Government Finance Officers Association of Texas

Certified Government Finance Officer
Program Study Guide
for Budget and Capital Planning
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Budget and Capital Planning Study Guide

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INTRODUCTION

During the course of a career of local government finance professionals, they will likely entertain the following question from a citizen or elected official: “Why can’t the city (or other governmental entity) operate more like a business?” The implication from the questioner is that businesses working in an open competitive market are inherently more efficient than government. Of course, there are plenty of businesses and corporations that find themselves in the trash bin of history (e.g. Enron, WorldCom, Lehman Brothers, etc.), but it must be acknowledged that competition does cull inefficient businesses from the market while governments, regardless of how poorly they are administered, go on indefinitely.

When confronted with a form of the inquiry quoted above, a finance professional can provide several reasons why governments are different from businesses. First, the commercial sector enjoys a relatively simple relationship with a consumer. Whether it is breakfast cereal, furniture, cars, or fast food, a consumer has a choice of the product or service they desire and the business that satisfies that desire. The consumer makes their purchase based on quality and cost. That relationship does not exist between governments and the citizens they serve. People choose to live in a certain area based on a combination of affordable housing and location in relationship to their jobs, stores, or relatives. Rarely do they consider the government in which they reside.

Second, citizens as taxpayers are euphemistically referred to as “involuntary resource providers;” in other words, citizens cannot legally withhold payment of taxes if they are dissatisfied with service they receive from their city, county or school district. The relationship between citizen and government is also muddled by the fact that most government services are not paid for by the people benefitting from the service. Finally, while businesses make capital investments to enhance the profits of their enterprise (e.g. manufacturing better widgets at lower cost), government capital resources are invested in non-revenue producing assets such as parks or streets, so there is little incentive to properly maintain those assets.

Since governments are unable to function as private enterprises, then how can they best apply their resources to meet the expectations of their citizens? The answer is the budget. The budget document and the process followed to develop the document should, ideally, optimally apply resources to accomplish community goals. Unfortunately, too many times government officials come to loathe the budget process because it often devolves into an exercise in futility producing anger, frustration, and division.

The objective of this guide is to provide government finance officials with concepts and methods for developing a budget that meets the ideal purpose. The instruction given in this guide is based on programs and products produced by the Government Finance Officers Association (GFOA). The organization manages a program called the *Distinguished Budget Presentation Awards Program* (DBP). The program encourages and assists “state and local governments to prepare budget documents of the very highest quality" (GFOA 2017). Participants in the program submit their budget documents developed to satisfy 27 criteria dealing with the document as a *policy document, a financial plan, an operations guide, and a communication device*. Many of the criteria have been in existence since the awards program began in 1984. However, they have been modified over time to recognize guidelines and best practices published in the document *Recommended Budget Practices, A Framework for Improved State and Local Government Budgeting* (RBP) published in 1998 by the National Advisory Council on State and Local Budgeting. Together, these resources provide a model that will facilitate the process and product of local government budgeting. Materials related to the awards program and the budget practices are freely available from the GFOA website. The URL links can be found in the supplemental reading section of this guide. **These publications are required reading for this segment of the Certified Government Finance Officer program and test questions will address aspects of those documents.**

While the DBP deals with the budget document, the RBP's focus is on the budget process and defines this term as consisting of "activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets" and that the mission of the process "is to help decision makers make informed choices about the provision of services and capital assets to promote stakeholder participation in the process." (RBP 1998, 3). The RBP comprises four guiding principles, twelve elements that support the principles, and 59 recommended practices that elaborate on the elements.

The guide will begin with Texas' statutory requirements for local government budgets. Using the framework of the DBP, the guide will next describe the characteristics of the budget document and the associated processes for developing a budget. Also, various RBP elements and practices will be identified that support budget development. The guide will conclude with instruction for developing and maintaining a capital planning program.

STATUTORY REQUIREMENTS FOR LOCAL GOVERNMENT BUDGETS

Texas requires all local governments to adopt annual budgets. For governments, other than school districts, the requirements are in different chapters of the Local Government Code. For cities, the requirements can be found in Chapter 102, for counties Chapter 111, for special districts Chapter 140. School district budget requirements are stipulated in Chapter 44 of the state's Education Code. While the budget requirements for each type of government are similar, there are variations. Finance officers should become familiar with the statutory requirements for their form of government. This guide will review the requirements for municipal budgets. It should be noted that for home rule cities, there may be budget requirements that are more extensive included in the city charter than what are presented below.

Chapter 102 of the Local Government Code begins with acknowledgement that the mayor, or in the case of a council/manager form of government, the city manager, assumes the responsibility as budget officer (§102.001). The subsequent section requires the preparation of a budget each year (§102.002). The budget must itemize expenditures "to allow as clear a comparison as practicable" between the proposed budget and "actual" expenditures of the preceding year (§102.003). Since budget development takes place during the "preceding" year this section is interpreted as requiring estimates of the expenditures for the current fiscal year. As will be discussed later in this guide, the GFOA awards program requires more extensive year-to-year comparisons. The budget must include at least the following information (§102.003):

(1) the outstanding obligations (or debt) of the municipality;
(2) the cash (fund balance) on hand to the credit of each fund;
(3) the funds received from all sources the preceding year;
(4) the funds available from all sources during the ensuing year;
(5) the estimated revenue available to cover the proposed budget;
(6) the estimated tax rate required to cover the proposed budget.

The proposed budget must be filed with the municipal clerk (city secretary) at least 30 days prior to the date the governing body (city council) votes on the property tax rate and levy. If the proposed budget raises even a dollar more in property tax revenue over the preceding (current) year's budget then the document must include a cover sheet in 18-point or larger type the following: "This budget will raise more total property taxes than last year's budget by (dollar amount and percentage increase), and of that amount (computed to be the taxes generated by new property) is tax revenue to be raised from new property added to the tax roll this year." (§102.005). The budget document must be made available to be "inspected" by the public and if the city maintains an Internet website, the document shall be posted on the site.

The city's governing body must conduct a public hearing on the proposed budget *no sooner* than 15 days following the filing of the budget (§102.006). The public hearing must be advertised “in at least one newspaper of general circulation in the county in which the municipality is located” (§102.0065). At this point, it must be emphasized that if a city’s proposed budget contemplates passing a property tax rate that exceeds the calculated net effective tax rate, there exists a more extensive public hearing and notice requirement. The requirements for setting a property tax rate that is greater than the net effective tax rate are elaborate and detailed in Chapter 26 of the Tax Code and Chapter 140 of the Local Government Code. These requirements are noted in the Property Tax section of the GFOAT Public Finance Study Guide. *Suffice it to say, that if a city contemplates adopting a tax rate that exceeds the net effective rate, the timing for adopting the tax rate and the budget is greatly compressed and should be planned for prior to the filing of the budget document.*

Following the public hearing, the city council adopts, usually by ordinance, the annual budget. Again, if the budget’s property tax rate is greater than the net effective rate, then the council must take a separate vote on the higher rate and the budget document must be accompanied by a statement worded as stipulated in Section 102.007 (d) and which includes the vote of each member of the city council. The adopted budget must be filed with the municipal clerk or city secretary and posted on the city’s website. Section 102.010 allows for amendments to the annual budget. Finally, Section 102.011 allows for a budget to be prepared in accordance with city charter requirements provided the rules are followed for a public hearing and publication pursuant to the rules of Chapter 102. The section also requires the filing of the adopted budget, and amended budgets with the county clerk.

BUDGET AS A POLICY DOCUMENT

The most important aspect of a budget is that it reflects the goals and policies of an organization. This claim is supported by the fact that it is the first area of the budget that receives attention both from the Distinguished Budget Awards Program and the Recommended Budget Practices initiative. Too often government officials neglect this critical component of the budget which usually results in an unsatisfactory conclusion to their budget process. Without a policy framework, the budget process is consumed by debate over allocation of financial resources without any context as to how or why the resources are distributed. Absent established policies, elected officials can hijack the budget process to pursue their interests and programs. And, since a governing board usually consists of several individuals, a budget debate can quickly turn into a struggle in which a program favored by one council member cannot be funded without taking funds from another council member's program; a classic "zero sum" game. A budget should be an exercise in which policies drive numbers rather than numbers driving policy.

Organizational Goals

The first criterion of the DBP awards program is "The document should include a coherent statement of organization-wide strategic goals and strategies that address long-term concerns and issues" (DBP #P1). Likewise, the RBP's first foundational principle is that "a government should have broad goals that provide the overall direction for the government and serve as a basis for decision making." (RBP, pg. 5). The process for developing goals starts with foundational vision or mission statements upon which more detailed goals and objectives are set. Below is an illustration of the relationship of these items.

Illustration 1 – Goals Pyramid

A government begins with a vision of what the community they serve should optimally be. A vision is particularly important for those communities that are experiencing rapid change; for example, Texas outer ring suburbs of metropolitan areas that are transitioning from rural to urban lifestyles. A vision is what the community aspires to be, recognizing that it may take years to achieve the desired result. The vision influences the creation of a mission statement that dictates how a government operates to serve the community and achieve the common vision. Organizational goals are then developed to address different aspects of the community, such as public infrastructure (e.g. streets, utilities), public safety (level of policing, fire, emergency medical services), public recreation (parks, ball fields, playgrounds), and public amenities (libraries, theatres, conference facilities). Organization goals are supported by policies that identify how the government should conduct its business to achieve its goals. Examples of policies include human resources (the hiring and training of government employees), financial (methods for funding government services), and organizational culture (how employees treat their citizens and each other). Finally, short-term initiatives are created that can be realized within the annual budget year.

It must be emphasized that the development of organizational goals is a continual long-term process. Communities that have yet to develop vision and/or mission statements should take a methodical approach to creating their framework of goals and policies. The process should not be attempted during the budget process when funding challenges create a competitive environment not conducive to the cooperative team approach needed for effective strategic planning. Also, organizations that do not have an established goal/policy framework in place should take a "crawl, walk, run" approach and begin with only a few basic goals and policies before attempting a more comprehensive structure.

Soliciting Stakeholder Views and Opinions

The first step towards developing a goal and policy framework is to solicit the views and opinions of community stakeholders. The RBP identifies stakeholders as anyone who has an interest of how a local government should function. Stakeholders can include elected officials, government administrators, employees, citizen and community groups, business leaders, local media, and even the vendors who sell items and services to the government (RBP, pg. 2). RBP recommended practice 1.1 stipulates that "a government should develop mechanisms to identify stakeholder concerns, needs, and priorities" (RBP, pg. 10). This practice can be realized through meetings or workshops government officials have with different groups, public hearings, and surveys. Local governments should consider conducting surveys of their citizens, employees, and elected officials. With the advent of online surveying tools (e.g. SurveyMonkey) it has been relatively easy to solicit opinions. However, a survey should be conducted in a way that the results are truly representative of the entire group population. The problem with online surveys is that they are voluntary and are usually responded to by people who are at the extreme ends of opinion spectrums; they are usually very satisfied or very unhappy with a particular service or program. Also, questions may be improperly phrased and unintentionally introduce bias that steer answers in a certain direction. Organizations may wish to employ companies to perform surveys that render statistically valid results. However, smaller governments with limited funding should consult with area universities and community colleges that have professors and students who can perform the surveys as an academic exercise with little or no expense.

For local governments, the most important opinions are those of their elected officials. These officials should be polled soon after municipal elections (in Texas, May) and before the annual budget process begins in earnest. Attachments A and B include sample questionnaires that can be distributed to council members. The benefit of these surveys is that council members are openly expressing their opinions on city operations and finances in advance of the budget process and provide an opportunity for the council to discuss and arrive at a consensus on how the budget should be developed, thereby giving city administrators valuable guidance in crafting a recommended budget to be considered by the council later in the budget process. The survey responses also help foster council understanding of city operations. For example, in response to a council member who expresses dissatisfaction with the condition of city streets, the public works department can provide a map of city streets color coded by condition and how department resources are applied to repair deteriorated pavement.

Communicating Goals and Budget Priorities

It is the responsibility of the city manager and staff to ensure the budget is developed in accordance with adopted organization goals. If elected officials desire allocation of resources that are outside the scope of the goals, then city management should work with the officials to modify or amend the goals to accommodate changed priorities. The organization's vision, mission, and goals should be incorporated into the budget document. The RBP suggests that, after gathering stakeholder ideas and opinions, broad organizational goals should be developed and disseminated (RBP, Element 3). Within the DBP, there is a criterion that requires the document to describe short-term factors influencing the budget (DBP #P2) and another that mandates the document include a summary message that outlines priorities and issues for the upcoming budget year and how these items are addressed in the budget (DBP #P3). A government may find it helpful to include in the budget document a matrix that illustrates the organization's long-term goals and how they are supported by the various department programs. For example, the goal of providing superior customer service is something all departments would be assigned while the goals of facilitating a vibrant business community and diversified housing would be the responsibility of a city's urban development, building inspection and economic development departments.

Financial Policies

As noted earlier in this section, organizational goals and policies can run the gamut of city operations. Because a budget involves the application of financial resources, an organization should consider placing a high priority on establishing financial goals and policies. Element 4 of the RBP is the adoption of financial policies and includes seven recommended practices. A mandatory policy criterion within the DBP is the requirement that the budget document include "a coherent statement of entity-wide long-term financial policies (DBP #P4). The criterion explains that at the least there should be policies governing financial planning, revenues, and expenditures. In addition to the seven *recommended* practices within Element 4 of the RBP, the GFOA has published over forty *best* practices related to budgeting and financial policies. These policies can be found on the GFOA website (see URL link in the Supplemental Reading section of this guide). In keeping with the crawl, walk, run approach advocated earlier, this section will focus on a few of the more important policies governments should adopt. City finance officers should also be aware of any policies or guidelines that may be stipulated in their city charters. Accompanying these policies are references to Distinguished Budget Presentation (DBP) criteria and Recommended Budget Practices (RBP).

Basis of Budgeting

Local governments should be operating under the generally accepted accounting principles (GAAP) promulgated by the Government Accounting Standards Board (GASB), especially if they expect to receive a "clean" or unqualified opinion on their annual audited financial reports. For governmental functions (as opposed to business functions) GAAP requires the measurement focus / basis of accounting (MFBA) to be current financial resources and modified accrual accounting. Because financial statements within a local government's comprehensive annual financial report include budget to actual comparisons, a government should consider adopting the same MFBA for its basis of budgeting as it does for its accounting. However, if the basis of budgeting differs from the basis of accounting, then the policy should explain the distinction. The basis of budgeting may also include the definition of varying fund types, such as an entity's general fund, special revenue funds, debt service fund, capital project funds, and enterprise funds.

Balancing the Budget

There is no Texas statutory requirement that a local government must adopt a balanced budget and there is no attempt to even define the term. While most members of the public and elected officials believe a balanced budget means that revenues equal expenditures, fund budgets may use (decrease) or supplement (increase) the fund's balance. The purpose of a balanced budget policy is to introduce budgeting discipline where, over the long term, a governmental entity does not spend beyond its means. The policy should identify the funds that must be balanced (for example operating funds versus capital project funds), define balance (e.g. revenues equaling expenditures) and the limitations to using a fund's accumulated surplus. For example, the policy may stipulate that operating funds (such as the general fund) must maintain a minimum fund balance that is a dollar amount ($100,000) or a percentage of expenditures (ending fund balance for a budget year must be at least 15 percent of budgeted expenditures). The policy can also include a conservative budgeting philosophy that stipulates that revenue projections will have an underestimated bias and expenditure projections an overestimated bias so that it is likely actual revenues will exceed budget and actual expenditures will come in less than budget. A balanced budget policy is helpful when local governments confront high stakeholder expectations, such as citizens desiring extended library operation hours or employees wanting wage increases, with limited resources. Balanced budget policies can also direct long-term financial plans that will be discussed later in this guide.

Debt Issuance and Management

The issuance of debt is linked to balanced budgeting in that long-term debt commits the application of financial resources for an extended period. The maturities of long-term debt can range from five to as many as 40 years. General obligation debt is generally supported by a pledge of property tax revenue with a related property tax rate. Governments have also been tempted to issue debt for items considered to be of an operating nature such as maintenance of existing streets because the full cost of maintenance is deferred into the future. A debt policy should define what items can be funded through long-term debt. For example, capital assets such as streets, buildings, parks, water and sewer facilities that have long-term useful lives. The policy should recognize debt limits. These limits may be statutory. In Texas, the issuance of tax-supported debt must be approved by the state attorney general's office which has a guideline that limits debt that can be serviced with a property tax rate of $1.50 per $100 assessed valuation. Cities may invoke limits that are based on outstanding debt per capita or as a percentage of assessed property values. A debt policy can also place a ceiling on debt maturities to shorter periods such as fifteen to twenty years to limit the amount of interest paid on borrowed funds. A local government's debt policy may aspire to obtaining high credit ratings from companies like Standard & Poor's Rating Services and Moody's Investor Services.

Operating and Capital Expenditures

Many of the more difficult budget decisions elected officials and administrative staff must make deal with recurring operating expenditures. Policies are particularly helpful in resolving such issues as appropriate levels of staffing, employee wages and benefits, purchases of supplies and maintenance of equipment. Policies can ensure that city management constantly examine the methods for providing public services with the goal of obtaining the highest level of service at the lowest cost. For example, city staff should evaluate whether certain services can be effectively contracted to private providers. Services such as park maintenance/landscaping, street sweeping and garbage collection may be conducted less expensively by companies that enjoy favorable economies of scale due to their larger operations.

Since personnel expenditures represent 60 to 70 percent of operating fund budgets, policies should be established to maximize the productivity of employees. An organization should establish a benchmark for employee compensation. A policy could be adopted that links wages and benefits of a suburban city or school district to a metropolitan average, or if high expectations are placed on employees, benchmark compensation could exceed the average, such as be within the highest quartile. A policy can require that purchases and maintenance expenditures be made to optimize employee productivity. For example, an improperly maintained police car will have high downtime that limits the ability for the police department to properly patrol the community. A financial policy can require infrastructure maintenance expenditures should be sufficient for addressing the deterioration of capital assets. It costs much less to maintain a lane mile of slightly deteriorated streets than it does to rehabilitate a significantly damaged street.

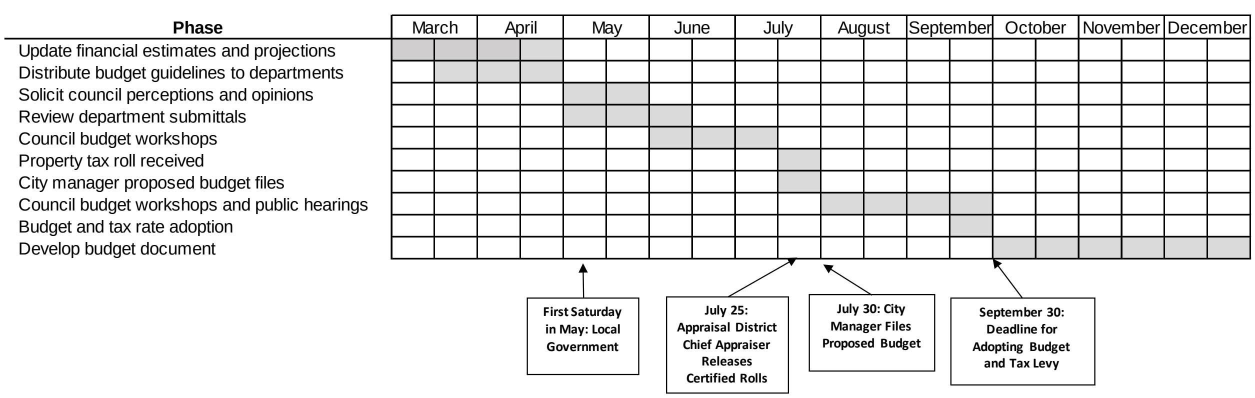
Capital investments should be made in context of policies that define a capital purchase. Local governments may establish a rule that capital expenditures are those exceeding a certain cost threshold (e.g. $10,000) or useful live (e.g. five years). Like operating expenditures, a policy can stipulate that capital investments should be made to meet such objectives as enhancing employee productivity, improving quality of service, or expanding the scope of service delivery. Investments in capital infrastructure (buildings, streets, bridges) should be distinguished from maintenance expenses by cost and useful life limits. For example, replacing one heating, air conditioning (HVAC) unit in a building at $5,000 may be considered a maintenance expenditure while replacing the entire building's HVAC system at $100,000 could be considered a capital expense. Capital infrastructure investment policies can assist officials with determining what items should be supported with current operating funds rather than proceeds from the issuance of debt. More extensive discussion of capital programs can be found in the Capital Planning section of this guide.

Policies governing operating and capital expenditures can help local government management and elected officials to prioritize the budgeting of different programs and mitigate the propensity officials have for reducing funding for basic needs to fund new programs. To balance the budget, officials will often resort to across-the-board reductions in supply and maintenance expenditures with the hope that they are "cutting fat" from the budget. Having policies in place can instill a measure of discipline that deters officials from making these decisions without considering the consequences.

The Budget Process

Developing a useful budget that successfully matches resources and programs with organization goals requires a methodical process. Because Texas local governments have statutory deadlines for adopting their budgets and property tax levies, a budget process must schedule enough time for appointed and elected officials to prepare preliminary budgets, discuss priorities, options and alternatives, hold public hearings and formally adopt the budget. Public officials tend to push critical decisions to the end of the process which invites stress and animosity among the stakeholders. A local government should establish a formal budget calendar that begins with finance staff updating fiscal estimates for current year revenues and expenditures and development of projects for the ensuing year. Next, city management should solicit council opinions of the budget early in the process (again, soon after May elections) so that the budget is developed to meet the expectations of the council consensus. Finally, public hearings are scheduled in accordance with statutory and city charter requirements and votes are taken adopting the budget. Below is a sample calendar for Texas cities.

Illustration 2 – Sample Budget Calendar



Finance officers must be aware of both the statutory requirements for budget development as well as any special requirements noted in the city's charter. Although mentioned earlier, it cannot be stressed enough that if a city considers a property tax rate higher than the calculated net effective tax rate, Texas law requires a series of council actions, notices, and public hearings that significantly compresses the budget schedule in August and September.

BUDGET AS A FINANCIAL PLAN

The second major aspect of a budget document according to GFOA's *Distinguished Budget Presentation* program is that the document is a financial plan that connects an organization's goals and objectives with the funding of programs and projects that support those goals. A financial plan should have both short-term and long-term components. The short-term component would be presented by financial statements that focus on the current year with estimate to budget comparisons and the new budget year. The long-term would be satisfied with a three to ten-year projection of revenues and expenditures for an organization's major operating funds. The following are the DBP's financial plan criteria with related recommended practices from the RBP.

Financial Statements

<u>Consolidated Financial Schedule</u>

A mandatory criterion of the DBP is that the budget document must include a consolidated financial statement reflecting the governmental entity as a whole. Although most local governments, and especially cities, budget resources by fund and fund type, it is important to show how the organization is doing as a whole. This requirement has taken on additional importance with the issuance of the Governmental Accounting Standards Board (GASB) Statement 34 that required governments to have a dual presentation of its finances: government-wide and individual fund. The consolidated statement should list all major funds, with consolidation of minor funds by fund type (e.g. special or capital project funds), beginning and ending fund balances, revenues by major grouping and expenditures by major category. On the next page is a sample consolidated schedule (illustration 3).

Although the schedule is somewhat self-explanatory, there are several features of the statement that require description. First, transfers between funds are recognized either with revenues (transfers in) or expenditures (transfers out). It is important to note that total transfers in and out should equal with no net effect to consolidated fund balances. Second, beginning balances are added to revenues to arrive at "total available resources." This designation is important because changes in fund balance are critical to understanding whether the government as a whole, or an individual fund, is encountering funding difficulties that need to be explained. For example, the budget document should explain that capital project funds are, by their nature, intended to be drawn down and experience declining fund balances. Finally, in keeping with the expectations of the public and elected officials, the sample presentation reflects a "balanced" budget where revenues, plus or minus changes to fund balances, equal total expenditures, or appropriations.

Illustration 3. – Sample Consolidated Financial Schedule

COMBINED SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

All Funds Subject to Appropriation

	General	Special Revenue	Debt Service	Capital Project	Utility Enterprise	Total
BEGINNING BALANCES	$ 300,000	$ 175,000	$ 250,000	$ 2,800,000	$ 225,000	$ 3,750,000
REVENUES:						
Property tax	1,800,000	-	650,000	-	-	2,450,000
Non-property tax	950,000	300,000	-	-	-	1,250,000
Licenses and permits	125,000	-	-	-	-	125,000
Service fees	500,000	100,000	-	-	825,000	1,425,000
Fines and penalties	150,000	-	-	-	-	150,000
Interest & other	75,000	25,000	30,000	75,000	50,000	255,000
Total revenues	3,600,000	425,000	680,000	75,000	875,000	5,655,000
Transfers from other funds	-	-	50,000	-	-	50,000
TOTAL AVAILABLE RESOURCES	3,900,000	600,000	980,000	2,875,000	1,100,000	9,455,000
EXPENDITURES:						
General government	400,000	-	-	-	-	400,000
Public safety	1,850,000	-	-	-	-	1,850,000
Public works	750,000	-	-	-	500,000	1,250,000
Parks & recreation	500,000	100,000	-	-	-	600,000
Tourism & economic development	-	300,000	-	-	-	300,000
Debt service	-	-	725,000	-	175,000	900,000
Capital projects	-	-	-	2,250,000	150,000	2,400,000
Total expenditures	3,500,000	400,000	725,000	2,250,000	825,000	7,700,000
Transfers to other funds	-	50,000	-	-	-	50,000
ENDING FUND BALANCES	$ 400,000	$ 150,000	$ 255,000	$ 625,000	$ 275,000	$ 1,705,000

Total Revenues		5,655,000		
Decrease (Increase) in fund balance		2,045,000		
Total Appropriable Funds	$	7,700,000	Total Appropriations	$ 7,700,000

<u>Multiple Year Fund Financial Summary</u>

Presentation of individual funds should be with a multi-year perspective that includes the prior year actual amounts, current year budget and/or estimate, and the proposed year budget. While the DBP criterion does not require a current year budget to estimate comparison, it is recommended that it be included so that the public and elected officials can evaluate how current year finances are performing compared to the assumptions in the adopted budget. Illustration 4 on the following page presents a sample of an individual fund statement.

As with the consolidated fund schedule, the individual fund statements should include beginning balances, revenues and transfers in, expenditures and transfers out, and ending balances. The ending balance of the prior year should equal the beginning balance of the estimated current year, and the ending balance of the current year equal the beginning balance of the subsequent budget year. It is important that the actual amounts reflected for the previous year in the budget presentation match the amounts reported in the entity's audited financial statement. Audited financial statements validate the assumptions made in the budget and give a measure of assurance that an "apples to apples" comparison can be made of amounts reported from one year to the next.

Illustration 4. – Sample Individual Fund Statement

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Budgeted Fiscal Year Ending September 30, 2018

	2015-2016	2016-2017		2017-2018
	Actual	Budget	Estimate	Budget
BEGINNING BALANCE	$ 235,417	$ 210,000	$ 192,100	$ 300,000
REVENUES:				
Property tax	1,588,353	1,690,000	1,673,400	1,800,000
Non-property tax	826,919	873,000	900,700	950,000
Licenses and permits	107,528	110,000	114,650	125,000
Service fees	479,842	520,000	493,250	500,000
Fines and penalties	112,654	145,000	143,800	150,000
Interest & other	45,417	50,000	63,500	75,000
Total revenues	3,160,713	3,388,000	3,389,300	3,600,000
TOTAL AVAILABLE RESOURCES	3,396,130	3,598,000	3,581,400	3,900,000
EXPENDITURES:				
General government	367,428	375,000	367,350	400,000
Public safety	1,682,547	1,785,000	1,764,600	1,850,000
Public works	679,333	703,000	691,900	750,000
Parks & recreation	474,718	465,000	457,550	500,000
Total expenditures	3,204,026	3,328,000	3,281,400	3,500,000
ENDING FUND BALANCE	$ 192,104	$ 270,000	$ 300,000	$ 400,000

It should be noted that fund balances in the sample General fund statement are increasing each year. This trend may be a result of the city adopting a policy that established a minimum fund balance of ten percent of operating expenditures. Not only is the reporting of fund balances a mandatory criterion of the Distinguished Budget Presentation Program (#F5), but budgets that exclude presentation of fund balances are denying government stakeholders a critical perspective. Some governments try to get away with showing a revenue line item of "appropriations of fund balance" in order to "balance" the budget but a reader is unaware of how the balance has changed and whether the practice of drawing down on fund balance is sustainable.

Description of Major Revenues

A government's budget document should include a description of major revenues, either as part of the narrative discussing a particular fund (e.g. General, Hotel Special Revenue, or

Water/Sewer Enterprise) or as an appendix. The DBP criterion (#F6) requires governments to include descriptions of revenues that comprise at least 75 percent of a government's funding. Descriptions would include the components of the revenue (rate multiplied by quantity) and reasons for any significant variances from one year to the next. It would be helpful to note short-term or long-term trends in major revenues by reporting the previous five to ten year collections and whether revenue projections for the budget year are based on the trends. The purpose of this discussion is to give stakeholders justification for the amounts they pay to support government operations.

For most Texas local governments, the primary source of revenue is property tax. A government should report that the tax levy is based on total assessed values, the tax rate and, if applicable, the portion of the tax rate dedicated to operation and maintenance and the portion needed to service outstanding debt. The tax narrative can also include exemptions adopted by the government (e.g. homestead), tax caps (senior freezes of values) and abatements (economic development incentives). City governments that have adopted sales taxes should reveal the rate (up to two percent in one-eighth increments) and the source of sales tax by major category, for example retail, wholesale, services, and manufacturing.

Non-tax revenues include fees and charges directly related to services provided by local governments. Cities provide a wide range of services that typically are supported by fees as summarized below:

Urban Development: zoning and plat review; building inspection

Parks & Recreation: swimming pool admission; athletic field rental; recreation programs

Sanitation: garbage and brush collection

Utilities: sale of water and treatment of wastewater

Rather than formulating charges on some ad hoc basis, governments should consider adopting a policy establishing guidelines for fees and charges (RBP #4.2). For example, should fees totally support the cost of providing the service or should the service be subsidized? Cities usually pass on to consumers the full cost of sanitation and water/wastewater services. However, cities often subsidize recreation programs to encourage families to participate in social activities. Fees can also be structured to accomplish certain objectives. Cities wishing to incentivize conservation and curtail water consumption may adopt an inclining rate base where water becomes more expensive at higher volumes of consumption. While it would be impractical to list all charges in a budget document's revenue section, those charges that contribute a significant amount to a government's finances, such as utility fees, should be detailed to the extent that the average residential or commercial customer can estimate their monthly costs of service. For example, what is the volume of water consumed in a month by the average single-family residence in the city and what is the associated charge?

Long-Range Financial Plan

Although allocation of resources in an upcoming year's budget can be considered short-term decisions, they usually have long-term consequences. For example, a city may entertain a request from the police department to add an additional officer. Compensation and benefits associated with the position for the upcoming year can total $80,000. That request is balanced against a proposal to replace an aging heating/air conditioner (HVAC) system at city hall with a more efficient system that costs $300,000 but will save $10,000 a year in electricity. Comparing the two requests reveals that in the upcoming budget the additional position would be $210,000 less expensive than the HVAC system ($290,000 - $80,000). However, over a five-year planning horizon, the comparison reveals that the HVAC system is less expensive than the additional position ($300,000-$50,000 or $250,000) compared to (5*$80,000 or $400,000). Criterion #7 of the DBP recommends that a long-term financial plan extends at least two years beyond the budget year. However, a horizon of between five and ten years would provide elected officials and administrative staff a better understanding of the financial impact of programs competing for short-term budget allocations. A sample long-term financial plan for a general fund is presented at the end of this section (Illustration 5).

The sample long-term plan highlights several components that have the greatest impact on the general fund's finances. Because the property tax rate is viewed by elected officials and the general public to be the price tag of government it receives a great amount of attention during budget development. For this reason, a long-term financial plan with a five or ten-year planning horizon can reveal how the property tax rate changes from one year to the next based on such variables as assessed property values and the amount of general obligation debt supported by the property tax. Also, Texas effectively limits the ability of cities to increase the property tax rate over the net effective rate (see extensive discussion of topic in CGFO Public Finance Study Guide), so if a city required additional property tax revenue, the organization may wish to pursue increasing taxes in small increments over several years rather than trying to obtain a large increase in any one year.

The property tax levy is usually influenced by a local government's debt secured by property taxes. The sample long-term plan reveals for each year the amount of debt outstanding at the beginning of the year, the amount of principal retired and any new debt that is contemplated for the planning horizon. In the sample plan, $3 million is issued for the 2016-17 budget year, but another $16 million is planned to be issued the subsequent 2017-18 year. With the additional debt, the tax rate dedicated to debt service increases from 18.21¢ per $100 assessed value in 2015-16 to 20.86¢ in 2018-19. As debt is retired, the debt service rate begins to decline the final two years of the planning horizon.

Property tax rates are applied against the assessed values to arrive at the tax levy. The sample long-term plan reflects how the assessed values change from one year to the next. A long-term horizon allows the government to recognize development trends in values. For example, local governments in the Dallas-Ft. Worth metroplex experienced significant increases in single-family property values from 2015 through 2017 this trend can be factored into future year projections. Also, if a city expects a large development to come two to three years into the future (e.g. the Dallas Cowboys Star Complex in Frisco), the new construction values can be factored into the plan. Alternatively, if a city knows a retail mall is struggling and likely to close, those lost values can also be factored into the plan.

Revenue trends can also be incorporated with other revenue sources such as sales taxes, franchise (street rental) and permitting fees. Decisions related to increasing service fee schedules (e.g. garbage collection) can also be factored in, whether the fee increases occur in the budget year, or are scheduled later in the planning horizon. Although interest income has been depressed the first 15 years of the 21st century, prior to that period it comprised a significant amount of revenue to government funds. The long-term plan can include a calculation that applies an assumed interest rate against the ending fund balances to arrive at interest income. The projected interest income then will fluctuate based on changing rates and the amount of funds available for investment.

Trend analysis is also important when projecting expenditures. For most local governments, personnel costs are the largest general fund expense, ranging from 60 percent to 70 percent of total expenditures. Although staffing costs vary among operating departments (e.g. police relative to parks/recreation), the mean costs of all positions included in a general fund are very consistent. Also, any benefits given to one group of personnel, such as cost-of-living adjustments and health care, are usually shared by all groups. The sample long-term plan reflects the personnel component by reporting staffing in terms of full-time equivalent (FTE) positions. An FTE is equivalent to a person working 40 hours per week for 52 weeks, or 2,080 hours. The benefit of tracking personnel by FTE is that it can account for part-time and temporary positions. A part-time position working 20 hours per week is one-half (.5) FTE. A temporary position, such as a summer life guard at a public pool working full-time for 12 weeks would be .23 FTE. Multiplying total FTE times average personnel costs (salary plus all benefits) returns the personal services cost for each year.

With a long-term planning horizon, a city can factor in the cost of increasing staffing beyond the budget year. For example, assuming bonds are issued in 2017-18 to fund a new recreation center that requires a staff of four positions for an average 10 hours a day, seven days a week. The center will not be completed and staffed until 2019-20. During that fiscal year, the general fund adds 7 FTE (4*10*365/2080), when multiplied by median salary, which increases total personnel costs by about $572,500. The same assumptions can be made for supplying the center ($25,000), maintaining center equipment ($25,000), and paying for utilities and other contractual services ($100,000).

A long-term financial plan is only as good as its underlying assumptions and finance officers should take precautions to protect the integrity of the plan. First, the plan should reflect the government's budgeting philosophy. If the philosophy is conservative (recommended), then the plan should purposely underestimate revenues and overestimate expenditures and related trends. It is always better to share with elected officials a plan where actual results will likely be (but not guaranteed) better than projections. Second, while PC spreadsheets (i.e. Microsoft Excel) make it relatively easy to develop long-term financial statements, a cell with an incorrect formula can wreak havoc with results several years into the future. Spreadsheets should be manually audited by a staff member equipped with a simple calculator.

Illustration 5. – Sample Long-Term Financial Plan

GENERAL FUND LONG-TERM FINANCIAL PLAN
City Council Adopted 2016-17 Annual Budget

	Actual 2014-15	Estimated 2015-16	Budget 2016-17	Year 1 Projected 2017-18	Year 2 Projected 2018-19	Year 3 Projected 2019-20	Year 4 Projected 2020-21
BEGINNING BALANCE	$10,652,742	$10,856,750	$9,397,280	$8,992,390	$9,315,110	$10,364,140	$11,421,160
REVENUES:							
Property tax	$10,771,166	$10,280,000	$10,812,470	$11,101,820	$11,385,130	$11,660,520	$11,928,200
Non-property tax	10,077,839	10,401,510	10,305,340	10,614,500	10,932,900	11,260,900	11,598,700
Franchise fees	2,578,154	2,602,160	2,597,000	2,648,900	2,701,900	2,755,900	2,811,000
Licenses and permits	833,178	1,016,090	728,490	743,100	758,000	773,200	788,700
Service fees	1,491,528	1,346,150	1,408,460	1,436,600	1,465,300	1,494,600	1,524,500
Fines and penalties	1,158,581	1,039,090	1,143,500	1,166,400	1,189,700	1,213,500	1,237,800
Interest income	60,681	34,580	30,000	30,600	31,200	31,800	32,400
Rental income	146,821	153,000	153,000	156,100	159,200	162,400	165,600
Miscellaneous	144,670	92,470	47,730	48,700	49,700	50,700	51,700
TOTAL REVENUES	$27,262,618	$26,965,050	$27,225,990	$27,946,720	$28,673,030	$29,403,520	$30,138,600
EXPENDITURES:							
Operating:							
Personal services	18,518,647	18,760,620	18,460,570	18,460,600	18,460,600	19,033,100	19,033,100
Supplies	1,182,731	1,218,300	1,276,050	1,276,100	1,276,100	1,301,100	1,301,100
Maintenance	1,808,162	2,023,200	2,132,460	2,132,500	2,132,500	2,157,500	2,157,500
Contractual services	4,509,933	4,542,420	4,670,500	4,670,500	4,670,500	4,770,500	4,770,500
Capital replacement/lease	4,843	1,073,300	1,084,300	1,084,300	1,084,300	1,084,300	1,084,300
Capital outlay	35,556	106,680	7,000	-	-	-	-
Fund transfer out	998,737	700,000	-	-	-	-	-
TOTAL EXPENDITURES	27,058,609	28,424,520	27,630,880	27,624,000	27,624,000	28,346,500	28,346,500
ENDING FUND BALANCE	$10,856,751	$9,397,280	$8,992,390	$9,315,110	$10,364,140	$11,421,160	$13,213,260
Excess (Deficiency) of Revenues over Expenditu	$204,009	($1,459,470)	($404,890)	$322,720	$1,049,030	$1,057,020	$1,792,100
Ending balance as a % of expenditures	**40.1%**	**33.1%**	**32.5%**	**33.7%**	**37.5%**	**40.3%**	**46.6%**

Debt issuance variable:							
Beginning debt outstanding	$54,671,900	$50,837,380	$47,518,770	$45,573,570	$57,376,190	$52,991,950	$48,406,860
Principal retired	3,834,520	3,318,610	4,945,200	4,197,380	4,384,240	4,585,090	3,797,190
Principal issued	-	-	3,000,000	16,000,000	-	-	-
Ending debt outstanding	$50,837,380	$47,518,770	$45,573,570	$57,376,190	$52,991,950	$48,406,860	$44,609,670

Tax rate variables:							
Taxable values (thousands)	$ 3,238,051	$ 2,985,048	$ 3,028,043	$ 3,198,884	$ 3,374,850	$ 3,556,096	$ 3,742,779
Maintenance & Operation	$ 0.3360	$ 0.3479	$ 0.3634	$ 0.3541	$ 0.3442	$ 0.3346	$ 0.3252
Debt service fund rate	$ 0.1600	$ 0.1821	$ 0.1981	$ 0.1978	$ 0.2086	$ 0.1980	$ 0.1636
Total (rounded)	$ 0.4960	$ 0.5300	$ 0.5615	$ 0.5519	$ 0.5528	$ 0.5326	$ 0.4888

Staffing variable:							
Full-time equivalent positions	234.8	229.0	226.2	225.7	225.7	232.7	232.7
Average cost per FTE	$78,870	$81,924	$81,612	$81,793	$81,793	$81,793	$81,793

BUDGET AS AN OPERATIONS GUIDE

A budget is often viewed in just the financial context. However, it can also be used to reflect how government resources are used by operating departments to accomplish the goals and objectives stipulated in the budget's policy section. The budget as an operations guide has several components. First, the document should describe the purpose and operating objective of each department. Second, the department narrative should report the organization's accomplishments of the current operating year and the operating objectives for the upcoming budget year. Third, the department presentation must reflect the staffing component in terms of positions and the lines of supervision as well as the financial resources appropriated for the department's use. Finally, the department section includes relevant performance measures that ideally are linked to the department's operations.

Description of Department/Program Functions

Each operating department must include a description of its purpose and how it relates to a local government's vision, mission, and objectives. The department responsible for supervising the budget development process (e.g. city manager or finance) must ensure that the various department narratives are not simply copied from the previous year but embrace the operating departments' methods for providing programs that match with organization-wide missions and goals. If a city seeks to maintain an environment in which its citizens feel secure, how is that accomplished? Police departments frequently depend on such boiler-plate language as "to protect and serve" But the scope of services provided by most urban police departments is much more complex than that simple objective. Do police have programs to interact with schools and community groups? Do patrols comprise just driving around neighborhoods and being seen, or do officers get out of their cars to converse with citizens in non-emergency situations? How does the enforcement of traffic laws mitigate accidents? These questions should be answered within the department narrative.

With the advance of technology, the provision of traditional services is changing. Because of fire-resistant building materials and commercial building fire control systems, the proportion of time spent by fire departments actually fighting fires is much less now than twenty years ago. A fire department is evolving into an emergency response department focusing more on emergency medical care and containment of hazardous materials and the department description should include these expanded levels of service. Developing a budget provides the opportunity for government officials to evaluate the optimal delivery mechanism for services. Cities with parks departments may look to private landscaping crews to assume the responsibility of routine mowing, freeing city crews to concentrate on planting of seasonal color in front of city buildings and landscaped medians. As noted earlier in the policy section of this guide, an organization's management team should consider polling elected officials to determine their level of satisfaction with operations. A department objective for the budget year can be tailored to respond to concerns expressed in the satisfaction survey. For example, to address a concern that a blighted area of the community needs to improved, the building inspection department may add overtime to its budget with the short-term objective of bringing a number of deteriorated buildings into code compliance.

Department goals and objectives should be objective and allow for the determination of how successful a department has been in achieving the stated objective. During the budget evaluation phase by city management and elected officials, operating departments would provide updates on progress made for accomplishing long-term goals and short-term objectives. The department narrative for the new budget then would include these updates. New program initiatives, especially those associated with additional funding should be listed in the department narrative, ideally identifying the financial impact to the budget to the initiative. Finally, a department narrative should reference any outside funding, such as intergovernmental grants. Identifying grant funding is particularly important if the grant is focused on achieving specific goals and is of limited duration.

Reporting Organization and Department Staffing

A government's most important resource is its employees. The number and quality of employees directly influence the scope and quality of services to the community. A government's budget should reflect total organizational staffing broken down at least by department and, if appropriate, individual program. Staffing should be reported in full-time equivalency (FTE). One FTE is generally understood to be a position working 40 hours per week for 52 weeks, or 2,080 hours. FTE reporting accommodates the standardized reporting of part-time and temporary/seasonal positions. Departmental staffing levels should be reported by position title, or at least the category of the position. For example, administrative, supervisory, professional (includes police and fire/ems), laborer, and clerical. Since compensation levels are of interest to government stakeholders (especially employees and taxpayer groups), department staffing tables can be expanded to include the salary levels of the position. The salary level (e.g. level 10) can be referenced to a salary schedule with annual salary bands (e.g. $35,000 to $55,000) reported elsewhere in the budget document. The budget document must include an entity's organization chart featuring the lines of authority between citizens, elected officials, and appointed managers and directors. Although not required by the DBP, since employees may want to be aware of their place in the organization, the document should include department/program organizational charts reflecting scope of supervisory control.

Performance Measurements

Although everyone recognizes the importance of measuring the performance of government programs, identifying the appropriate measures is one of the more difficult aspects of budget development. There are several challenges to developing a good performance measurement program as described below.

1) *Overcoming department resistance to being held accountable for performance.* It is only natural that people are hesitant to be publicly evaluated on program effectiveness, especially if the evaluation reflects negatively on the department managers and staff. Departments also object to measurements of factors they do not directly control. The best example of this is holding police departments responsible for minimizing the crime rate. Crime is more related to a community's socio-economic environment than the effectiveness of police patrol and investigative programs. A community with a higher proportion of poorly educated, unskilled and low income families will have a higher crime rate regardless the quality of the police department.
2) *Ease and consistency of measurement.* Program measurements are usually delegated to clerical staff who may not have the tools, skills, or incentive to properly record the information. For example, a good measurement of efficiency and customer service would be the length of time payment is made to a vendor following receipt of invoice with the understanding that the fewer the number of days, the better. However, invoices may be received by different departments before being forwarded to the accounts payable office; should the timing begin with the department's receipt of the invoice or the accounts payable receipt? What if an invoice is received prior to the materials or services being fully delivered? How does the recording clerk know to "stop the clock" until verification of delivery is made? What if the person responsible for tracking this information is off on vacation, sick leave, or resigns? Who performs the work during the absence and is that person trained to measure the timing in the same way?
3) *Identifying truly meaningful measurements.* Not only should measures by quantifiable, they should actually relate to a department's performance. For example, reporting the number of processed payrolls as a workload measurement is of no value when an organization processes payroll every two weeks; the annual number will always come out as 26. A street department may count the number of repaired potholes. But what is the department's definition of a repair? A department can report a higher magnitude of repairs if their definition is shoveling cold asphalt mix into the hole, but this method of repair will last only until the next rain when the asphalt quickly deteriorates. A better method of repair is cutting out the pavement surrounding the pothole, using hot asphalt mix and properly compacting the asphalt with special equipment. That pothole will stay

repaired for years, but the department can repair only a fraction of the potholes “repaired” with the first method.

4) *Comparability of measurements.* Measures should be structured so that they can be compared over time (consistency from one year to the next) and between organizations (one city to the next). However, care must be taken ensuring the measurements allow for “apples to apples” comparisons. Some cities measure the response times of police and fire departments to emergencies. But cities may measure this outcome differently. Does the clock start when the call is received or when a unit is dispatched? When does the clock stop; when the unit arrives at the address or when contact is made with an individual on site?
5) *Integrity of reported measurements.* Unfortunately, if people are evaluated and/or compensated based on program measurements, there will be an incentive for the reporting of false or distorted information. The most blatant and publicized examples are associated with the introduction of standardized testing in K-12 public education, where there have been many documented instances over the years of school teachers and administrators reporting false student grades, or helping students cheat to enhance their grades. Performance measures should be periodically audited to ensure their accuracy.

Ideally, program measurement should be generally related to an organization’s mission and goals and directly linked to a department’s operations. The measurements should be objective, measurable and consistent, and relatively easy to collect and administer. Measurements can be selected that reflect program workload, but of more importance are those based on effectiveness and efficiency of service. As with the development of organization policies noted earlier in this guide, organizations should take the “crawl, walk, run” approach to program measurement. City administrators should meet with departments to identify those areas that can be best measured and obtain department support of the measurements. Measurements that are imposed on departments without their agreement and cooperation are doomed to failure.

Organizations should not be hesitant to adopting measurements that directly relate to program effectiveness even if the measurement may be unique and not comparable with other governments. For example, a city may be concerned with traffic congestion with a particular arterial street. Measuring the time of travel from one location to another on that street during rush hour and non-rush hour periods can reveal whether the problem is getting better or worse and could result in varying the timing of traffic signals to improve traffic flow. At one time, this measurement could be recorded by having a city employee with a stop watch making periodic trips along the roadway. However, with the advent of global positioning system (GPS) tracking devices, the measurement can now be made with minimal manual record keeping.

BUDGET AS A COMMUNICATIONS DEVICE

Hundreds of hours are invested by a government's elected officials, administrators, and support staff in developing a budget that is then reported in a formal document. Considering this significant investment, it is disheartening to know that the final budget document will be read or referred to by very few individuals. This outcome is due in large part that a government's citizens have little interest in what the document has to say. However, governments also must take some responsibility for producing documents that have little appeal to the public. Finance officers who participate as reviewers in the Distinguished Budget Presentation program can attest to the difficulty of wading through submitted documents that were four inches thick, and some with multiple volumes! Of course, prior to the growth of the Internet as a source of information accessing a local government's budget entailed traveling to city hall, the county courthouse, or the local library. But even today, many local government websites are designed in such a way as hindering easy access to the pertinent portions of a budget document. Fortunately, both the DBP and RBP offer suggestions for preparing a document that will allow interested stakeholders to obtain the information they seek.

Budget Summary

As mentioned in the policy section of this guide, the DBP includes a criterion that mandates a budget message that provides a budget overview that includes priorities, issues, and salient financial features. This message usually takes the form of a letter from an entity's chief executive officer (e.g. city manager, school superintendent, county judge) to the respective legislative body (city council, school board, county court). While the message presented in this context is important, in that it presents valuable perspective for the decisions reflected in the budget, it may be too long for a layperson to read and appreciate. Therefore, the organization should consider adding a "budget-in-brief" section of the document that describes, in bullet form, the major budget items. This summary can resemble a press release that is distributed to local media who desire a concise overview. These summaries should be formatted to be "lifted" from the document and placed separately on a local government's homepage website. The summary can be accompanied with hyperlinks that lead a reader from the summary to a more detailed narrative within the budget document. For example, the acknowledgement in the summary that the budget assumes issuance of debt can include a hyperlink to the debt service section of the formal document. The summary should attempt, even in abbreviated form, explanations of any significant changes to revenues, the property tax rate, expenditures and staffing. Again, hyperlinks can take the reader to more extensive discussion elsewhere in the document.

Document Navigation

When a budget document was available only in hard copy, it was relatively easy to navigate by accessing the table of contents, searching the section of interest, and then going to the appropriate page number. Some budget documents included tabs that separated the major sections. A hard copy also allowed a reader to quickly fan the pages until a pertinent heading caught their eye. Although the Internet allows for easier access *to* the document, finding the information on an electronic file *within* the document can be more difficult unless the electronic file is properly formatted. Most documents are now saved as a .PDF (Portable Document Format, Adobe Acrobat) file. Adobe has incorporated many features to assist with navigating documents, and local governments are encouraged to use all of them. First, bookmarks can be added that refer to the first page of a section and are similar to tabs in hardcopies. Bookmarks can be formatted to include subsections as well. A document's table of contents can include hyperlinks for each page identified in the table of contents. The hyperlinks are highlighted in a color so a reader knows when a hyperlink has been inserted. Clicking on the hyperlink will take the reader directly to the page. Finally, a PDF file's page numbers can be adjusted to match the document's page numbers.

Document Usability

As mentioned earlier in this guide, there exists a wide range of stakeholders who have an interest in a local government's budget. These stakeholders also have varying degrees of literacy allowing them to understand the information presented in a budget document. For example, on one end of the spectrum are bond rating agency analysts who likely have advanced college degrees; on the other end are members of the public who may possess only high school educations of dubious value. Unfortunately, most organizations do not possess the resources to publish different documents for each stakeholder group so a budget document should be developed using techniques to enhance the understandability to all readers regardless of literacy.

In terms of writing narratives, there exists a helpful document published by a group of employees from different federal agencies titled *Federal Plain Language Guidelines* (2011). The guidelines include such tips as using headings with each section, writing short sentences, utilizing active (versus passive) voice, and omitting unnecessary or duplicitous words. Executive summaries or budgets-in-brief should, by their very nature, be presented in abbreviated form. But even more extensive narratives describing governmental funds, departments, and programs should be proofed to ensure all descriptions are as concise as possible. Local governments will be unable to refrain from using jargon, particularly with financial narratives, so it is important to include a glossary in the document that defines certain technical terms and concepts (e.g. ad valorem or arbitrage). Governments tend to excessively use acronyms which can add to reader confusion. Acronym definitions should also be included in the document's glossary. Electronic documents should hyperlink technical terms and acronyms directly to the definitions in the glossary.

Readers of all levels of literacy appreciate the use of illustrations and graphs to display statistics and trends. Pie charts can be used to present “snapshot” compositions of revenues and expenditures for a particular year, while stacked bar charts can share the same information, but over a period of several years. With line or bar graphs, consider adjusting the y-axis limits to highlight relatively minor variances. For example, if total expenditures over a five-year period range from $2.7 million to $3.2 million, the y-axis lower limit should be $2.5 million rather than $-0-. Care should be exercised when using three-dimensional graphing capabilities. Although three-dimensional graphs may enhance the graph’s appearance, these can make it more difficult to detect trend variances.

Since documents are now presented in electronic file formats, the document should employ liberal use of color which adds not one cent to the cost of the document, compared to thousands of dollars with hard copies. Using different colors for section headings or identifying key terms within a sentence can break up the monotony of a long narrative. Graphs and illustrations will be enhanced with color. Budget documents can be made more attractive with the inclusion of photographs. However, extensive use of pictures can distract a reader from the narrative and financial tables and should be limited to divider pages between major sections.

CAPITAL PLANNING

Capital planning has taken on greater importance with local government budgeting, particularly for cities responsible for serving their communities with a broad and diverse scope of services. Providing effective and efficient services not only requires a competent and dedicated workforce but also capital equipment and infrastructure that optimizes workforce productivity. The Dallas/Ft. Worth metroplex offers wonderful case studies of capital planning. Within the metroplex are the major cities of Dallas and Ft. Worth, inner-ring suburban cities such as Garland, Grand Prairie, Irving, Mesquite and Richardson, and outer-ring suburbs such as Allen, Frisco and Southlake. Each of these types of communities is experiencing varying challenges related to capital equipment and infrastructure. Major cities and inner-ring suburbs are confronted with aging street, drainage and water/wastewater systems that are becoming increasingly expensive to maintain and repair. For older cities, such as Dallas, deferred maintenance is the problem. In 2015, Dallas was reported to have over 32,000 potholes and that to adequately repair all the city's streets would require $900 million (Dallas Morning News, July 14, 2015). Outer-ring suburbs are challenged in providing new infrastructure to accommodate rapid growth. In just four years, from 2013 through 2016, the City of Frisco issued $144 million in general obligation bonds, representing a 34 percent increase in their total outstanding debt (City of Frisco Debt Service Summary, FY2017).

Unfortunately, too many local governments approach capital projects on an *ad hoc* basis that responds to immediate needs without carefully considering the impacts of funding the projects. Capital projects, and the debt usually associated with the projects, extend decades into the future, significantly influencing a government's finances for many years. Only with a comprehensive capital planning program can a local government properly plan and manage this critical component to public services. As with the various aspects of budgeting reviewed earlier in this guide, the Recommended Budget Practices (RBP) and Distinguished Budget Presentation (DBP) materials developed by the Government Finance Officers Association provide valuable guidance and will be extensively referred to in this section.

Defining and Assessing Capital Assets

The foundation of a capital planning program is the defining and identification of capital assets. Typically, capital assets are those of relatively significant expense with useful lives of at least several years. However, organizations have the flexibility to establish definitions that are suitable to their operations. Every capital asset should be identifiable and included in an inventory of capital assets. For practical purposes, larger organizations may wish to establish relatively high minimum monetary thresholds for equipment ($25,000) versus smaller entities who elect smaller thresholds ($5,000). Likewise, monetary thresholds for capital projects such as streets can range from $50,000 to $250,000, with amounts less than these thresholds being considered as operating expenditures. Capital equipment useful lives can vary between three years (for a patrol car operating 24 hours a day/7 days a week) and 20 years (fire truck). Useful lives for fixed capital assets usually are listed in terms of decades. However, in no case should the useful life be less than the maturity of any debt incurred to build the asset (e.g. 30-year general obligation bond for construction of a building or street).

Asset categories can consist of land, vehicles, off-road equipment (e.g. tractors, backhoes), streets, water/sewer lines, buildings, and equipment/furniture. Some assets are much easier to track than others. Obviously, land and buildings are the easiest because those assets are immobile and possess long, if not indefinite, useful lives. Vehicles and off-road equipment can also be easily identified. However, the inclusion of furniture and equipment presents governments with a challenge of how they should be accounted for. For example, a school district that builds a new elementary school will have a significant investment in furnishing that school even though the individual components (e.g. classroom chairs and desks) do not meet the minimum capital threshold. In this case, the school system can record the furniture asset generally (Cleaver Elementary furniture @ $200,000) and recognize replacement or addition of individual components as maintenance and operating expenses. The same approach can be taken with a building's information technology system.

Infrastructure, such as streets, drainage systems, and water/sewer lines also present identification challenges. The problem is magnified for cities since much of their infrastructure is built by other parties (e.g. residential subdivision developers) and donated to the cities who are then responsible for future maintenance and upkeep. It is critical that city finance officials work with their counterparts in public works to develop a method for defining and categorizing these assets. Streets can be identified by name, type (asphalt, concrete), improvements (associated curbs, gutters), and lane miles. A typical residential street could be listed as having two lanes, so if one mile in length, then two lane miles. A major arterial street four miles in length with four lanes would be recorded at 16 lane miles. Since most water, wastewater and storm sewer lines run along streets, they can also be identified by street name, type (e.g. cast iron, asbestos, plastic, etc.), length and size (6-inch diameter). In valuing donated infrastructure (this will include streets and utility lines), finance officers should rely on public works estimates ($xxx per lane mile or $xxx per mile of 8" plastic water line) rather than information provided by the developers which may not be reliable. Also, to ensure donated assets are appropriately added to a city's capital asset inventory, organizations should consider having a formal process for accepting these assets, such as a resolution adopted by the governing body. This process is helpful in reminding elected officials that these assets are not "free" and come with obligations for maintaining these assets in the future.

Assessing the condition of assets is an important part of a capital planning program. From an accounting standpoint, capital assets are valued based on their original cost and estimated useful lives with the recording of annual depreciation. While traditional depreciation accounting is needed to arrive at an entity's net asset financial position, a capital management approach should be based on how well an asset has been maintained and the extent to which the asset is still functioning as when it was first acquired. Local governments can record the annual cost to maintain individual vehicles and off-road equipment as well as measuring the number of hours a piece of equipment is out-of-service due to repairs. Once these measurements exceed established thresholds, the equipment can be scheduled for replacement.

As noted with the anecdote mentioned in the introduction regarding the City of Dallas, streets are often the most neglected category of capital assets when it comes to assessing physical condition. This problem is due to a couple of factors. First, is the scope of this category of assets. Even relatively small cities have dozens of lane miles of streets. The scope is broadened by the lane miles of streets acquired from residential and commercial area developers. Second, street maintenance funds are applied sporadically, repairing individual pavement failures that may resolve observable potholes rather than addressing street segments that are just beginning to deteriorate and where funds can be applied more effectively. It costs much less to repair a segment of pavement when it is only slightly weakened than when deterioration has advanced to when potholes regularly appear.

While cities can invest in expensive programs that quantify pavement condition, effective street assessment can be accomplished by having an employee trained to visually evaluate street segments and rate them using a simple 5-point scale ranging from 1-poor to 5-excellent. Although the scope of street assessment can seem insurmountable, street conditions do not drastically change from one year to the next. Therefore, cities can accommodate assessment projects by dividing the city so that every street segment is evaluated only once every three years. Results of the assessment can then be added to a spreadsheet that reflects lane miles by segment (e.g. Main Street between Avenues A and D) and condition. Working together, finance and public works officials would then assign costs of repair based on pavement type (concrete or asphalt) and condition. For example, repairing an asphalt street rated a '3', or 'fair' would cost $20 a square yard while the same street in '1-poor' condition may cost as much as $50 per square yard. It would also be helpful to color code streets by condition so that elected officials and the general public can gain an appreciation for the need to invest in street maintenance. Assessment of water and wastewater lines can be conducted in similar fashion, although inspection methods would differ. Water line integrity can be measured by identifying leaks with sound equipment while sewer lines can be evaluated through smoke testing.

As the reader may infer, defining and assessing capital assets is a complex process with many components that require constant updating. While all the tasks described above can be performed manually, local governments may want to explore software programs that expedite the recording, valuing, and assessing capital assets. For example, the firm esri offers a suite of products within its ArcGIS for Local Government system designed for fixed capital assets and infrastructure. There are many fleet asset/maintenance programs that are affordable for even smaller entities. Local governments can obtain guidance on acquiring these systems by referring to GFOA's best practice titled *Technology in Capital Planning and Management*. A hyperlink to all GFOA's best practices is included in the Supplemental Reading section of this guide.

Policies/Plans for Acquiring, Maintaining and Replacing Capital Assets

Once an entity has defined, categorized, and recorded an inventory of capital assets, it should adopt policies that establish a method for acquiring, maintaining and replacing capital assets. Local governments usually make capital asset decisions based on subjective opinions like when a police chief claims he needs a new patrol car to replace one that "breaks down and is too expensive to maintain." Established policies provide the goal of acquiring capital assets and ideally include objective criteria that assist government officials with prioritizing budget requests. For example, a policy on capital equipment purchases could be: *"Expenditures for additional capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand a scope of service. Existing equipment shall be replaced when needed to ensure the optimal productivity of city employees."* Objective criteria for replacing a piece of equipment could be annual maintenance expenditures exceeding one-third the cost of purchasing the equipment (e.g. patrol car) or the equipment's downtime due to maintenance exceeding a certain threshold (e.g. 4 hours per month or 48 hours per year). Of course, the use of objective criteria assumes that an entity has the desire and ability to accurately track these variables.

Capital projects entailing fixed assets should also be evaluated in context with a policy linked to an organization's mission and goals such as: *"Capital projects will be constructed to protect or improve the community's quality of life, protect or enhance the community's economic vitality, or support and service new development."* Although local governments can certainly attempt developing objective criteria for prioritizing capital projects, decisions for selecting projects typically are influenced by subjective considerations such as public demand and local politics. For example, a cost/benefit analysis may indicate that an expanded street and associated storm drainage would open an area of the community to new development. However, residents in an older section of town may actively and successfully campaign for a library or public swimming pool.

Capital asset policies should identify the source of funding. Capital equipment is usually acquired with operating funds. However, because replacement of existing equipment can create spikes in operating budgets, many cities have discovered the benefits of capital replacement internal service funds that serve to accumulate resources over several years which results in consistent annual expenditures. These internal service funds essentially charge operating departments annual “leases” that represent the amortization of a vehicle’s purchase price over its anticipated useful life. For example, a pick-up truck used by the general fund’s public works department is purchased by the internal service fund for $28,000 with a useful life of seven years. The public works department’s annual “lease” to the internal service fund is $4,000. Interest earnings on the internal service fund’s invested balances are intended to offset inflation so that at the end of the truck’s useful life, funds are available to purchase a replacement vehicle. Capital replacement funds can also be used to replace and update an organization’s computer hardware and software systems. Capital fixed assets are frequently acquired with the issuance of debt. Capital policies can define the circumstances in which debt is issued. For example, major rehabilitation projects, such as street repaving may be funded using a “pay-as-you-go” approach utilizing accumulated operating fund balances. On the other hand, the issuance of debt is appropriate for new facilities and infrastructure. It is not fair to expect existing taxpayers to pay the full cost of a new street or library that will be enjoyed for years by future taxpayers.

Evaluation of capital assets should include the impact the investments will have on operating expenditures. Additional capital assets will almost always result in higher operating expenditures. An additional (versus replacement) vehicle will require fuel and maintenance. A new park will demand landscaping/mowing services, water to irrigate the grounds, and electricity for nighttime lighting. However, savings may also occur, especially if a capital project replaces an older asset; a new city hall with updated technology such as LED lighting, high efficiency air conditioning and low flow toilets may enjoy thousands of dollars in reduced operating expenditures.

Developing a Capital Improvement Plan

All the features of capital planning described above should be incorporated into a long-term capital plan that would be linked to a local government’s long-term financial plans. Capital projects can span several years due to planning, property acquisition, engineering, and construction. The capital plan can identify the source of funding, the projected capital expenditures, and the associated impact to operating expenditures. Illustration 6 presents a sample capital plan. The plan shows expenditures by fiscal year, although unlike the long-term financial plan reflected in Illustration 5, the prior year actual may include several fiscal years. Often just the acquisition of property or rights-of-way can take several years. The total capital costs associated with each project are reflected so that stakeholders can appreciate the full cost of the project that may span many years. The impact of a project on operating expenditures is shown as a separate line item but is not totaled since these costs or savings will be recurring beyond the planning horizon and will be supported by operating funds not associated with building the project. For example, the Lone Star Parkway Extension reflected in the sample plan will necessitate street sweeping and debris removal upon completion that will be charged to the city's street department (and of course maintenance several years into the future). The new city hall is expected to return lower operating expenditures due to efficiencies and those savings will be enjoyed by the city administration or facilities department. Even though it is a major project, the rehabilitation of Main street is considered an operating expenditure. By placing it on the long-term plan, the City of Anytown can purposely increase its fund balance over several years to support the project on a "pay-as-you-go" basis. This decision will influence the city council's decisions on property tax rates for the current and future budgets. The sample presented in Illustration 6, reveals just the basic components of a capital plan. A more comprehensive presentation is maintained by the City of Plano with its Community Investment Program. The link to the city's program is included in the Supplemental Reading section of this guide.

Illustration 6. – Sample Long-Term Capital Project Plan

CAPITAL PROJECT LONG-TERM PLAN
City Council Adopted 2016-17 Annual Budget

Source of Funding/Project	Prior Years	Estimated 2015-16	Budget 2016-17	Year 1 Projected 2017-18	Year 2 Projected 2018-19	Year 3 Projected 2019-20	Year 4 Projected 2020-21	Total Project
2013 Capital Project Fund								
Lone Star Parkway Extension								
Property acquisition	$ 263,435	$ 200,000						$ 463,435
Engineering	118,756	225,000	70,000	30,000				443,756
Construction			3,500,000	1,500,000				5,000,000
Total capital costs	382,191	425,000	3,570,000	1,530,000	-	-	-	5,907,191
Estimated operating costs (savings)							5,000	
New City Hall								
Property acquisition	125,372							125,372
Engineering		325,000	30,000	90,000				445,000
Construction/furnishings			1,500,000	4,500,000	175,000			6,175,000
Total capital costs	125,372	325,000	1,530,000	4,590,000	175,000	-	-	6,745,372
Estimated operating costs (savings)						(12,000)	(12,000)	
General Fund								
Main Street Rehabilitation								
Engineering					75,000			75,000
Construction						785,000		785,000
Total capital costs	-	-	-	-	75,000	785,000	-	860,000
Estimated operating costs (savings)							(8,000)	

Tracking Capital Project Expenditures

Because capital projects rarely begin and end in one fiscal year, they are notoriously difficult to track over time. To satisfy bond covenants and be accountable to the taxpayers who approve the issuance of debt, local governments will create separate capital project funds to account for the proceeds from each bond sale. For example, the 2013 Capital Project Fund that reflects the use of $20 million in bond proceeds for streets, parks, and a new city hall. To further complicate matters, these funds were supplemented by developer contributions and a regional grant. To properly account for all resources and their application to projects, local governments should establish a capital project accounting system that is linked to the government's general accounting system. Illustration 7 provides a sample statement for tracking projects associated with bond proceeds.

Illustration 7. – Sample Capital Project Statement

2013 CAPITAL PROJECT FUND
Project Accounting Since Inception Through Fiscal Year Ending September 30, 2015

Project name Project number	Lone Star Pkwy 43001	Lance Ave. 43002	City Hall 43003	Glendale Park 43004	Unallocated
Beginning balance (bond proceeds)	$ 6,000,000	$ 3,500,000	$ 6,500,000	$ 4,000,000	$ -
Revenue					
Developer contributions	-	-	-	500,000	-
Intergovernmental	400,000	-	-	300,000	-
Investment income	-	-	-	-	233,650
Total	400,000	-	-	800,000	233,650
Expenditures					
Administrative	24,752	17,622	23,811	18,654	-
Professional services	353,756	285,541	307,400	213,213	-
Capital	463,435	2,953,376	125,372	4,587,833	-
Total	841,943	3,256,539	456,583	4,819,700	-
Budget adjustments	-	(243,461)	200,000	19,700	23,761
Enging balance	$ 5,558,057	$ -	$ 6,243,417	$ -	$ 257,411
Status	*In Progress*	*Completed*	*In Progress*	*Completed*	*Not Applicable*

This example reflects the activity of the bond capital project fund from inception, with the sale of $20 million in general obligation bonds in 2013 through the current fiscal year, assumed to be FY2015. Ideally, this statement should be updated on at least a quarterly basis and included with interim financial reports shared with the government's elected officials and other stakeholders. The primary objective of the statement is to track the use of bond proceeds that are associated with individual projects. Since capital projects will always be completed at amounts different from their original budgets, it is important to track variances with the statement. In this sample statement, Lance Ave. and Glendale Park have been completed. Lance Ave. was accomplished at less than its original budget and could transfer $243,461 to the Unallocated category. This category also receives all income from invested bond proceeds. The unallocated funds are then available to transfer to other projects that either have exceeded their budget, or are likely to exceed their budget as noted with City Hall and Glendale Park. It is important that capital projects, and their associated project funds, be closed upon completion. Some local governments still report capital project funds that were initiated in the 1990's! So long as the projects contemplated in the bond sale have been completed, the funds should be closed and unallocated funds transferred to more current capital project funds. Finance departments should not have to spend time and energy having to account for, and report, numerous capital project funds that have outlived their usefulness.

SUPPLEMENTARY READING

Below are sources associated with this study guide. The Government Finance Officers Association (GFOA) is a valuable resource for budget and capital planning practices. The *Distinguished Budget Presentation Awards Program Criteria* and the *Recommended Budget Practices* published by the National Advisory Council on State and Local Budgeting **are required reading for this segment of the Certified Government Finance Officer program and test questions will address aspects of those documents.** Both documents are available from the GFOA and their hyperlinks are included below.

Distinguished Budget Presentation Awards Program Criteria, Government Finance Officers Association, 2014.
http://www.gfoa.org/sites/default/files/u63/2014BudgetCriteriaExplanations.pdf

Recommended Budget Practices, National Advisory Council on State and Local Budgeting, 1998.
http://www.gfoa.org/sites/default/files/RecommendedBudgetPractices.pdf

Best Practices/Advisories, Government Finance Officers Association, Accessed February 20, 2017.
http://www.gfoa.org/best-practices

Community Investment Program, 2016-17, City of Plano Texas, 2016.
http://www.plano.gov/ArchiveCenter/ViewFile/Item/5366

Debt Service Summary FY2017, City of Frisco, 2016.
http://www.ci.frisco.tx.us/DocumentCenter/View/10106

Federal Plain Language Guidelines, Plain Language Action and Information Network, 2011.
http://www.plainlanguage.gov/howto/guidelines/bigdoc/fullbigdoc.pdf

ATTACHMENT A

SAMPLE CITY COUNCIL SURVEY OF GOVERNMENT SERVICES

	No Opinion	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied
General government:					
Strategic planning/direction	0	1	2	3	4
Innovative responses to changing conditions	0	1	2	3	4
Effective/efficient uses of resources	0	1	2	3	4
Public relations/communications	0	1	2	3	4
Response to citizen problems/inquiries	0	1	2	3	4
Ability to resolve citizen complaints	0	1	2	3	4
Public safety - police					
Strategic planning/direction	0	1	2	3	4
Innovative responses to changing conditions	0	1	2	3	4
Effective/efficient uses of resources	0	1	2	3	4
Police patrol - response time	0	1	2	3	4
Police patrol - visibility	0	1	2	3	4
Crime prevention - residential	0	1	2	3	4
Crime prevention - business	0	1	2	3	4

ATTACHMENT B

SAMPLE CITY COUNCIL SURVEY OF BUDGET ISSUES AND PRIORITIES

	Strongly Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Strongly Agree
When developing the long-term finanical plan emphasis should be on maintaining or lowering the existing property tax rate.	1	2	3	4	5
To balance the budget, more attention should be given to reducing expenditures rather than increasing tax rates or fees for services.	1	2	3	4	5
The level of service to citizens should be the most important consideration when evaluating the budget.	1	2	3	4	5
When possible, users of city services should pay fees for the cost of the service rather than subsidize the service with general tax revenue.	1	2	3	4	5
Th Town's organization is operating properly.	1	2	3	4	5
The Town staff pursues innovative solutions to urban challenges.	1	2	3	4	5
Privatization of city services should be pursued when appropriate to expand service levels and/or reduce the cost of service.	1	2	3	4	5