The Best Way to Complete and Adopt Your Budget

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A Cautionary Tale

• “A budget tells us what we can’t afford, but it doesn’t keep us from buying it.”

• William Feather
What do we want to avoid?

- https://youtu.be/1lBrfwvkrsA
Budget Basics – Food for Thought

• Budgets serve a different purpose in a government than they do in a business.
• In a business, they are a plan to shoot for; often they can be a aggressive plan that you may or may not be likely to achieve;
• In a Municipality, the expenditure side of the budget is called “appropriations,” and it is the legal authority for the City to provide services.
Budget Basics – Food for Thought

• Two sides to every budget….

• The purpose of governmental budgets and financial reporting is to demonstrate accountability for the money entrusted to it.
Budgets

• General v. Specific

• Funds

• Line Items
Funds? Funding? Having Fun?

• What is a fund?
• Sometimes separate companies are set up for legal liability purposes, or tax purposes; in the public sector, separate activities are accounted for in separate funds, in order to show accountability.
• Some revenues are restricted, so a separate fund demonstrates that the revenue was spent only for the intended purpose.
“General Fund?”

- Individual funds are created because of laws, grant requirements, or the desires of the governing body;
- All activity that has not been assigned to a specific individual fund is then accounted for in the General Fund.
- As a result, the General Fund might be the most important fund. That is the fund that contains uncommitted resources that may be used for general purposes.
Why teach me this? Why?

• Take the time to learn about all of your local unit’s funds, not just the General Fund; some of them may be important to understanding your overall financial health.

• Problems could be hiding that you haven’t noticed yet.
Gov. Accounting 101

- Accounting 101 tells us that we have:
  - Assets (things we own); and
  - Liabilities (amounts we owe others);
    - The difference between assets and liabilities is equity. In the governmental funds, this equity is called fund balance.

- In Arkansas, governmental funds generally report only assets that are available (cash), and only report liabilities that are current claims, the resulting fund balance represents amounts available to be spent.
Fund accounting

- What types of funds are there?
  - Governmental funds
    - General Fund
    - Special Revenue Funds
    - Capital Projects Funds
    - Debt Service Funds
    - Permanent Funds
Fund accounting

• Proprietary Funds (business type activity)
  • Enterprise Funds
  • Internal Service Funds

• Fiduciary Funds
  • Agency Funds
  • Pension Trust Funds
  • Private-Purpose Trust Funds
  • Investment Trust Funds
Can we spend our funds how we want?

• Maybe – but not necessarily
  • Fund balance is reported based on how constrained it is; the categories are:
    • Nonspendable (not in spendable form) (investments)
    • Restricted (external legal restrictions) (tax revenue, grants, water-sewer funds)
    • Committed (internally – by formal action) (ordinance restricting use)
    • Assigned (internally; less formally) (budgeted, line item)
    • Unassigned (unbudgeted)
  • The governing body always has the authority to re-commit or re-assign fund balances.
Accounting Takeaway

- Fund balance is the measure of financial health of an individual fund; That fund balance may or may not be freely available to a specific department—you need to understand the levels of constraints (nonspendable, restricted, committed, assigned, unassigned).
Let's move to the Process
The Complete Process

- Pre-submission information gathering – Summer through December 1
- Mayor’s budget submission deadline – December 1st.
- Council approves the next year’s budget – December or at the latest Early Jan.
- Revision and amending the budget – Periodically or year end.
Drafting the Initial Budget Revenues

• Keep track of all your revenue on the budget. (Talk with your treasurer/financial officers to make sure you aren’t missing anything).

• This includes all available revenues for the coming fiscal year.

• A municipalities revenues typically include non-restricted funds (General Funds), restricted funds (Specific sales tax, street funds, etc.), and other possible funding sources as allocated and approved by the council.

• The services provided by city are based on the available revenues from all sources as approved in its annual budget, which is a result of the annual budget process.
Drafting the Initial Budget Expenses

- The expenses of the budget process is determined based on the available revenues and approved allocation of these revenues to pay for projected purchases and approved services.
- Available funds are allocated to finance the services provided by the city, as well as its approved capital projects, for the coming fiscal year.
- Remember the previous topics, try to create the budget for this year but with an eye to next year
Emergency Funds

• As part of a forward thinking municipality, the municipality might set up a “rainy day” fund.

• Emergencies happen and the city can begin establishing an emergency fund for these unforeseeable concerns.

• Remember, you’re not only worried about the city for this year, but you’re concerned about the next five years, the next decade and beyond.
Discussing the Budget

- Budgeting is political
- Budgets control spending
- Budgeting creates conflict
- Budgeting reflects organizational culture
- Budgeting involves balancing values
Discussing the Budget

• You’re going to disagree on how best to create the budget.
• Some people will value certain projects/expenditures over others.
• Some will simply value crafting as fiscal a budget as possible.
• You will disagree, but you shouldn’t fight over it.
• Deadlocked councils who fight on every item, slow down the city and damage the public image of our municipality.
Discussing the Budget

- If you feel like you’ve lost on the budget process it isn’t a good idea to oppose everything the city does in retaliation.
- Begin working on convincing the other members of why we should change, you have a full year to show everyone why you’re right, not why they’re wrong.
- This is the tough advice to give and receive, but ultimately the majority of the council will decide the budget.
When to Start the Budget Process?

- As early as possible.
- Remember that the first deadline is **December 1** for submitting the budget.
- Which means that the mayor must have already prepared the budget by November.
- This takes time, and should not be rushed at the last minute.
When to Start the Budget Process?

- As a baseline, consider a “6 month rule”
- Every six months you should either be starting the budget process, or submitting the budget.
- Submit the budget in December, start the budget process in June/July.
- At the very latest, begin the budget process in August/September, because no matter what you need to take into account a plethora of consideration, and turn that information into a budget.
Understanding the Budget Process

• The budget appropriation is not a forecast of the amount the Municipality expects to spend; it is the maximum amount that the city is allowed to spend.

• Just because a department is under budget, but asking for more revenue does not mean anything other than they followed the law, but need a larger budget to provide high level of services to your municipality.

• Which leads into the next topic:
Communication is Key

• This includes municipal employees, businesses, citizens, council members, the mayor, administration, and more.

• These groups are all going to bring a differing perspective that you as city officials should consider.

• Remember, just because you disagree with them doesn’t mean they aren’t providing meaningful information for the budget process.
Communication - Input

- Mayors and Council Members start with the people who know best
- The Department Heads
- Fire, Police, Street, Water, etc.
- These individuals will be able to tell you what is happening on a day-to-day basis.
- Keep in mind, even if they’re departments are operating well they may need:
  - New fire equipment, new police equipment, vehicles, additional personnel to keep pace with a growing city.
Communication – Input

• You may want to instruct department heads to gather information throughout the year or leading up to the budget process.

• In the same way you need input from the department heads
  • They will need input from the employees.

• Are the police officers carrying guns without bullets, driving vehicles which have holes in the floors.

• What are our working conditions?
Communication – Outside Input

• Remember, your citizens and businesses will have valuable input as well.
• They will see where our services could use improvement
  • Do we have enough personnel that we’re providing necessary services in a timely manner?
  • Are police able to respond to all calls, how about water/sewer?
• Ask you business community if they see any need for improvement of infrastructure which could help?
• Obtaining community input to help in the strategic planning process can be achieved through citizen surveys, community forums or other public participation processes.
Capital Projects and Assets

- Set up a system so that your city reviews its capital assets to determine if the city needs to budget for them this year.
- For example, does our offices need major or minor repairs? Have we outgrown our police department and need to start budgeting for a new building/lease?
- How are the streets and other infrastructure?
- Establishing a process to review our assets not only helps us organize this year, but helps us keep an eye on the future.
Communication – Long term strategy

- Even if we can’t accomplish everything our citizens/businesses and employees are bringing to us, it leads into a very important topic.
- What are our long term goals financially for the municipality?
- By developing specific goals and objectives, the budget process logically follows by attaching financial resources to the goals.
- Draft goals can be prepared by the governing body or mayor, and presented through a public participation process. Goals communicate your community visions, desires and promises, and set the tone for the future budgets.
Communication – Long term strategy

• Try to stay focused on providing a great one year budget, with an eye toward three or five year plans for the city.
• Do you want to revitalize the public parks, downtown, improve infrastructure?
• You don’t accomplish that all in one budget, you can do it pieces at a time and slowly build up a long term budgeting strategy to accomplish the goals you set.
Future Considerations

• As you set your future strategies and goals, and begin budgeting for the future keep in mind those items which are sure to impact the city.

• Retirement funds/liabilities for city officials. Are you prepared to fund a statutory retirement for a mayor/clerk/recorder/treasurer?

• Do we have debt payments looming? Are we keeping pace with these payments?

• How much should we set aside to offset this future liability?
Communication – City Council

• Councilmembers need to decide how they would like to provide input
• Do you want to put a committee together to help address the council’s concerns before the mayor submits the budget?
• Councilmembers are answerable to their constituents who will have opinions that the city needs to hear.
Communication – Recorders, Clerks, and Treasurers

• It should go without saying that your financial officers, and primary city administrators will have a different perspective than all other officials.

• They will see more of the input/output of the budget than the other officials, and should be involved in the process from day 1.
How to get the information?

• For all the non-council positions, departments, employees, citizens, businesses;
• Consider setting up information request;
• For example, each department can submit a yearly budget request. (or something similar).
• Always leave enough time for the mayor to receive the information and digest it into a workable budget.
Misc. Topics

• Try to keep an open mind throughout the process.
• There will always be new and unique budgeting concerns.
• Does the city need to begin setting aside an Information Technology budget?
• What will our city do in case of an emergency?
Benefits of Full Transparency

- The degree to which the budget & budgeting are open to the public is a matter of local discretion.
- Are budget meetings well publicized ahead of time?
- Is the budget document understandable to all the parties involved?
- Is there sufficient detail to justify the revenue & expenditure projections?
- Is the process clear?
- Are there opportunities for citizen input?
Does Transparency Really Matter?

- Taxpayers
- Citizens
- Creditors
- Legislative bodies
- Grantors
- Management
- Rating agencies such as Moody’s and Fitch
• https://youtu.be/0G27CllW3cg
Final thoughts?