Assessed value is based on the ratio (4%, 6%, or 10.5%) determined by the type of property as established by state law. Each mill levied would generate \$736,345 based on the calculation above.

## Property Tax Exemptions

There are two common exemptions that work to reduce the base tax amount:

### 1. State Property Tax Relief

SC Tax Relief/Legal Residence is a special exemption given to taxpayers on their one legal residence (4%) property obtained through Legal Residence application with the Assessor's Office. This means that the qualifying property's market value would be assessed at a ratio of 4% rather than 6% to obtain the property's assessment (assessed value) for tax purposes. The relief is applied to the first \$100,000 of the property value using the school operating portion of the millage rate. State funds are returned to the schools to offset a portion of school operating budgets, therefore reducing local property taxes.

### 2. Homestead Exemption

Homestead Exemption is another special exemption obtained through application with the County Auditor's Office. This exemption is for taxpayers who are 65 years or older, blind, or disabled. This exempts the first \$50,000 of Market Value of your 4% Legal Residence (domicile) property from all local property taxes.

## Millage

Council/Board sets the operating millage for a governmental entity.

Millage for bonded indebtedness (debt service millage) is set by the County Auditor for all taxing entities.

Mill = a monetary unit equal to 1/1000 of a dollar or 1/10 of a cent. 100 mills would be expressed in decimal form as .100

Millage = a tax rate on property, expressed in mills per dollar of value of the property

## Impact of Millage Increase

Property Value	\$300,000
x Assessment Ratio	6% (or 0.06)
= Assessed Value	\$18,000
x One Mill	1 (or 0.001)
= Impact	\$18

Millage is represented by moving the decimal three places to the left. It can only be calculated to the tenth of a mill. (i.e. 65.9 mills is acceptable, but 65.87 mills is not)

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## Limit on Millage Increases

The South Carolina State Code of Laws 6-1-320 limits the annual percentage increase in the operating millage rate to the increase in the Consumer Price Index (CPI) plus the annual projected increase in population. There may also be added to the operating millage increase any such increase, allowed but not previously imposed, from the three property tax years preceding the year to which the current limit applies. The millage rate limitation may be suspended with a two-thirds vote of the membership of the local governing body for specific and limited circumstances in accordance with SC Code of Laws 6-1-320.

Fiscal Year	Tax Year	Prior / Reassessment Millage	Rollback Millage	Allowable Annual % Increase	Millage Bank Increase	Millage Bank Used	Millage Bank Lost	Millage Bank Balance
2019	2018	123.2	0.0	3.36%	4.1	4.1	0.0	0.0
2020	2019	126.7	0.0	3.48%	4.4	4.4	0.0	0.0
2021	2020	118.6	8.1	3.09%	3.7	3.7	0.0	0.0
2022	2021	123.7	0.0	2.53%	3.1	3.1	0.0	0.0
2023	2022	130.0	0.0	5.72%	7.4	7.4	0.0	0.0
2024	2023	138.3	0.0	9.37%	13.0	3.9	0.0	9.1
2025	2024	145.2	0.0	5.51%	8.0	0.0	0.0	8.0

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## Exercise

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## Balance the Budget

Various Departments in your organization have made the following budget requests during the budget process:

- 2 new Public Safety Officers (\$100,000 per officer per year)
- Increase in maintenance & service contract for IT (\$10,000 per year)
- 4 new Firefighters (\$75,000 per firefighter per year)
- New vehicle for County Administrator (\$75,000)
- Financial System (\$200,000 implementation, \$100,000 per year for 5 year contract)
- 1 new Animal Control Officer (\$50,000 per year)
- Additional operational funding for various items such as office supplies, travel, postage, and training due to staffing increases for a total of \$5,000 per year
- 1 new Executive Assistant (\$60,000 per year)
- Increase to Tuition Reimbursement Program to allow more employees to participate each year (\$25,000 per year)
- 1 new Maintenance Technician (\$40,000 per year)

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## Balance the Budget

Before you are provided with information about revenues, use the worksheet provided to build a proposed budget based on an assessment of priorities formulated from experience in your own community.

Prioritize and identify the requests or portion of requests that you would approve and total the cost of every initiative.

## Balance the Budget

Additional Revenues available as part of the budget:

Revenue Source	Projected Revenue
Property Taxes	\$400,000
Vehicle Taxes	\$100,000
Charges for Services	\$40,000
Licenses and Fees	\$60,000
Interest	\$50,000
<b>Total</b>	<b>\$650,000</b>

What is the positive or negative variance in your proposed budget?

The organization has unassigned fund balance of \$10,000,000 which is 40% of the current General Fund.

## Balance the Budget

With this information available, what would you do to balance the budget or do you have additional resources available?

Options may Include:

- Increasing Taxes
- Increasing Fees
- Budgeting Fund Balance
- Reducing Expenditures

Assumptions:

- Value of a Mill = \$32,500
- Currently have 4.1 mills available in the bank
- Business License Fee increase would generate \$20,000 annually

# Expenditures

## Expenditures

Governmental expenditures are categorized according to the following functions:

- General Government
- Health and Welfare
- Public Safety
- Highways/Streets
- Culture/Recreation
- Transfers Out
- Capital

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## Expenditures

The single greatest cost of all governments is salaries and associated fringe benefits of government employees.

The work of government can rarely be done by machine, and keeping qualified, motivated staff while keeping staff costs under control is always a challenge.

Limited to the total overall appropriations in the budget ordinance.

This is referred to as the "legal level of control".

Supplemental budget appropriations are sometimes used when it is evident that you will exceed its originally adopted budget.

A supplemental budget appropriation must be approved in the same manner as the original budget ordinance, readings and public hearing.

An inordinate use of supplemental budget appropriations generally indicates poor planning.

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# Monitoring

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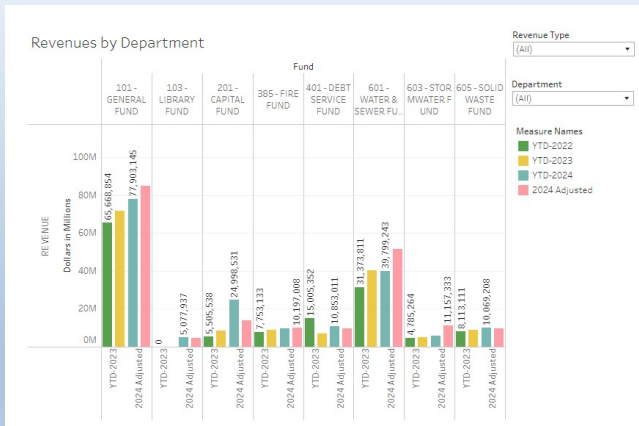
## Budgetary Monitoring

Consider detailed budget documents, capital plans, and public transparency dashboards to communicate the direction of the organization to your citizens.

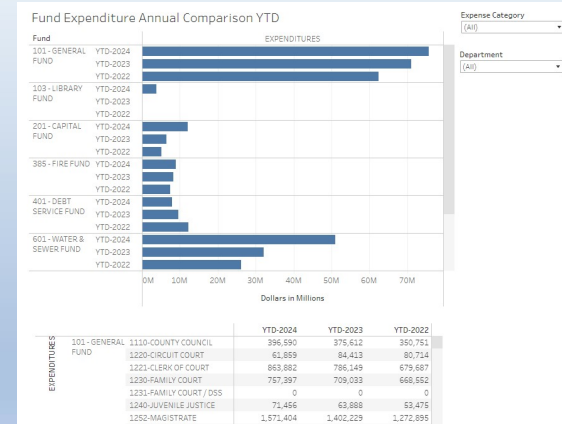


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## Dashboards



## Dashboards



## Budgetary Controls

1. Budget Ordinance/Resolution is a control in that it is the legal spending authorization limit
2. Encumbrance accounting
3. Purchase Order system
4. Divisional and departmental controls inherent in the budget
5. Internal audit or internal review system

Monitoring with Periodic Reporting such as:

Monthly Budget Reports  
Monthly Over Budget Reports  
Quarterly Projections

The budget requires continuous monitoring and occasional revisions.  
Mid-year budget review is a best practice.

## Capital Budgeting

## Funding for Capital Projects

- Capital Projects require creative approaches to funding, whether that is providing for pay-go or various mechanisms of financing with debt.
  - Pay-go
    - Grants
    - Dedicated capital millage
    - Cost sharing across multiple sources
  - Debt Financing
    - General Obligation
    - Limited Obligation
    - Installment Purchase
    - Utility Revenue
    - Assessment Districts
- Remember the implementation of a good five-year Capital Improvement Program. It will drive how you anticipate funding needs.

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## Capital Planning

- A Capital Improvement Plan (CIP) is a critical accessory to a strong budget. This will drive the adoption and decision-making process for all major capital initiatives when implemented properly.
- For infrastructure, buildings, and major repair projects, a CIP will usually span a five-year period and can be adopted by resolution in conjunction with the budget. This establishes the formal consensus of County Council for long-range initiatives. Staff should assist by developing criteria to score projects based on factors relevant to your community.
  - ✓ Economic impact
  - ✓ Addressing disparities
  - ✓ Replacing aging infrastructure
  - ✓ Strategic plan goals

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## Capital Planning

- Deeper than the CIP is the need to address the replacement of capital items in the organization on a recurring basis. All assets should have useful lives, which would typically be assigned by staff. Your County can also establish the threshold to deem something a capital asset. Typically, this is in excess of \$1,000 per item, but eligible to be considered on a replacement plan if greater than \$5,000 per item.
  - This will help make budget decisions easier. Instead of feuding over how many vehicles to buy for the Sheriff's Office, set useful lives for those vehicles. When they exceed the useful life, then you automatically agree to replace it by policy.
    - Patrol Car: 96 – 120 months or mileage cap
    - Public Works Truck: 84-96 months
    - Police Radio: 120 months

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## Capital Improvement Plan (CIP)

- A Capital Improvement Plan (CIP) is a flexible plan outlining the financial schedules for all Capital Projects over a five-year period. The CIP does not address all capital expenditures, but it provides an overview of all large, physical improvements which are permanent. The schedules also include projections for long term operating expenditures associated with each project, if applicable.
- The goal of a 5-year CIP program is to establish a plan that outlines the projected infrastructure improvement needs of each department to assist in the planning and budgeting process. The plan includes a summary of all projects, an estimated cost, a timeline for the improvements, and the source of funding for each project. The CIP Plan is designed to be re-evaluated each year to either reaffirm or reprioritize the projects due to expected changes in the Organizational goals and financial resources.

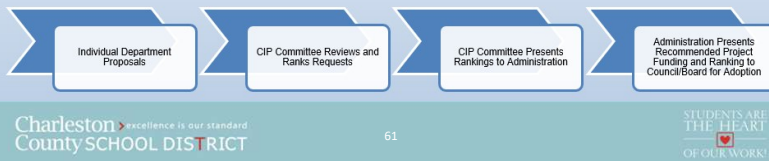
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## Capital Improvement Plan (CIP)

A good practice, recommended by the National Advisory Council on State and Local Budgeting (NACSLB). Incorporate the CIP as part of the annual budget document.

In fact, this is a mandatory criteria for the GFOA Distinguished Budget Presentation Awards Program.

1. First step is to identify all capital improvements
2. Then prioritize the projects
3. Next prepare a time frame for their completion
4. Prepare financing plan
5. Usually the plan has a 5 to 10 year outlook
6. Governing body should approve the plan



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## Policies

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## Fund Balance Policy

- It is important to establish fund balance thresholds in the various governmental funds to provide liquidity, contingency, and debt service coverage.
- In order to maintain adequate fund balance in key funds to provide for operations of the organization, it is important to establish and adopt a fund balance policy. This will ensure the ability to provide the following:
  - Liquidity: provides adequate reserves to cover the anticipated cash flow required during the fiscal year without the need for interim financing such as a tax anticipation note.
  - Contingency: maintain at least two months of fund balance for operations in the event of a major disruption due to a natural disaster.
  - Debt Service Coverage: maintain a reserve equal to one year's General Obligation debt service at all times to ensure adequate payment of bonds.

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## Debt Policy

- Once a jurisdiction decides to issue debt, it should develop a formal debt policy to establish parameters and to provide general direction to staff
- The GFOA recommends that all state and local governments adopt comprehensive written policies and that these policies should be reviewed at least annually and revised as necessary
- Debt policy should be formally submitted to and adopted by the elected officials
- A debt policy will encompass several elements:
  - Purposes for which debt will be issued
  - Types of debt
  - Limitations
  - Debt maturity schedules
  - Method of sale
  - Use of consultants and professionals
  - Refunding policies
  - Disclosure practices

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## Debt Policy

- Establishing a policy on acceptable levels of debt requires an understanding of:
  - Legal limitations on debt
  - Service levels and other factors affecting operating expenses
  - Debt commitments of other government entities relying on the same tax base
  - Demographic and economic trends affecting the community

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## Debt Administration

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## Debt Management Plan

- Can be freestanding or part of your Capital Improvement Plan (CIP).
- Should portray your long-term capacity to absorb and repay debt.
- Important-take into account other long-term obligations such as unfunded pension and retiree medical benefits
- Update Annually
- Identifies borrowing requirements
- Short-term first, then equipment, then capital improvements
- Next, identify infrastructure, enterprise, and other public facilities
- Identify all possible sources of funding
- Timing, capacity of electorate and taxpayers to support debt
- Encourage efforts to improve bond rating
- Marketability of debt
- Schedule principal payments as early as possible to avoid burdening future generations for aged facilities or benefits they do not receive
- Sound financial planning is highly valued by investors

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## Debt Management Plan

- A debt management policy, not only appropriate tool for management but also important for bond ratings
- Part of debt management is to not exceed the Legal Debt Margin
- Debt Policy may state that debt will not exceed certain levels, such as debt per capita, or even a certain millage level
- Unique to each government's fiscal capacity
- Important to continually monitor and analyze market conditions, cash flow needs.
- Typically this is done formally each year in the budget process so that any debt that is issued can be synchronized with the fiscal budget.

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## Credit Rating

- Improvement in ratings can save hundreds of thousands of dollars in interest costs
- There are several major rating agencies:
  - Standard & Poor's
  - Moody's Investors Service
  - Fitch
- Factors that rating agencies look for:
  - Existing Industries
  - Capital Investments
  - Diversity and strength of tax base
  - Economic situation, in terms of outlook, technical training, per capita income, unemployment rate
  - Financial Factors: Fund Balance, Budgetary controls, Investment policies
  - Debt Factors: General obligation debt per capita, General obligation debt as a percentage of assessed value, legal debt margin

## Ratings Explained

- Hierarchy of letters and number scale
- Each agency has a different rating scale:

	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
Junk	A3	A-	A-	Lower Medium Grade
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	Non Investment Grade Speculative
	Ba1	BB+	BB+	
	Ba2	BB	BB	
	Ba3	BB-	BB-	Highly Speculative
	B1	B+	B+	
	B2	B	B	
	B3	B-	B-	Substantial Risks
	Caa1	CCC+	CCC+	
	Caa2	CCC	CCC	
	Caa3	CCC-	CCC-	Extremely Speculative
	Ca	CC	CC	
	C	C	C	In Default w/ Little Prospect for Recovery
	CC	CC	CC	
	D	D	DD	In Default

	Rating Defined
Fitch	AAA: Highest credit quality
	AA: Very high credit quality
	A: High credit quality
	BBB: Good credit quality
Moody's	Aaa: Exceptional financial security
	Aa: Excellent financial security
	A: Good financial security
	Baa: Adequate financial security
S&P	AAA: Extremely strong capacity
	AA: Very strong capacity
	A: Strong capacity
	BBB: Adequate capacity

Note: In some cases, Fitch and Standard & Poor's use a plus or minus sign to show relative standing within a rating category. Similarly, Moody's uses the numerical modifiers 1, 2, and 3 with 1 signifying the higher end of a rating category and 3 signifying the lower end.

## Best Practices

## Best Practices

- Making Changes
  - Much can happen in a year. Empower your staff to have the flexibility to make reasonable changes without requiring policy-level approvals at every turn.
    - Budget adjustments
      - Transfers between funds
      - Transfers between major categories
    - Supplemental Appropriations
      - Consider allowing moderate but reasonable supplemental appropriations via authority of the County Administrator
  - Documenting the Process
    - Staff should have a clearly defined budget process, manuals, forms, and instructions. If not, it should be developed and then County Council can approve the schedule each year to set expectations.

## Best Practices

### Documenting the Process

The screenshot displays the 'FY24 Budget Requests' portal. At the top, it says 'Documenting the Process' and 'FY24 Budget Requests'. Below this, there are sections for 'IMPORTANT MANUALS' (including FY24 Budget Calendar, FY24 Budget Prep Manual, FY24 Budget Kickoff PowerPoint, and Business Services Object Code Manual) and 'OPERATING & PERSONNEL REQUESTS' (including Program Expansion Operating Form, Operating Request Form, New Personnel Form, and Grant Matching Request Form). There are also sections for 'CAPITAL REQUESTS' (including Capital Program Expansion Form, FY24 Capital Maintenance Form, FY24 Capital Replacement Plan, and New Vehicle - Heavy Equipment Request), 'GRANTS', 'REVENUE', and 'TARGETS'.

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## GFOA Award Program

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## GFOA Distinguished Budget Award Program

- GFOA established the Distinguished Budget Presentation Awards Program (Budget Awards Program) in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting and then to recognize individual governments that succeed in achieving that goal. Approximately 1,800 governments, including states, cities, counties, special districts, school districts, and more have been recognized for transparency in budgeting. To earn recognition, budget documents must meet program criteria and excel as a policy document, financial plan, operations guide, and communication tool.
- The program is open to submissions from any type of government (general-purpose or special-purpose) at either the state or local level that makes available to the general public an operating budget document in either an uploaded document or web-based format, regardless of the length of the budget period (annual/biennial/triennial).
- Participants may submit either their proposed budget or their adopted budget.
- Submissions must be received within 90 days of the date when the budget was approved/adopted.
- <https://www.gfoa.org/budget-award-application-information>

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## Question & Answer

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Thank you for time and interest in Public  
Budgeting

