



Public Budgeting

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South Carolina Association of Counties

2018 Annual Conference

Definition of an Accountant

Someone who solves a problem you did not know you had in a way you do not understand.



Outline

Section One

Environment, Characteristics, Fund Accounting,
Basic Financial Statements

Section Two

Public Budget Process, Types of Budgets,
Revenue Sources & Forecasting,
Tax Levy/Millage Explained

Section Three

Expenditures, Monitoring, Capital Budgeting,
Audit, Policies, Debt Administration, GFOA
Awards Program

Why are you here today?

- To perform stewardship role
- A public office is a public trust
- Even those with experience in private-sector finance will require additional knowledge
- Must understand the basic building blocks of governmental accounting to be fully effective in your position

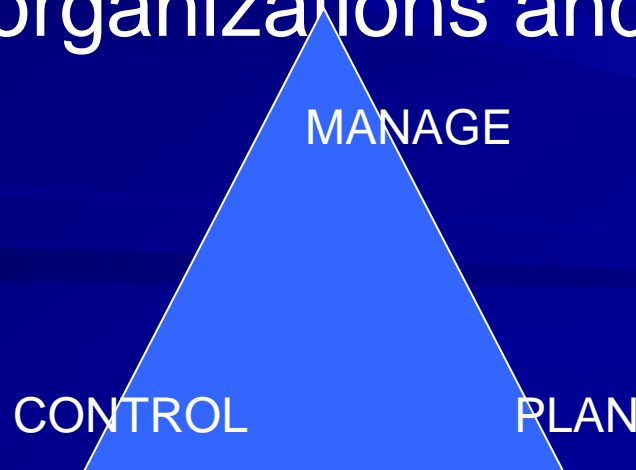
Sooner or later, those who win are those that think they can. Richard Bach

Definition

- A plan to accomplish objectives and goals
- Creates a definite time frame
- Contains estimates of resources , required and available
- Contains estimates of expenditures
- Usually is compared with one or more past periods

Function of Budget

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



What is Financial Management?

- A system that obtains, allocates, measures, and expends resources to achieve goals.
- Financial management provides information for decision making.
- Integral part of management
- Affects every employee in the organization
- Plays an indispensable role in the achievement of objectives

Why should you be concerned with Financial Management?

- Governments follow distinctive, specialized accounting and financial reporting standards
- Most governments use accounting model that recognizes separate funds for reporting and stewardship purposes
- Utilizes modified full accrual accounting

Why should you be concerned with Financial Management?

- General Fund typically receives more attention from elected officials than other funds
- To completely understand the entity's total financial picture, elected officials must grasp these nuances and how they apply to their jurisdiction

How to obtain the necessary skills/knowledge?

- Formal training programs
- Excellent materials available from the GFOA
- National Association of Counties
- Reliance upon your staff and management to help you learn and understand the principles
- Technical bulletins and reference materials-READ*READ*AND READ SOME MORE!

TAX LEVY SHEET FROM 1966

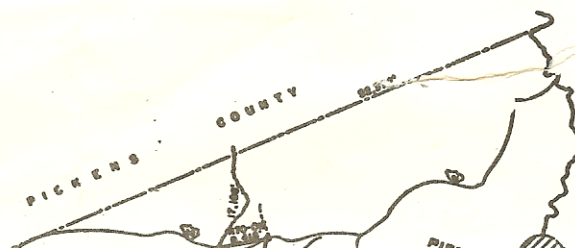
1966 TAX LEVY ANDERSON COUNTY — Anderson, S. C. J. CLINT McCLAIN, Auditor

	SPECIAL SCHOOL	SCHOOL BONDS	COUNTY SCHOOLS	COUNTY LEVY	WATER & SEWER DISTS.	COUNTY FIRE	TOTAL LEVY
School Dist. No. 1	39	4	21½	20½		4	87
School Dist. No. 1 (Brushy Creek Water Shed)	39	2	21½	20½	4	4	91
School Dist. No. 1 (Piedmont)	39	2	21½	20½	40		123
School Dist. No. 1 (Pelzer)	39	2	21½	20½			83
School Dist. No. 1 (Williamston)	39	2	21½	20½			83
School Dist. No. 2	37	12	21½	20½		4	95
School Dist. No. 2 (Belton)	37	12	21½	20½			91
School Dist. No. 2 (Honea Path)	37	12	21½	20½			91
School Dist. No. 3	19	3	21½	20½		4	68
School Dist. No. 4	37	7	21½	20½		4	90
School Dist. No. 5 (Outside City)	53	15	21½	20½		4	114
School Dist. No. 5 (Homeland Park Water Dist.)	53	15	21½	20½	10	4	124
School Dist. No. 5 (Anderson City)	53	15	21½	20½			110

COUNTY LEVY ITEMIZED

Ordinary County	11 ½
County Jail	1
County Library	2
County Hospital	6
TOTAL	20 ½

NOTE: No State Levy



2009 TAX LEVY SHEET – 38 TAX DISTRICTS

TAX DISTRICT	SCHOOL DIST	2009 TAX LEVY ANDERSON COUNTY Jacky Hunter AUDITOR TEL 864-260-4027 FAX 864-260-4206	PICKENS SCHOOLS	TRI COUNTY TEC	SCHOOL OPERATIONS	CAREER AND TECHNOLOGY	COUNTY SCHOOLS	SCHOOL BOND SINKING FUND	COUNTY LEVY	COUNTY SEWER SYSTEM	COUNTY FIRE	METRO EMS	PUBLIC SERVICE DISTRICTS	WATERSHED CONSERVATION	TOTAL
001	ONE		0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
011	ONE	WEST PELZER CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839		0.0060					0.2869
*100	ONE	BRUSHY CREEK	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0003		0.2902
*101	ONE	BROADMOUTH	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0016		0.2915
*102	ONE	BIG CREEK	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0013		0.2912
*103	ONE	THREE & TWENTY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0007		0.2906
120	ONE	WILLIAMSTON CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839							0.2809
123	ONE	PIEDMONT	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839				0.0810			0.3619
*124	ONE	SEDGEWOOD	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060		0.0043			0.2942
*125	ONE	SHENANDOAH FEE	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*126	ONE	THORNWOOD ACRES	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*127	ONE	BURGESS ESTATES	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*128	ONE	PIEDMONT FEE	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839				0.0810			0.3619
130	ONE	EASLEY CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839							0.2809
002	TWO		0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060					0.3382
021	TWO	EMS-1	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060	0.0032				0.3414
*200	TWO	BROADMOUTH	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060			0.0016		0.3398
212	TWO	BELTON CITY	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839							0.3292
234	TWO	HONEA PATH CITY	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839							0.3292
003	THREE		0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060					0.2934
030	THREE	STARR CITY	0.0037	0.1451		0.0177	0.0340	0.0839		0.0060					0.2904
031	THREE	EMS-1	0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060	0.0032				0.2966
*032	THREE	MOORE MACKEY ROAD FEE	0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060					0.2934
033	THREE	IVA CITY	0.0037	0.1451		0.0177	0.0340	0.0839		0.0060					0.2904
004	FOUR		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060					0.2977
040	FOUR	CLEMSON CITY	0.1681					0.0839		0.0060					0.2580
044	FOUR	PENDLETON CITY		0.0037	0.1434		0.0177	0.0400	0.0839		0.0060				0.2947
*401	FOUR	THREE & TWENTY		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060			0.0007	0.2984
*402	FOUR	WHISPERING OAKS / 3 & 20		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060			0.0007	0.2984
005	FIVE		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032				0.3044
051	FIVE	EMS-1-EXEMPT		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060				0.3012
*054	FIVE	LBJ		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044
*056	FIVE	COBBS GLEN		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032	0.0035		0.3079
500	FIVE	ANDERSON CITY		0.0037	0.1549		0.0177	0.0320	0.0839		0.0032				0.2954
*501	FIVE	ANDERSON CITY TIF 1		0.0037	0.1549		0.0177	0.0320	0.0839		0.0032				0.2954
555	FIVE	HOMELAND PARK		0.0037	0.1549		0.0177	0.0320	0.0839		0.0060	0.0032	0.0158		0.3172
*556	FIVE	HERITAGE AT COBB'S GLEN		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044
*557	FIVE	CLARENDON		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044

*REAL PROPERTY DISTRICTS ONLY

Environment and Characteristics

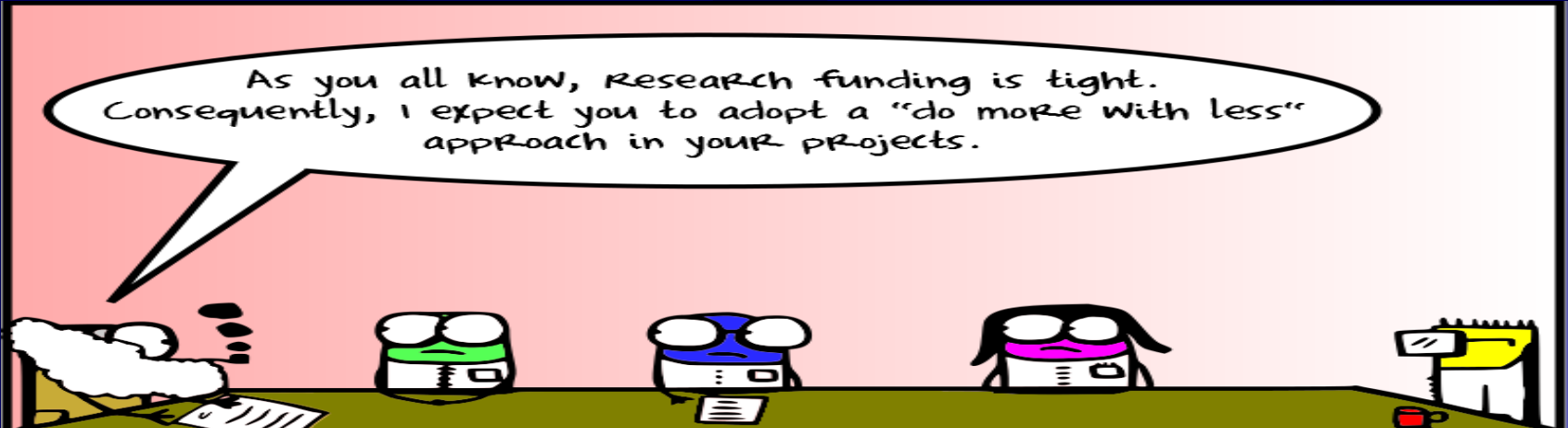


More for Less Paradox


- Political scientists have repeatedly identified a “more for less” paradox
- Surveys have shown that citizens respond “yes” when asked whether current service levels should be expanded, while
- At the same time, they expect taxes and fees to be reduced
- Coping with these pressures makes public budgeting extremely challenging

Success is a state of mind. If you want success, start thinking of yourself as a success.

Anonymous



As you all know, Research funding is tight.
Consequently, I expect you to adopt a "do more With less"
approach in your projects.



By that logic, the less we do, the more we can achieve.
In fact, as our Research activity approaches zero,
our degree of scientific achievement will become infinite.



Are you misinterpreting
what I said again?

More or less.

Characteristics of Gov Organizations

- Absence of profit motive
- Owned by constituents—no stock
- Contributors of resources do not receive proportional share of benefits
- Decisions made—directly or indirectly—by voters
- Meetings where decisions are made usually open to the public

Similarities to the Private Sector

- Operate in the same economy and compete for same resources: financial, capital, and human
- Acquire and convert scarce resources into goods and services
- Use of accounting and other information systems
- Need to operate economically, effectively, and efficiently
- Provide goods and services, many of which may be similar

Differences from the Private Sector

- Organizational objectives
- Sources of financial resources
- Methods of evaluating performance and operating results



Purposes of Business-Type Activities

- Provide same types of services as found in private sector
- Charge fee for services received
- Separate, self-sufficient operations



Issues in Business-Type Activities

- Relationship between services received and resources provided by consumer
- Revenue-producing capital assets
- Similarly designated activities
- Nature of political process
- Budgets and fund accounting

Purpose of Governmental Activities

Provide goods and services that all constituents need regardless of ability to pay for goods and services

Typical Activities of a SLG

- Governmental activities—unique to SLGs
 - Police and fire protection
 - Education
 - Social Services
 - Courts
- Business-type activities—similar to private sector operations
 - Utilities
 - Golf Courses
 - Airports

Organizational Objectives

Businesses

- Operating Motive: maximize income from revenues and other resources
- Operational Focus: report quarterly but look to the long-term as well

Government

- Operating Motive: maximize services provided from revenues and other resources
- Operational Focus: operate on annual budget, so current year is of primary importance

Sources of Financial Resources

- Businesses raise resources from sales or from capital stock and debt transactions—must account for different sources separately
- Governments raise resources from sales or debt transactions—typically no distinction made in sources

Sources of Financial Resources

(not found in private sector)

- Taxes: property taxes, sales taxes, and income taxes
- Intergovernmental revenues: from other governments
- Licenses and permits
- Fines and forfeitures
- Debt proceeds (typically *not* used for operations)

Sources of Financial Resources

- Businesses raise resources from sales or from capital stock and debt transactions—must account for different sources separately
- Governments raise resources from sales or debt transactions—typically no distinction made in sources

Unique Gov Sources

- Involuntary contributions—taxes!
- Donations
- Appropriations and grants from other governmental entities

Evaluating Performance and Operating Results

- In business, continuing a product or service determined by success in marketplace
- In Gov organizations:
 - Profit not a motive and frequently cannot be measured
 - Services not found elsewhere so there is no competition
 - Face rules and regulations not found in private sector

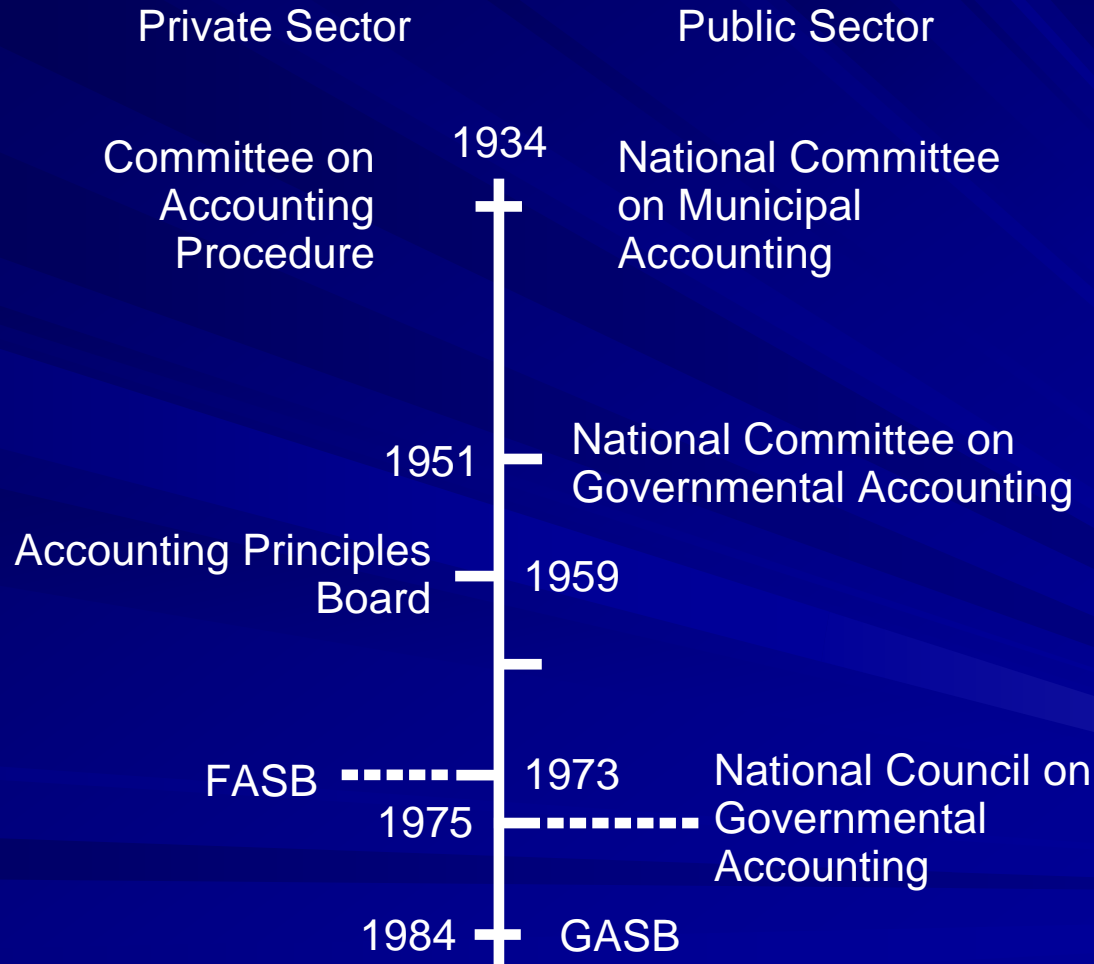
Special Regulations and Controls Applied to Governments

- Organization structure—form; board composition; number & duties of personnel
- Personnel policies and procedures—who has power to appoint or hire personnel; tenure; termination policies; promotion policies
- Sources of financial resources—types and amounts of taxes, licenses, fines or fees; procedure for setting user charges

Special Regulations (continued)

- Use of financial resources—purposes, including legal restrictions; purchasing procedures; budgeting methods
- Accounting
- Financial reporting—type and frequency of reports; format; recipients
- Auditing—frequency; who performs; scope and type; time and place; who receives report

Development of GAAP



Defining a “Government”

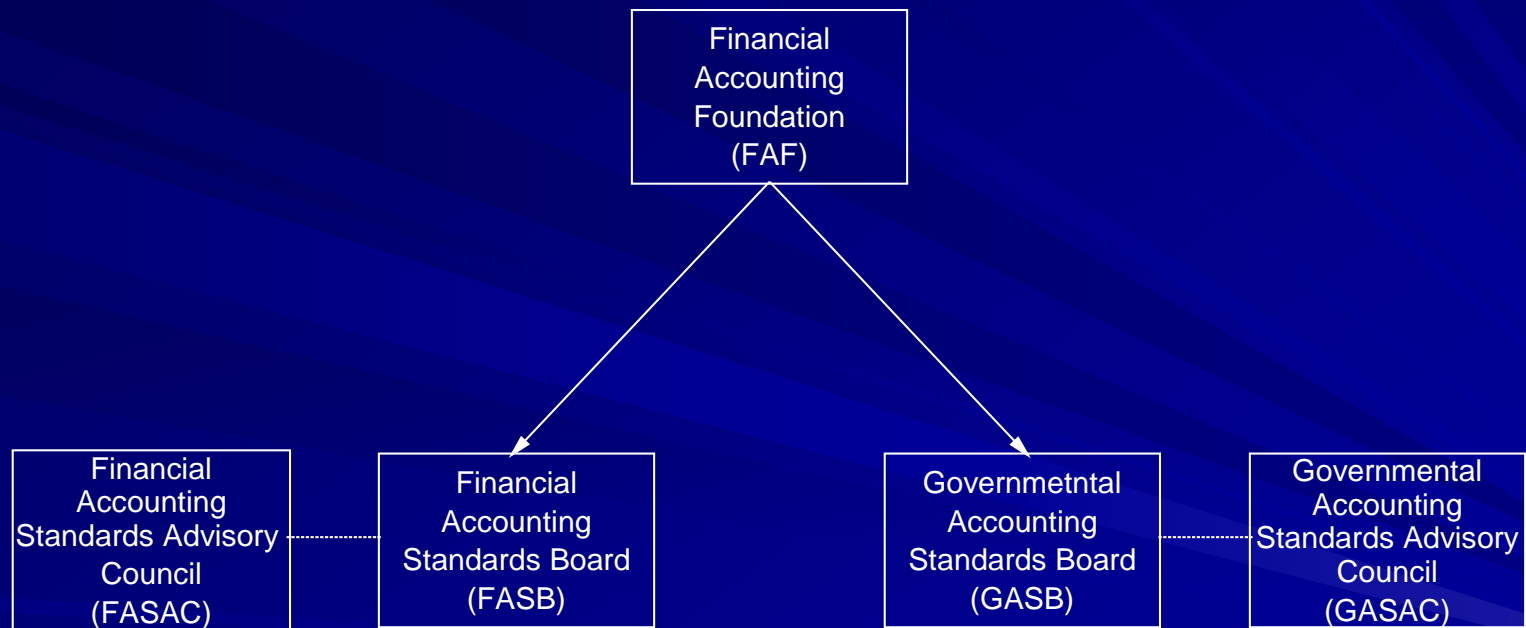
Overall characteristics:

- Public corporations—“an instrumentality of the state, founded and owned in the public interest, supported by public funds, and governed by those deriving their authority from the state”
- Bodies corporate and political

Other Characteristics of a “Government”

- Popular election of officers or appointment (or approval) of a controlling majority of members of governing body by one or more SLGs
- Potential for unilateral dissolution by a government with net assets reverting to government
- Power to enact and enforce a tax levy
- Ability to issue tax exempt debt

Financial Reporting Standards-Setting Structure



SLG GAAP Hierarchy

- A. GASB Statements and Interpretations, which are periodically incorporated into the *Codification*
- B. GASB Technical Bulletins and AICPA Audit Guides and SOPs if made applicable to SLGs and cleared by GASB
- C. AICPA Practice Bulletins if made applicable to SLGs and cleared by GASB, and positions of GASB EITF (does not currently exist)
- D. GASB staff Implementation Guides (Q&As) and widely accepted practice

Other Accounting Literature

Nonauthoritative

- GASB Concepts Statements
- FASB Concepts Statements
- FASAB Statements, Interpretations, TBs, and Concepts Statements
- AICPA Issues Papers
- IPSASB Standards or IFRS
- Accounting textbooks, handbooks, and articles

Resource Allocation Mechanisms

- Restrictions placed by providers: typical of grantors, taxes for specific purposes, and debt proceeds
- Budget—allocates resources to functions
- Holding public officials accountable for actions

Financial Report Uses

- Comparing results with legally adopted budgets
- Assessing financial condition and results of operations
- Assisting in determining compliance with finance-related laws, rules and regulations
- Assisting in evaluating efficiency and effectiveness

Financial Report Users

- The citizenry
- Legislative and oversight bodies
- Investors and creditors

Financial Reporting Objectives of Business-Type Activities

- Enable users to assess accountability
- Provide information about operating results for the period
- Provide information to assess level of services provided

Characteristics of SLG Accounting and Reporting

- Use of fund accounting
- Budgets and appropriations





Public Budgeting Fund Accounting

Always tell the truth-it's the easiest thing to remember. David Mamet

What is Fund Accounting

- Accounting method, or device used to keep track of specific sources of funding and spending for particular purposes
- Some funds are required by State law and by bond covenants
- City/County Council establishes funds to control and manage money and to show that it is properly using certain taxes and grants
- Only the minimum number necessary, no set number
- Each fund contains a self-balancing set of accounts

Usage of Fund Accounting

- The accounts of governments are organized and operated on the basis of funds.
- A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.
- Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Usage of Fund Accounting



A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. (The accounts includes assets, liabilities, equity, revenues and expenditures)

Governmental Funds

- Used to account for general government activities (basic services)
- Include the following types:
 1. General Fund- primary operating fund
 2. Special Revenue Funds- legally restricted for specific purposes
 3. Debt Service Fund – accounts for payment of long-term debt
 4. Capital Projects Funds – accounts for the construction or acquisition of major capital projects

Honesty is the best policy, but insanity is a better defense. Steve Landesberg

Proprietary Funds

- Enterprise Funds – used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is to operate at a profit. Ex: Sewer, Solid Waste
- Internal Service Funds – used to account for activities that produce services to be provided to other County departments on a cost-reimbursement basis. Ex: Fleet Services

Fiduciary Funds

- Fiduciary funds account for assets held in a trustee capacity or as an agent for individuals or other governmental units.
- An Agency Fund is an example of a Fiduciary Fund.
- The Agency Fund is custodial in nature and does not require a budget. Ex: Agency Funds that Treasurer uses to collect School taxes.

The man who has no imagination
has no wings. Muhammad Ali



Basic Financial Statements

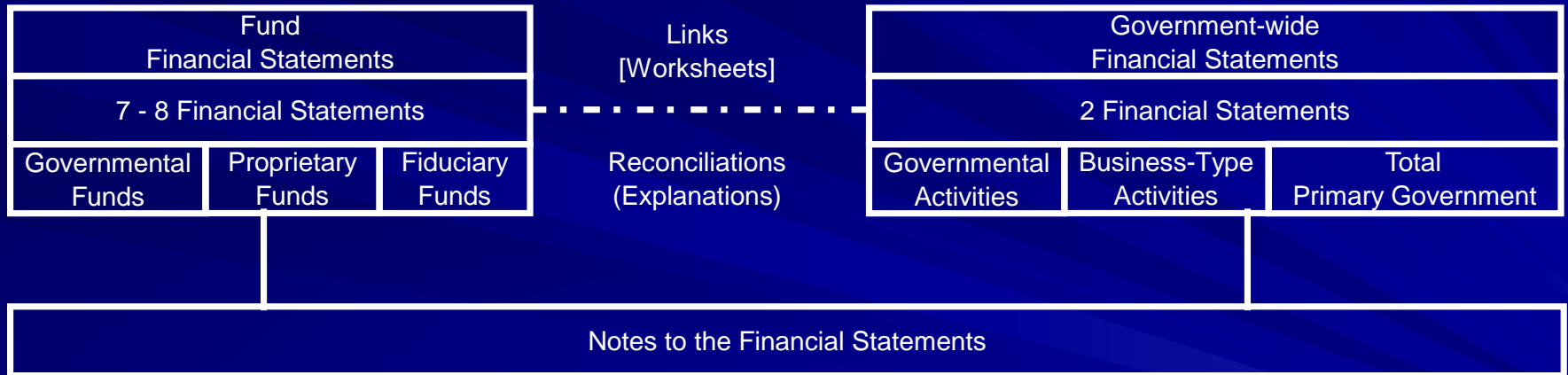
One person with a belief is
equal to a force of ninety-nine
who have only interests.

John Stuart Mill

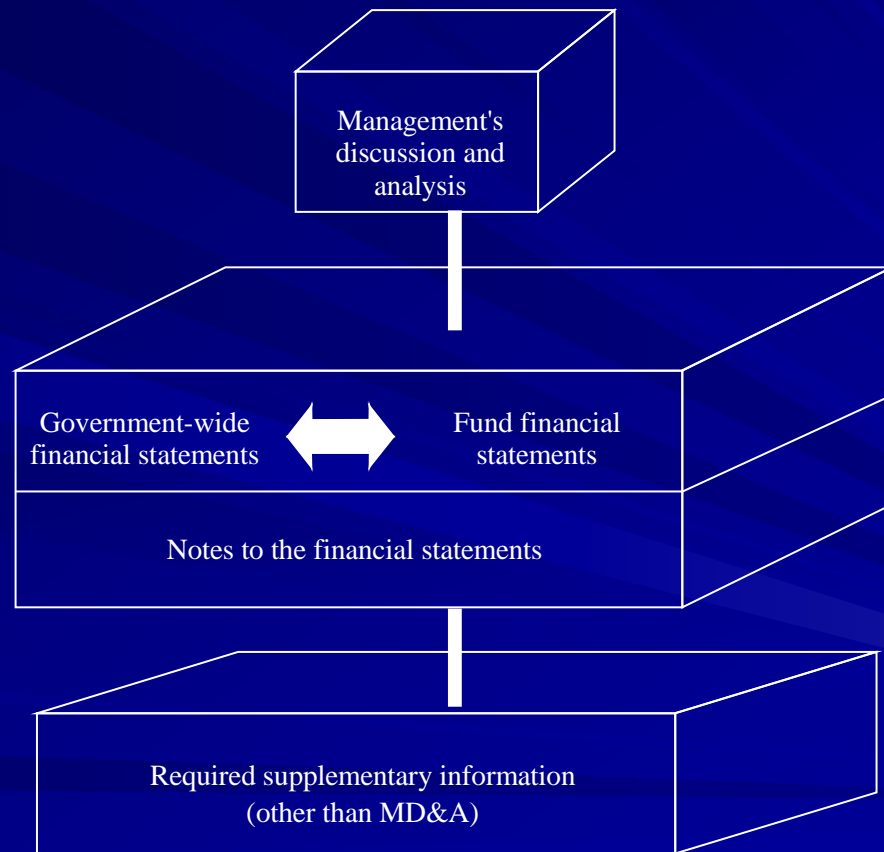
GASBS 34: Basis for Financial Reporting

- Issuance in 1999 marked a major change in governmental financial reporting
- Created dual perspective reporting:
 - Fund financial statements—detailed presentations
 - Government-wide financial statements—condensed consolidated overview

Basic Financial Statements: Overview



Minimum Requirements for External Financial Reporting: The GASB's View



Fundamentals of SLG Accounting and Financial Reporting

1. GAAP and legal compliance
2. Fund accounting
3. Fund categories
4. Types of funds
5. Comparative financial statement formats
6. Annual financial reporting

Comparative Operating Statements

Proprietary Funds

- Accrual-based
- Must distinguish between operating and non-operating revenues and expenses
- Separate reporting for capital contributions, special and extraordinary items, and transfers
- Change in Net Position

Governmental Funds

- Modified accrual-based
- Report revenues by source and expenditures by character
- Other Financing Sources and Uses for other resource flows, including transfers
- Special and extraordinary items reported separately
- Change in Fund Balance

Comparative Balance Sheets

Proprietary Funds

- Current and Noncurrent Assets
- Deferred Outflows
- Current and Noncurrent Liabilities
- Deferred Inflows
- Net Position

Governmental Funds

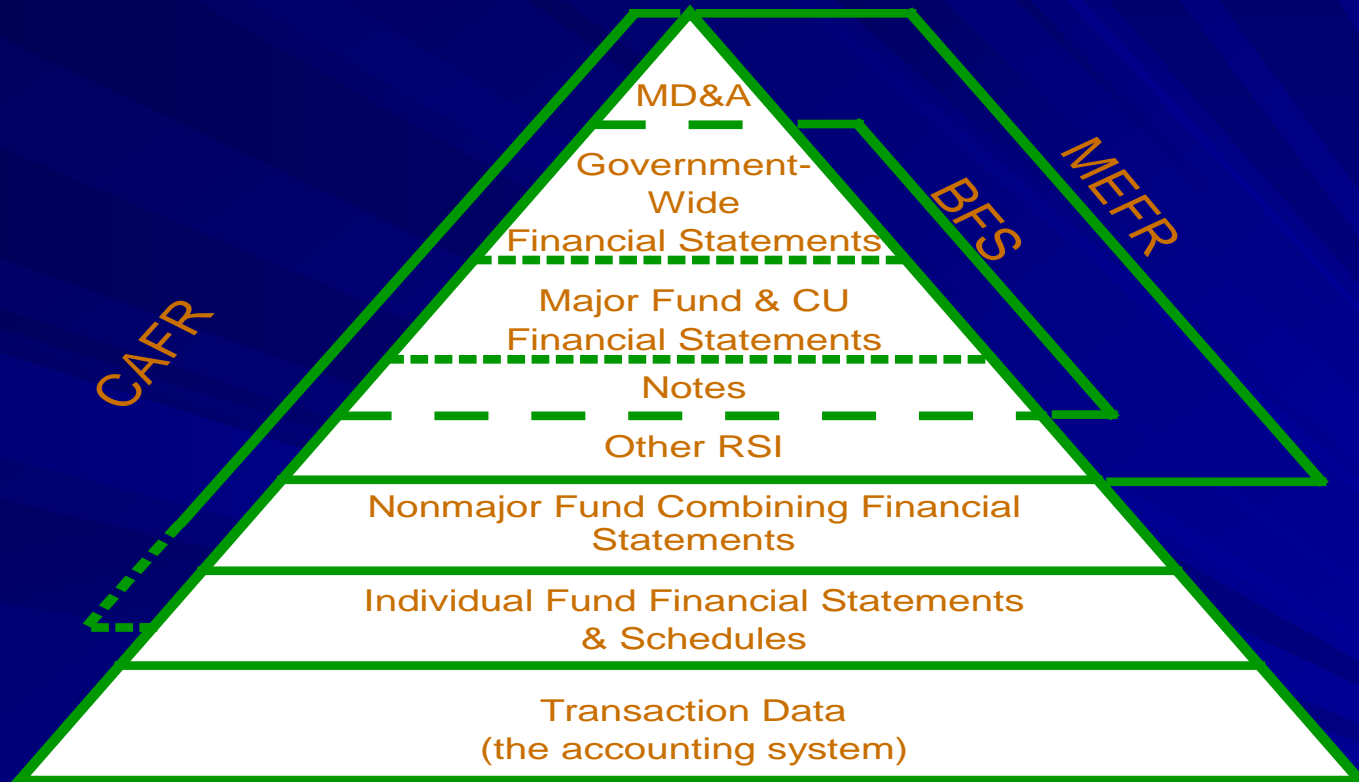
- Financial Assets
- Deferred Outflows
- Related Liabilities
- Deferred Inflows
- Fund Balance

Annual Financial Reporting

Comprehensive Annual Financial Report (CAFR)

- Should be prepared for all governmental entities
- Sections include:
 - Introductory
 - Financial
 - Statistical

Annual Financial Reporting



CAFR--Comprehensive Annual Financial Report

BFS--Basic Financial Statements

MEFR--Minimum External Financial Reporting

Annual Financial Reporting

Minimum reporting requirements

- Management's Discussion and Analysis
- Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
 - Notes to the financial statements
- Required supplementary information other than MD&A

Accounting = Language of Business

- System that provides information and reports to stakeholders about the economic activities and the condition of a business
- Reports are used by stakeholders for decision-making
- Who are government's "stakeholders"?
- Important for public officials to familiarize themselves with the basic government financial statements

Those who say it can't be done are usually interrupted by others doing it.

Joel A. Barker

The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

Assets = resources owned by the business

Liabilities = debts of the business (rights of the creditors)

Owners Equity = rights of the owners

Sometimes you will also see the equation stated as follows:

$$\text{Assets} - \text{Liabilities} = \text{Owners Equity}$$

Courage is being scared to death-but
saddling up anyway.

John Wayne

The Accounting Equation

- Examples of Assets: Cash, Land, Buildings, Accounts Receivable, Equipment
Liabilities: Accounts Payable, Wages Payable, Notes Payable, Taxes Payable
- Owners Equity:
- Examples of What is left, the net worth of the business

One man with courage makes
a majority. Andrew Jackson



"Our employees are our greatest asset. I say we sell them."

AHAJOKES.COM

The Accounting Equation

- To illustrate, if the assets owned by a business amount to \$100,000 and the liabilities amount to \$30,000, then the owner's equity is equal to \$_____.
- Remember the equation:

Assets = Liabilities + Owner's Equity, or

Assets – Liabilities = Owner's Equity

Little minds attain and are
subdued by misfortunes; but
great minds rise above them.

Washington Irving

Business Transactions

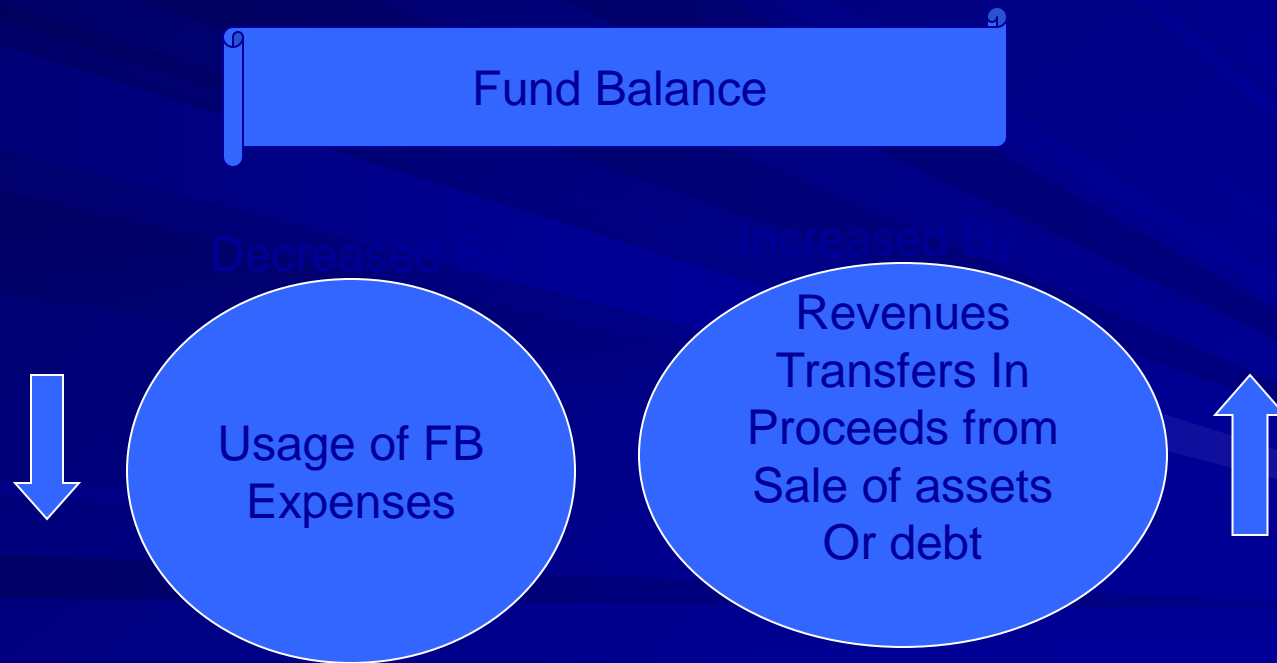
- Economic event or condition that directly affects any one of the three components of the accounting equation
- All business transactions can be stated in terms of changes to the elements of the accounting equation
- For example: Paying a monthly telephone bill of \$200 affects the amount of cash on hand, an asset
- So you have reduced cash by \$200 and also reduced owner's equity by \$200.

The best way out is always through.

Robert Frost

Fund Balance

- In governmental accounting, owner's equity is referred to as Fund Balance



The ultimate goal should be doing your best and enjoying it.

Anonymous

Financial Statements

- After transactions have been recorded and summarized, reports are prepared for users
- These accounting reports are called financial statements
- For a business enterprise the financial statements consist of:
 - Income Statement
 - Statement of Owner's Equity
 - Balance Sheet
 - Statement of Cash Flows

I never had a policy; I have just tried to do my very best each and every day.

Abraham Lincoln

Government Financial Statements

- Similar yet different from normal businesses
- Are assembled into the CAFR – Comprehensive Annual Financial Report
- CAFR commonly referred to as the audit
- Introductory Section
- Financial Section
- Statistical Section

Much good work is lost for the lack of a little more.

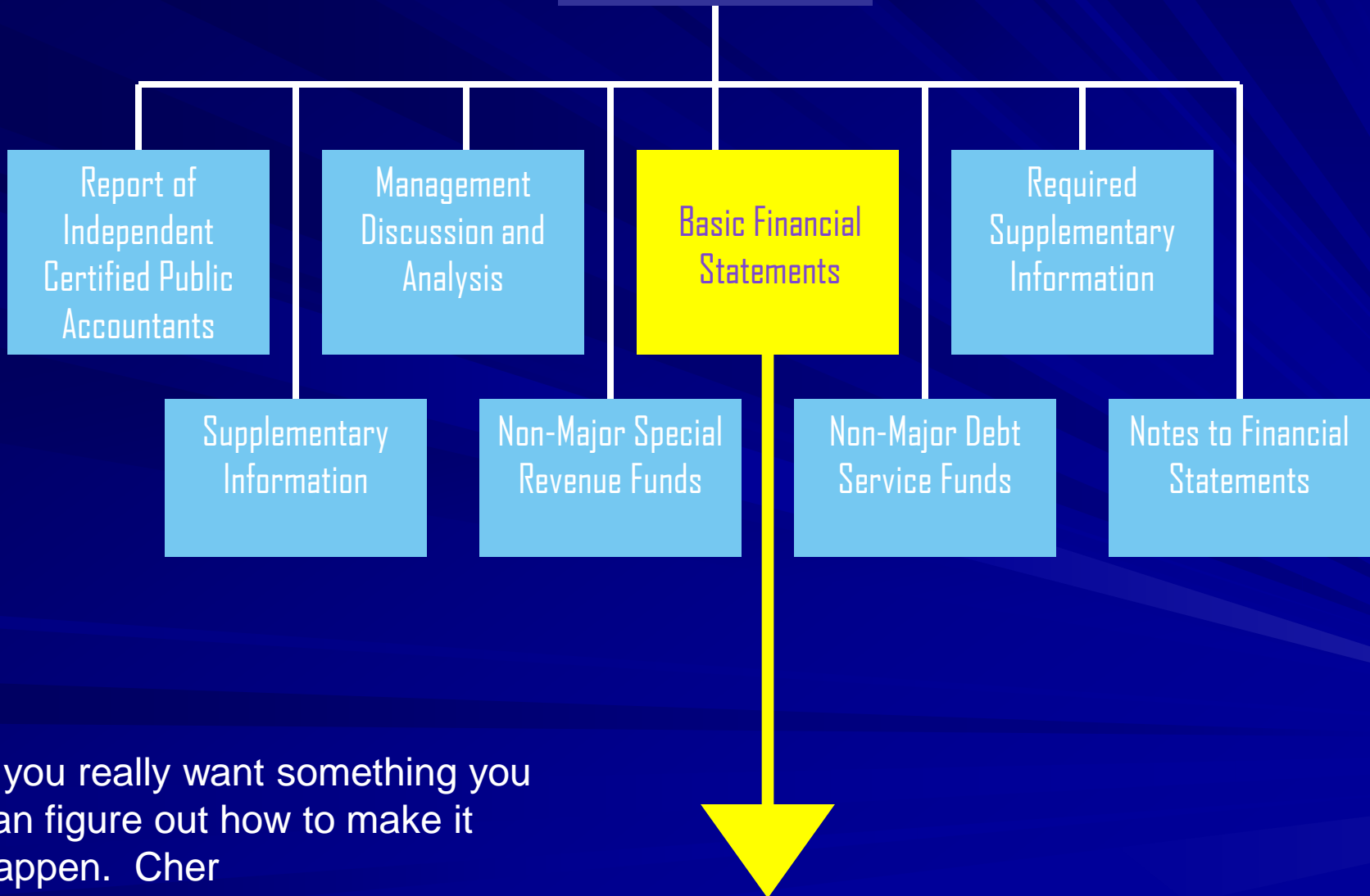
Edward H. Harriman

Financial Section

- Auditor's Report – the opinion
- MDA – Management's Discussion and Analysis
- Basic Financial Statements
 - a) Government-wide Financial Statements
 - b) Statement of Net Assets
 - c) Statement of Activities

The quality of expectations
determines the quality of our
actions. Andre Godin

Financial Section



If you really want something you can figure out how to make it happen. Cher

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net
Assets

Statement of
Activities

Fund Financial Statements

Balance Sheet-
Governmental
Funds

Statement of Net
Assets-
Proprietary Funds

Statement of Cash
Flows- Proprietary
Funds

Statement of
Fiduciary Net
Assets

Reconciliation of Total Governmental Fund
Balances to Net Assets of Governmental
Activities

Statement of Revenues, Expenditures, and
Changes in Fund Balances- Governmental
Funds

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances
to Statement of Activities

Statement of Revenues, Expenses, and
Changes in Fund Net Assets- Proprietary
Funds

CAFR

- You need to know this is where to look for your government's financial statements
- You need to know that they will look different from financial statements you have been accustomed to looking at
- You need to know that the basic accounting equation still applies in government finance
- You need to know enough in order to comprehend the statements and to ask appropriate questions
- Beware having to ask the “perfect” question in order to receive an answer

You will become as small as your
controlling desire; as great as your
dominant aspiration. James Allen ⁷¹

Government Model for Budgeting, All You Need to Know:

- If you do not spend all of your budget during the year then you obviously did not need it in the first place.
- So, next year's budget is cut.
- If you overspend your budget then the overspend gets taken from next year's budget.
- If you just spend all of your budget in the year then that's obviously a good number and one which should be used for subsequent years.

If it is not right do not do it; if it is not true do not say it. Marcus Aurelius



Finance: Lifeblood of Government

It takes as much imagination to create debt as to create income. Leonard Orr

Finance-Lifeblood of Government



Finance Staff

Promote competent, professional
finance management

Seek to retain trained experienced
financial managers

Invest in proper staffing, training,
compensation, certification, technology

Ensures vital financial policies are
understood and implemented



Finance-Lifeline of Government

Governing body responsible for ensuring proper staff to protect government's financial interests

Professional associations should be used to assist in training and continuing education

GFOA-Government Finance Officers Association offers certification and credentialing programs

Financial Management-Multi Disciplines

Strong financial management pays for itself

Risk managers avoid losses

Debt managers reduce long-term borrowing costs

Budgeters encourage long-term financial balance

Benefits administrators seek lower cost, alternative benefit plans

Finance Structure

Streamlined or modernized structure
can improve internal financial controls
as well as operating efficiency

Unified financial structure, with central
responsibility for all financial functions
within one or two offices

Larger entities may employ internal
auditor with significant organization
independence

Financial Study Sessions

Single purpose study sessions can be useful

Promotes better understanding of complex subjects and financial strategies

Once or twice a year the governing body should focus exclusively on financial issues

Ask staff to prepare background materials and to make succinct presentations

Financial Study Sessions- Topics



Provides an
Excellent
forum
For staff to
discuss
issues with
elected
leaders

Organization Structure
Debt Management
Capital Financing, needs and plans
Long-term benefits obligations
Economic trends
Performance measures
Financial information technology
Insurance and risk management
Internal Controls
Legislative Updates

New-Member Orientations

Newly elected officials should
receive a professionally prepared
financial orientation

High level overview of latest
budget and annual financial report

Government's basic fund and
accounting structure

New-Member Orientations

Short/long-term financial condition

Problems, strategies

Financial oversight and controls

Backgrounds on other financial
concerns that they will be faced
with during their terms





Indicators of Financial Condition

Indicators of Strong Financial Management

GFOA Awards:

The most coveted is the Certificate of Achievement for Excellence in Financial Reporting.

Also important and sought after is the GFOA Distinguished Budget Presentation Award.

These awards represents the highest financial reporting honor any governmental unit can achieve, and is judged as to its adherence to program standards established by the GFOA.

Adequacy of Financial Reserves

Size of fund balance in relation to its budget

Found in the audited financial statements, in balance sheet

$$\text{Total Assets} - \text{Total Liabilities} = \text{Fund Balance}$$

Adequacy of Financial Reserves

Fund Balance divided into reserved funds and unreserved

Reserved = legally set aside for specific future purpose

Unreserved = used as the jurisdiction sees fit

Can also have “Designated” portion of the unreserved fund balance

Adequacy of Financial Reserves

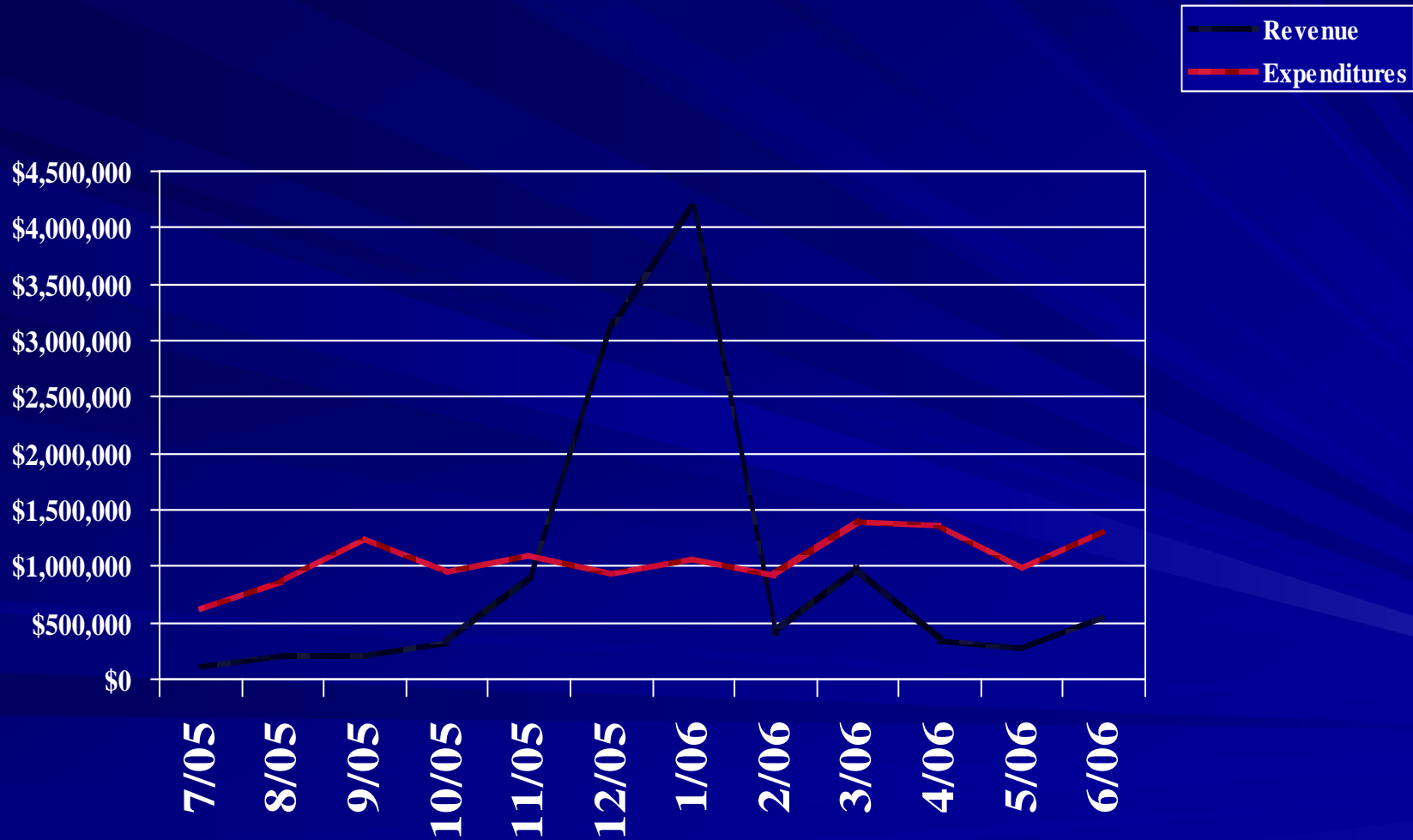
GFOA recommends range of 5 – 15% of operating revenues

An unreserved fund balance in this range is one sign of fiscal health

Less than 5% suggests lack of financial flexibility

Healthy fund balance allows the jurisdiction to meet its cash flow needs without borrowing

TYPICAL CASH FLOW OF COUNTY GOVERNMENT



Provide financial information and
reports online

Urge management to publish key
financial documents online

Financial transparency is essential and
feasible in Internet age

Require a web presence

If resources are available, should really
go beyond the basics

Provide financial information and reports online

Establish user-friendly formats, graphics, charts to enhance readability

New search technologies enable online users to drill down to obtain data on detailed level

Benefits citizens as well as employees, investors, financial community

Ideas for online information

Check register

Credit card expenditures/summaries

Policies

Financial reports, interim summary of
revenues and expenditures

Recent Official Statements for debt
issuances and rating agency reports

Performance information

Online Financial Information

Requires resources

Static reports vs. user-friendly
formats, graphics, charts

Special purpose reports,
unaudited interim financial
information

Easier than traditional paper
(and less costly)

Online Financial Information

How many are already posting at least some financial information online?

Will continue to see movement toward more and more online information

Recent legislation

Must be careful to redact confidential information, such as SSN's, driver's license #'s, employee addresses, etc

Until it is streamlined we will have to spend time to protect the confidential information



The Public Budget Process

It takes as much imagination to create debt as to create income. Leonard Orr

The Budget

One who has imagination without learning has wings without feet.

Joseph Joubert

- Fiscal plan
- ESTIMATE
- Perhaps the most important planning tool an elected body has
- Defines the work that is to be done
- Lays out the cost of that work, or the resources to be utilized

The Budget

- The purpose of a budget is to establish a plan for how resources will be deployed in such a way that realizes the vision and priorities of the citizens as expressed through their elected leaders.

The Budget

- The purpose of a budget is to create accountability and to measure the allocation and expenditure of resources.
- Resources: Human Capital, Cash, Time, Equipment
- A budget is a working plan and keeps staff accountable
- Accountable not only to management but ultimately to the public.

The Budget Process

- Most counties begin preparing budget 4 to 6 months before beginning of fiscal year
- Typically department heads will prepare departmental budgets, then these are rolled up into divisional budgets.
- All departments and divisions are combined, along with all Elected Officials to form the total budget.

If everyone is thinking alike then somebody isn't thinking.

George S. Patton

The Budget Process

- Council will often conduct a retreat, or a planning session before or during the budget process
- This sets the overall direction for the budget
- Can, and should, include specific goals and objectives to be achieved, and included in the budget
- Many goals span more than one fiscal year so it is important, especially as new Council members arrive, to review those goals annually.

Wicked men obey from fear;
good men, from love. Aristotle

The Budget Process

- Usually in April or May, staff will make a formal budget presentation to Council
- Council begins the process of reviewing the proposal and making changes to the plan
- The budget plan is codified in the form of a budget ordinance which requires three readings by Council for approval

Opportunity dances with those who are ready on the dance floor.

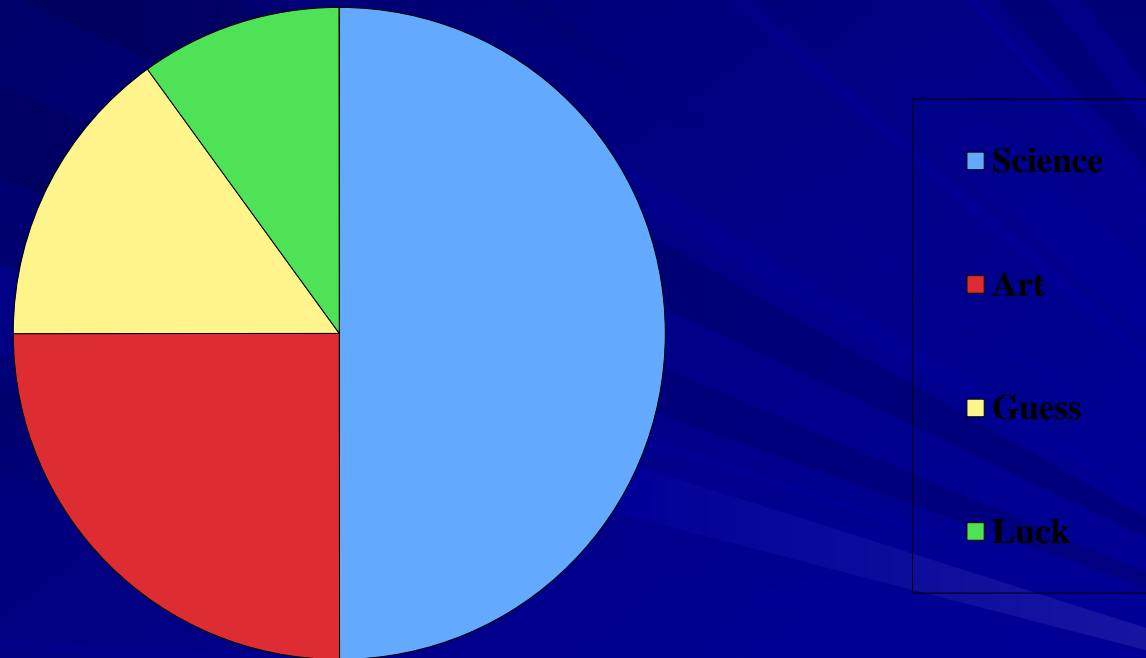
H. Jackson Brown, Jr.

The Budget Ordinance

- Legal document that describes and lists all sources of revenue and all planned expenditures
- Can be amended during the budget year in the same manner in which the original budget ordinance was approved, i.e. by three readings and a public hearing

Opportunities are usually disguised as hard work, so most people don't recognize them.

The Budget – A Craft



Enemies are so stimulating.
Katharine Hepburn

The Budget – A Craft

- Budgeting is more than educated guessing
- Rely upon past trends to develop estimates
- Also must have in-depth knowledge of what may impact your budget in the future, such as inflation, new or pending legislation, employment issues, economy.

Where large sums of money are concerned, it is advisable to trust nobody. Agatha Christie

The Budget – A Craft

- Budgeting is an error-prone activity
- Good budget preparers learn from mistakes and try to correct the assumptions found to be in error
- Some errors are unavoidable
- A budget is a set of estimates, estimates based on anticipated behavior of revenue and expenditures
- Some of these estimates will be wrong

People who fight fire with fire usually end up with ashes.

The Budget – A Craft

- To mitigate errors a strong budget office will devote considerable time and effort to quality control.
- An internal review process will catch most errors before they appear in the final product
- Even in small offices it is wise to ask a second person to review the work
- Ask the preparer and reviewer to sign the document stating that they have reviewed it. This simple step will make the staff stop and think before they put their name to the product.

The Budget – A Craft

- Sometimes overlooked is the eventual “consumers” of the budget
- The “consumers” will be city/county government heads, council, media, public
- Helps to use charts, graphs, and well-designed tables, but most of all clear writing
- In fact, one of the criteria for the GFOA Distinguished Budget Award is the budget as a communication device.

*GFOA Criteria for Budget Presentation

Careful grooming may take 20 years off a woman's age, but you can't fool a long flight of stairs.

Marlene Dietrich

- The budget as a policy document
- The budget as a financial plan
- The budget as an operations guide
- The budget as a communications device

*Government Finance Officer's Association

The Budget – Legal Requirements

- S.C. Code of Laws provides the legal framework in which all local gov entities in the state conduct their budgetary processes.
- Legislation found in Section 4 of the General Statutes
- Establishes provision that the chief executive is to prepare and then to submit to Council the operating and capital budget proposal.
- Section 4 dictates that before adoption of the budget, a public hearing must be held.
- Prescribes that by July 1 of each year a budget must be adopted for the upcoming fiscal year.

Women and elephants never
forget. Dorothy Parker

The Budget Process – Legal Requirements

SECTION 4-9-140. Designation of fiscal and budget years; annual fiscal reports; adoption of budgets; levying and collection of taxes; supplemental appropriations; obtaining reports, estimates, and statistics. [SC ST SEC 4-9-140]

The fiscal year of the county government shall begin on the first day of July of each year and shall end on the thirtieth day of June next following, and the fiscal year shall constitute the budget year of the county government. All county offices, departments, boards, commissions or institutions receiving county funds shall make a full, detailed annual fiscal report to the county council at the end of the fiscal year.

County council shall adopt annually and prior to the beginning of the fiscal year operating and capital budgets for the operation of county government and shall in such budgets identify the sources of anticipated revenue including taxes necessary to meet the financial requirements of the budgets adopted. Council shall further provide for the levy and collection of taxes necessary to meet all budget requirements except as provided for by other revenue sources.

Council may make supplemental appropriations which shall specify the source of funds for such appropriations. The procedure for approval of supplemental appropriations shall be the same as that prescribed for enactment of ordinances.

For the purposes of this section a supplemental appropriation shall be defined as an appropriation of additional funds which have come available during the fiscal year and which have not been previously obligated by the current operating or capital budget. The provisions of this section shall not be construed to prohibit the transfer of funds appropriated in the annual budget for purposes other than as specified in such annual budget when such transfers are approved by the council.

In the preparation of annual budgets or supplemental appropriations, council may require such reports, estimates and statistics from any county agency or department as may be necessary to perform its duties as the responsible fiscal body of the county.



The Budget – Legal Authority

- South Carolina Code of Laws 4-9-140 states that “County Council shall adopt annually and prior to the beginning of the fiscal year operating and capital budget for the operation of county government and shall in such budgets identify the sources of anticipated revenue including taxes necessary to meet the financial requirements of the budgets adopted.”
- “Council shall further provide for the levy and collection of taxes necessary to meet all budget requirements except as provided for by other revenue sources.”

Sex appeal is 50 percent what you've got, and 50 percent what people think you've got.

The Budget – Balanced?

- A budget is balanced when the sum of estimated revenues and appropriated fund balances is equal to the sum of appropriations.
- I.E. Revenues = Expenditures
- South Carolina Code of Laws does not specifically state that each local government shall operate under a balanced budget, however, it is prudent to do so.

The only reason I would take up jogging is so that I could hear heavy breathing again.

Erma Bombeck

Policy Document

- Budget is both a legal and resource-allocation policy document
- Chief Admin Officer prepares, presents, and administers the budget
- Elected Officials focus on policies, especially tax policy, funding priorities, macro problems

Policy Document

- Elected officials devote considerable time and energy in examining budget documents
- Important and inevitable part of the review process
- Excessive review of details sometimes precludes thoughtful study of broader policy issues
- Elected officials should identify 5-10 key issues of major magnitude, and encourage big-picture focus

Communications Guide

- Facilitates public understanding and analysis
- Effectively communicates key economic issues and fiscal policies
- Summaries of key information help the public and the media
- Charts, graphs
- Revenue sources and assumptions explained

Communications Guide

- Don't let the detail prevent the budget from communicating effectively
- Concise summaries and key information help the public and the media
- Charts and graphs
- Budget message
- Publish online to enhance transparency and access

Public Involvement

- Provide opportunities for public input at the beginning of the process as well as during the governing body's public review and budget adoption
- Public relations can be enhanced
- Citizen and interest-group educational efforts may be necessary to change narrow focus or single issue mentality to bigger picture

Long-term Financial Plan

- Many governments have adopted strategic plans or other forms of long-term planning to complement their annual budget process
- Annual budget is enhanced by references to these longer-term plans and directional path they establish

Long-term Financial Plan

- Includes mission statement or vision
- May also include goals and objectives
- By communicating these, elected officials can provide important insight to constituents, employees, investors, and other interested parties.

Long-term Financial Plan

- Capital improvement planning-a multi year exercise
- Coordinated with the annual budget document
- Connection between the current year's capital spending and the longer-term plan should be explained thoroughly and clearly

Long-term Financial Sustainability

- Both the operating budget and the capital improvement plan should be developed with a clear focus on long-term solvency and sustainability.
- Difficult because government officials are elected for finite terms
- Financial myopia: Political system does not reward long-term improvements, too much emphasis on short-term

Long-term Financial Sustainability

- Inequitable to leave a burden of deferred costs to future generations for the benefit of the present
- Employee retirement and benefit plans should be properly funded
- Long-term costs of retirement benefits should be fully analyzed before improvements are approved
- Elected officials and staff must develop a keen appreciation of how economic cycles impact future revenues and make advance provisions for downturns

Basis of Budgeting

- Must meet GAAP = Generally Accepted Accounting Principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB)
- This means that your year-end financial statements, known as the CAFR, or Comprehensive Annual Financial Report, must have:
 1. Entity-wide financial statements prepared on the full accrual basis of accounting, and
 2. Fund financial statements prepared on the modified accrual basis of accounting

If a man does not know what port he is steering for, no wind is favorable to him. Anonymous

Budgetary Basis

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

Shoot for the moon. Even if you miss, you'll land among the stars. Anonymous

Budgetary Basis

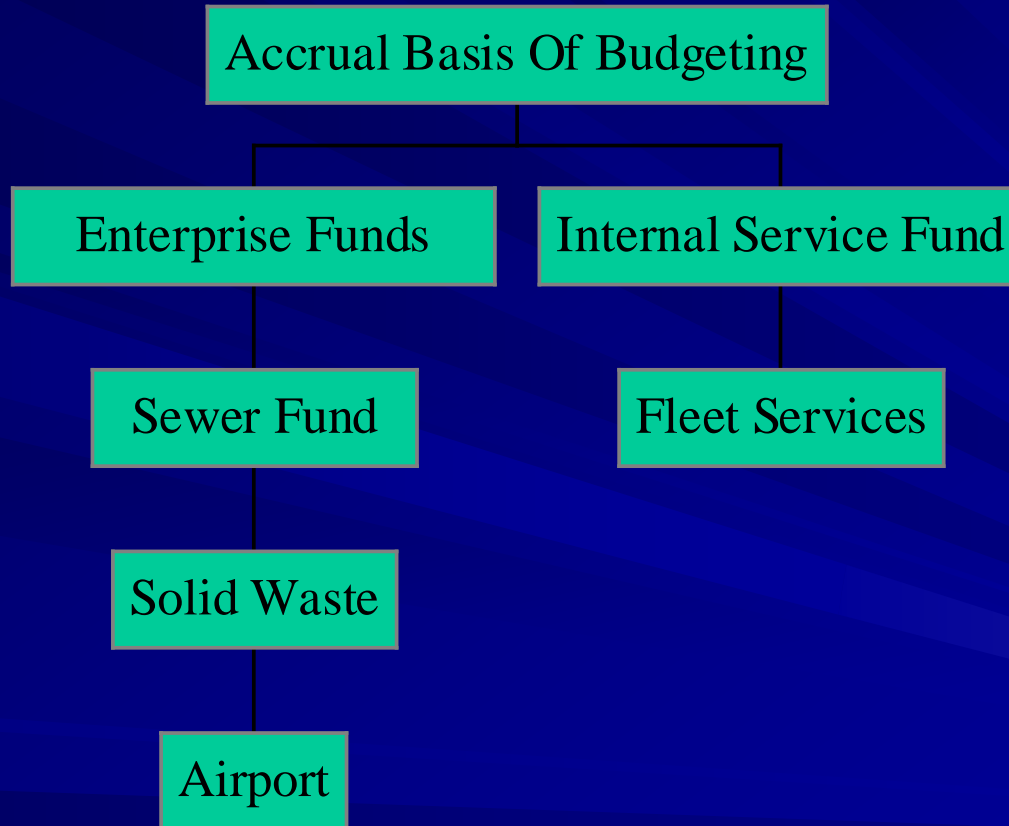
- Cash Basis indicates transactions are recognized only when cash is increased or decreased.
- Accrual Basis indicates revenues are recorded when they are earned (whether or not cash is received at the time) and expenditures are recorded when goods and services are received (whether cash disbursements are made at the time or not).

It's what you learn after you know it
all that counts. John Wooden

Budgetary Basis

- Modified Accrual is the method under which revenues and other financial resources are recognized when they become susceptible to accrual; that is, 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.

Budgetary Basis



Basis of Budgeting

- 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
- They are carried forward to the following year and will become part of the subsequent year's budget

A ship in port is safe, but that is not what ships are for. Sail out to sea and do new things.

Grace Hopper

Types of Budgets

- Operating budgets: Describe the expenditures and revenues during a given period for the functioning of the entity
- Capital budgets: Planning for future purchases above a certain cost threshold or life span. Typically accompanied by a Capital Improvement Plan that describes a timeline for acquisition and payment of debt.

Types of Budgets

- Line-Item Budget
- Target Base Budgeting (TBB)
- Performance Budgeting
- Program Budgeting
- Zero Base Budgeting (ZBB)

Diligence is the mother of good
luck. Ben Franklin

Line-Item Budgeting

- Earliest type of budget format to be used in public sector
 - Replaced lump-sum budgeting at the turn of the century
 - 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
- At my age happy hour is a nap.

Line-Item Budgeting- Advantages

- Easily understood
- Can be easily increased or decreased, enhancing the opportunity for compromise
- Easy to control with narrow accountability
- Prevents funds from being spent on unauthorized purposes
- Permits hierarchical control before the expenditure is made or obligated
- Provides for uniform and comprehensive control of all financial transactions
- Permits easy compilation of financial data
- The most widely used format

Genius begins great works; labor
alone finishes them. Joseph Joubert

Line-Item Budgeting - Disadvantages

- Merits of the program are often overlooked when making line-item budget reductions
- Difficult to determine what a line-item budget will accomplish
- Focus is on the “things” or commodities that are to be purchased, rather than on the type, or quality of services to be produced
- Difficult to evaluate the efficiency and effectiveness of an agency's activities
- Although it facilitates compromise, it promotes poor decision-making
- Incrementalism

No bird soars too high, if he soars
with his own wings. William Blake

Target Base Budgeting (TBB)

- Establishes a departmental or responsibility center spending ceiling
- Within prescribed limits, some shifting among expenditures is permitted
- Ceiling is usually set on the basis of projected revenue estimates
- TBB are prepared in two parts
- First part includes the funded service that is included within the “target”
- Second part contains a prioritized list of unfunded service items
- During the year, as revenues are either realized, or not realized, the service items are adjusted to reflect the actual funding available

TBB- Advantages

- Because the targets are set at conservative levels, often a pool of resources is left to allow for new or expanded priorities
- Champions fiscal responsibility
- Eliminates deficits, normally generates savings or surpluses
- Budgets can easily be reduced during recessions or increased in prosperity
- Allows for “retargeting” during the year

TBB - Disadvantages

- Since it is revenue driven, it is subject to changes as revenue sources are affected by the economy
- Conservative orientation leads to underestimation of revenues, which could lead to ill-advised decisions, such as staff reductions
- TBB is a stop-and-go resource allocation system, does not look to the future
- Can be counterproductive in growing or stable communities

Performance Budgeting

- Dates to the early 1900's. Popularized and widely practiced throughout 1950's.
- A budget based primarily on measurable performance of activities and work programs
- Requires that 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

Performance Budgeting - Advantages

- Focuses on service efficiency
- Intended to help middle-management to monitor performance
- Provide useful information in reviewing operations
- Improves work planning and scheduling

Performance Budgeting - Disadvantages

- Requires a lengthy period of strong leadership
- High cost of implementation
- Staff time intensive in developing, measuring and maintaining unit costs
- Emphasis on the volume of work done as opposed to the quality and effectiveness

Program Budgeting

- Developed in response to dissatisfaction with line-item budgeting 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

Program Budgeting

- Programming phase requires the manager to consider whether changes in the agency programs are desired. Decisions must be made to add new programs, eliminate programs, or to modify existing programs.
- Advantages and disadvantages of each decision are defined.
- All costs are related to the goals and objectives in the program structure.
- Normally a five-year program budget is developed.

Program Budgeting- Advantages/Disadvantages

Advantages:

- Links planning, programming and budgeting into an integrated system
- Makes long-range planning and multi-year budgeting routine

Disadvantages:

- Requires massive amounts of data, expertise, and staff time
- Costly to undertake

Zero Base Budgeting

- Became popular in late '60's and in the 70's.
- With 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

Zero Base Budgeting

- At federal level, ZBB was phased out during Reagan administration
- Line-item budget became norm again
- Although ZBB was expected to be innovative, in practice it tends to be status quo and highly political
- ZBB use in government has declined significantly since early to mid 1980's. No longer practiced at federal level.
- Many viewed ZBB as an instrument for quick budget reductions

Budget Reform Stages

Period	Budget Idea	Emphasis
Early 1900's	Line-item budget	Control
1950's	Performance budget	Management Economy & Efficiency
1960's	Planning, Programming, Budgeting System(PPBS)	Planning Evaluation Effectiveness
1970's and 1980's	ZBB, TBB, BBB	Planning, Prioritization, Budget Reduction
1990's	New Performance Budget	Accountability Efficiency and Economy

Budgeting – The Future

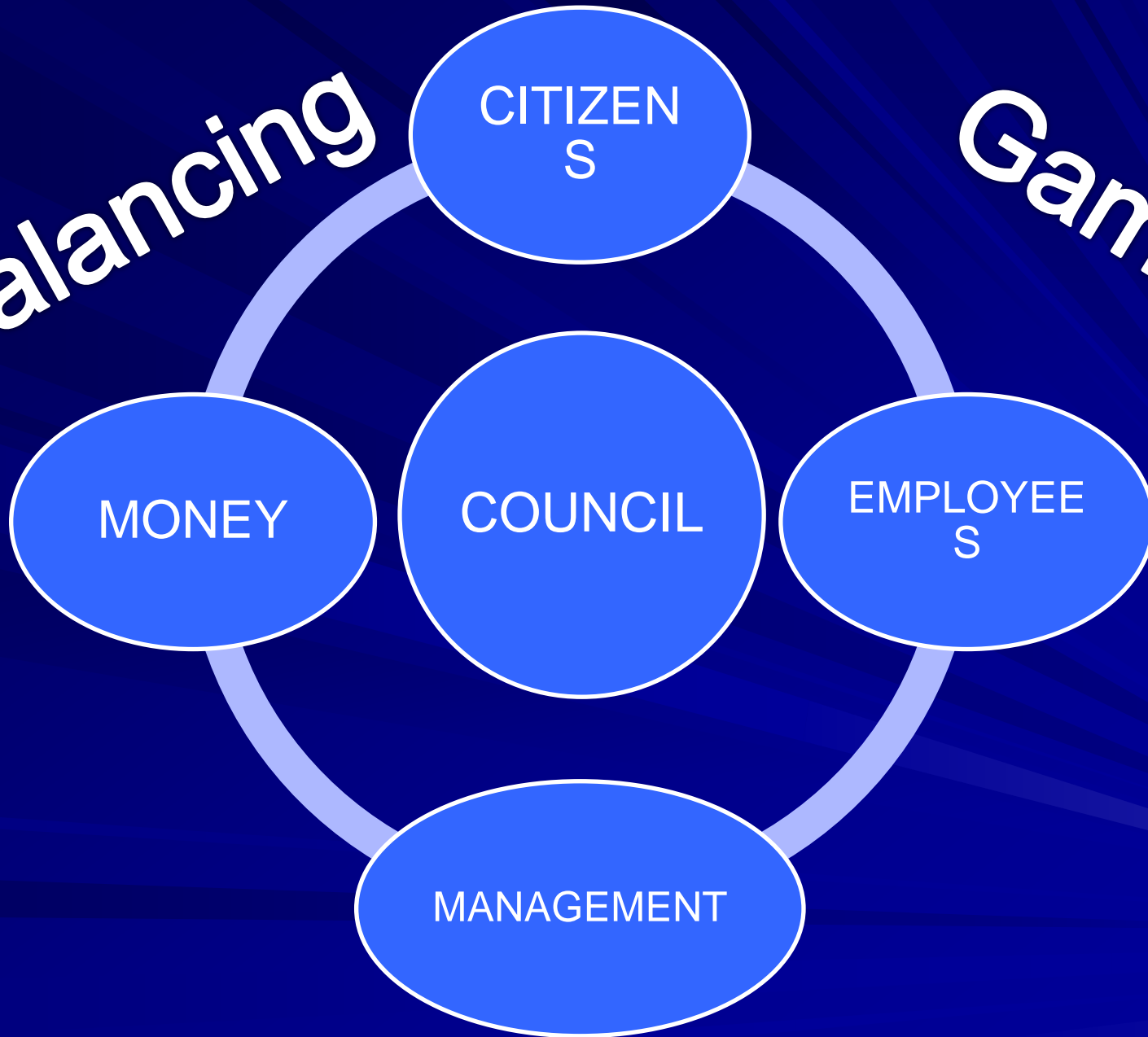
- Expect to see more multi-year budgets
- Two year budgets are becoming more acceptable
- Line-item will remain the dominant form
- Line-item will be supplemented by performance measures
- Hybrid budgets will be used combining the best practices of different methods
- Bottom line – use what works for your organization, size of the organization a major factor in choosing budget format



Politics of Budgeting

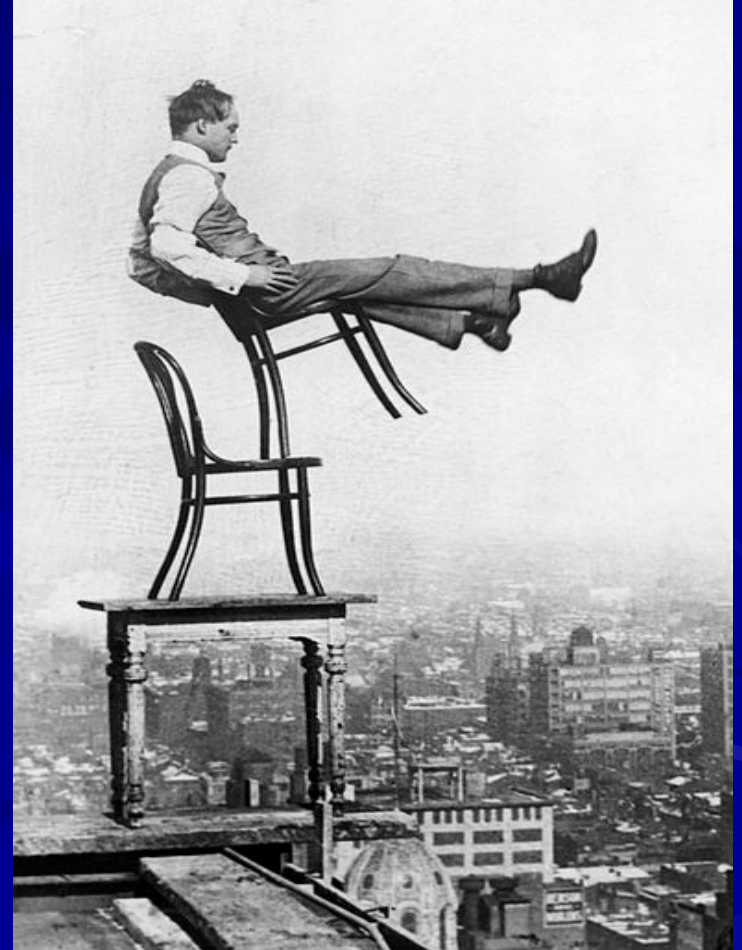
Balancing

Game



Balancing Politics

- Use Policies to Justify
- Align Goals
- Obtain Public Input
- Understand Statistical Data
- Ultimately, Best Guess



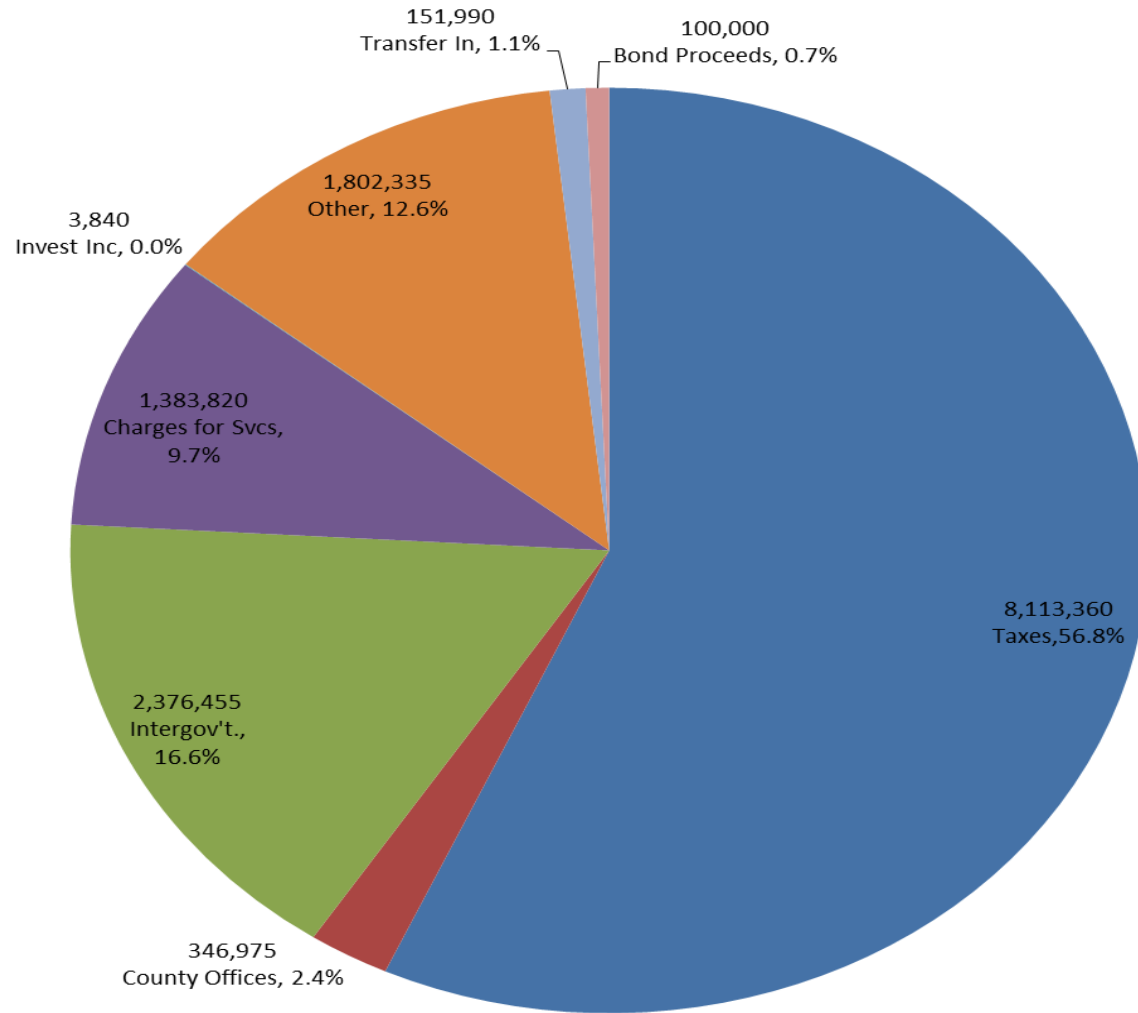
Politics of Budgeting

- As staff don't involve yourself in the politics
- Leave that to elected officials
- Don't play favorites
- Resist allowing your personal political beliefs to come into play
- Remember- you are not there to push your own agenda

Politics of Budgeting

- Logic/Rational often in short supply
- Compromise
- Despite it all, a lot of good can happen
- Be flexible, don't let frustration show
- Don't give emotional opinions
- Complain elsewhere, keep it out of the office
- A unique position: Taxpayer, both a recipient of and a provider of gov't services

Revenue Sources and Forecasting



Public Budgeting

“Not everything that counts can be counted and not everything that can be counted counts.”

Albert Einstein

Revenue Sources

- Budget preparation begins with revenue projections

- Sources of revenue include:

Property tax

Federal and State Aid

Fees/Fines

Charges for Services

Usage of Fund Balance

Licenses and Permits

Interest Income

Transfers in from Other Funds

Sale of property

All Others(Misc)

Keep your head and your heart
going in the right direction and you
will not have to worry about your
feet. Anonymous

Typical Source Percentages

- 45% Property Tax
- 20% Federal and State Aid
- 5-10% Usage of Fund Balance
- 15-20% Fees, Fines, Licenses, Permits, and Charges for Services
- 5% or less Interest Income
- 5% Transfers in from other funds

My motto was always to keep swinging. Hank Aaron

Property Tax

- Projected based upon the total assessed value of property multiplied by the appropriate assessment ratio multiplied by the applicable millage rate
- $\text{Assessed Value} \times \text{Assessment Ratio} \times \text{Tax Levy} = \text{Tax Due}$
- Agricultural, commercial, residential and personal property is taxed

Do not anticipate trouble, or worry about what may never happen. Keep in the sunlight.

Benjamin Franklin

Property Tax – Real Property

- Counties levy against real property in the fall, usually September based upon assessed values established by: County Assessor, County Auditor and SCDOR.
- Various assessment ratios ranging from 4% to 10.5%
- Real property tax due in one payment on or before January 15th
- Penalties are added beginning with a 3% penalty on January 16th, 7% on February 2, and a 5% penalty on March 17th.
- After proper notification, law requires “exclusive possession” of the property necessary to satisfy delinquent taxes.
- Public auction during month of October

Federal and State Aid

- Includes federal and state grant monies
- Also includes Local Government Fund
- LGF was developed to assist local governments in minimizing the potential increase in local property taxes to the citizens
- Based on a state-developed formula
- Includes “C” Funds from state from gasoline taxes

Property Tax – Motor Vehicles

- Lien and collection date is the last day of the month in which the motor vehicle license expires
- County sends out vehicle tax notices each month so this means that the county is collecting this type of tax relatively evenly throughout the year

Luck is a dividend of sweat.
The more you sweat the
luckier you get. Ray Kroc

Revenue Forecasting

- To ensure smoothly functioning budgeting processes and to maintain credibility with constituents, revenue forecasts must be reasonably accurate
- Revenue forecasting is one of the most complex topics in public finance
- Forecasting methods can be: Very Simple, Simple, Complex, or Very Complex
- Even complex mathematical models may produce estimates that are no better, and may even be worse, than those resulting from simpler methods

The road to excellence rarely
has traffic. Anonymous

Example – Real Property Collection Rates by Month 2002-Present

Month	Year									
	2002	2003	2004	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
September	N/A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
October	N/A	3.0%	0.9%	3.0%	4.1%	0.3%	0.0%	2.3%	3.7%	4.7%
November	N/A	8.2%	9.4%	N/A	9.6%	5.9%	3.0%	7.5%	9.2%	18.0%
December	N/A	32.8%	36.0%	N/A	40.4%	28.9%	26.3%	28.9%	43.1%	43.6%
January	N/A	88.1%	88.0%	88.6%	88.7%	88.3%	87.3%	86.2%	88.9%	-
February	N/A	90.3%	N/A	90.6%	90.4%	90.6%	89.3%	87.5%	90.5%	-
March	N/A	92.6%	93.2%	92.1%	92.6%	92.5%	91.2%	90.7%	92.1%	-
April	N/A	94.6%	95.0%	94.3%	94.4%	93.4%	92.7%	92.5%	93.5%	-
May	94.9%	N/A	95.6%	95.3%	95.1%	95.0%	93.6%	93.6%	94.0%	-
June	95.5%	N/A	96.1%	95.8%	95.7%	95.5%	94.0%	94.2%	94.6%	-
July	N/A	N/A	96.5%	96.2%	96.1%	95.9%	94.4%	94.6%	94.9%	-
August	96.8%	97.1%	97.4%	97.3%	96.9%	96.6%	95.1%	95.6%	95.8%	-

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

A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

2. Develop Policy on Use of One-time Revenues

A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Revenue Forecasting

■ 3. Evaluate the Use of Unpredictable Revenues

A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

■ 4. Develop Policy on Revenue Diversification

A government should adopt a policy that encourages a diversity of revenue sources.

■ 5. Prepare Revenue Projections

A government should prepare multi-year projections of revenues and other resources.

■ 6. Analyze Major Revenues

A government should maintain an in-depth understanding of its major revenues.

Revenue Forecasting

■ 7. Evaluate the Effect of Changes to Revenue Source Rates and Bases

A government should evaluate and understand the effect of potential changes to revenue source rates and bases.

■ 8. Analyze Tax and Fee Exemptions

A government should periodically estimate the impacts and potential foregone revenue as a result of policies that exempt from payment, provide discounts and credits, or otherwise favor particular categories of taxpayers or service users.

■ 9. Achieve Consensus on a Revenue Forecast

A government should develop a process for achieving consensus on the forecasts used to estimate available resources for a budget.

■ 10. Document Revenue Sources in a Revenue Manual

A government should prepare and maintain a revenue manual that documents revenue sources and factors relevant to present and projected future revenues.



Local Property Taxes

Ones affecting most citizens:

Home, or real property taxes,

and

Vehicle Taxes

Success is the result of
perfection, hard work, learning
from failure, loyalty, and
persistence. Colin Powell



Property Taxes are computed
by:
 $\text{Assessment} \times \text{Tax Levy}$

Assessment is computed
by:

Market Value X Assessment Ratio =
Assessment

Market Value is same as Appraised Value.



Assessment

State law requires every county to conduct a countywide reassessment every five years. This means that a real estate appraiser from the Assessor's Office personally visits every property in the county and prepares an appraisal for each one. The purpose of the reassessment is to ensure that each piece of property is fairly valued, relative to all other real property values in the county.

The best way to have a good idea is to have a lot of ideas. Dr. Linus Pauling

Assessment Ratios

- 4% Legal Residence
- 6% “Other”
- 4% and 6% Agriculture Use
- 10.5% Industrial Property, and previously, Vehicles



The ripest peach is highest on the tree. James Whitcomb Riley

What is a levy?

A levy, or tax levy, is simply a multiplier.

It is a tax rate, or percent.

For example: A tax levy of 75 mils, would mean a 7.5% rate of tax, or expressed as a decimal would be .075



Be bold. If you're going to make a error, make a doozy, and don't be afraid to hit the ball. Billie Jean King

Millage

Sometimes levy is referred to as millage.

Millage also is just a rate of taxation.

Millage is expressed in terms of mills.

One mill is one tenth of one cent, or .001.

For example: A levy 75 mills is expressed as
.075.

Keep company with those who
make you better. English proverb



Property Taxes are computed
by:

Assessment X Tax Levy = Base Tax
Amount

This formula is used for both real
property and vehicles.

Real Property (Homes) Tax

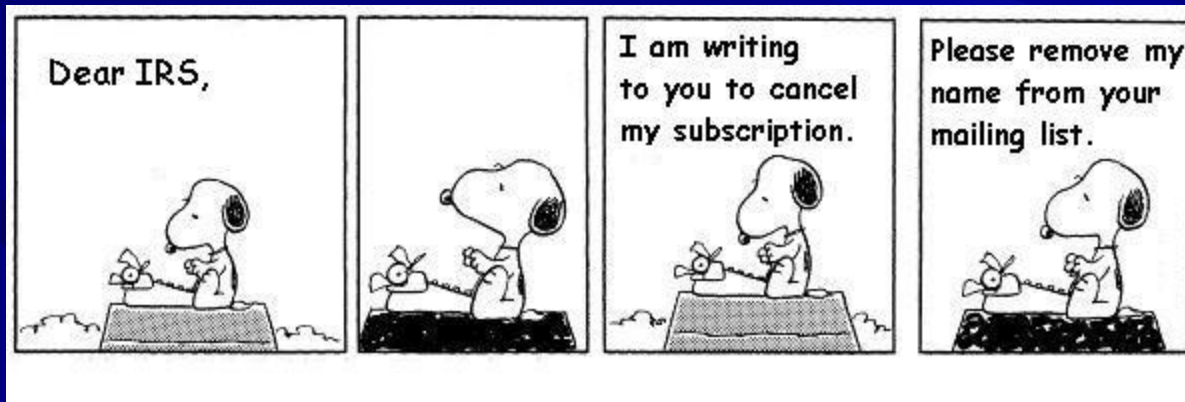


There are two common exemptions that work to reduce the base tax amount:

1. State Property Tax Relief
2. Homestead Exemption

State Property Tax Relief

The State Property Tax Relief is a special exemption given to taxpayers on their 4% Legal Residence (domicile) property obtained through Legal Residence application with the Assessor's Office. It means that you are getting a credit against your Base Tax Amount on up to \$100,000 of Market Value of your legal residence. This credit is applied against the school operating portion only of your Base Tax Amount. Only one exemption is allowed per taxpayer. State funds are returned to the schools to offset a portion of school operating budgets, therefore reducing local property taxes. This exemption was enacted by the State in 1995 by Governor Beasley.



Homestead Exemption

The Homestead Exemption is another special exemption obtained through application with the County Auditor's Office, given to 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. Again, this exemption includes, but is not limited to, those who are 65 years of age or older, blind, or disabled. This legislation was enacted by the State in 1972.



Final Tax Due is the Base Tax minus any exemptions, then plus any fees.

$$\text{Base Tax Amount} - \text{Exemptions} + \text{Fees} = \text{Net Tax Due}$$

Do not follow where the path may lead. Go instead where there is no path and leave a trail. Anonymous

Vehicle Assessment Ratio

Assessment ratio for vehicles changed by referendum in November 2000. Effective beginning in January of 2002. Original assessment was 10.5%, went down to 6.0%, ratably, over a six year phase-in. Reduced by $\frac{3}{4}$ of 1% every January, stopped at 6.0%

Vehicle Assessment Ratio

Assessment Ratchet Down Schedule from 10.5% to:

Jan of 2002 to Dec 2002	9.75%
Jan of 2003 to Dec 2003	9.0%
Jan of 2004 to Dec 2004	8.25%
Jan of 2005 to Dec 2005	7.50%
Jan of 2006 to Dec 2006	6.75%
Jan of 2007 to Dec 2007	6.00%

Property Tax – Motor Vehicles

Jan 2002	\$101,135,323
Aug 2002	\$ 95,953,912
Aug 2003	\$ 93,727,079
Jan 2004	\$ 87,495,875
July 2007	\$ 79,479,282
July 2008	\$ 72,932,240
July 2009	\$ 69,419,259
July 2010	\$ 63,157,945

\$ 8.5 million revenue

\$ 5.3 million revenue



Vehicle Assessment Reduction

What this means, is that, absent any increases to the levy, you saw a decline in your vehicle taxes each year, during this six-year phase-in.

Assessment X Tax Levy = Base Tax
Amount

Value of a Mil

- First step is to calculate, or estimate, the value of a mil
- Start with total assessed value of all taxable property in your jurisdiction
- Most counties will have this information via the County Auditor's Office, although other county officials have access to it as well such as Treasurer, Assessor, Finance

Your attitude is either your best friend or your worst enemy, your greatest asset or your greatest liability. John Maxwell

Value of a Mil

- Once you have the total assessed value you have to consider what changes to these values may occur both before and even during the fiscal year you are projecting revenues for
- For example: Vehicles may increase, decrease, or stay the same
- You must consider economic conditions and any tax legislative changes that may impact your assessments
- For vehicles and example of a legislative change was the vehicle tax ratchet down that began in Jan 2002 and ran through December of 2007

Value of a Mil

- Best to separate out the major items of your assessed values and estimate each one separately
- For example take your real property assessment and estimate any growth in that area
- You can make this as complex or as simple as you deem necessary
- My general experience is that a simple method yields as accurate results as do more complex
- You can even analyze mobile homes separate from stick built homes if mobiles are a large part of your totals

Anderson County Historical Value of a Mil

1994	\$302,000	
1995	\$319,000	
1996	\$337,000	
1997	\$367,000	★
1998	\$366,000	
1999	\$403,000	
2000	\$425,000	
2001	\$445,000	
2002	\$447,000	
2003	\$467,000	★
2004	\$505,000	
2005	513,000	
2006	521,175	
2007	529,393	
2008	585,250	★
2009	611,117	

Value of a Mil-Lessons Learned (sometimes the hard way)

- Analyze what makes sense to your specific jurisdiction but don't over analyze- that is a waste of time
- Remember that you are working with large numbers therefore if you make a mistake it will be a big mistake
- Ask appropriate officials for their input, such as Assessor, Treasurer, and Auditor. These folks are on the ground and have a good sense of tax collections and growth.
- Utilize your own in-house technology to gather data
- Create your own reports pulling from data that is already in place in your gov't systems

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
- Ask for input from other county/city officials
- Always err on conservative side, you want to underestimate as opposed to overestimate

Act 388

- Signed by Governor June 10, 2006
- Most know this as the property tax reform bill
- 3 most prominent provisions to counties/cities:
 1. Sales tax swap
 2. 15% assessment cap
 3. Levy (millage) limitations

He who is good at making excuses is seldom good for anything else.

Benjamin Franklin

Sales Tax Swap

- State retail sales tax increased by one cent to 6% (eff. 6/1/07)
- Sales tax on groceries reduced to 3% on 10-1-06.
- Owner-occupied residential property exempt from all property taxes for school operations (starting in 2007)
- Increased sales tax revenue to fully reimburse school districts for revenue loss

15% Assessment Cap

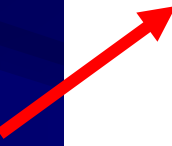
- Maximum increase in assessed value is 15% over 5 years
- Properties that are sold go on the books at sales price – this is known as ATI = Assessable Transfer of Interest
- New construction adds some growth, but for most entities, this will result in slowdown of tax base growth
- Exception may be in areas that experience high property turnover

The richest soil, uncultivated,
produces the rankest weeds.

Plutarch

Millage limitation revised

SECTION 2. A. Section 6-1-320 of the 1976 Code, as last amended by Act 145 of 2005, is further amended to read:



"Section 6-1-320. (A) 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 indexes 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 Office of Research and Statistics of the State Budget and Control Board. 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.

(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

3/23/2010

County Millage Caps FY 2010-11

County	July 1 2008 Estimate	July 1 2009 Estimate	Pop. Factor	CPI	MILLAGE CAP*
Abbeville	25,236	25,098	-0.547%	0.0%	0.0%
Aiken	154,601	156,017	0.916%	0.0%	0.9%
Allendale	10,407	10,195	-2.037%	0.0%	0.0%
Anderson	182,937	184,901	1.074%	0.0%	1.1%
Bamberg	15,185	15,005	-1.185%	0.0%	0.0%
Barnwell	22,896	22,688	-0.908%	0.0%	0.0%
Beaufort	152,164	155,215	2.005%	0.0%	2.0%
Berkeley	169,586	173,498	2.307%	0.0%	2.3%
Calhoun	14,642	14,621	-0.143%	0.0%	0.0%
Charleston	349,778	355,276	1.572%	0.0%	1.6%
Cherokee	54,629	54,714	0.156%	0.0%	0.2%
Chester	32,732	32,410	-0.984%	0.0%	0.0%
Chesterfield	43,072	43,037	-0.081%	0.0%	0.0%
Clarendon	33,104	32,988	-0.350%	0.0%	0.0%
Colleton	39,349	39,246	-0.262%	0.0%	0.0%
Darlington	66,863	66,445	-0.625%	0.0%	0.0%
Dillon	30,778	30,912	0.435%	0.0%	0.4%
Dorchester	127,830	130,417	2.024%	0.0%	2.0%
Edgefield	25,588	25,752	0.641%	0.0%	0.6%
Fairfield	23,458	23,343	-0.490%	0.0%	0.0%

Expenditures



Any time the going seems easier, better check and see if you're not going downhill.

Expenditures

- County government expenditures are categorized according to the following functions:

General Government

Health and Welfare

Public Safety

Highways/Streets

Culture/Recreation

Transfers Out

Capital

One-fifth of the people are against everything all the time.

Robert Kennedy

Expenditures

- The single greatest cost of all governments is salaries and associated fringes 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

The true test of stewardship is not what your money is doing for you but what it's doing to you.

John Maxwell

Expenditures

- 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, i.e. three readings and public hearing
- An inordinate use of supplemental budget appropriations generally indicates poor planning

Example of Line-Item Budget for Department

COUNTY TREASURER- DEPT # 00400				
GENERAL LEDGER ACCT #	EXPENDITURE CATEGORY	BUDGET FY 2017 - 2018	DEPARTMENT REQUEST FY19	BUDGET FY 2018 - 2019
	PERSONNEL			
010-005-00400-00005	SALARIES-FULL TIME	\$94,911	\$121,535	\$121,535
010-005-00400-00020	STATE RETIREMENT	12,870	17,695	17,695
010-005-00400-00021	FICA & MEDICARE (COUNTY PORTION)	7,261	9,297	9,297
010-005-00400-00022	HEALTH INSURANCE (County Contribution)	24,702	57,683	57,683
010-005-00400-00023	UNEMPLOYMENT COMP INSURANCE	508	678	678
010-005-00400-00024	WORKERS COMP INSURANCE	2,233	2,942	2,942
	TOTAL PERSONNEL	\$142,485	\$209,830	\$209,830
	OPERATING EXPENSES			
010-005-00400-00025	MEALS (SUBSISTENCE)	400	600	400
010-005-00400-00027	TRAVEL	1,000	1,000	1,000
010-005-00400-00028	PHOTOCOPY MAINTENANCE	575	600	600
010-005-00400-00029	LODGING	1,500	1,800	1,500
010-005-00400-00032	REGISTRATION FEES	1,250	1,500	1,250
010-005-00400-00033	DUES AND SUBSCRIPTIONS	200	200	200
010-005-00400-00040	SUPPLIES - OFFICE	2,500	3,100	2,500
010-005-00400-00038	INSURANCE - PROFESSIONAL LIAB FOR BCFC	1,100	1,100	1,100
010-005-00400-00752	PHOTOCOPY LEASE	1,400	1,400	1,400
	TOTAL OPERATING EXPENSES	\$9,925	\$11,300	\$9,950
	CAPITAL			
010-005-00400-00050	EQUIPMENT	\$0	\$0	\$0
	TOTAL CAPITAL EXPENSES	\$0	\$0	\$0
	DEPARTMENT TOTAL	\$152,410	221,130	219,780



Monitoring the Budget

Budgetary Controls

- What are some budgetary controls?
- The budget ordinance is a control in that it is the legal spending authorization limit
- Encumbrance accounting is a control
- Purchase order system is a control
- Divisional and departmental controls inherent in the budget
- Internal audit department or internal review system is a control

Monitor with Periodic Reports

Budgeting process should include periodic reports to governing body

Negative variances should be highlighted and remedied when necessary

Administrators should notify elected officials if new developments require budgetary modifications

Monitor with Periodic Reports

Budget is not a static document

Dynamic process requiring continuous monitoring and occasional revisions

Mid-year budget review is a good practice

Publish interim financial information

Interim Financial Reports

What type of interim financial reports are being provided to management/Council?

Typically interim financial information should be available at least mid-year, sometimes late January is a good time so that property tax revenue can be included in the analysis.

It is important to know that your revenues are tracking according to the budget, or as expected. A shortfall of revenue can necessitate mid-year budget reductions

Interim Financial Reports

Equally important, although more predictable is to ensure expenditures are also tracking according to the budget, or as planned.

Some counties use a monthly expenditure plan to monitor outflows

Most counties delegate this function to the chief executive officer and his/her department managers



Interim Financial Reports

Large counties often have accountants in each department, or division, who act as that area's CFO

This adds another layer of oversight and control in addition to the Finance Department

Often these divisional accountants will prepare internal reports for management to track expenditures and ensure that program objectives are being met



Capital Budgeting

If you want to make enemies, try to change something. Woodrow Wilson

Capital Budgeting

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

Capital Budgeting

- Normally referred to as a Capital Improvement Plan
- A good practice, recommended by the National Advisory Council on State and Local Budgeting (NACSLGB)
- Make the CIP a part of your regular budget document
- In fact, this is a mandatory criteria for the GFOA Distinguished Budget Presentation Awards Program

Capital Improvement Planning

Capital financing is best facilitated through the preparation , adoption, and implementation of multi-year capital improvement program

5 Year most common

Prioritizing and scheduling projects discourages inefficient decisions

Capital Improvement Planning

Must include a sustainable and feasible financial plan that links resources and funding sources with spending

Include equipment and facilities

A well-thought out CIP can enhance economic development by providing for orderly improvements and well-planned land uses that support local industries and businesses

Capital Improvement Planning

Catalog of existing facilities

Estimate life span of each facility and
equipment item

Determine how much funding is needed
each year to provide for orderly
replacements

Capital Improvement Planning

Debt financing is appropriate when:

1. Both present and future taxpayers benefit from the facility/equipment
2. Amount to be financed is substantial
3. Within borrowing limits

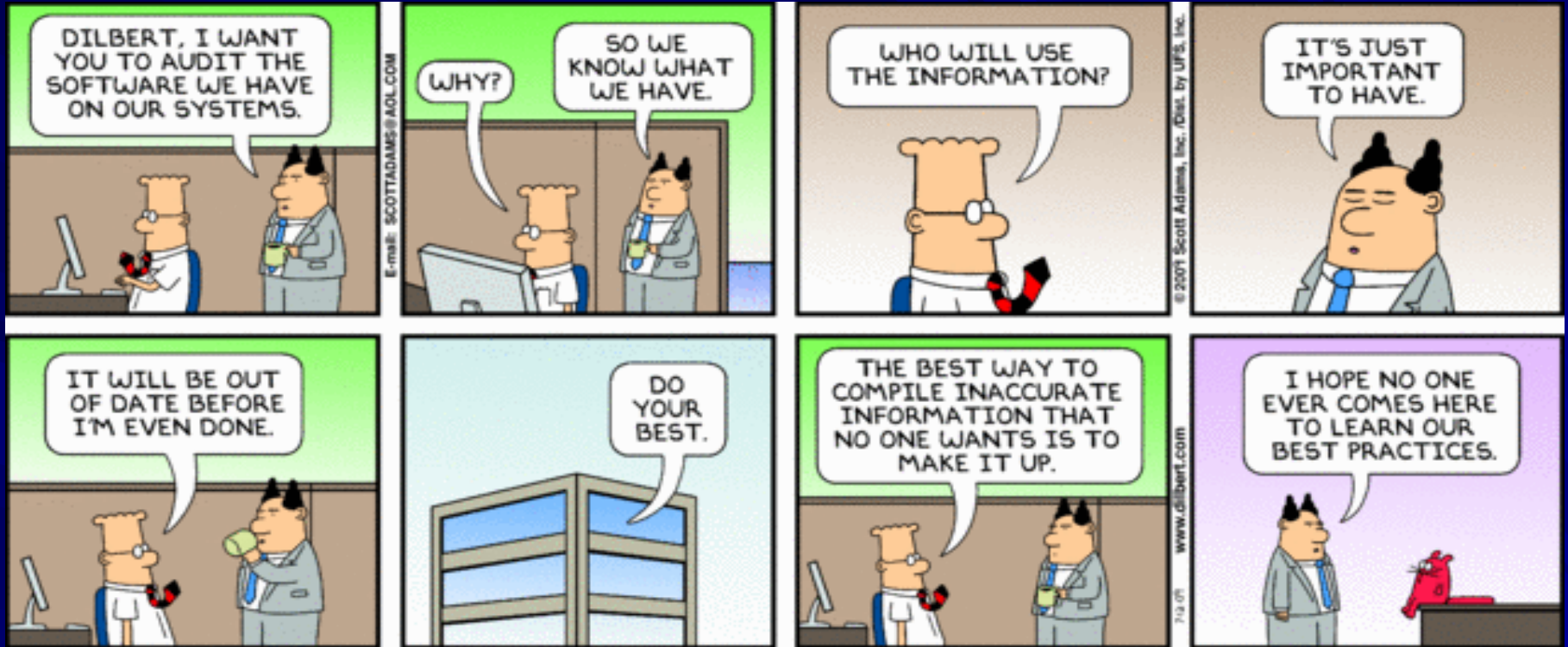
Capital Budgeting

- Almost always, the cost of the projects will exceed the available funds of most governments
- Should have a process for evaluating the proposed projects. Allow ample opportunity for stakeholder involvement
- Each project should have both a capital cost and an operating cost identified
- The CIP should be fully integrated into the governments overall financial plan

Capital Budgeting

Never give up, for that is just the place and time that the tide will turn. Harriet Beecher Stowe

- Revisit the plan annually, updating as necessary
- Some use a pay as you go philosophy while others are comfortable with using debt financing
- The CIP should be developed in tandem with a debt policy to insure the acceptability, and the affordability of the financing options needed



The Financial Audit and the CAFR

You never have to recover from a good start.

The CAFR

- Comprehensive Annual Financial Report
- Commonly referred to as the audit
- State law requires all governments to publish, within 6 months of the close of the fiscal year, a complete set of financial statements
- Must be prepared in conformity with accounting principles known as GAAP
- Must be audited in accordance with auditing standards generally accepted in the U.S. by a firm of licensed certified public accountants.

The Audit- State law

SECTION 4-9-150. Audits of county records; designation of auditors; public inspection of report.

The council shall provide for an independent annual audit of all financial records and transactions of the county and any agency funded in whole by county funds and may provide for more frequent audits as it considers necessary. Special audits may be provided for any agency receiving county funds as the county governing body considers necessary. The audits must be made by a certified public accountant or public accountant or firm of these accountants who have no personal interest, direct or indirect, in the fiscal affairs of the county government or any of its officers. The council may, without requiring competitive bids, designate the accountant or firm annually or for a period not exceeding three years. The designation for any particular fiscal year must be made no later than thirty days after the beginning of the fiscal year. The report of the audit must be made available for public inspection. A copy of the report of the audit must be submitted to the Comptroller General no later than January first each year following the close of the books of the previous fiscal year.

If the report is not timely filed, or within the time extended for filing the report, funds distributed by the Comptroller General to the county in the current fiscal year must be withheld pending receipt of a copy of the report.

State Law Section 4-9-150

Selection of Auditors

- Normally accomplished through a competitive bidding process
- Use of RFP or RFQ
- Best to not rely solely on price
- Selection and evaluation process should also consider: the breadth and depth of the firm's experience in similar engagement, the quality and responsiveness of the audit work plan, and the auditor's knowledge of upcoming accounting and auditing pronouncements

Audit Purpose

- To provide reasonable assurance that the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP)
- Audit includes examining, on a test basis, evidence supporting the disclosures in the financial statements



Audit Purpose

- Principles of transparency and accountability for the use of public resources are key to the governing process
- Auditing is essential for that accountability
- Provide key information to stakeholders
- Also improves performance, reduces costs, facilitates decision making, stimulate improvements, identifies trends that affect government

If you think you can, you can. And if you think you can't, you're right.

Mary Kay Ash

Audit Standards and GAO

- Private sector auditing performance standards are set forth by a variety of private organizations such as the American Institute of Certified Public Accountants (AICPA).
- Government agencies auditing performance standards are set by U.S. Government Accountability Office.
- Yellow Book

The young man knows the rules,
but the old man knows the
exceptions.

Oliver Wendell Holmes

Government Auditing Standards



- GAS (the Yellow Book) contains standards for audits of government organizations
- Normally referred to generally accepted government auditing standards (GAGAS)
- GAGAS pertain to auditor's professional qualifications, the quality of the audit effort, and the audit reports

Experience is knowing a lot of things you shouldn't do.

William Knudson

Other Professional Audit Standards

- American Institute of CPA (AICPA) publishes Statement's on Auditing Standards (SAS)
- Public Company Accounting Oversight Board (PCAOB)
- International Auditing and Assurance Standards Board (IAASB)
- Auditors use GAGAS in conjunction with all these standards

Auditor Independence

- Auditor must be free from personal, external, and organizational impairments to independence
- Must avoid the appearance of such impairments
- If not independent, then auditors are rendered incapable of giving an objective opinion

Nobody gets to run the mill by doing run-of-the-mill work.

Single Audit

- During the 1960's and 1970's federal grants grew to become a significant funding source for state and local governments
- There were thousands of federal programs being administered by different federal agencies, in many instances, each agency required its own accounting practices.
- Thus, keeping track of the accounting, reporting, and auditing demands was a heavy burden for state and local governments receiving federal assistance.

Single Audit

- Efforts were made to standardize in the 60's, but no real success made until late 70's
- Finally, the Single Audit Act passed in 1984, which required that audits be conducted on an agency wide basis instead of grant by grant.
- The Single Audit requires the auditor to report not only on the fair presentation of the financial statements, but also on the entity's internal controls and compliance with legal requirements.
- A separate report is issued and is called the "Single Audit" report.
- The Single Audit is broader in scope than the financial statement audit.



Other Types of Audits

- Performance audits – provides assurance or conclusions based on an evaluation of evidence against stated criteria. Typically used to evaluate a programs performance or operations.
- Compliance audits – used to measure adherence to regulations relating to a federal award
- Attestation engagements – covers a broad range of financial or non-financial objectives and provides different levels of assurance

Audit Opinion

- Unqualified or Unmodified (Clean)— this means that the auditor can state, or attest, that the entities financial statements present fairly the results of operations
- Qualified – this means that the auditor cannot state, or agree, that the financial statements are presented fairly.
- Disclaimer – no opinion
- Adverse – an opinion that the financial statements do not present fairly the results of operations
- Additionally, the auditor will state whether the audited financial statements are prepared in accordance with generally accepted accounting principles or other principles applicable to the organization.

Internal Control

- Management's responsibility
- As with any organization responsible for large sums of money, governmental entities are subject to risks of fraud, embezzlement, misrepresentation, misappropriation, incompetence, and related problems.

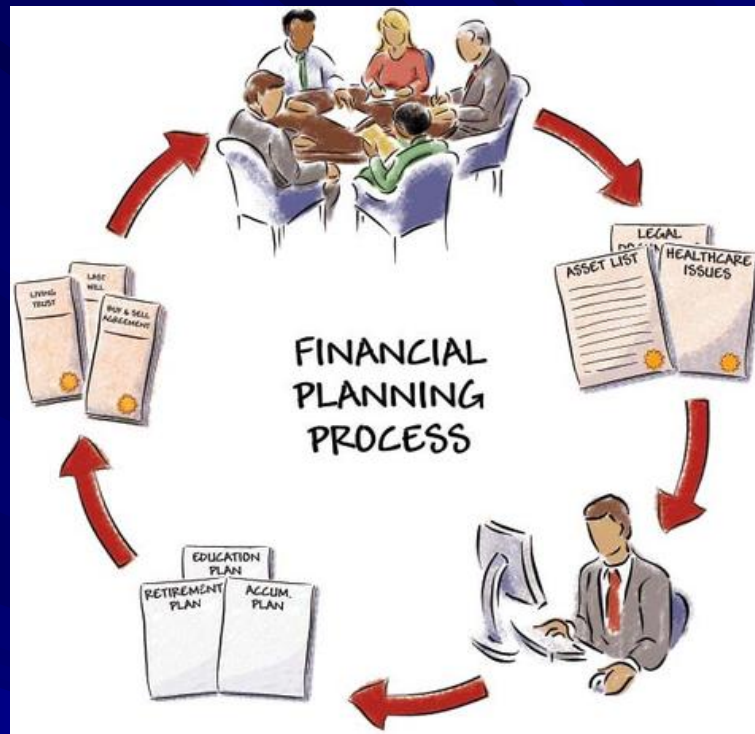


Internal Control

- Incorporates a much broader risk management focus
- Safeguarding of assets
- Legal compliance
- Management of financial risks
- Preparation of reliable financial reports



Tone at the Top
Very Important!



Financial Planning and Policies

To err is human...but when the eraser wears out ahead of the pencil, you're overdoing it.

Jerry Jenkins

Financial Policies-Principles

Well prepared elected officials can assume leadership role in creating and sustaining long-term financial policies

Professional finance managers share experience, insights

Thereby supporting elected officials

Achieving common goal of serving the public interest

Long-term perspective far more important than short-term

Each governmental entity should adopt prudent, long-term policies



Financial Policies-Why?

Public office is a public trust

Responsible leaders realize that a long-term perspective will produce a legacy far more important than short-term expedience

Each governmental entity should adopt prudent, long-term policies

Adopt Prudent, Long-Term Financial Policies

Budgets should be based on realistic revenue estimates, and current operating expenses should be fully budgeted – not deferred to future years

Non-recurring (one-time) revenues and fund balances should be used for _____
(what type) of expenses?

Not to be used as wallpaper over ongoing deficits

Financial Policies-Fund Balance

- Every government should adopt fund balance policies to set parameters for the financial reserves appropriate to ensure stable operations without overburdening current taxpayers
- Referring to these policies in the budget process and documents can establish the rules of engagement for policymakers.
- Periodically review policies and compare decisions made to the policies

Financial Policies-Fund Balance

Fund Balance Policy. How much?

Necessary to ensure stable operations
without overburdening current taxpayers

Incorporated into long-term financial plan

Sometimes referred to as rainy-day or fiscal
stabilization funds

Consider putting fund balance policy in your
budget ordinance

Financial Policies-Fund Balance

Temptation is strong to compensate for chronic budgetary shortfalls by using previously accumulated fund balances

The more volatile a government's revenue stream and the longer the lead time necessary to reduce operating expenditures, the greater the financial cushion must be.

Financial Policies-Fund Balance

Cash flow must be examined so that a sufficient cash balance is maintained to avoid undesirable borrowing

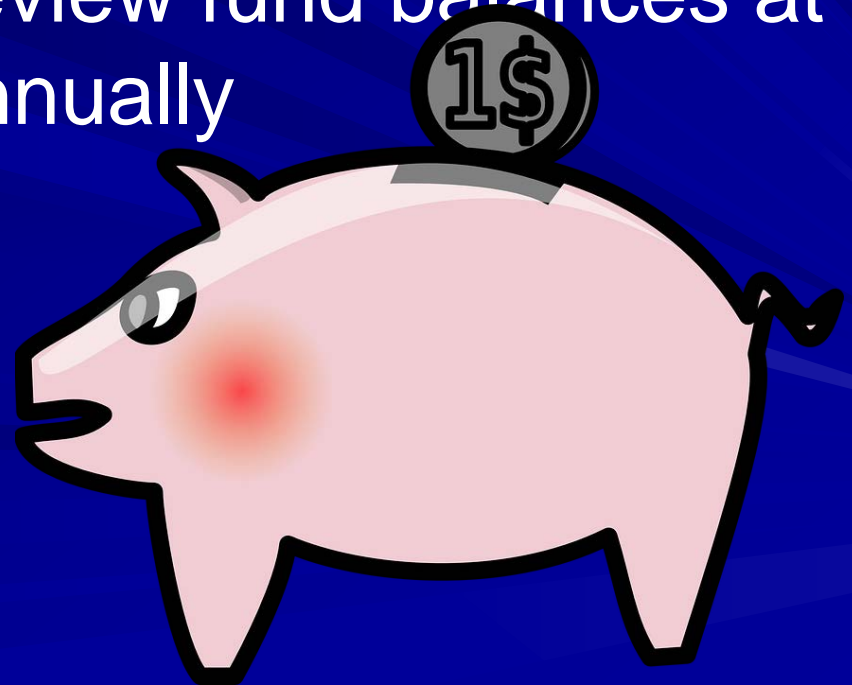
Remember that lower fund balances reduce interest/investment income and thus weaken future revenues

Financial Policies-Fund Balance

Excessive fund balances may reflect
stockpiling or lack of financial management

Taxpayer resistance may emerge

Policymakers should review fund balances at
least annually




Financial Policies-Fund Balance

Desired level of fund balance
to be maintained

Circumstances in which they
would be used

How they would be
replenished, and

Over what time period they
would be used



Policy should
Address:

Fund Balance Policy

- Rainy-day or fiscal stabilization funds should be incorporated into the long-term financial plan, especially if revenues are so cyclical that traditional fund balance levels are insufficient to sustain ongoing operations in lean years

If in the last few years you haven't discarded a major opinion or acquired a new one, check your pulse. You may be dead. Gelett Burgess

Fund Balance Policy

- County governments must pay close attention to cash reserves
- Property tax revenues are cyclical
- Operating expenditures are relatively constant from month to month
- No set amount for reserves, although most schools of thought recommend 4 to 6 months of operating expenditures
- Each entity must examine their cash outflows versus inflows to determine what is adequate
- Cash reserves is an important factor to credit rating agencies
- Important to formalize your fund balance policy as credit rating agencies look for that

Financial Policies-Debt

Debt – use frugally. Plan to achieve the most favorable borrowing rates.

Debt should be openly and widely debated

Manage your credit rating

A component of capital improvement plan

Debt service payments should be evenly planned

Financial practices should be designed to secure the most favorable borrowing rates for capital projects and long-term financing needs

Financial Policies-Procurement

Procurement Policy. Competitive and value-based to ensure best buy for taxpayer dollars.

Purchasing procedures should be codified

Staff should be trained annually

Procurement should be competitive to ensure the best buy for taxpayer dollars

When the eagles are silent, the
parrots begin to jabber.
Winston Churchill

Anti-Fraud Policy

- Approved by Council, generally through Resolution
- Describes what is considered fraud
- Describes what action/investigations are required as a result of suspected fraud
- Mandates that all employees must report fraud
- Mandates that management take fraud seriously and take corrective action to improve controls
- A part of an overall enterprise risk management plan

RESOLUTION #R2010-029

**A RESOLUTION TO APPROVE ANDERSON COUNTY'S ANTI-FRAUD POLICY; AND
MATTERS RELATED THERETO**

WHEREAS, in order to improve Anderson County's financial policies and internal controls, the Anderson County Finance Division, working with the County's outside auditors, developed the Anti-Fraud Policy as more fully set forth in the document which is attached hereto and incorporated herein as **Exhibit A**;

WHEREAS, the Anderson County Council wishes to express its approval of the Anti-Fraud Policy;

NOW, THEREFORE, IT IS HEREBY RESOLVED by Anderson County Council that:

1. The Anderson County Council endorses and approves the Anti-Fraud Policy.
2. This resolution shall take effect and be in force immediately upon enactment.

RESOLVED in meeting duly assembled this 20th day of April, 2010.

ATTEST:

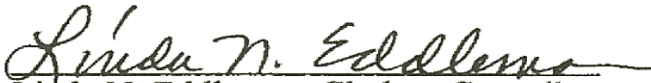


Rusty Burns, Interim County Administrator

FOR ANDERSON COUNTY:



Tommy Dunn, Chairman



Linda N. Eddleman, Clerk to Council



Michael S. Pitts, Anderson County Attorney

APPROVED AS TO FORM

Other Policies Related to the Budget

- Economic development policies – assess your county's competitive position locally and globally
- Consider the long-term economic and financial benefits of economic development policies
- Optimize the use of land, labor force, infrastructure, and other resources

No man ever listened himself out of a job. Calvin Coolidge

Other Policies Related to the Budget

- Capital replacement policy – anticipate the inevitable aging and obsolescence of facilities and equipment
- This can be made a part of the Capital Improvement Budget
- Again, this is something that credit rating agencies look for
- You can never over-plan!



Debt Administration

The farsighted tend to get blindsided by the nearsighted.

Debt Management Plan

Can be freestanding or part of your capital improvement plan

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

Debt Management Plan

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

Debt Management Plan

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 (back-loading)

Sound financial planning is highly valued by investors

Debt Management

- 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 county'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

Credit Rating

- Council members should know their city or county's credit rating
- Improvement in ratings can save hundreds of thousands of dollars in interest costs
- There are several major rating agencies:
 1. Standard & Poor's
 2. Moody's Investors Service
 3. Fitch

When you soar like an eagle, you attract hunters.

Credit Rating

- Council has the ability to impact this very important criteria
- Through the hiring of professional administrators, and
- Through sound policy setting and guidance that maintains county on solid financial footing, and
- Through approving budgets that provide adequate revenue streams to maintain and grow county services, and
- Through participation in Bond Rating presentations

What are the factors that rating agencies look for?

- Overview of the City/County, mission statement, and key staff
- Growth trends and progress in terms of population, building permits, demographics
- Extensive use of planning, monitoring and updates to those plans, ex. Sewer, land use, parks & recreation, transportation

The bamboo which bends is stronger than the oak which resists.

Japanese Proverb

What are the 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

He who has a sharp tongue soon cuts his own throat.

What are the factors that rating agencies look for?

- Financial factors
 1. Fund Balance
 2. Budgetary controls
 3. Investment policies
- Debt factors
 1. General obligation debt per capita
 2. General obligation debt as a percentage of assessed value
 3. Legal debt margin

He who forgets the language of gratitude can never be on speaking terms with happiness.

How are these factors communicated?

- Often through a live presentation to the rating agencies
- Agencies keep track of County's data through interim submission of CAFR's and other information
- Conference calls are also used for updates and to give the agencies the opportunity to ask questions of management

Give neither counsel nor salt until you are asked for it.

Ratings Explained

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

A pint of example is worth a
gallon of advice.

	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	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
Junk	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	
			CC-	In Default
	D	D	DDD	

COUNTY CREDIT RATINGS

Credit Ratings FY 2009

County	Fitch	Moody's	S&P
1. Abbeville		Baa1	
2. Aiken		A1	
3. Allendale			
4. Anderson		Aa3	AA
5. Bamberg			
6. Barnwell			
7. Beaufort	AA-	Aa2	AA+
8. Berkeley		A1	AA-
9. Calhoun			
10. Charleston	AA	Aa1	AAA
11. Cherokee		A3	
12. Chester		A3	
13. Chesterfield			
14. Clarendon		Baa1	A+
15. Colleton		A3	A
16. Darlington		A3	
17. Dillon			
18. Dorchester		A1	AA-
19. Edgefield			
20. Fairfield		Baa1	
21. Florence		A1	
22. Georgetown		A1	AA-
23. Greenville	AAA	Aaa	AAA
24. Greenwood		A2	A+
25. Hampton			
26. Horry	AA-	Aa3	AA
27. Jasper			A+
28. Kershaw		A2	A
29. Lancaster		A2	A
30. Laurens		Baa2	BBB
31. Lee			
32. Lexington		A1	AA-

Ratings 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.

Debt per Capita

ANDERSON COUNTY, SOUTH CAROLINA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Table 10

Fiscal Year	General Bonded Debt Outstanding				Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Notes Payable & Capital Leases	Total		
2000	\$ 27,485,000	\$ 493,747	\$ 2,739,937	\$ 30,718,684	5.95%	166
2001	26,275,000	453,752	1,474,651	28,203,403	5.49%	156
2002	25,345,000	412,328	2,422,684	28,180,012	5.34%	149
2003	26,640,000	369,457	4,117,714	31,127,171	5.11%	156
2004	22,385,000	320,311	2,425,414	25,130,725	4.27%	130
2005	18,405,000	269,249	4,464,259	23,138,508	3.48%	106
2006	22,640,000	216,252	7,149,944	30,006,196	4.43%	128
2007	26,715,000	161,669	-	26,876,669	4.93%	148
2008	23,680,000	125,183	13,191,951	36,997,134	4.43%	130
2009	\$ 30,485,000	\$ 86,649	\$ 16,673,063	\$ 47,244,712	5.11%	167

Note: Details regarding the County's outstanding debt can be found in the notes to the financial statements.

*See Table 13 for additional demographic and economic statistics.

Source: 2009 Financial Report Table 9.

Legal Debt Margin



BAMBERG COUNTY, SOUTH CAROLINA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2016

Real and Other Personal Property Assessed Value	\$ 25,709,180
Vehicles Assessed Value	<u>4,314,410</u>
Total Taxable Assessed Value	<u>30,023,590</u>
Debt Limit - Eight Percent (8%) of Total Taxable Assessed Value	2,401,887
Amount of Debt Applicable to Debt Limit: Total Bonded Debt - Note 11	<u>1,623,066</u>
LEGAL DEBT MARGIN	<u><u>\$ 778,821</u></u>

Found in Statistical
Section of your CAFR

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 new broom sweeps clean, but the old one knows where the dirt is.

Debt Policy

■ 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

Not everyone repeats gossip. Some improve it.

Franklin P. Jones

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

A dog is loved by old and young; he wags his tail and not his tongue.

Investment Policies

- As in S.C., many states control basic investment authority through statutes
- Most counties delegate the authority to County Treasurer
- Section 12-45-220 Investments by county treasurers

SECTION 12-45-220. Investments by county treasurers.

(A) A county treasurer may invest or reinvest any sum of money not necessary for current expenses in:

(1) obligations of the United States and its agencies;

(2) general obligations of this State or any of its political subdivisions;

(3) savings and loan associations if their deposits are insured by an agency of the federal government;

(4) certificates of deposit where the certificates are collaterally secured by securities of type described in items (1) and (2) of this subsection held by the third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, but the collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; or

(5) no load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that county treasurer, if the particular portfolio of the investment company or investment trust in which the investment is (i) limited to obligations described in items (1) and (2) of this subsection, and (ii) have among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method. The portfolio may also consist of repurchase agreements when collateralized by obligations described in items (1) and (2) of this subsection.

(B) The governing body may delegate the investment authority provided above to the county treasurer who shall assume full responsibility for the investment transactions until the delegation of authority terminates or is revoked.

(C) The State Treasurer may assist local governments in investing funds that are temporarily in excess of operating needs.

(D) All interest and other earnings, when collected, must be added to the fund and paid out as other funds of the same sort are paid.



Public Budgeting

GFOA Awards Program

Two Main Programs

Distinguished Budget
Presentation Award (Budget
Awards Program)

Certificate of Achievement for
Excellence in Financial
Reporting (CAFR Program)

Budget Awards Program - Purpose

Established in 1984

Encourage and assist state/local gov'ts to prepare budget docs of very highest quality

Reflect guidelines est by National Advisory Council on State and Local Budgeting as well as GFOA's best practices on budgeting

To recognize gov'ts that succeed in these goals

Budget Awards Program

Open to any type of government at either state or local level that makes available to general public an operating budget document

May submit either proposed or approved budget

Must be received within 90 days of the date when the budget was proposed/adopted

Reviewed by GFOA staff and by outside reviewers with experience in public-sector budgeting

Budget Awards Program

Must submit multiple copies of
the budget document

Application form with fee

Submit detailed criteria
location guide

Budget Awards Program

27 Criteria, grouped into 4 categories

Rated as either Not Proficient, Proficient, or
Outstanding

To receive the award, must be rated either
proficient or outstanding by at least 2 of the 3
reviewers for all four basic categories, as well
as for 14 of the 27 specific criteria identified as
“mandatory”

CAFR Program

Established in 1945

To encourage and assist state/local governments to go beyond the minimum requirements of generally accepted accounting principles

To prepare CAFR that evidence the spirit of transparency and full disclosure

To recognize gov'ts that succeed in these goals

CAFR Program

Submit multiple copies of the report, within 6 months of year-end

Application, plus any responses to previous year's reviewer's comments

Fee

Reviewed by GFOA staff and the GFOA Special Review Committee (SRC) which comprises individuals with expertise in public-sector financial reporting

CAFR Program

Checklist designed to determine compliance with both GAAP and policy as established by the SRC

Reviewers never selected from same state as the CAFR being examined or from the same auditing firm that performed the independent audit

Checklist is 78 pages, found on www.gfoa.org

Click on awards program and then on checklist

FINAL ITEMS

Communicating with Your Finance Professionals



If your dog thinks you're the greatest person in the world, don't seek a second opinion.

Communicating with your Finance Professionals

- Complexity of governmental finance makes it increasingly important to recruit degreed, credentialed finance professionals
- Auditing background a big plus
- First, know that finance professionals enjoy talking about county issues and are very open to dialogue
- Take some time to become familiar with the accounting terms used

Communicating with your Finance Professionals

- If you don't understand something, stop the finance person and simply say, "what are you talking about"
- Caught up in the excitement of government finance and we forget that not everyone speaks our language
- A good finance person will be cognizant of that and will talk in plain language
- Beware the finance person that does not take the time to explain things

Communicating with your Finance Professionals

- Respect the finance professional's time
- Call ahead, make an appointment and let them know what you wish to discuss, results in shorter meetings and more prepared staff
- Be mindful of the fact that your finance professional is not a politician
- Although a good finance person will certainly understand the political issues behind the financial ones

Communicating with your Finance Professionals

- Respect the organization's structure and accepted practices
- Work through the City/County Administrator first and let him/her direct you to the appropriate staff person
- By bypassing the Administrator and going directly to staff you are putting that staffer in an uncomfortable position and may damage future relationships



"Yea, though I walk through the valley of the shadow of death, I will fear no evil" Psalm 23

Thank You for Your Time Today!

ginasmithcpa@gmail.com

smithgr@bambergcounty.sc.gov

Just be glad you're not getting all the government you're paying for.