

GFOAT Budget Academy

Introductions



John Zagurski
Finance Director, City of Northlake
President-Elect, GFOAT



Karen Rhodes-Whitley
Budget Director, City of Plano
Co-Chair Program Committee



Aaron Rector
Director of Administrative Services,
City of Keller
Co-Chair Program Committee



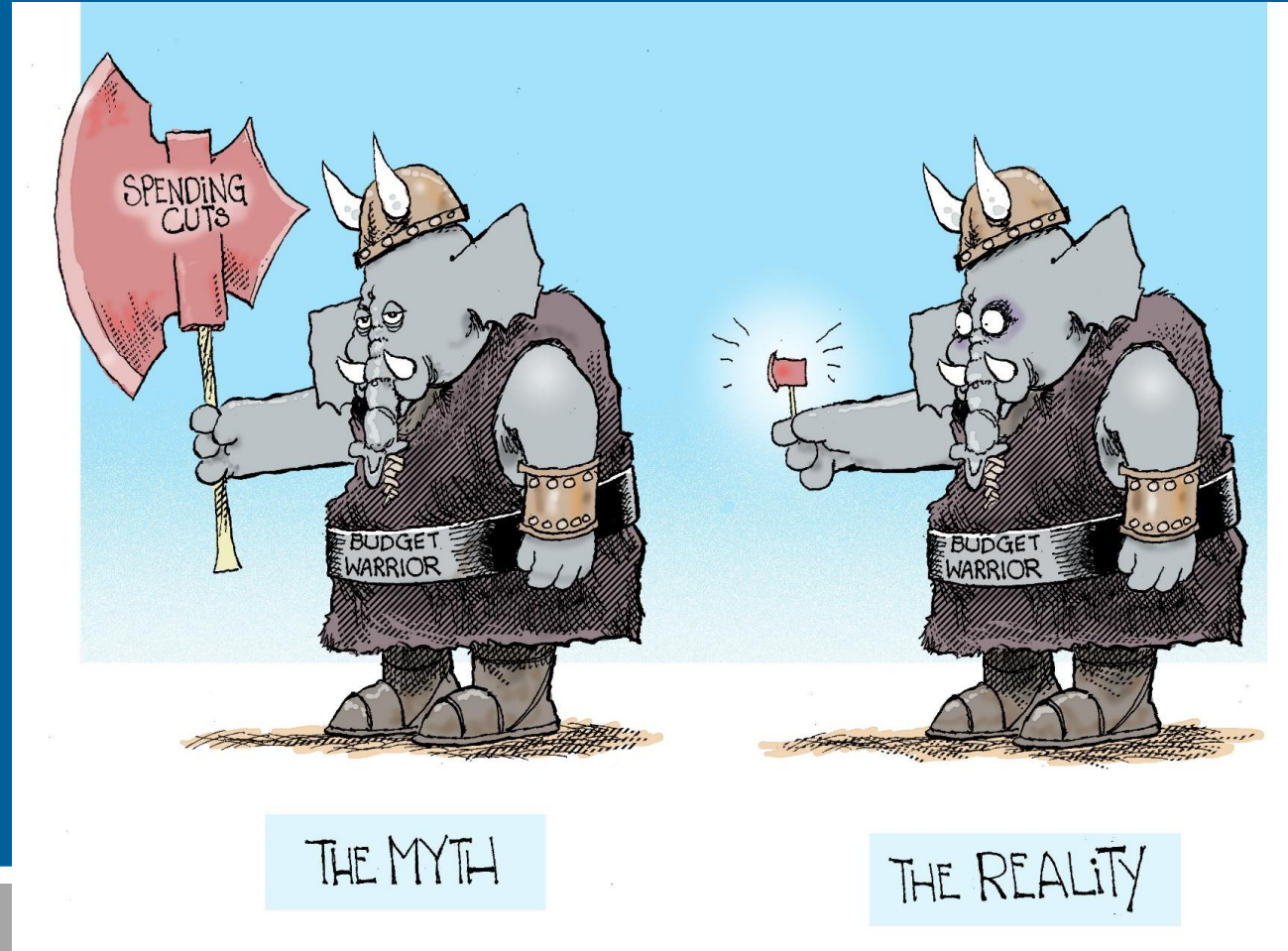
Meg Jakubik
Strategic Services Manager
City of Bedford
GFOA Representative

Budget Academy- Agenda

- Budget Overview
 - Budget Strategies
 - Budget Roles & Environment
 - Budget Calendar
- What We Budget
 - Fund Types
 - Revenue Types
 - Expenditure Categories
- Forecasting Techniques
- Revenue Projections
 - Property Tax
 - Sales Tax
 - Other Revenue
- Expenditure Projections
 - Salary & Benefits Projections
 - Operating Expenditures
- Capital Improvement Program

How and Why We Budget

The Budget Connection



Why Budget?

**It's the
Law**

**Hearings
and
Notices**

Inspection

**Authorized
by
Ordinance**

**Structurally
Balanced**

Types of Budgets

Operating Budget

- The financial plan adopted for a single fiscal year.
 - Proposed Operating Budget – designates the financial plan initially developed by departments and presented by the City Manager to the City Council for approval.
 - Adopted Operating Budget – the plan as modified and finally approved by the City Council.

Capital Improvement Program (CIP) Budget

- The five-year financial plan which addresses development and improvements to the city's infrastructure.
- The first year is adopted by City Council, with the remaining four years serving as a forecast.

Budget Development: Types of Budgets

**Traditional, or
line item
budgeting**

**Target based
budgeting**

**Program based
budgeting**

**Zero Based
Budgeting**

**Priority Based
Budgeting**

Hybrid Approach
• Most municipalities

Traditional or Line-Item Budgeting

- Widely used
- Historical Basis
- Control oriented – Where did the money go? – fund/function level
- Reports information on inputs used in the production of governmental services
- Reports by organizational unit



Example - Line Item Budget

CITY OF PLANO								
Budget Worksheet - Expenses - 532								
As of 9/30/2022								
Description	Last Year Audited	Council Budget	Current Budget	Current Actual	Current Re-Estimate	Proposed Budget	Funded Supplement	Proposed Total
00001 General								
532 Police								
610 PERSONNEL SERVICES								
6102 PT More than 20 TMRS Elig	147,358	204,701	144,018	136,752	144,018	206,236		206,236
6103 Classified Salaries	9,467,807	9,561,421	9,985,387	9,877,856	9,985,387	10,034,335	303,074	10,337,409
6104 Civil Service Salaries	38,406,946	39,062,833	41,208,894	40,409,242	41,208,894	39,977,685	292,990	40,270,675
6104.OVERFILL Civil Service Sa		1,000,000	284,615		284,615	1,000,000		1,000,000
6105 PT-less than 20	11,913	23,140	12,069	5,693	12,069	22,069		22,069
6106 Certification Pay	413,290	413,149	417,781	416,776	417,781	414,835		414,835
6109 Comp Plan Contingency		1,852,320				2,213,942		2,213,942
6111 Overtime	2,075,259	1,175,567	2,905,315	3,018,723	2,905,315	1,175,567		1,175,567
6112 Overtime-SB	149			147-				
6113 Longevity	331,977	337,824	336,586	340,785	336,586	322,576		322,576
6121 RSP	1,818,965	1,896,346	1,932,024	1,917,366	1,932,024	1,950,469	23,247	1,973,716
6122 TMRS	9,241,896	8,566,787	9,281,132	9,310,951	9,281,132	8,738,414	99,841	8,838,255
6123 Group Insurance- Health	6,705,685	6,895,193	6,865,139	6,850,325	6,865,139	8,025,587	97,200	8,122,787
6125 Group Insurance- Life	330,291	486,242	398,653	342,150	398,653	500,120	5,961	506,081
6127 Medicare	716,308	736,847	773,258	765,868	773,258	756,780	8,643	765,423
6129 Workers Compensation	429,988			691,893				
6132 Long Term Disability	28,286	34,037	31,942	29,318	31,942	35,008	417	35,425
6133 OPEB Contribution	1,103,697	1,159,596	1,112,778	1,110,834	1,112,778	1,130,436	15,552	1,145,988
6141 Car Allowance	24,365	38,400	32,575	32,575	38,400	38,400		38,400
610 PERSONNEL SERVICES	71,254,178	73,444,403	75,722,166	75,256,960	75,727,991	76,542,459	846,924	77,389,383
620 MATERIALS & SUPPLIES								
6201 Office Supplies	120,489	160,500	140,000	125,834	150,000	135,000	8,370	143,370
6202 Postage	76	50	171	228	500	500		500
6203 Publications	17,919	30,000	30,000	27,658	30,000	15,000	259	15,259
6204 Food	14,684	28,000	25,500	24,255	22,000	23,000		23,000
6205 Wearing Apparel	326,431	390,000	345,748	310,341	400,000	360,000	23,317	383,317
6205.VEST Police Vests	53,841	61,000	67,700	67,648	60,000	55,000	2,250	57,250
6208 Minor Apparatus	460,821	413,466	613,209	487,956	539,677	485,000	100,750	585,750

Example - Line Item Budget



Budget Worksheet Report

Budget Year 2023

Account	Account Description	2023 Council Approved
Fund 101 - GENERAL FUND		
EXPENSE		
SUPPLIES		
8140	PUBLICATIONS AND PROGRAMMING	147,000.00
Budget Transactions		
Level	Transaction	Number of Units Cost Per Unit Total Amount
Council Approved	Data Prose - Bedford Connection Mailer	1.0000 142,000.00 142,000.00
Council Approved	Water Bill Communications	1.0000 5,000.00 5,000.00
		Council Approved Totals \$147,000.00
SUPPLIES Totals		\$147,000.00
MAINTENANCE		
8203	MAINTENANCE HARDWARE AND SOFTWARE	85,230.00
Budget Transactions		
Level	Transaction	Number of Units Cost Per Unit Total Amount
Council Approved	SHI Govt SQL Server	1.0000 10,400.00 10,400.00
Council Approved	Tyler Content Manager	1.0000 2,750.00 2,750.00
Council Approved	Tyler Technologies-(80%) Annual Software Maint Agreement (SSMA)	.8000 90,100.00 72,080.00
		Council Approved Totals \$85,230.00
8217	TRUNK RADIOS	172,740.00
Budget Transactions		
Level	Transaction	Number of Units Cost Per Unit Total Amount
Council Approved	Fort Worth Radio IDs	1.0000 10,680.00 10,680.00
Council Approved	Motorola Contracts - Infrastructure & System Mgmt	1.0000 119,070.00 119,070.00
Council Approved	NRH Subscriber Maintenance	1.0000 31,090.00 31,090.00
Council Approved	Radio Replacement	1.0000 11,900.00 11,900.00
		Council Approved Totals \$172,740.00
MAINTENANCE Totals		\$257,970.00
CONTRACTUAL SERVICES		
8301	COMMUNICATIONS	151,000.00
Budget Transactions		
Level	Transaction	Number of Units Cost Per Unit Total Amount
Council Approved	AT&T Long Distance Services	1.0000 3,000.00 3,000.00

Target Budgeting



- City Management sets limits on the budgets that departments may request
- Driven by revenues
- Focus on resources available – e.g. Executive/Council determines total spending before budget request are submitted
- Only \$X per envelope/spending category

Example - Target or Base Budget Formulation

2022-23 Council Budget	\$2,000,000
Personnel Services	(1,000,000)
PC Replacement, Depreciation etc.	(50,000)
Capital Outlay/One Time Expenses	<u>(50,000)</u>
Sub-total	\$900,000
Overtime	20,000
Car Allowance	<u>4,260</u>
Total O&M Target	\$924,260

Supplemental requests (Supplements) or Decision Packages to request additional or reduction in funding.

Decision Package vs. Supplement: Which one should I use?

Supplement



Decision Package



Program Budgeting

- Changes focus from department to program
- Program is organized set of related activities that are directed towards achieving a common purpose or goal that an agency or department undertakes to carry out its responsibilities.
- Budget decisions made at greater level of detail



Example - Program Budget

Fire and Public Safety Facility Projects

Project		Prior Yrs	Re-Est	2022-23	2023-24	2024-25	2025-26	2026-27	Future	Total
10221	17 Fire Training Center	8,885,098	6,113,094	1,181,940	0	0	0	0	0	16,180,132
10202	21 Fire Station 2 Improvements	0	0	0	80,000	0	0	0	0	80,000
10203	21 Fire Station 3 Improvements	0	0	0	175,000	0	0	0	0	175,000
10215	21 Fire Station 4 Restrooms	0	0	275,000	0	0	0	0	0	275,000
10214	21 Fire Station 4 Roof	0	11,900	238,100	0	0	0	0	0	250,000
10205	21 Fire Station 5 Remodel	0	20,000	7,000,000	1,980,000	0	0	0	0	9,000,000
10207	21 Fire Station 7 Improvements	0	80,000	0	300,000	350,000	0	0	0	730,000
10208	21 Fire Station 8 Remodel	0	0	100,000	6,500,000	4,900,000	0	0	0	11,500,000
TOTAL		8,885,098	6,224,994	8,795,040	9,035,000	5,250,000	0	0	0	38,190,132

Example - Program Budget

CITY OF PLANO

COMMUNITY INVESTMENT PROGRAM

Project Name: 21 Fire Station 5 Remodel

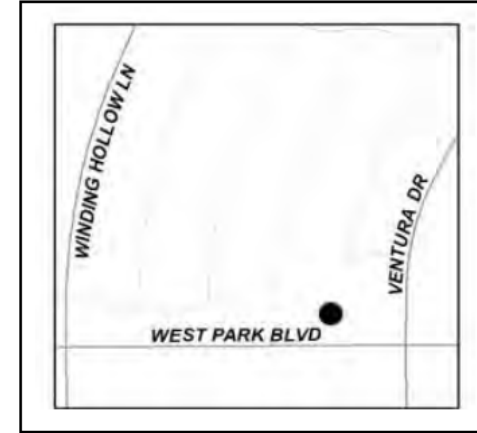
Project Number: 10205

Start Date: Oct. 2021

Description:

Completion Date: Sep. 2023

Remodeling and expansion of Fire Station 5 located at 5115 West Park Boulevard that was built in 1983 and upgraded in 1998. Improvements to include ICC 500 Storm Shelter room and new apparatus bay.



EXPENDITURES	Prior Years	Re-Estimate	2022-23	2023-24	2024-25	2025-26	2026-27	Future Yrs	Total
Land	0	0	0	0	0	0	0	0	0
Design	0	20,000	800,000	0	0	0	0	0	820,000
Construction	0	0	6,200,000	1,980,000	0	0	0	0	8,180,000
Equipment	0	0	0	0	0	0	0	0	0
TOTAL	0	20,000	7,000,000	1,980,000	0	0	0	0	9,000,000

REVENUES	Prior Years	Re-Estimate	2022-23	2023-24	2024-25	2025-26	2026-27	Future Yrs	Total
Bond Funds	0	20,000	7,000,000	1,980,000	0	0	0	0	9,000,000
N/A	0	0	0	0	0	0	0	0	0
N/A	0	0	0	0	0	0	0	0	0
TOTAL	0	20,000	7,000,000	1,980,000	0	0	0	0	9,000,000

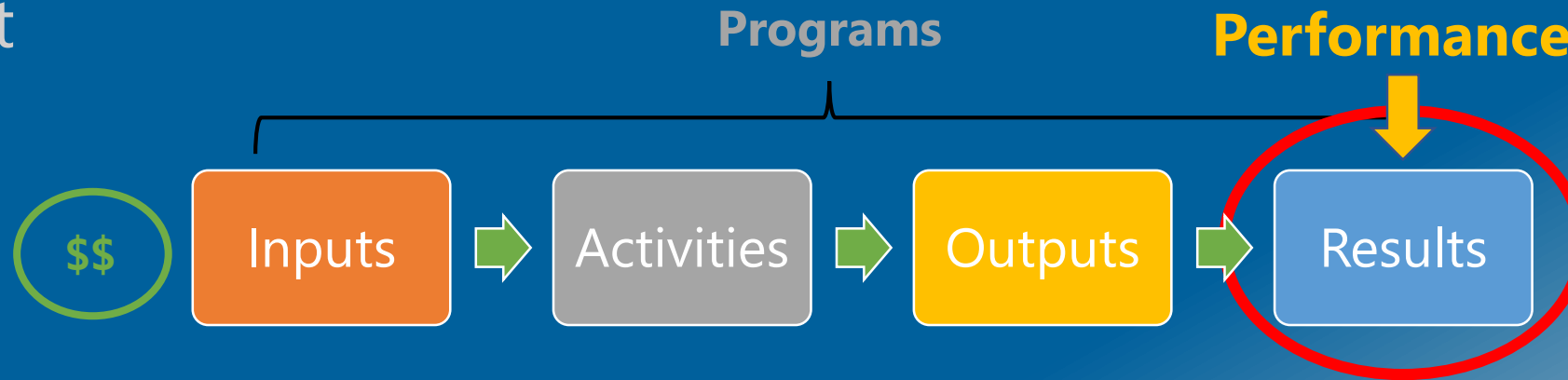
OPERATING BUDGET IMPACT	2022-23	2023-24	2024-25	2025-26	2026-27	Future Yrs	Total
	0	28,577	8,653	0	0	0	37,230

Zero-Base Budgeting

- Start at \$0
- Justify programs annually
- Operations divided into decision units; aggregate into decision packages
- Ranks programs (decision packages) which tie into goals of government body
- Identifies programs for elimination and/or modification
- Asks – Can we justify what we are doing?

Performance budget includes discussion on results

- Approaches resources allocation priorities from a citizen (customer) perspective
- Focuses the process on how best to spend the revenues (on what) we have rather than just pm what to cut
- Much greater transparency in what was funded and what wasn't



Priority Based Budget

- Priority-Based Budgeting
 - Identifies the most important strategic priorities. Services are then ranked according to how well they align with the priorities, and resources are allocated in accordance with the ranking.
 - Core versus Non-Core
 - Essential versus non-essential
 - Mandated versus Non-mandated



Key Objectives of Prioritization




Evaluate the services we provide, one versus another.



Better understand our services in the context of the cause-and-effect relationship they have on the organization's priorities.



Provide a higher degree of understanding among decision-makers as they engage in a process to rank services based on priorities.

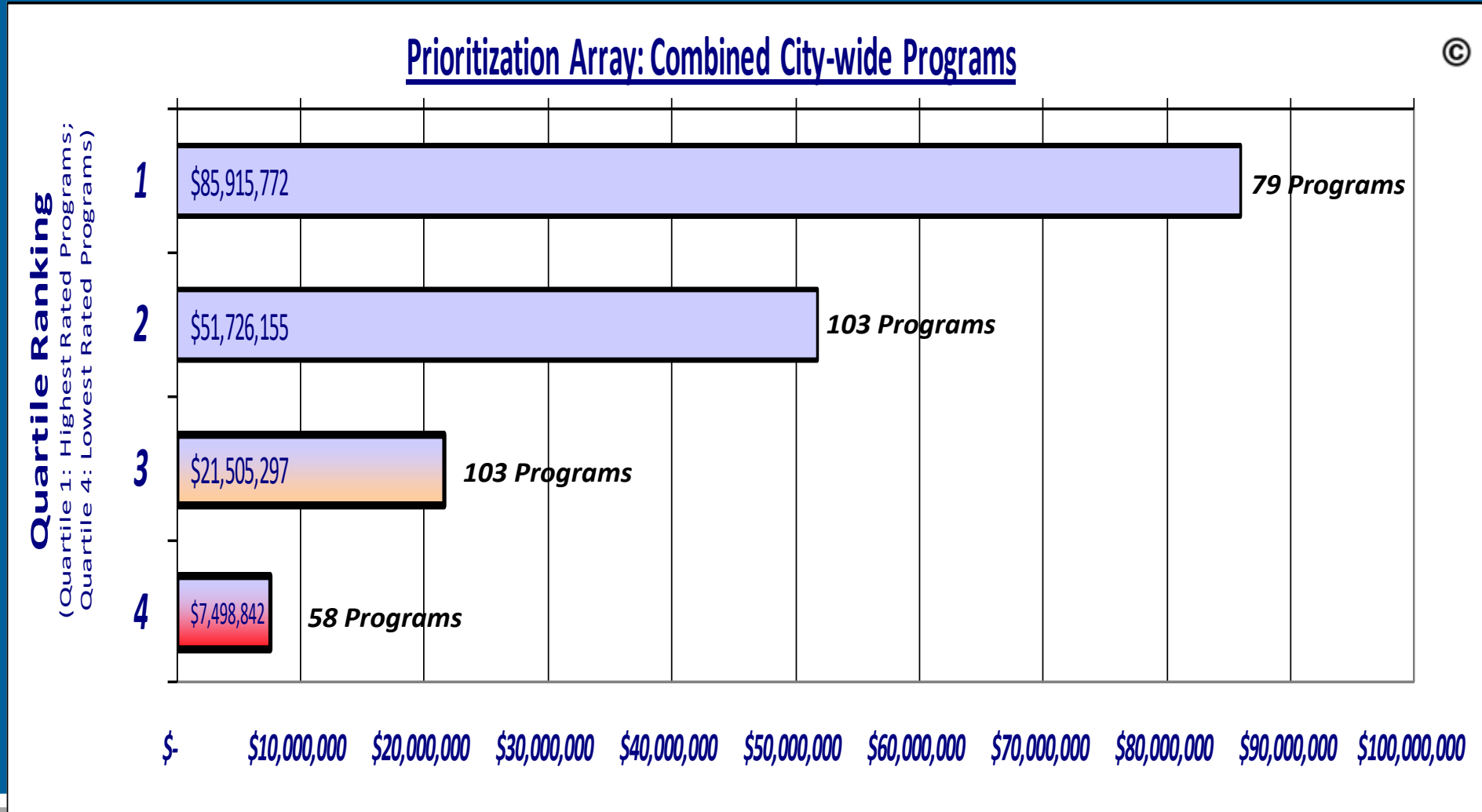


Articulate to people in the organization and to the public how we value our services, how we invest in our priorities, and how we divest ourselves of lower-priority services.

Value Programs Based on Evidence of their Influence on Results

Individual Program Scorecard										
Tuesday, June 16, 2009										
Directions: For every program the Government provides to it's citizens, your job is to help us understand how that program influences our ability to provide the results of government.			Evaluation Criteria							
			Basic Program Attributes			BCC / Public Results				
			Mandated to Provide Program	Program Sustained by Direct User Fee	Demand for Service	Accessible and Efficient Transportation	Safe Community	Planned Growth and Development	Quality Customer Service	Fiscally Responsible Government
			0-10 Scale (10=State/Federal Mandate; 5=Local Mandate; 0=No Mandate)	0-10 Scale based on Percentage (10=100%; 5=50%; 1=10%; 0=0%)	-4 to 4 Scale (-4=demand significantly decreasing; 4=demand significantly increasing)	On a scale of 0 to 4 points, 0 = program has no influence on achieving the Result; 1 = program has some influence, though minimal; 2 = program influences the Result; 3 = program has a strong influence on the Result; 4 = program is essential to achieving the Result				
Department Providing Program	Program Name	Grade	Grade	Grade	Grade	Grade	Grade	Grade	Grade	TOTAL SCORE With Result Value Factor
Highways & Transportation	Snow Removal	5	0	4	4	4	4	4	4	62
Highways & Transportation	Inspections throughout Construction Process	5	0	2	4	3	2	4	4	49
Highways & Transportation	Roadway Design and Engineering Review	5	0	2	3	3	3	4	4	47
Highways & Transportation	Curb and Gutter Replacement	0	5	-1	1	2	1	3	3	23
Highways & Transportation	Unpaved Road Maintenance	0	0	-2	1	2	1	2	2	17

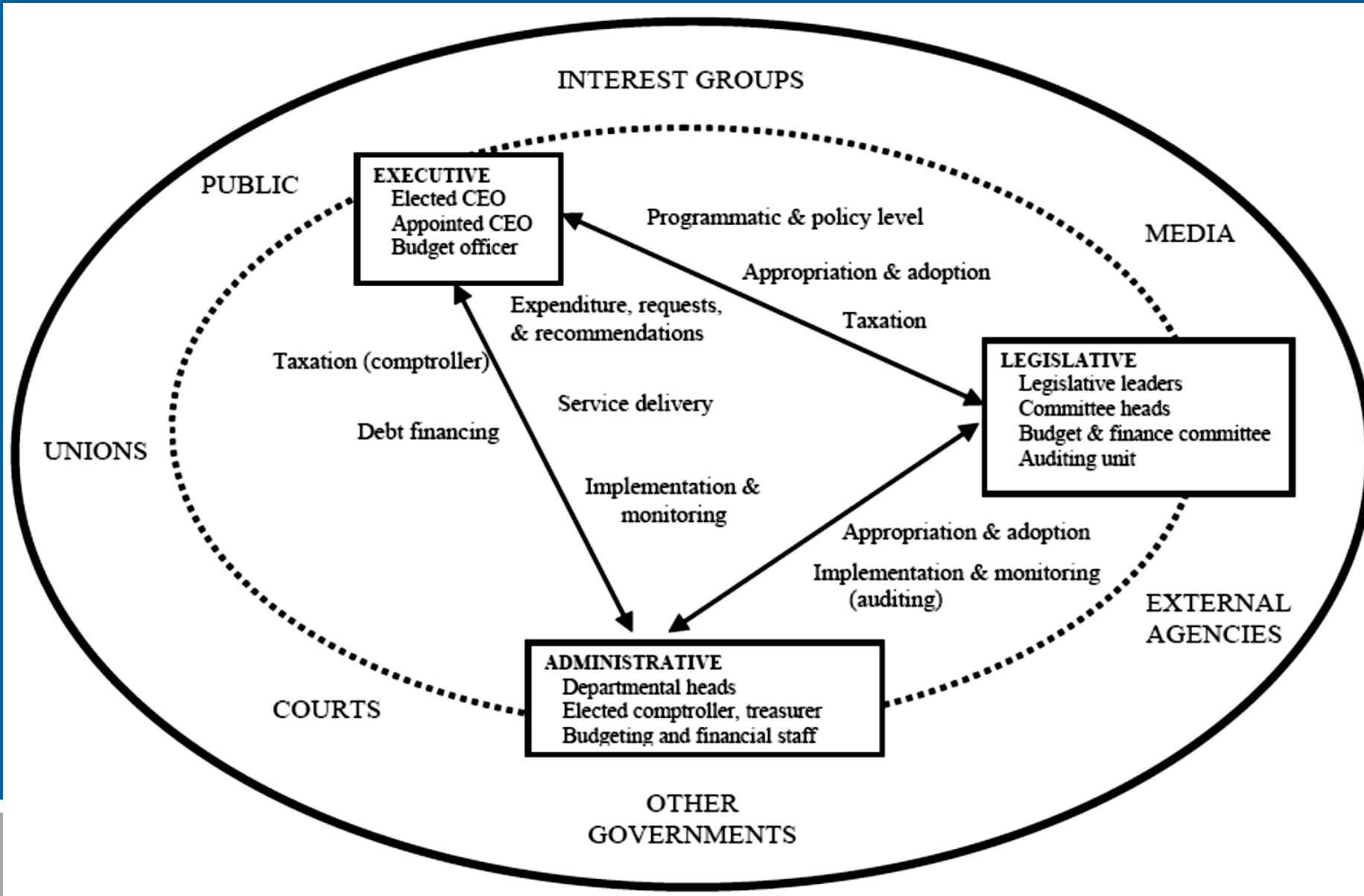
Allocate Resources Based on Prioritization



Budget Participants & the Budget Environment

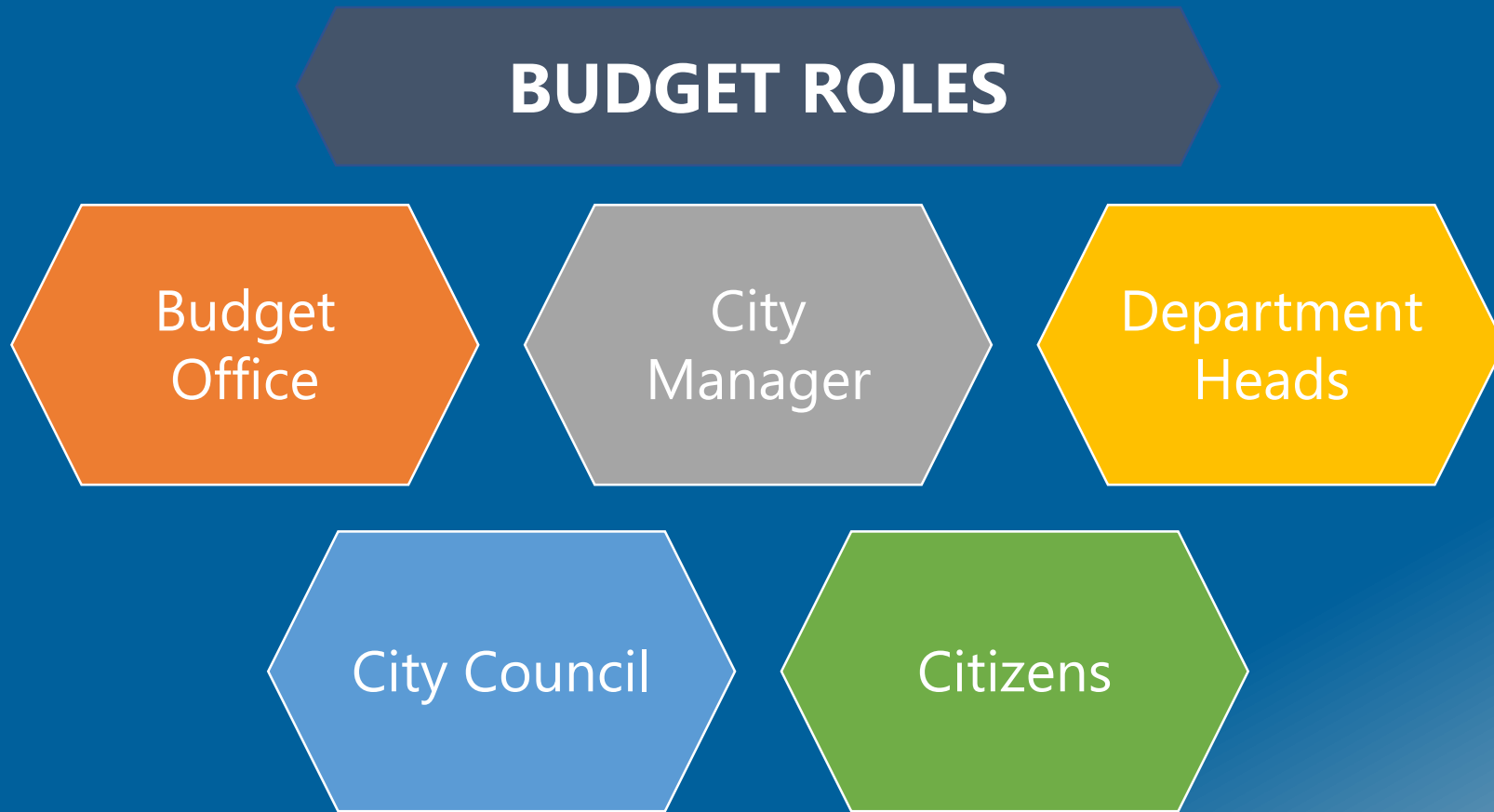


Key Actors and Their Roles



...imagine the outer ring rotating around the connected boxes with a different message at each stop!

Key Actors and Their Roles



Direct Participants (internal)

BUDGET OFFICE	
Budget Officer	<ul style="list-style-type: none">• Represents the CEO's/organization's interests in all phases• Advises the CEO not only on budget but broader financial policies• Traditionally, has acted as "gatekeeper" for agencies budget requests and budget administration (this role is changing from adversarial to collaborative)• Highly influential and involved in capital budgeting, benefits policy and compensation policy
Budget Analysts	<ul style="list-style-type: none">• Well versed in public policy analysis, financial analysis, and statistical analysis (optimally)• Typically assigned specialty areas• In larger organizations, work in teams• Usually charged with specific areas of the budget process (i.e., performance measures, document production, data integrity, etc.)
In the Budget Office	Objectivity, creation and application of a transparent process are highest priorities, because they are the source of trust in the process

Direct Participants (internal)

CEO – CITY MANAGER

- Typically, the CEO is highly influential in all phases (except possibly post-adoption administration). May act as the Budget Officer.
 - Even the timing and construction of the budget calendar can have an effect on the process.
- Capital budgeting: CEO & CFO influence financing methods for projects.
- The weaker the governing body, the stronger the influence of the CEO.

- *How has this played out in your governmental entity?*

Direct Participants (internal)

DEPARTMENTS/AGENCIES

- Greatest impact in operational results definition, cost projection and success/effectiveness measurement
- Provide the building blocks for the budget (cost drivers such as staffing needs, commodities, new program requests, etc.)
- Will ultimately be charged with delivering a service or set of services within an approved funding level
- Interact primarily with CEO and budget office
- (But, be aware, may also have direct connections with legislators, interest groups, unions, the media and individual citizens)

Direct Participants (internal)

DEPARTMENTS/AGENCIES...continued

- In traditional budget game, may “pad” budgets in expectation of recommendation of cuts by budget office – again, building trust that the Budget Office will make unbiased recommendations is critical
- Departments may be inclined to report only favorable performance information, or color that information to reflect well on the department operation’s search for budgetary resources
- Challenge for budget manager: balance departmental perspective with overall organizational needs (newer budget methods help to illuminate this) while maintaining good relationships with departmental management

NOTE: Recognize that each department head has a different relationship with the CEO and/or the legislative body. Be on the look out for the “untouchable” department head.

Direct Participants (internal)

GOVERNING OR LEGISLATIVE BODY & BUDGET COMMITTEES

- Most influential in appropriations approvals
- More important role in states (budget manager less influential)
- Legislative bodies have least influence in budget execution...unless the operating approach is legislated
- Generally, legislators try to increase benefits and spending for their own constituencies (major implications for capital budgeting, especially at the state and federal level)
- Key players are the Committee (appropriations at the state level or finance / budget committee at the local level) chairs and respective leadership (speaker) of each body of the legislature.
- Budget Manager speaks for the CEO, but also can speak to the CEO regarding legislators' concerns, so building that relationship is critical.

Indirect Participants (external)

INTEREST GROUPS, UNIONS, ELITES – Can you name a few types?

- Typically hone in more narrowly on own interests
- Tend to focus on policies (e.g., environmental, health care)
- Capital budgets are of great interest, because they may view it as misdirection or diversion of funds for other uses – e.g., Urban Renewal
- Budget Manager's challenge: Focus policy/decision makers on the entire budget and all needs, not single issues in a vacuum. (This is more difficult to do in a traditional budget process)
- Lessons learned: Get to know your unions and the regular speakers at legislative meetings. Determine the passion level and tactics of each special interest. Some will take the smallest issue to the grave. So, do you try to buy them out and put them on the sidelines of the budget process? Do you enlist their help in achieving a balance of interests?

Indirect Participants

MEDIA, THE PUBLIC	OTHER GOVERNMENTS	PRIVATE & NON-PROFIT PROVIDERS
<ul style="list-style-type: none"> Public is not monolithic, but individuals are usually focused narrowly 	<ul style="list-style-type: none"> States are often no longer viewed as partners 	<ul style="list-style-type: none"> Privatization interests
<ul style="list-style-type: none"> Media can take many forms (mainstream, community, electronic/social/bloggers, print / broadcast, etc.) 	<ul style="list-style-type: none"> Neighboring governments – competition or cooperation? 	<ul style="list-style-type: none"> Specific vendors selling solutions (I.T., quirky financing, etc.)
<ul style="list-style-type: none"> Media are both a threat and an opportunity <ul style="list-style-type: none"> How has media involvement in the budget process changed in your jurisdiction? 	<ul style="list-style-type: none"> Are shared services an option, or a distraction? 	<ul style="list-style-type: none"> Non-profits having similar goals (e.g., children's health, environment, education). Explore joint service delivery options
	<ul style="list-style-type: none"> Comparisons with other units of government can help - or hurt, if not truly comparing equitably 	

Budget Environment

- Seven key factors constrain stakeholder options, provide opportunities that frame strategic choices, and limit possible outcomes:
 1. Legal restrictions (internal and external)
 2. Economic and revenue base
 3. Fiscal structure and financial condition
 4. Power and authority structure (including if it is an election year)
 5. Culture, tradition, and normative preferences
 6. Department / Front office leadership stability
 7. Budget Office staffing / capacity / experience

Are there any other factors that should be considered?



Phases of the Budget Cycle

Budget Preparation: January - June

- Prepare Strategic Plan with City Council
- Establish Budget Focus
- Financial Forecast - 3, 5, or 10 year
- Revenue Estimates
- Develop Proposed Budget
- Preliminary Appraisal Roll Information Received

Budget Approval: July - September

- City Manager Recommended Budget & CIP submitted to Council
- Work with Counties on TNT Rates
- City Council reviews and approves budget & tax rate
 - Adoption of the Budget & CIP first
 - Tax Rate second
 - Tax Ratification

Execution & Implementation: October thru December Really all Year Long

- Periodic reporting and monitoring
- Publish and submit Budget & CIP
- Plan for Tax Rate Election if over Voter Approved Rate

Annual Audit: January

- The purpose of the audit is to ensure that the financial statements present fairly, in all material respects, the financial position of the City and have been prepared in accordance with U.S. generally accepted accounting principles and governmental accounting standards.

FY 2022-23 Budget Calendar



HEY, "DIL-BUTT," I
HEAR THEY GOT YOU
DOING BUDGET WORK
NOW.

S. Adams © 1993 United Feature Syndicate, Inc.

HA HA! IT MUST BE
REALLY EXCITING WORK.
I MEAN, GOSH, MAKING
ALL THOSE NUMBERS
ADD UP.

E-mail: SCOTTADAMS@AOL.COM

HAHA! I'M
GLAD I HAVE
A REAL JOB!

NOT ANY-
MORE.

CLICK

5-13

Typical Budget Preparation Calendar

Jan.

- Prepare Strategic Plan with your City Council
- City Manager establishes Budget Focus.
- City staff begin the budget planning process.
- Calendar and Instructions are issued to departments.
- Budget Memo – Very Important!

Feb.

- Preliminary requests and any changes to personnel submitted to Budget, HR and CM.
- Internal departments submit replacement list to departments for items such as equipment and technology replacements.
- Preparation of Financial Forecast.

March

- Training on the budget process and software is provided.
- Budget/Finance meets with City Manager Group to determine budget/CIP parameters (revenue and expenditure forecasts), targets and goals.
- Forecast provided to City Council.
- Budget Process Kick-off Meeting!!

Typical Budget Preparation Calendar

Apr.

- Departments begin developing their budgets for City Manager review.
- Citizen Input Meetings conducted. Town Hall meetings, Homeowner Associations, Board and Commissions.
- Set up department meetings with City Manager Group for June

May

- All department budgets and CIP request are submitted to Budget/Finance.
- Budget/Finance analyze and prepare budgets.
- Prepare salary and benefit budgets for departments. Either HR or Budget/Finance responsibility.

June

- Budget/Finance presents total request to City Manager with highlights, issues, options and recommendations.
- City Manager reviews all Operating Budgets and Community Improvement Program with all department heads.

Typical Budget Approval Phase Calendar

July

- City manager gives final budget/CIP instructions on what is to be included in the Recommended Budget.
- Budget/Finance notifies departments of preliminary funded requests.
- Receive Tax Roll from CAD
- Draft Operating and Proposed CIP submitted to City Manager for review.
- City Manager submits Recommended Budget and Proposed CIP to City Council.

Aug.

- Calculation of Truth in Taxation Rates – No New Revenue & Voter Approval Rate
- Public Hearing on Operating Budget and CIP
- Council Budget Work Sessions – Grant, CIP & All day Saturday
- Approval of Tax Roll
- Notice on Tax Rate
- Public Hearing on Tax Rate (Must be in Person)

Sept.

- City Council adopts the Operating Budget, CIP and sets the tax rate
- Prepare for election if over Voter Approval Rate – Election Nov. 7, 2023

Typical Budget Execution & Implementation Calendar

Oct.

- New Fiscal Year begins on October 1st.
- Process carry-forwards from previous year.
- Encumbrances are carried forward.
- Auditors & Accounting start the fiscal year close process.

Nov.

- Budget/Finance Office produces final budget document.
- Election if over Voter Approval Tax Rate – Election Nov. 7, 2023

Dec.

- Final budget document is submitted to GFOA for the Distinguished Budget Award.
- Annual Comprehensive Financial Report produced

Questions & Comments

What We Budget



Fund Accounting Basics

- Focuses on funding source and acceptable uses
- The use of funds determined by entity
 - Implement when legally or logistically needed
- The number of funds determined by entity
 - Minimize when possible
- Audit includes all funds, even if “rolled-up”
- Budget includes budgeted funds + others as wanted

Overall Fund Types

Governmental

- Funds through which most governmental functions of the City are financed Ex. General Fund, Debt Fund

Proprietary

- Operations that are financed in a manner similar to private business enterprises Ex. Water and Wastewater Fund

Fiduciary

- Contain resources held by a government but belonging to individuals or entities other than the government Ex. Employee Health Trust

Governmental Fund Types

General

- The general operating fund of the City, includes all activity not "qualified" for another fund.
- Typically largest fund and receives the most focus from all involved

Special Revenue Funds

- A specific revenue source that is restricted or committed to a specific expenditure(s), other than debt service or capital projects.
- Ex. HOT-MOT, Type B, PEG

Debt Service Funds

- Funds restricted to debt-related expenditures

Capital Projects Funds

- Funds restricted to expenditures for construction activity, including the land acquisition and/or capital asset creation.

Generally Governmental funds are presented individually in the Budget and Annual Audit

Keller Budget Vs. Audit

BUDGET

- General Fund
- Community Clean-Up Fund
- Parks Special Revenue Fund

AUDIT

- **General Fund**
 - General Fund
 - Community Clean-Up Fund
 - Parks Special Revenue Fund
 - Grant Fund

Proprietary Funds

Enterprise Funds

- Resemble Business type activities
 - Water and Wastewater Utility Fund
 - Drainage Fund
 - Electric Utilities
 - Recreation Centers

Internal Services

- Provide support services to the government
 - Information Technology
 - Fleet Services
 - Replacement Funds

Funds presented separately in Budget and combined in Annual Audit

Keller Budget Vs. Audit

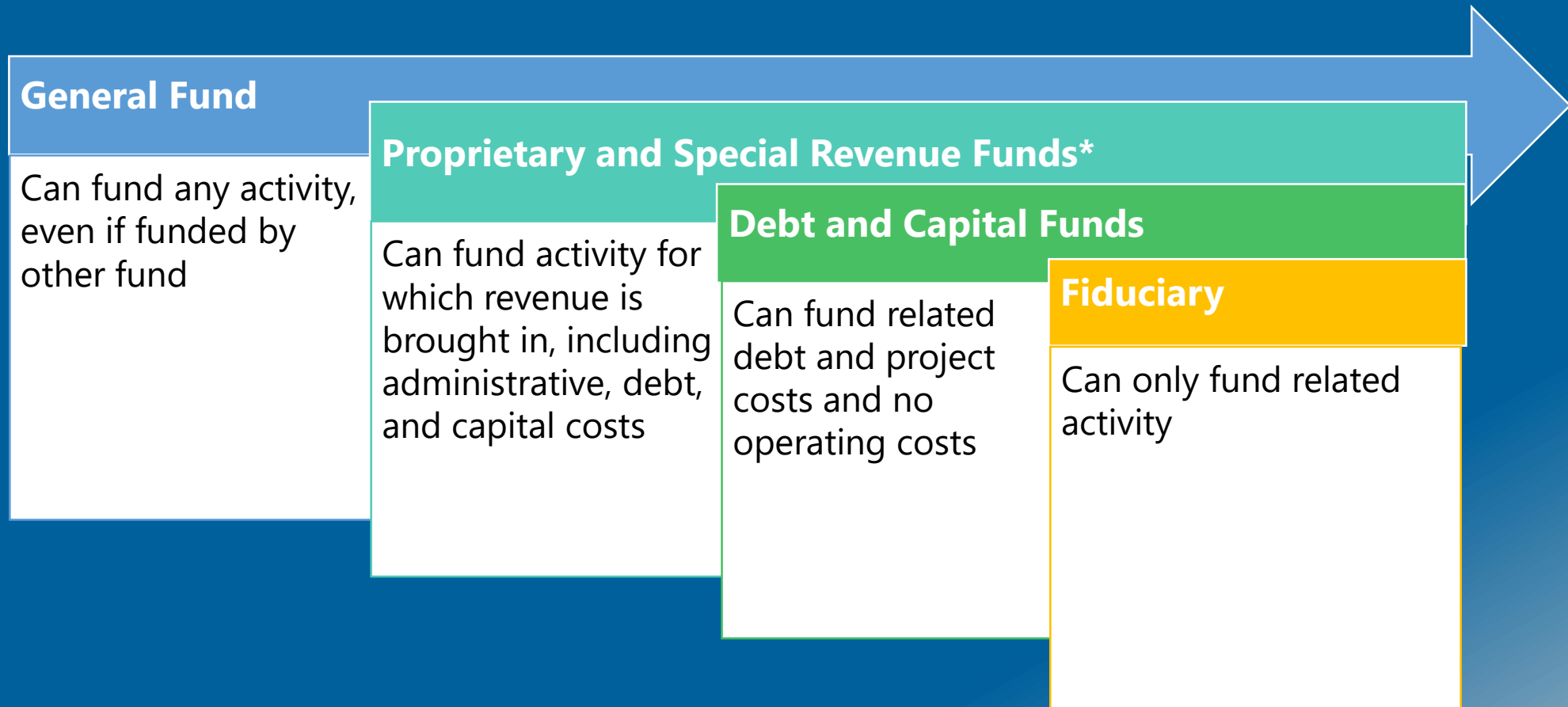
BUDGET

- Water-Wastewater Utility Fund
- Water-Wastewater CIP Fund
- Water Impact Fee Fund
- Wastewater Impact Fee Fund

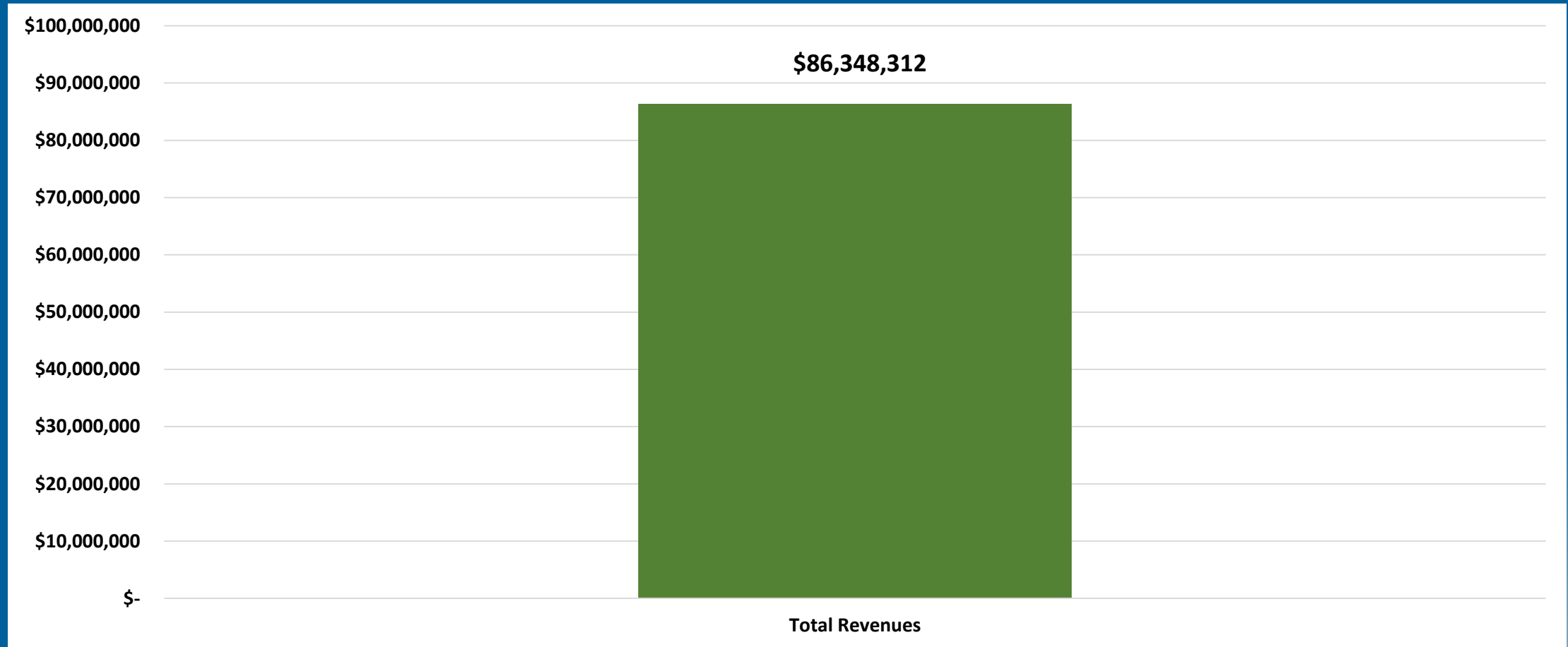
AUDIT

- **Water-Wastewater Fund**
 - Water-Wastewater Utility Fund
 - Water-Wastewater CIP Fund
 - Water Impact Fee Fund
 - Wastewater Impact Fee Fund
 - Utility Bond Fund

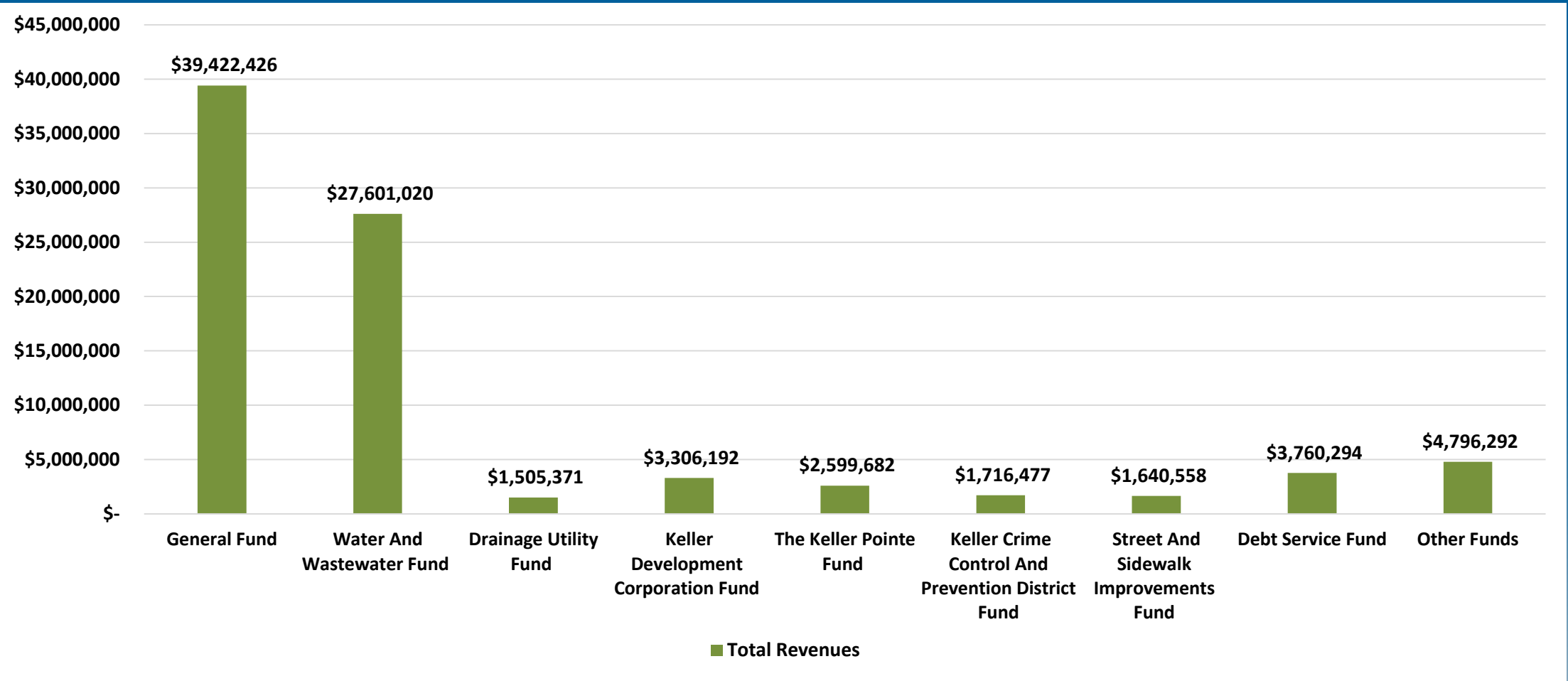
Fund Restrictions



Examples - Revenue for All Funds



Example - Revenue By Fund

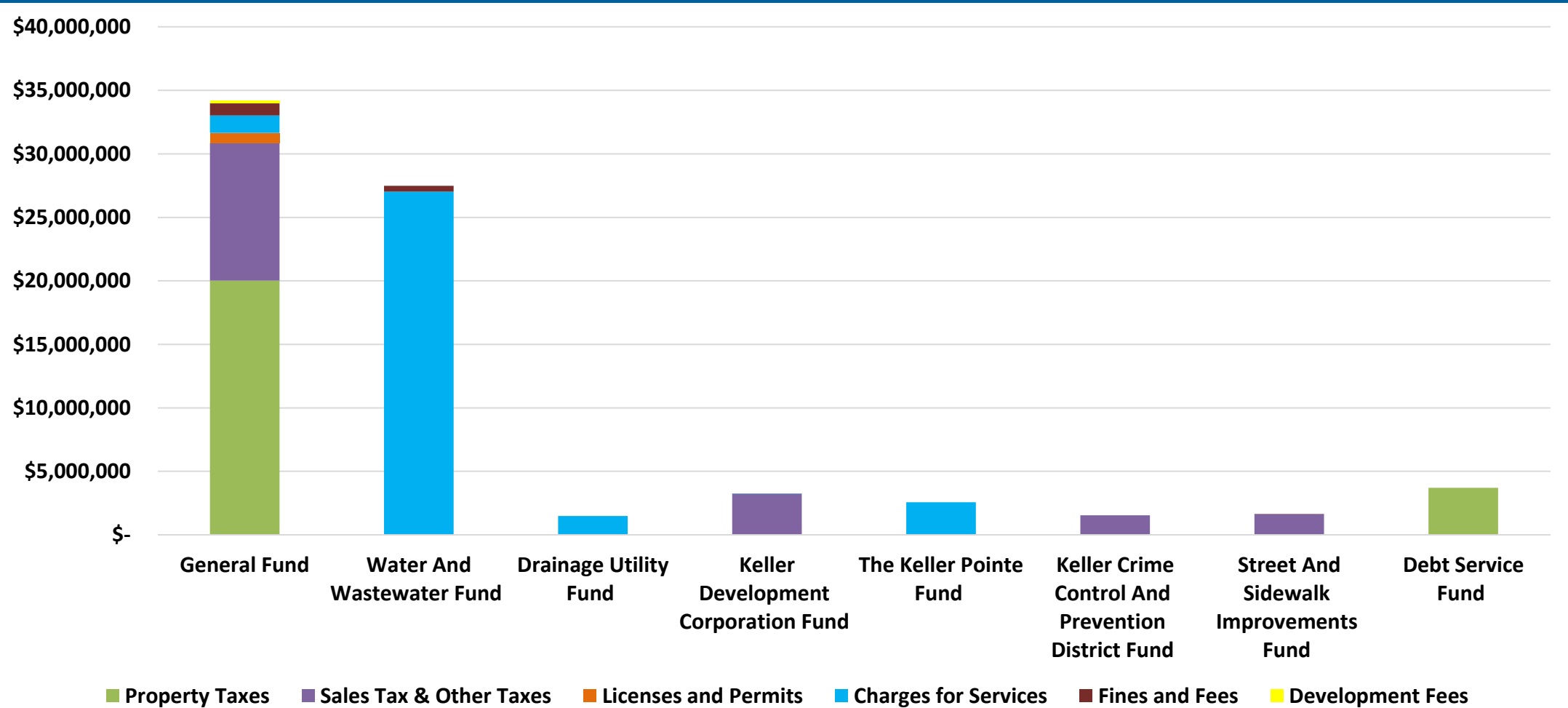


Revenue Types

- Taxes – Compulsory charge levied by a government
 - Ex. Property (Ad Valorem), Sales, Hotel, Mixed Beverage
- Street Rental (Franchise / ROW Agreements)
 - Electric and Gas Franchise Tax
- User Fees – Charge for city services
 - Ex. Water and Wastewater Services, Recreation Fees, Solid Waste Fees
- Fines – Punitive charge for violation of law and/or ordinances
 - Ex. Traffic Fines, Illegal Dumping
- License and Permits – Charge related to regulatory program costs
 - Ex. Plat Reviews, Plumbing Licensing, Dog Registration



Example - Revenues by Type and Fund



Expenditure vs. Expense

EXPENDITURE

- GASB Codification Chapter 1600.116 defines expenditures as decreases in net financial resources. In governmental funds, the recognition of expenditures occurs in accordance with the modified accrual basis of accounting.

EXPENSES

- Are defined as the outflows or expiration of assets or the incurrence of liabilities during a period from providing or producing goods, rendering services, or carrying out other activities that constitute the entity's primary operations.

Categories

- Organizing expenditures/expenses into like groups offers several benefits:
 - Increase transparency
 - Improves forecasting
 - Can illuminate previously unseen patterns or issues



Expenditure Categories

Personnel

- Costs associated with people are much broader than Salaries & Benefits. New positions can have large one-time costs

Services

- Labor that does not produce a tangible good. Work is typically performed by and outside entity or internal service department.

Supplies

- An item or group of items that you purchase and own. If capital threshold can fall into the capital.

Expenditure Categories

Maintenance

- A blending of services and supplies, but the main objective of this category is to track spending related to the preservation of an existing assets

Utilities

- A service, that is essential for public. Typically regulated by multiple levels of government.

Debt

- Money owed to a third party, including another fund

Transfers

- A movement of resources from one fund to another

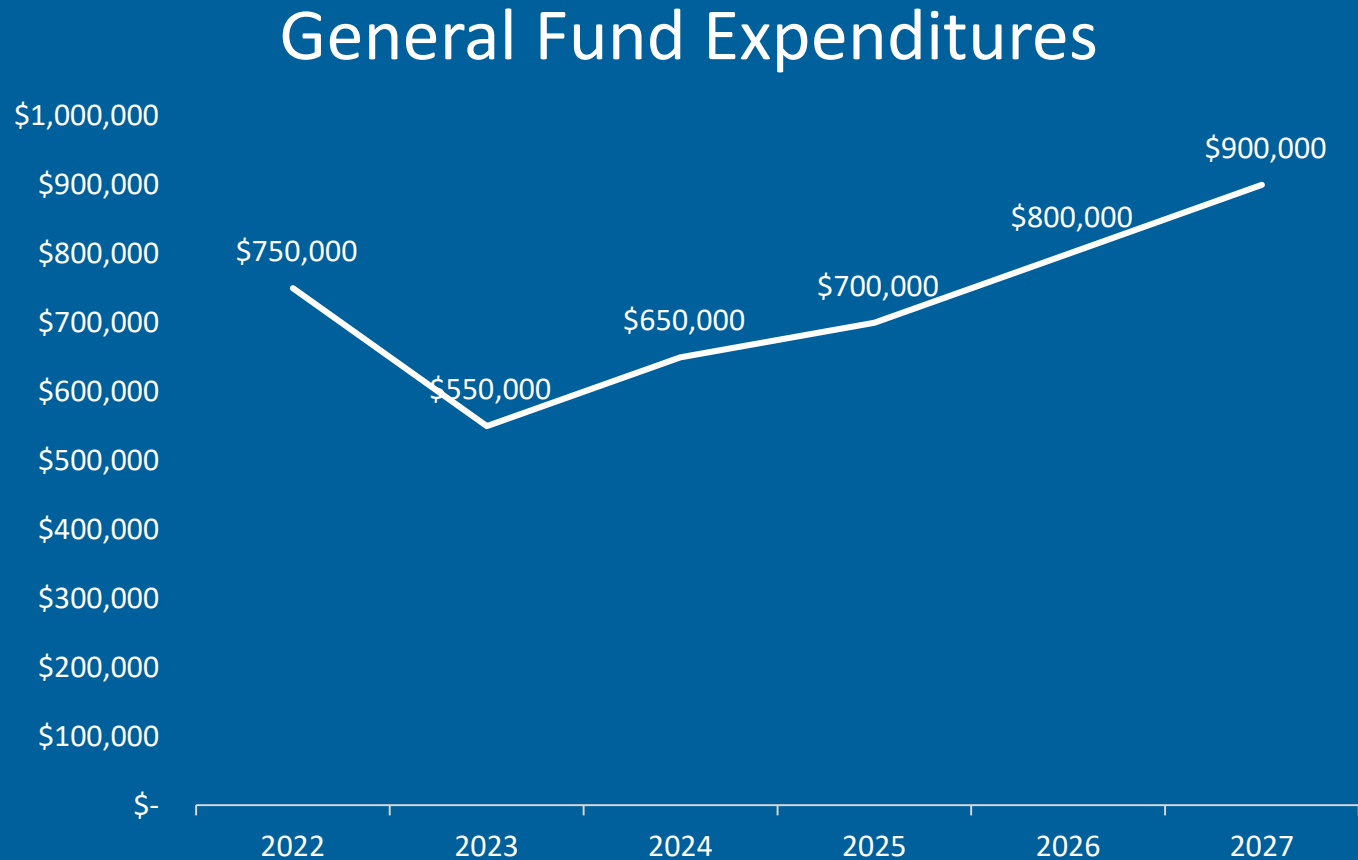
Expenditure Categories



Capital

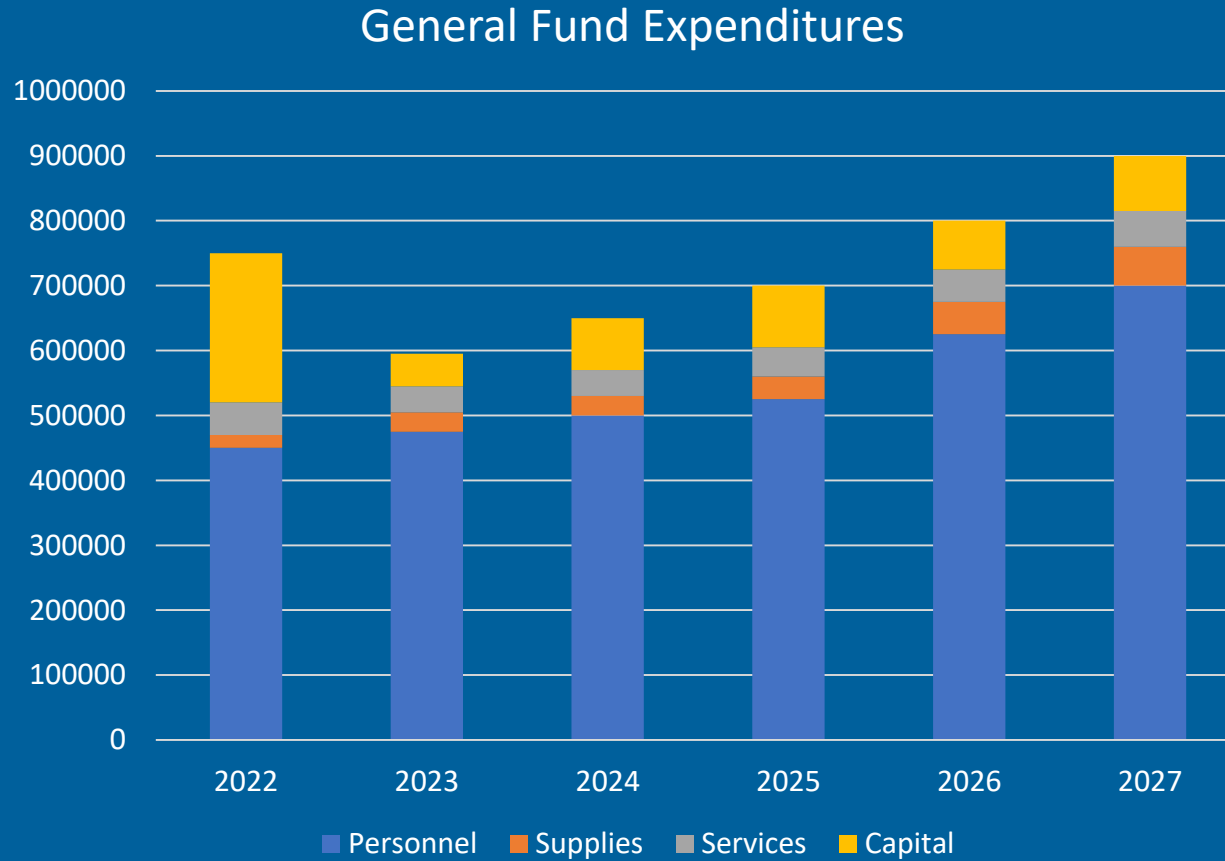
- Are items that exceed the capital threshold set by your municipality.
- Typically, large purchases that retain value after one year, and are listed on your fixed assets.
- Can be a combination of goods that make up one asset. Good example of this is a road, which is a combination of services, supplies, time, and other resources.

Example – General Fund Total Expenditures



- What is good and bad about this?
- How much can you learn from this presentation of the data
- Can you provide context to why expenditures are changing?

Example – General Fund Expenditures By Categories



- What is good and bad about this?
- How much can you learn from this presentation of the data
- Can you provide context to why expenditures are changing?

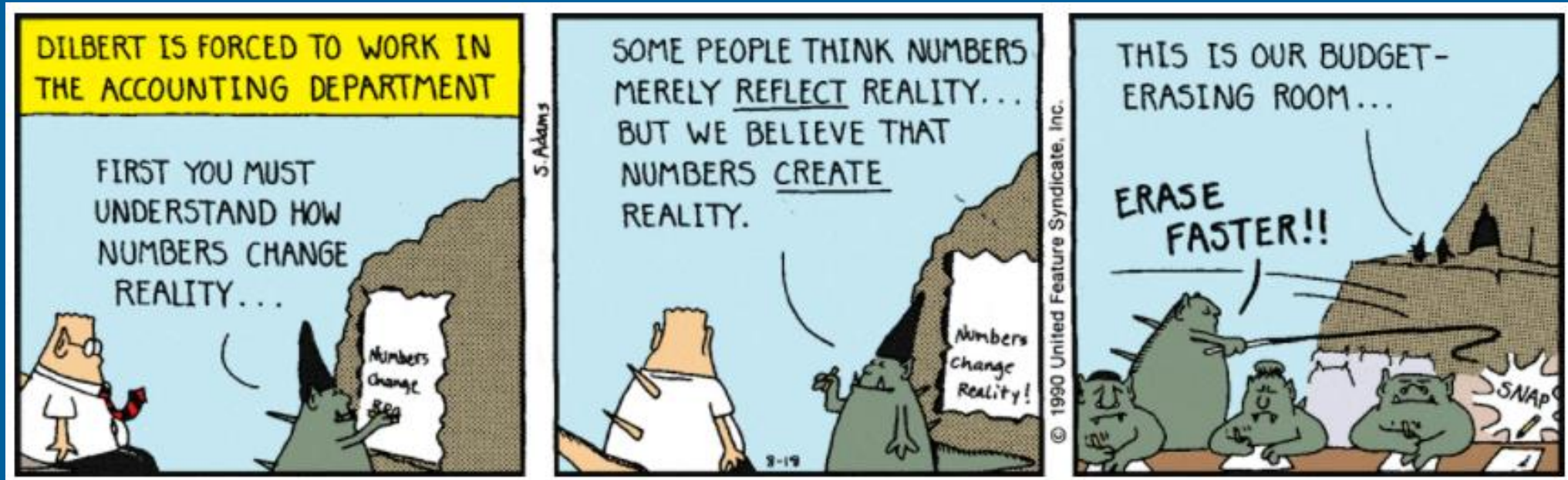
Another Example

Northlake Transparency Portal

- <https://northlaketx.opengov.com/transparency>

Questions & Comments

Forecasting Techniques



Assumptions Afoot!

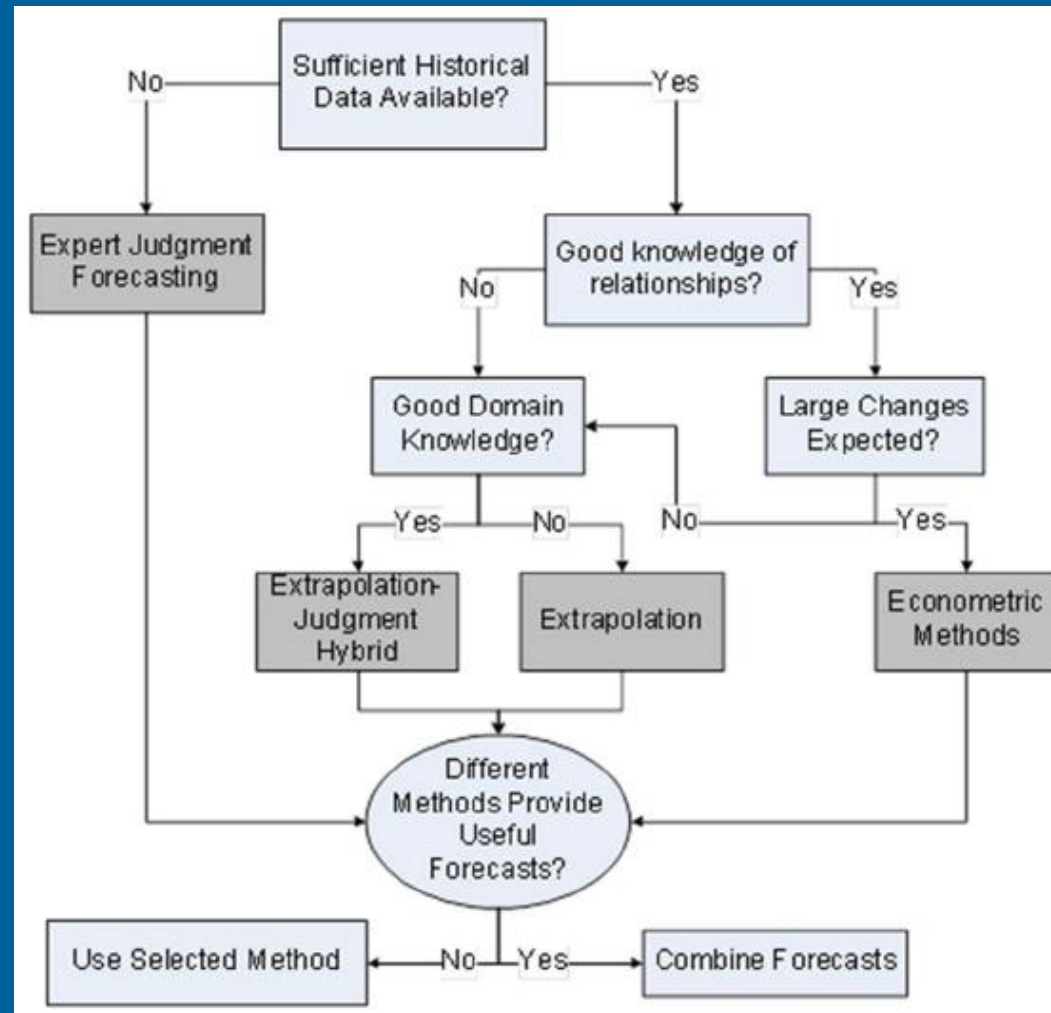


- Depending on the size of municipality you work for/with you may not be the primary budgeter of these costs, you may simply need to evaluate them.
- These are tools, methods, and techniques developed over the course of a career. They are not meant to be used to invalidate a different ways of budgeting. The ultimately goal is to have a method that helps municipalities to accurately comprehend, measure, and predict costs.

Levels of Forecasting

Technique	Definition
Naïve forecasting	Projecting revenues based on based on the most recent, typical (or normal) period. Alternatives include using: <ul style="list-style-type: none">• The absolute change from the last period• The percent change from the last period• The value of the last similar period
Judgmental forecasting	Making forecasts based on one's expertise, intuition, and knowledge about the revenue source.
Expert forecasting	Process of producing estimates based on informed opinion of experts, such as economists, demographers, market researchers, etc.

Decision Tree for Forecasting



Adapted from J. Scott Armstrong, "Selecting Forecasting Methods," 2009. Available at www.forecastingprinciples.com

Quantitative Forecasting Techniques

- Helpful for recognizing historical patterns in revenue collection
- Useful for predictable revenue sources that are linked to specific market and consumer activities

Common techniques:

- Extrapolation
- Regression/econometrics (casual models)
- Hybrid – Blend of qualitative and quantitative methods

Extrapolation

- The action of estimating or concluding something by assuming that existing trends will continue, or a current method will remain applicable.
- Three types of extrapolation:
 - Incremental models
 - Trend analysis
 - Moving averages



Incremental Forecasting

- Utilize a known increment for a projection
- The increment will differ based on judgement, most often relies on historical or gathered information

Formula



Incremental Forecasting

- Example: We are projected to grow by 200 homes next year with the current developments we have in place.

$(\text{Taxable Values From Prior Year}) + (200 * \text{average taxable value} / 100 * \text{current tax rate}) = \text{property tax values for next year}$

- This assumes your property tax base is not decreasing.

Trend Analysis

- “Trend analysis” estimates the growth pattern of a revenues/expenditures based on its short-term historic trend
- When used in forecasting it assumes revenues/expenditures will continue to exhibit the same growth patterns

Formula

The diagram illustrates the formula for trend analysis using colored circles and mathematical symbols. A blue circle on the left contains the text "(Period 2 - Period 1)". To its right is an orange division symbol (÷). Next is a gray circle containing the text "Period 1". To its right is an orange equals symbol (=). Finally, a yellow circle on the right contains the text "% Change".

$$\text{(Period 2 - Period 1)} \div \text{Period 1} = \% \text{ Change}$$

Example:

$$10\% = (110,000 - 100,000) / 100,000$$

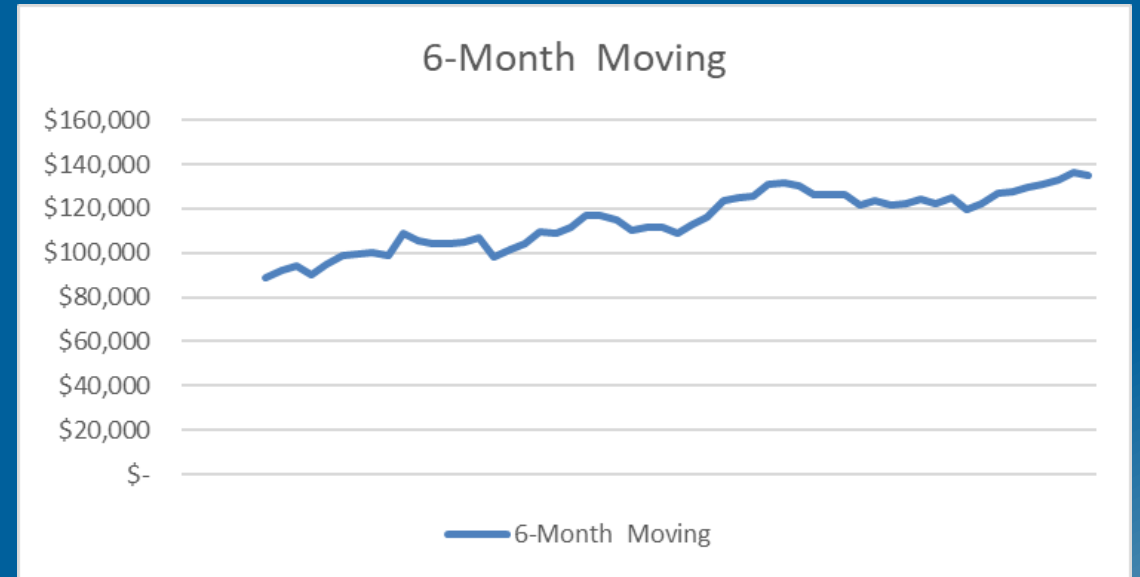
Trend Analysis

- Trend Analysis is an analytical tool that can help you ask better questions.
- Example: Sales Tax on average has gone up 11% the past two years.
 - You should not immediately use 11% as the projection, you should dig further to see why it increased each year.
 - Once you obtain the why, then you can know if the pattern will continue.

Moving Average

- Reduces data variability by averaging data points over a period.
- Utilized when you have regular increments and data points
- Can show overall trends, but is still susceptible to skew from outliers
 - Try using a six-month rolling average on your sales tax data to flatten out variation and more clearly define trends.

Moving Average



- 5 years' worth of sales tax data show as raw data vs moving average

Regression/Econometrics

- A measure of the relation between the mean value of one variable (e.g. output) and corresponding values of other variables (e.g. time and cost).
 - Regression analysis is a deeper forecasting tool that takes time and training to use.
- Can be useful in evaluation how much of an impact one variables impact on another
- Example: Use monthly rainfall totals to evaluate their impact on residential water usage during summer months

GFOA Best Practice

- Financial Forecasting in the Budget Preparation Process
 - Forecast major revenues and expenditures – several years into the future
 - Key Steps
 - Define Assumptions
 - Gather Information
 - Preliminary/Exploratory Analysis
 - Select Methods
 - Implement Methods
 - Use Forecasts

Questions & Comments

Revenue Projections



DILBERT.COM @SCOTTADAMSSAYS



7-20-21 2021 Scott Adams, Inc./Dist. by Andrews McMeel



Property Tax Revenue

What is Truth-In-Taxation



Also Known as TNT

2023 Truth-In-Taxation

Property owners have the right to know about increases in their properties' appraised value and to be notified of the estimated taxes that could result from the new value

A taxing unit must publish its no-new-revenue tax rate and its voter approval rate before adopting an actual tax rate

Four Guiding Principles

A taxing unit must publish special notices and hold one public hearing before adopting a tax rate that exceeds the lower of the voter approval rate or the no-new-revenue tax rate

If a city adopts a tax rate exceeding the voter approval rate (3.5% M&O growth plus unused increment rate), a city must hold an automatic election in November

A Brief Review of the Process

- Appraisal District Provides Value
- Governing Body Drafts Budgets
- Tax Assessor Calculates Rates, May Publish Notices
- Governing Body Proposes Rate/Holds Hearings
- Governing Body Adopts Tax Rate
- Tax Assessor Mails Bills

Tax Rate

Maintenance and Operations (M&O)

- Ongoing General Fund operations

Interest and Sinking (I&S)

- Payments on debt for general government (not utility rated) improvements

$$\text{Tax Rate} = \text{M\&O Rate} + \text{I\&S Rate}$$

Calculation

- $\text{Tax Rate} \times \text{Taxable Value} / \$100 = \text{Your City Tax Levy} (\$ \text{ paid to City})$

How Did We Get Here?



Senate Bill 2 – Property Tax Reform



- “Effective Rate” Replaced with “No-New-Revenue”
- “Rollback Rate” Replaced with “Voter-Approval Rate”
- Mandatory November Election if Rate Set Above “Voter-Approval Rate”
- Lowers the Voter-Approval Rate (Rollback Rate) from 8% to 3.5%
- Added Unused Increment to the Formula
- “De Minimis Rate” for Small Cities
- Enhanced transparency and “Truth-in-Taxation” modifications
- Effective January 1, 2020

Senate Bill 2



- Reduces Public Hearings from Two Back to One
- Tax Rate Public Hearing can be on same night as adoption

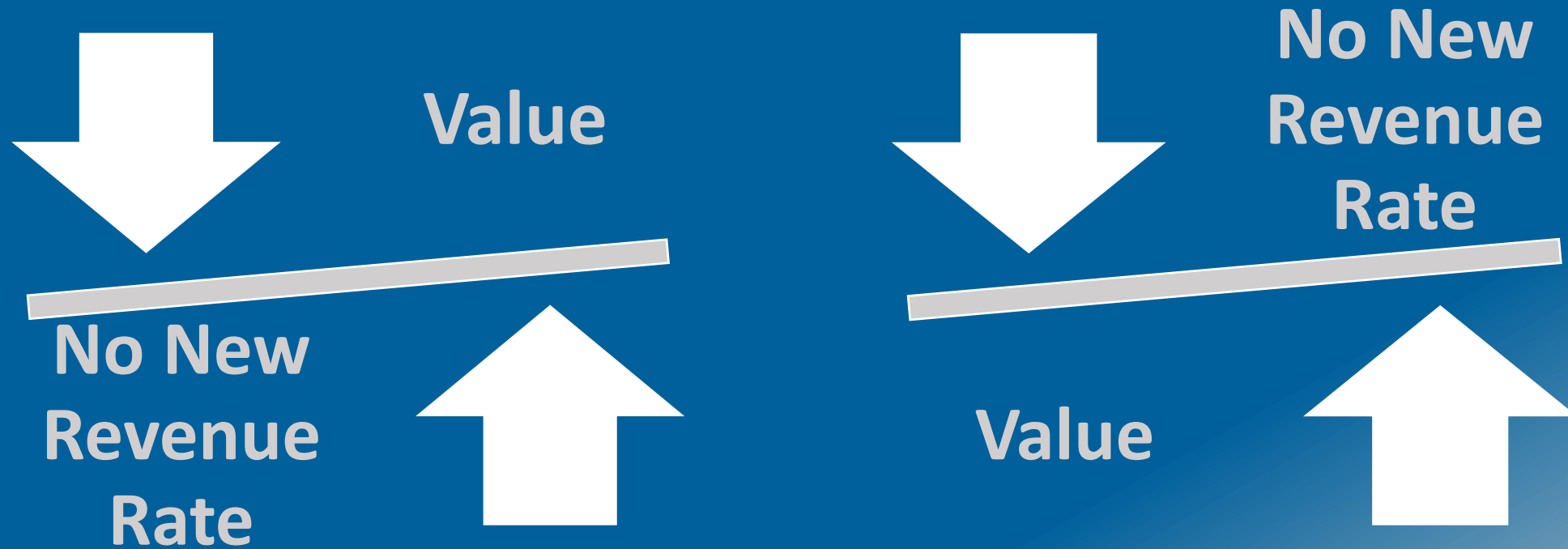
No-New-Revenue Tax Rate

- The no-new-revenue tax rate is a calculated rate that would provide a taxing unit with the same amount of revenue it received in the year before on properties taxed in both years.
- The resulting tax rate show the relationship between last year's revenue and the current years values.



No New Revenue Rate Calculation (non-special taxing units)

Rate which creates levy on same properties as prior year



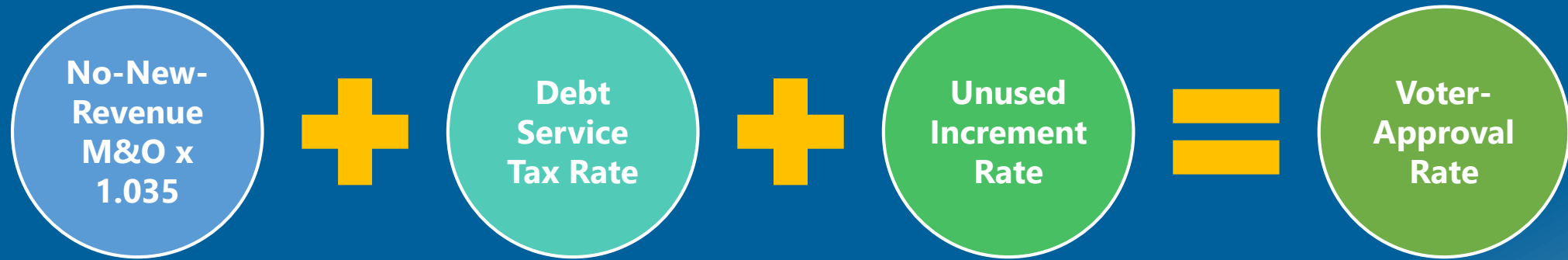
No-New-Revenue Tax Rate Calculation – Replaced Effective Rate



Voter Approval Tax Rate

- The voter-approval tax rate is a calculated maximum rate allowed by law without voter approval. Lowered to 3.5% increase from 8%.
- The calculation splits the voter-approval tax rate into two separate components - a no-new-revenue maintenance and operations (M&O) rate and a debt service rate.
- The voter-approval tax rate is the sum of no-new-revenue M&O and debt service rates, plus the unused increment rate (if applicable).
- In most cases, the voter-approval tax rate exceeds the no-new-revenue tax rate, but occasionally decreases in a taxing unit's debt service will cause the no-new-revenue tax rate to be higher than the voter-approval tax rate.

Voter-Approval Rate Calculation (non-special taxing units)



Unused Increment Rate

- A new component in the voter-approval rate formula
- The 3-year rolling sum of the difference between the adopted tax rate and the voter-approval tax rate
- The city can “bank” unused amounts for up to three years



Unused Increment Rate

**3-Year Rolling Sum of Adopted Amount
Less than 3.5% Voter-Approval Rate**

Beginning in 2021 Tax Year

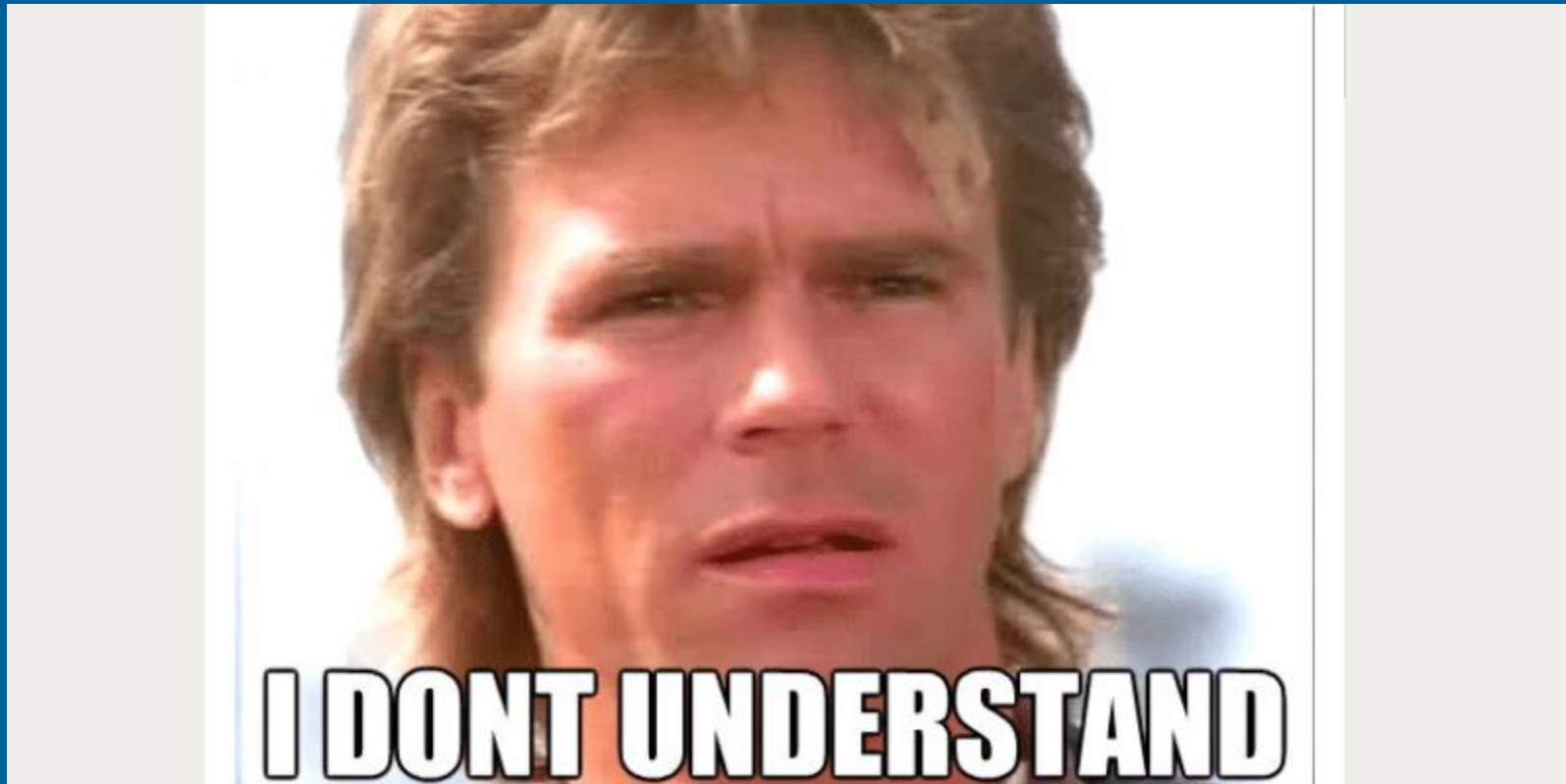
- 2021 – 3.0% (0.5% unused)
- 2022 – 2.5% (1.0% unused)
- 2023 – 3.0% (0.5% unused)

**In 2024, the City Could Add up to 2% to
Voter-Approval Tax Rate**

Tax Rate Options – Incremental Rate Impact

	FY 2021-22 Rate	FY 2022-23 Rate	No New Revenue Rate	Voter- Approval Rate	Voter- Approval w/ Incremental Rate
Tax Rate	\$0.3950	\$0.35450	\$0.36028	\$0.37456	\$0.407090
Average Taxable Home	\$347,898	\$387,603	\$387,603	\$387,603	\$387,603
Avg. Home Tax Bill	1,374	1,374*	\$ 1,396	\$1,452	\$1,578
Per Month	114.52	114.50	\$116.37	\$120.98	\$131.49
Change from FY 2021-22 (\$)		(\$0.14)	\$22.26	\$77.60	\$203.70

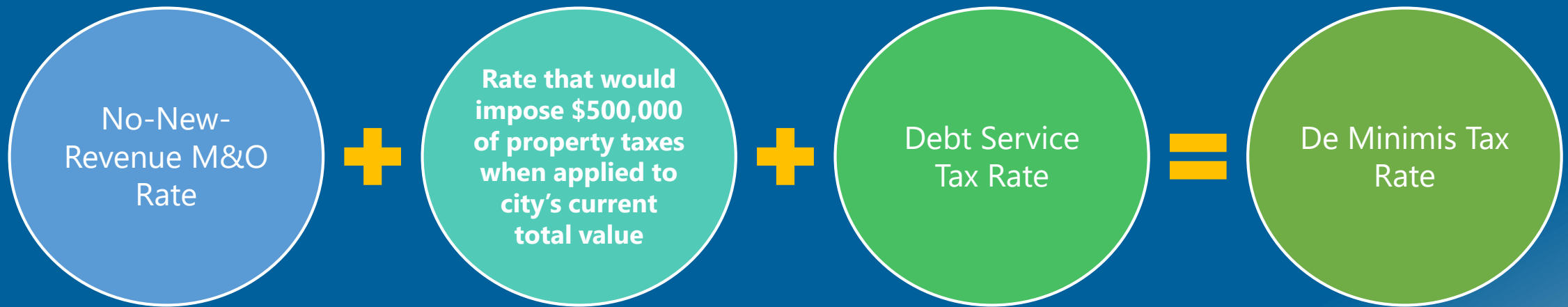
De Minimis Rate



Small Cities – Less Than 30,000 in Population

- De Minimis Rate
- Rate that will Generate \$500,000 in Tax Revenue
- 3% of Registered Voter's Can Petition an Election If:
 - De Minimis Rate Exceeds Voter-Approval Rate
 - Adopted Rate is Equal to or Lower than De Minimis Rate
 - Greater than 8% M&O Portion

De Minimis Rate, defined



Special Taxing Units

- Hospital Districts
- Junior College Districts
- Any taxing unit, other than a school, with a tax rate less than 2.5 cents per \$100
- Special taxing unit keeps an 8 percent voter-approval rate



What Adopted Rates Trigger Election or Petition

ADOPTED TAX RATE IS:	
BELOW voter-approval tax rate	No election required
ABOVE voter-approval tax rate; Taxing unit does not calculate a de minimis rate	Election required**
ABOVE voter-approval tax rate but BELOW de minimis rate	Voters may petition for an election*
ABOVE voter-approval tax rate and ABOVE the de minimis rate	Election required**

* See Tax Code Sec. 26.075 for details on when voters may petition for an election.

** See Water Code Secs. 49.23601, 49.23602, and 49.23603 for details on election requirements for water districts.

Must adopt rate by August 21st if potential election

Tax Rate Timeline

Adopting Rate At or Below Voter-Approval Rate

July 25th

- Chief Appraiser must submit certified appraisal roll or a certified estimate of property values

September 30th

- Last day to adopt tax rate that is equal to or less than the voter approval tax rate

Adopting Rate Above Voter-Approval Rate

July 25th

- Chief Appraiser must submit certified appraisal roll or a certified estimate of property values

Mid-August

- **Any** city adopting a rate exceeding the voter-approval tax rate must do so by at least the 71th day before election day (8/28/23).
- If the tax rate adoption will trigger an automatic election, tax rate should be adopted by the 78th day before election day (8/21/23), since election needs to be ordered by that date.

November 7th

- The November uniform election date is the first Tuesday following the first Monday in November
- Automatic tax rate elections held on this day

The Budget must be adopted prior to tax rate in both scenarios

Required Property Tax Numbers for Notice and Public Hearings

Required Property Tax Numbers

- **Must be a record vote with at least 60 percent of members of governing body voting in favor.**
- **Motion** – Increase over *no new revenue rate*
“I move that the property tax rate be increased by the adoption of the tax of \$0.439000, which is effectively a **3.2 percent** increase in the tax rate.” Property Tax Code Sec. 26.05(b)
- **Publication** – Increase in *budgeted revenues*
“This budget will raise more revenue from property taxes than last year’s budget by an amount of \$3,996,863 which is a **6.2 percent** increase from last year’s budget, and of that amount \$1,290,584 is tax revenue to be raised from new property added to the tax roll this year.” Local Government Code Sec. 102.005(b)



Required Property Tax Numbers, cont.

- **Motion** – Increase over *no new revenue rate*
“I move that the property tax rate be increased by the adoption of the tax of \$0.439000, which is effectively a **3.2 percent** increase in the tax rate.”

Property Tax Code Sec. 26.05(b)

Proposed Tax Rate	\$0.439000
No New Revenue Tax Rate	\$0.425550
PROPOSED INCREASE	1.3 cents
	+ 3.2%

Required Property Tax Numbers, cont.

- **Publication** – Increase in ***budgeted revenues***

“This budget will raise more revenue from property taxes than last year’s *budget* by an amount of \$3,996,863 which is a **6.2 percent** increase from last year’s budget, and of that amount \$1,290,584 is tax revenue to be raised from new property added to the tax roll this year.”

Local Government Code Sec. 102.005(b)

3.2% increase over no-new-revenue rate*	\$2,706,279
Revenues from new property	\$1,290,584
TOTAL INCREASE	\$3,996,863
	+ 6.2%

Total Tax Rate

- Presents adopted rates NOT adjusted for change in values
- Compares nominal to nominal
- Median homeowner will experience a 3.2% increase
- Total tax levy on all properties
 - Prior year is based on actual collections
 - LGC 102.005 notice is based on prior year budget
 - Current year levy is as calculated based on strict calculation of levy

Required SB Notice

Notice of Public Hearing on Tax Increase as published

Per Property Tax Code Sec. 26.06

	2022	2023	Change
Total tax rate	\$0.439000	\$0.43900	0% increase
Average homestead taxable value	\$285,872	\$290,918	2% increase
Tax on average homestead	\$1,255	\$1,277	2% increase or \$22
Total tax levy on all properties	\$63,872,539	\$67,421,441	5.6% increase or \$3,548,902

Tax Ratification

102.007 (c) Adoption of a budget that will require raising more revenue from property taxes than in the previous year requires a separate vote of the governing body to ratify the property tax increase reflected in the budget. A vote under this subsection is in addition to and separate from the vote to adopt the budget or a vote to set the tax rate required by Chapter 26, Tax Code, or other law.

Motion – Increase in *property tax revenues as compared to the previous year*
“I move to ratify the tax increase as reflected in the proposed/adopted fiscal year 2023-24 budget.”

Required Document/Website Notices*

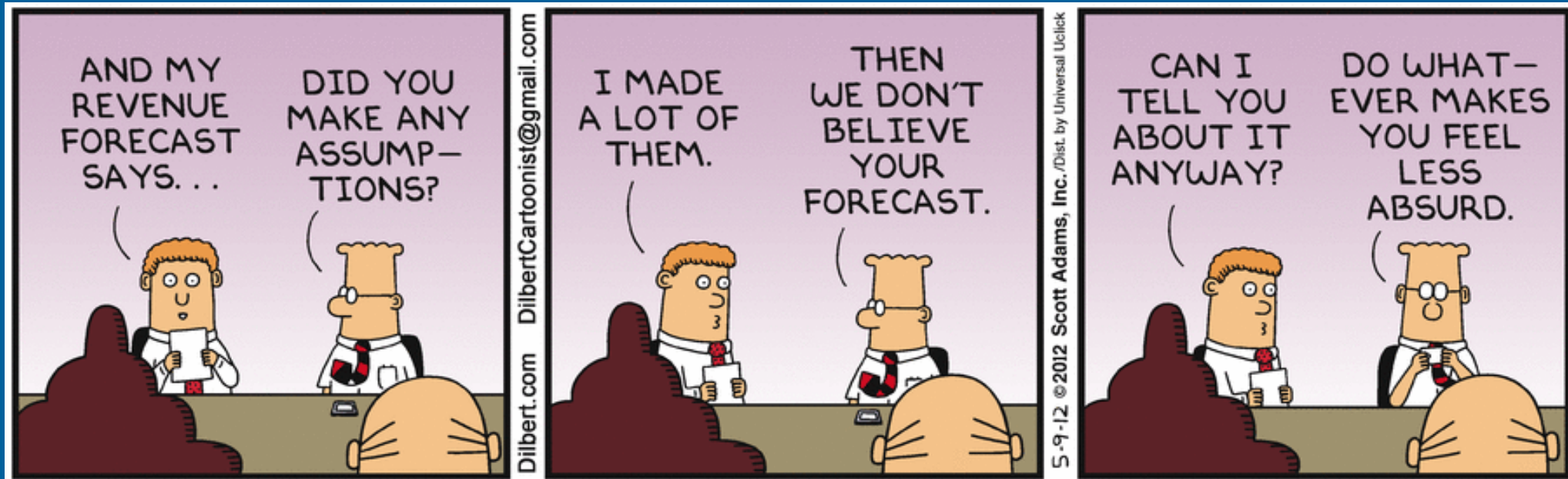
- Proposed Budget Document & City Website (if maintained)
 - HB 3195 Notice (LGC 102.005(b))
 - Notice of Tax Rate (Tax Code 26.04(e))
 - Budget Public Hearing (LGC 102.0065)
 - Tax Rate Public Hearing (if required) (Tax Code 26.06)
 - Also required to carry a 60-second notice on television channel if entity has free access (Tax Code 26.065(c))
- Adopted Budget
 - SB 656 Cover Page (LGC 102.007(d))

*All notice requirements subject to change during legislative sessions

Helpful Tax Links – Property Tax

- Comptroller Truth-In-Taxation Website - Includes links to Tax Rate Calculations, Notice Requirements, Hearing Requirements, and Important Dates
 - <https://comptroller.texas.gov/taxes/property-tax/truth-in-taxation/index.php>
- Tax Code 26 – Tax Rate Adoption
 - <https://statutes.capitol.texas.gov/Docs/TX/htm/TX.26.htm>
- Local Government Code 102 – Municipal Budget Adoption Requirements
 - <https://statutes.capitol.texas.gov/Docs/LG/htm/LG.102.htm>

Sales Tax Revenue



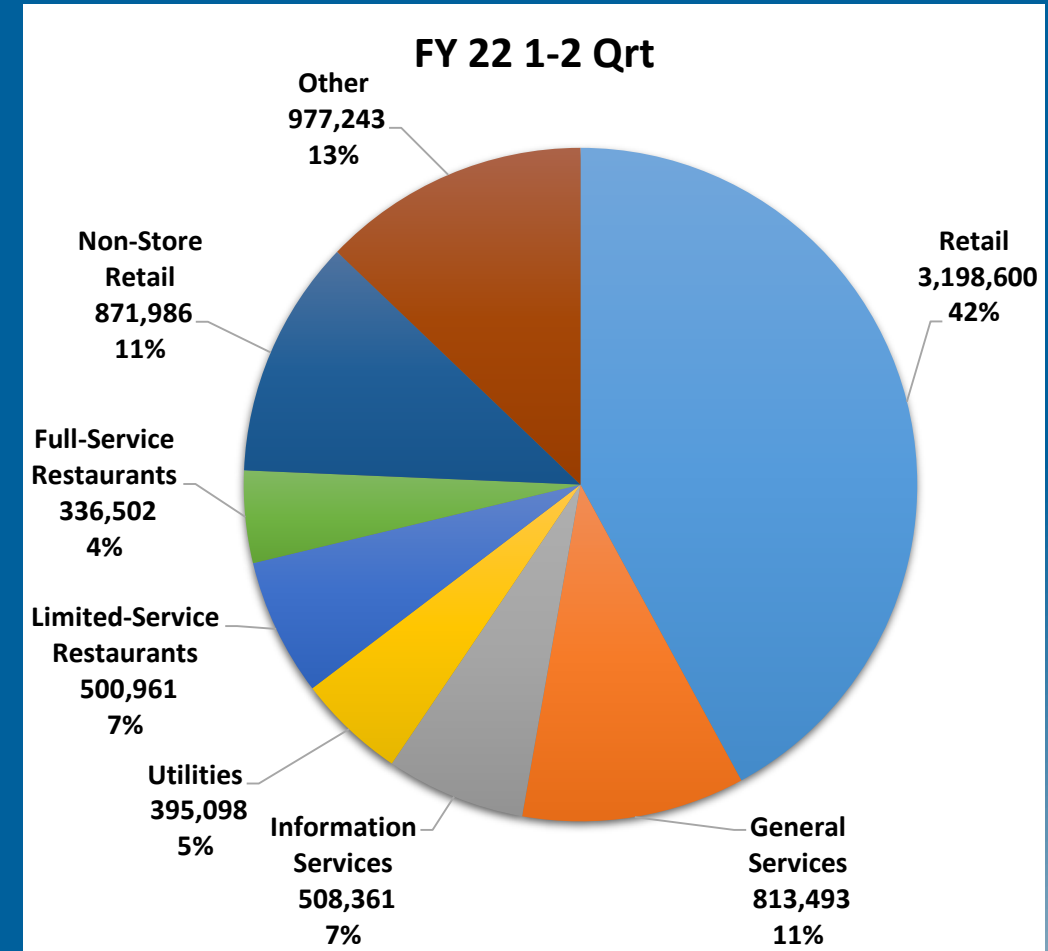
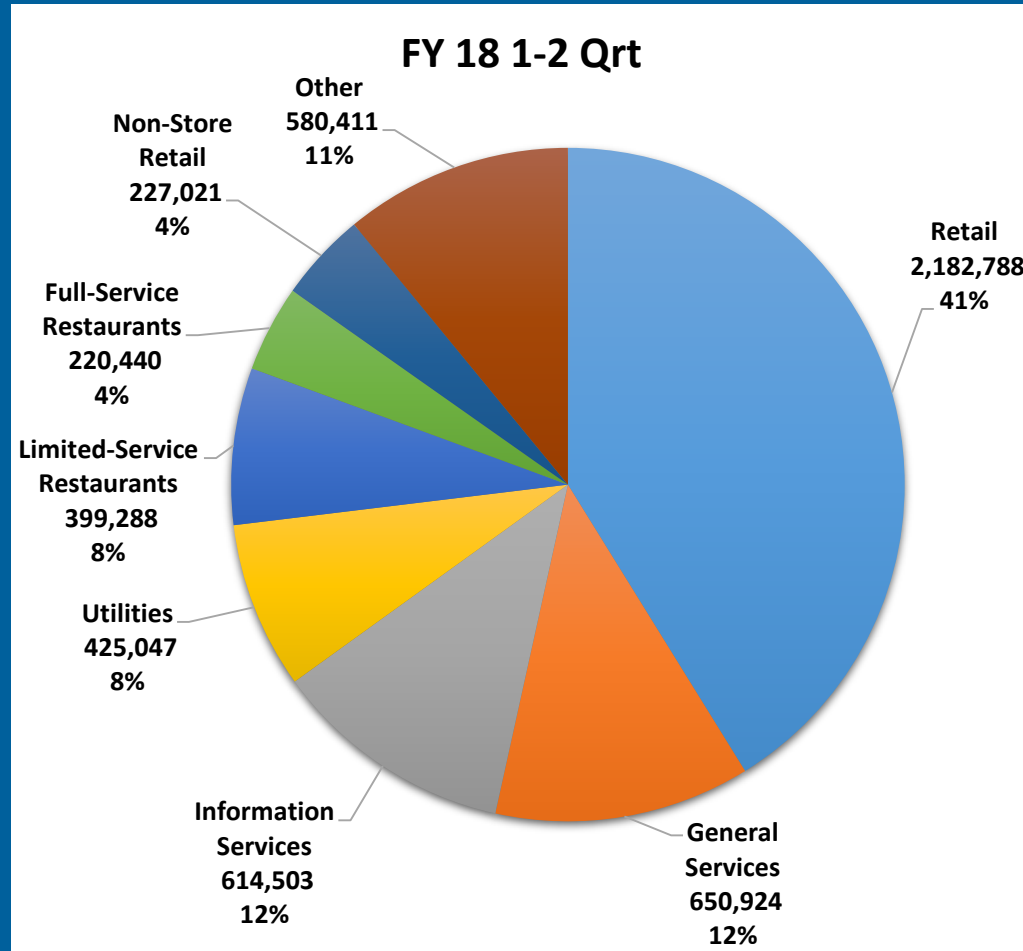
Sales Tax Calculation

- Use a conservative trend approach
- Request the Comptroller Confidential Detail report
 - Excel / Access
 - Third party software
- Formula Concept
 1. Determine the Base = Overall Sales Tax – Opened in Year
 2. Average annual base growth = ~ % to increase
 3. Add annual impact of opened in year
 4. Add **known** opening development – Use leakage discount
 5. Subtract one-times & corrections
 6. Total for estimate

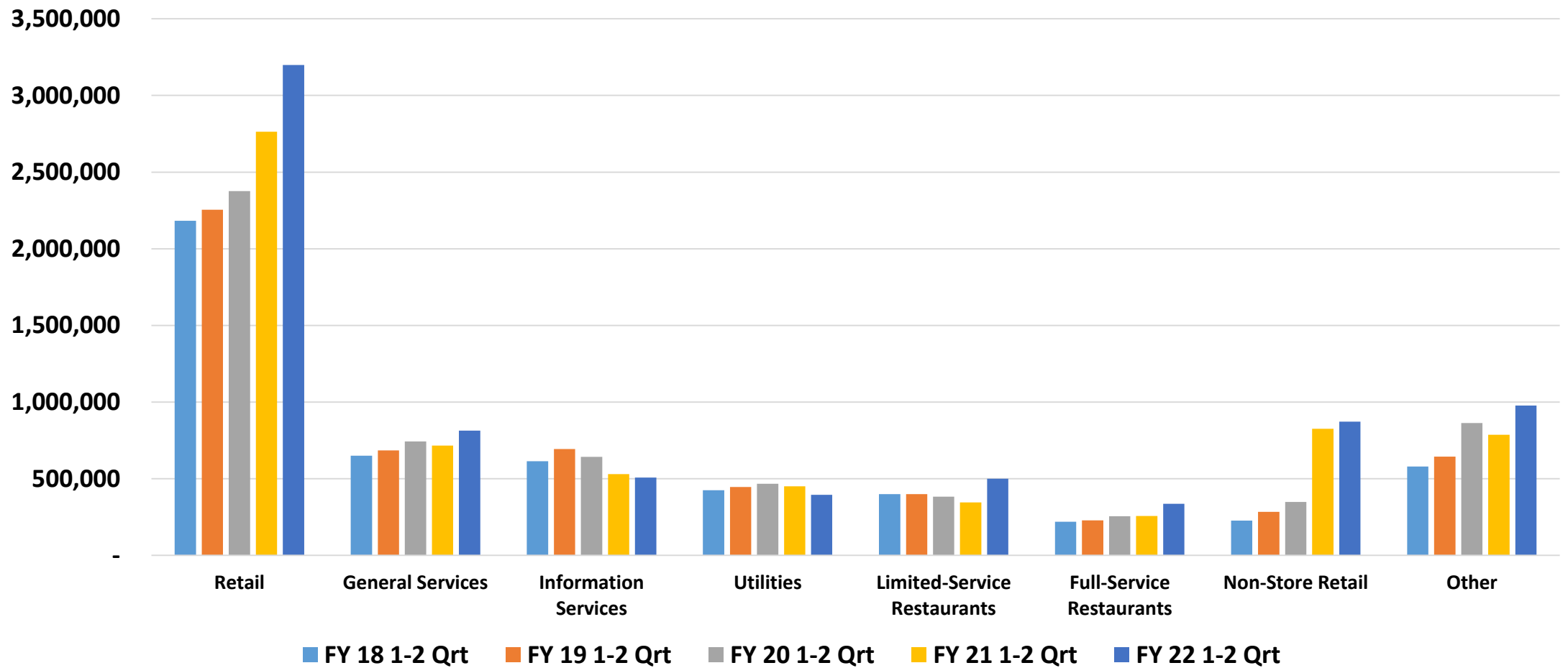
Helpful Links - Sales Tax

- Comptroller Confidential Information Report Request Info
 - <https://comptroller.texas.gov/transparency/open-data/by-request.php>
- Comptroller Monthly Payment Detail
 - <https://mycpa.cpa.state.tx.us/allocation/AllocDetail>
- Comptroller Sales Tax Publications – What is Taxable
 - <https://comptroller.texas.gov/taxes/publications/#sales>

Sales Tax By Category – Version 1

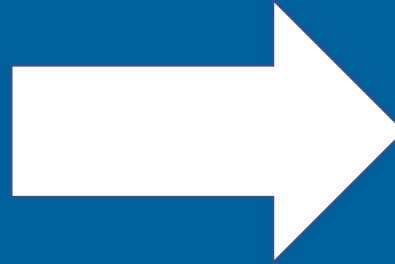


Sales Tax By Category – Version 2



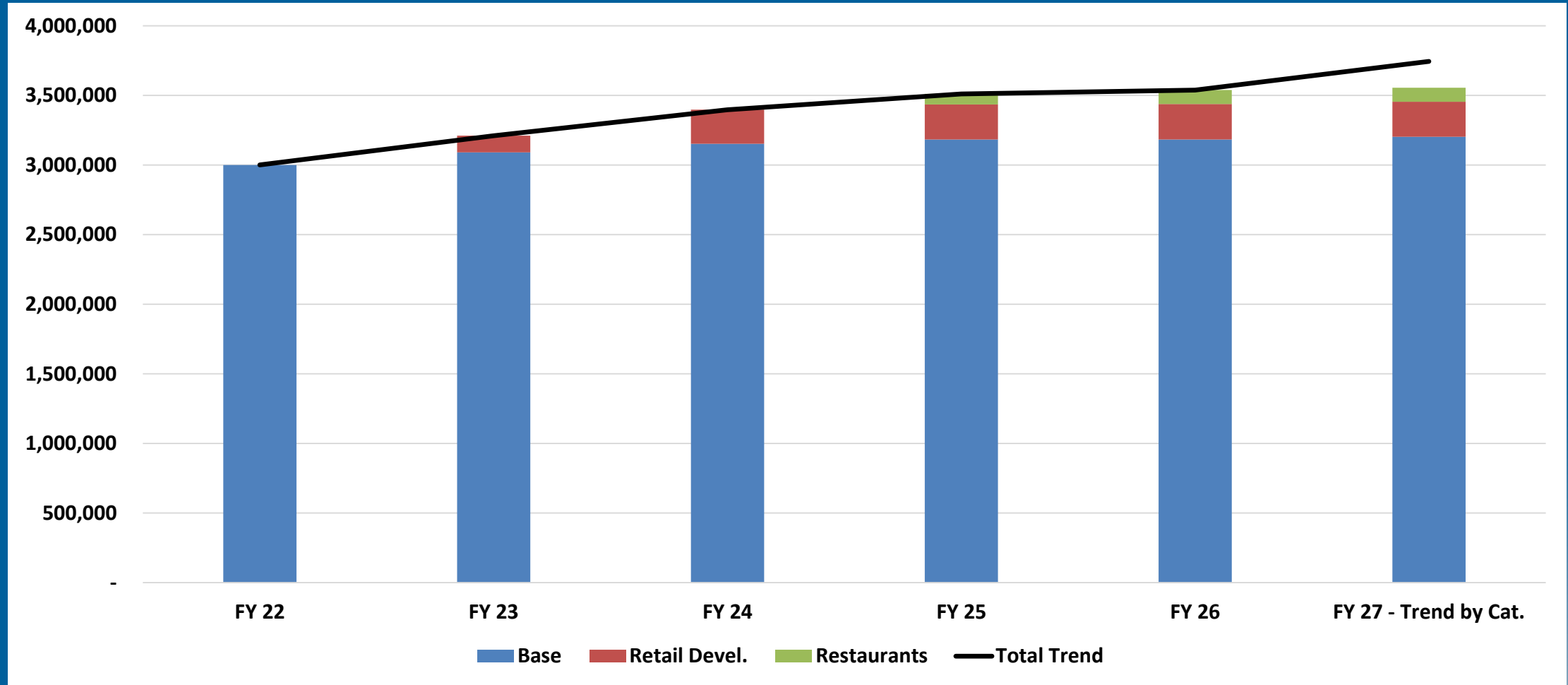
Sales Tax Modeling

- FY 22 = \$3.00M
- FY 23 = \$3.21M (\$3.09M+\$120K)
 - Base Increases 3%
 - Add New Retail Development in March = \$120K
- FY 24 = \$3.40M (\$3.151M+\$245K)
 - Base Increases 2%
 - Full Year New Retail & 2% Growth
- FY 25 = \$3.51M (\$3.18M+\$240K+\$75K)
 - Base Increases 1%
 - New Retail 3% Growth
 - New Restaurants Open in January = \$100K * 70%
- FY 26 = \$3.54M (\$3.18M+\$240K+\$75K)
 - Base No Growth
 - New Retail 1% Growth
 - Full Year New Restaurants & No Growth



FY 27 Trend = \$3.55M
(\$3.20M+\$252K+\$100K)
Base No Growth
New Retail 1% Growth
Full Year New Restaurants & No Growth

Sales Tax Modeling Graph



Things to Consider – Sales Tax

- Comptroller Confidential Information
- New Development Spike
- Development Saturation
- City Border Activity
- On-Line Sales Activity
- Economic Development
 - Insight on Market
 - 380 Agreements



Other Revenue – Excel Sheet

Questions & Comments

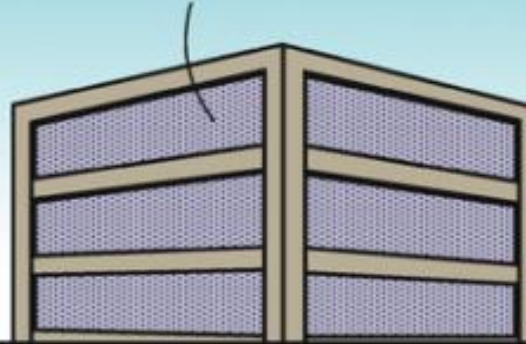
Expenditures Projections

I ONLY HAVE ENOUGH
IN THE BUDGET TO
HIRE AN EMPLOYEE
WHO IS INCOMPETENT
HALF OF THE TIME.



Dilbert.com DilbertCartoonist@gmail.com

BUT IF I DON'T
USE THE BUDGET, I
WILL LOSE THOSE
FUNDS NEXT YEAR.



12-25-14 © 2014 Scott Adams, Inc. /Dist. by Universal Uclick

AND I
AM PROUD
TO SAY
THAT I'M
75% COM-
PETENT.

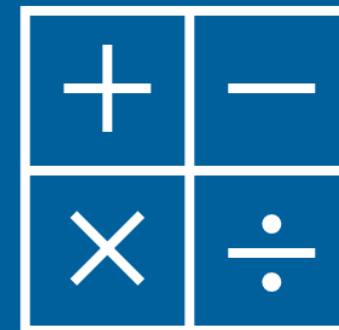


I WISH
I COULD
AFFORD
THAT.



Salary Calculations

- Non-Exempt = Hourly rate x 2080 hours
- Exempt = Bi-weekly rate x 26 weeks
- Public Safety = Varies by City
- Part-Time =
 - "Full-Time" – Library Staff
 - Temporary/Seasonal – Lifeguards
- Overtime = Base on average spending or allocate per employee
- Education/Certificate
- Allowances
- Longevity



Compensation Adjustments (CA)

- Market – Adjustment tied to changes in comparison cities
- COLA – Adjustment tied to changes in economy/inflation
- Merit – Performance based pay
- Reclassification – Change in job responsibilities
- Step Plan – Pay schedule outlining salary per year with entity
- Lump Sum – One-time payment

Benefits

- Salary Based Benefits
 - Retirement – TMRS (3 Months at Current Rate; 9 Months at New Rate)
 - Worker's Compensation
 - Life Insurance
 - Social Security/Medicare
- Fixed Benefits
 - Health/Dental Insurance
 - HSA Contribution



Compensation Formula

+ Salary X (CA*% of year) + Other Comp = Compensation

+ Compensation X (TMRS+WC+LI+SS/MC) = Salary Benefits

+ Insurance Cost + HSA = Fix Benefits

= Personnel Costs

Excel Worksheet – Compensation Example

Operating Expenditures Projections

Operating Expenditure Occurrence

One-Time:

- Expenditures that only occur once, will not repeat in the future with any sort of frequency
- This is the rarer of the two expense types, and the primary reason to maintain a strong fund balance or a rainy-day fund
- May be dependent on a new service, or an unforeseen event

One-Time Expenditures/Expenses

Examples:

- Set up costs for a new software
- Repair due to a catastrophic failure
- Furniture
- Public Art
- Software Upgrades
- New Capital Items
- Upfront costs associated with new personnel



One-Time Expenditures/Expenses

In Practice:

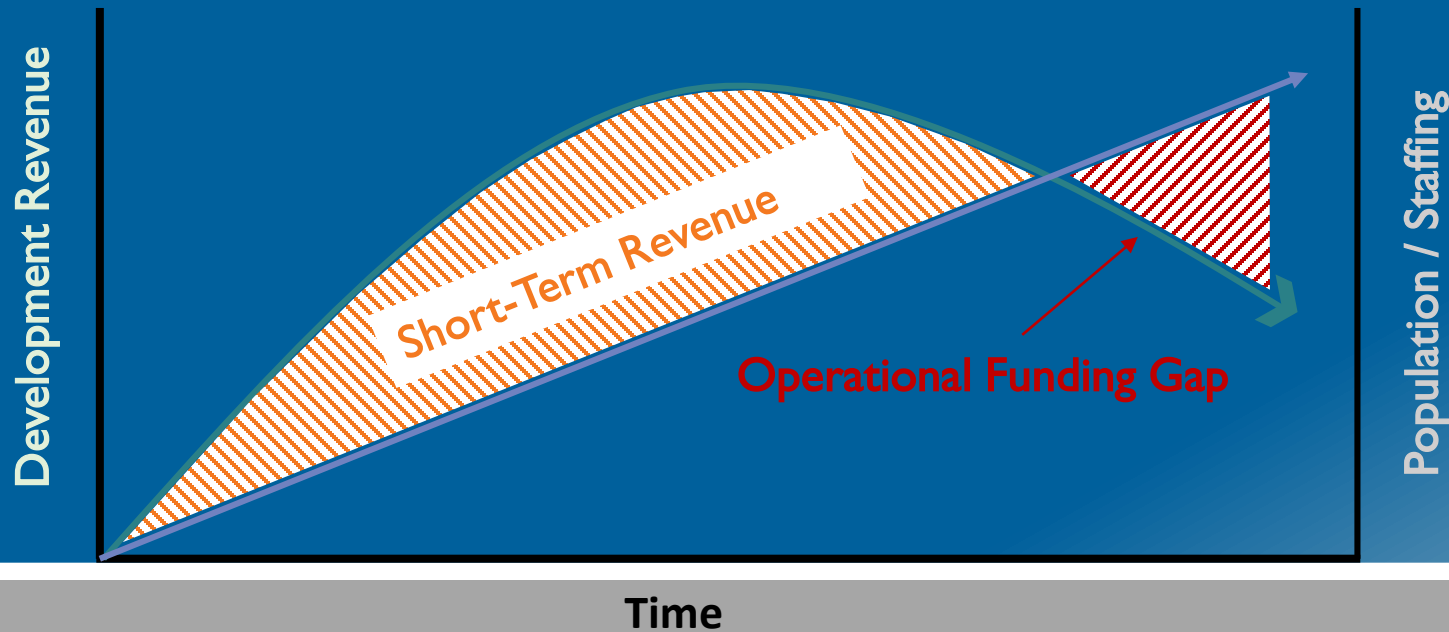
- Try and offset this type expense from a one-time funding source
 - Fund Balance, Reserves, Grant Funding, transfer of funds, insurance proceeds, Debt, salary savings
- Once a one-time event occurs, there will be an expectation that you will be prepared to account for it in the future.
 - Keep accurate records
 - Reevaluate after the event has passed
 - Make a part of budget discussions in the future



Increase the Maintenance & Operation (M&O) Rate

Development revenues are subsidizing operations costs by \$809,662

- These are short-term revenues, that will slow
- They are not a sustainable funding source for operations



Expenditure Occurrence

On-Going:

- Repeat on a predictable basis
 - Does not have to be annual or monthly, just a routine basis
- Most common
- Past data will be the best at showing the trends and helping to predict changes.



On-Going Expenditures/Expenses

Examples:

- Utilities
- Subscription & Dues
- Contract Services
- Personnel
- Seasonal Planting



On-Going Expenditures/Expenses

In Practice:

- New services with on-going costs need to be shown separately from those with one-time costs so that administrative & elected officials can make informed decisions about spending
- Forecasts based on trends are best, but there are numerous factors that affect price, which means that you may have to look outside of the General Ledger for data
- A strategic planning session is important to get your organization on the same page so that everyone has an accurate preview of the future
- Offer departments an inflationary factor at the beginning of the budget cycle. Can work as a cap or as a minimum.

Department (Non-Personnel) Projections

- Department input is necessary for most accurate current year spending projections
- Challenges
 - ERP Software Limitations
 - Departments turn in all projections as BUDGET!
 - Department users have limited financial backgrounds

DILBERT

BY SCOTT ADAMS



Category – Personnel

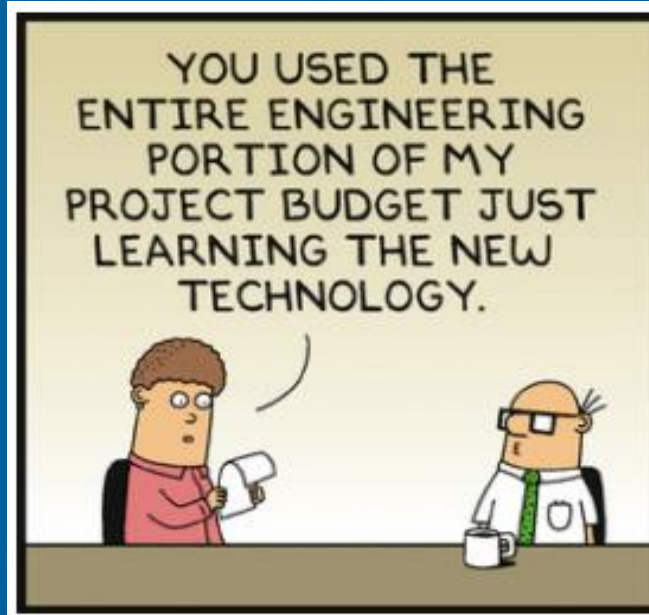
- Frequency of payments
 - Every payroll – Salary, Overtime, Allowances, Retirement, Medicare
 - Twice a month – Health, Dental, Other Insurances
- Considerations
 - Fire Department
 - Fiscal Year splits
 - Payouts
 - Vacancies
 - Seasonal positions



Category – Personnel

Additional Considerations:

- Often small one-time costs associated with personnel can be offset by vacancy savings. If you budgeted for someone to start on 10/01 and you hire on 01/01 you have substantive savings to offset the new expenditures.
- How does your City handle budgeting for payouts upon resignation or retirement?
 - Depending on your policies, long-term employees can be owed a substantial payout for accrued benefits.



Dilbert.com DilbertCartoonist@gmail.com



2-21-11 © 2011 Scott Adams, Inc./Dist. by UFS, Inc.



Category - Services

Services:

- Labor that does not produce a tangible good. Work is typically preformed by and outside entity or internal service department.

Examples:

- Legal Services, Engineering, Pest Control, Building Cleaning, Mowing
- Internal Services: Technology, Equipment, Buildings



Category - Services

In Practice:

- Forecasting this expenditure category can be tricky, and need to consider several factors:
 - How is the service contract structured? (as needed, fixed rate, fixed price, levels)
 - Who controls the usage? (Staff, Council, Contract, Budget)
 - What is the service related to? (Capital Project?)
- The costs changes from year to year may vary according to the economy, if prices have not been pre-negotiated
- Trend in recent years has been that these inflation of these costs have exceeded Consumer Price Index (CPI)
- The costs to change who provides the service may be high due to regulations on professional service



Category - Supplies



Supplies:

- An item or group of items that you purchase and own.
- Items over your municipality's capital threshold can fall into the capital category depending on your line-item structure.

Examples:

- Paper, batteries, books, small equipment, technology
- Sand, gravel, piping, hard hats, uniforms
- Cleaning products, food, easter eggs

Category- Supplies



In Practice:

- You have a high amount of discretion and easiest lines to budget
- Forecasting for this category is dependent on how much or how many you need of something.
 - Trend and other data is present in the General Ledger
 - Incremental budgeting is a good tool for this category (ie. Six uniforms, nine jackets, ten mailers)
 - Pay special attention to how new services or personnel affect these lines
 - Make sure departments are providing good detail and justification
- Use a miscellaneous or other line in departments for unplanned requests, but keep the budget small

Category - Maintenance



Maintenance:

- A blending of services and supplies, but the main objective of this category is the preservation of an existing assets
- Utilized by Parks, Streets, Public Works, or any other departments with capital assets to maintain

Examples:

- Cleaning, vehicle maintenance, equipment maintenance, crack sealing, sewer line filming

Category - Maintenance



In Practice:

- A good practice is to track maintenance in a way that links directly to the fixed asset in your enterprise system
- Capturing operating expenses associated with capital items is a GFOA requirement, and this data will be helpful in calculating those costs in a CIP or in other analyses
- Forecasting tends to be very incremental and predictable
 - Standardize expenses across multiple departments, when applicable
 - Example: Contract with one vendor to supply all tire & oil changes for a year at a fixed price.

Category - Utilities

Utilities:

- A service, that is essential for public. Typically regulated by multiple levels of government.

Examples:

- Water, Sewer, Gas, Telephone, Electricity, Cell Phones, Fuel, Data Cards



Category - Utilities



In Practice:

- Forecasting can vary depending on how accurate you want your results
 - Projecting based on total units used can be timely if data is not already available. You must also be able to project any change in price
 - Consumption of gas and water is dependent on weather, which tends to be unpredictable without multiple years of data.
 - Flat or inflation forecasting saves time, but is less precise (not always a bad thing)

Expenditure Category - Debt

Debt:

- Money owed to a third party, including another fund

Examples:

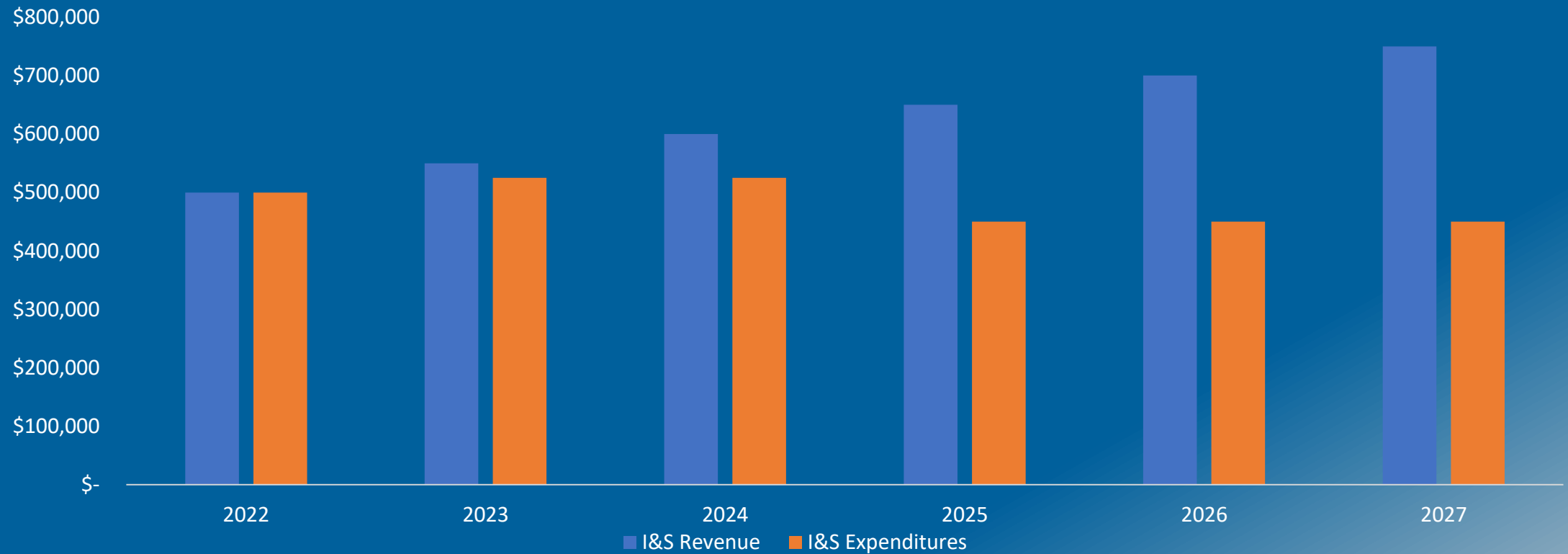
- Certificates of Obligation, General Obligation Bonds, Tax Notes, Leases

In Practice:

- Forecasting is based on debt schedules or terms of agreements
- Future Debt forecasting is highly dependent on net revenue availability

Example of Debt Capacity

I&S Revenue vs. Expenditures



Expenditure Category - Capital

Capital:

- Capital items are ones that exceed the capital threshold set by your municipality.
- Typically, large purchases that retain value after one year, and are listed on your fixed assets.
- Can be a combination of goods that make up one asset. Good example of this is a road, which is a combination of services, supplies, time, and other resources.

Examples:

- Roads, utility lines, Vehicles, Equipment, Comprehensive Plans, Studies

Expenditure Category - Capital

In Practice:

- Items are typically prepared separately in a Capital Improvement Program that looks out over multiple years
 - This is due to the high costs and preparation needed for each item
- Each item is approved by Council at the time of budget adoption and then again when the purchase is made.
- The operating impact for each item needs to be evaluated along with the cost of item.

Excel Worksheet – Current Year Projections: Revenue & Expenditures

Information Gathering

Personnel

- Number of Payrolls – Completed
- Number of Payrolls Remaining
- Number of Past/Remaining Insurance Payrolls
- Split of Fiscal Years
- Number of payrolls in current month
- Estimated Vacancy Fill Dates
- Upcoming Retirements

Financial Data

- Adopted/Amended Budget
- Current Month Expenditures
- Current YTD Expenditures
- Prior YTD Expenditures
- Prior Year Total Expenditures

Formulas

- Remaining Pay Periods
- Remaining Insurance Pay Periods
- Monthly Average
- Current Month being New
- Current YTD Same % as Prior
- Matching Budget
- Current YTD = Total

Department User Assistance & Reminders

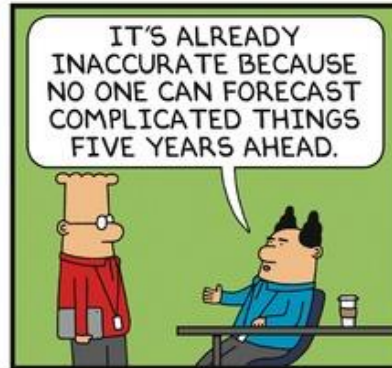
- Include filters for G/L Columns
- Allow for manual adjustments
- Hide reference columns in worksheet
- Enter projections into ERP/Operational Budgeting Software

Questions & Comments

Long Range Forecasting

DILBERT

BY SCOTT ADAMS



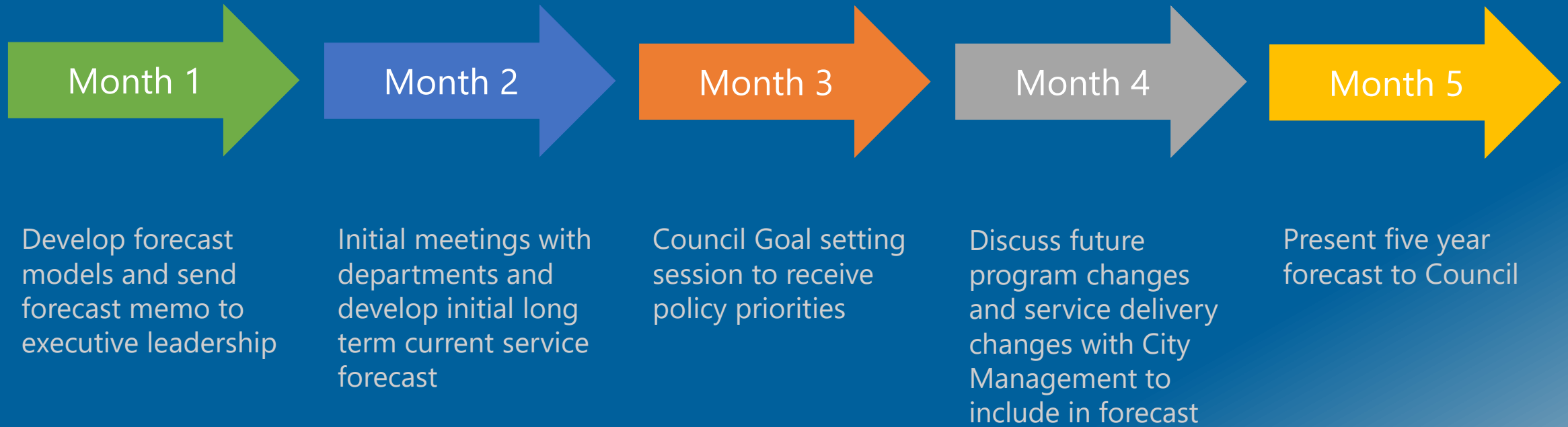
Council Goal Setting

Summary of City Council Priorities

- These priorities will help you forecast
- Should tie to your strategic plan
- Must address Compensation
- Public Safety (Largest overall Expenditure)
- Reaffirm Financial Policies



Example Timeline of the Five-Year Forecast



Five Year Financial Forecast & Budget



- Financial Forecast is an early financial outlook and should include all major funds
- Provides an opportunity for continued Council policy discussion on upcoming annual budget
- Forecast is not a budget

Forecast Methods

Call out Your Growth Assumptions

REVENUE SOURCES	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Property Tax	6.4%	5.0%	4.5%	3.0%	3.0%
Sales Tax	3.5%	3.0%	4.0%	4.3%	4.3%
Charges for Current Services	7.7%	1.5%	8.9%	7.5%	10.8%
Business and Franchise Taxes	(3.8%)	(3.5%)	0.0%	0.0%	0.0%
Other Resources	4.8%	3.4%	2.5%	2.2%	2.2%

Other Major Funds



Water & Sewer Operations

- Operational Costs
- Capital Investments
- Debt Issuances



Stormwater Operations

- Operational Costs
- Capital Investments
- Debt Issuances



Hotel Occupancy Tax

- Fee on Hotel Room Stays
- Occupancy rates
- Allowable expenses

Expenditure Assumptions

- Personnel Calculations
 - Use current employees as a base
 - Include any step-plan increases
 - TMRS Forecast
 - Healthcare assumptions
 - Consumer Price Index
- Multi-year contracts, grant cash matches, operating costs from capital projects
- Financial Policies and Council Direction

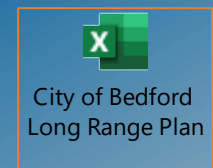
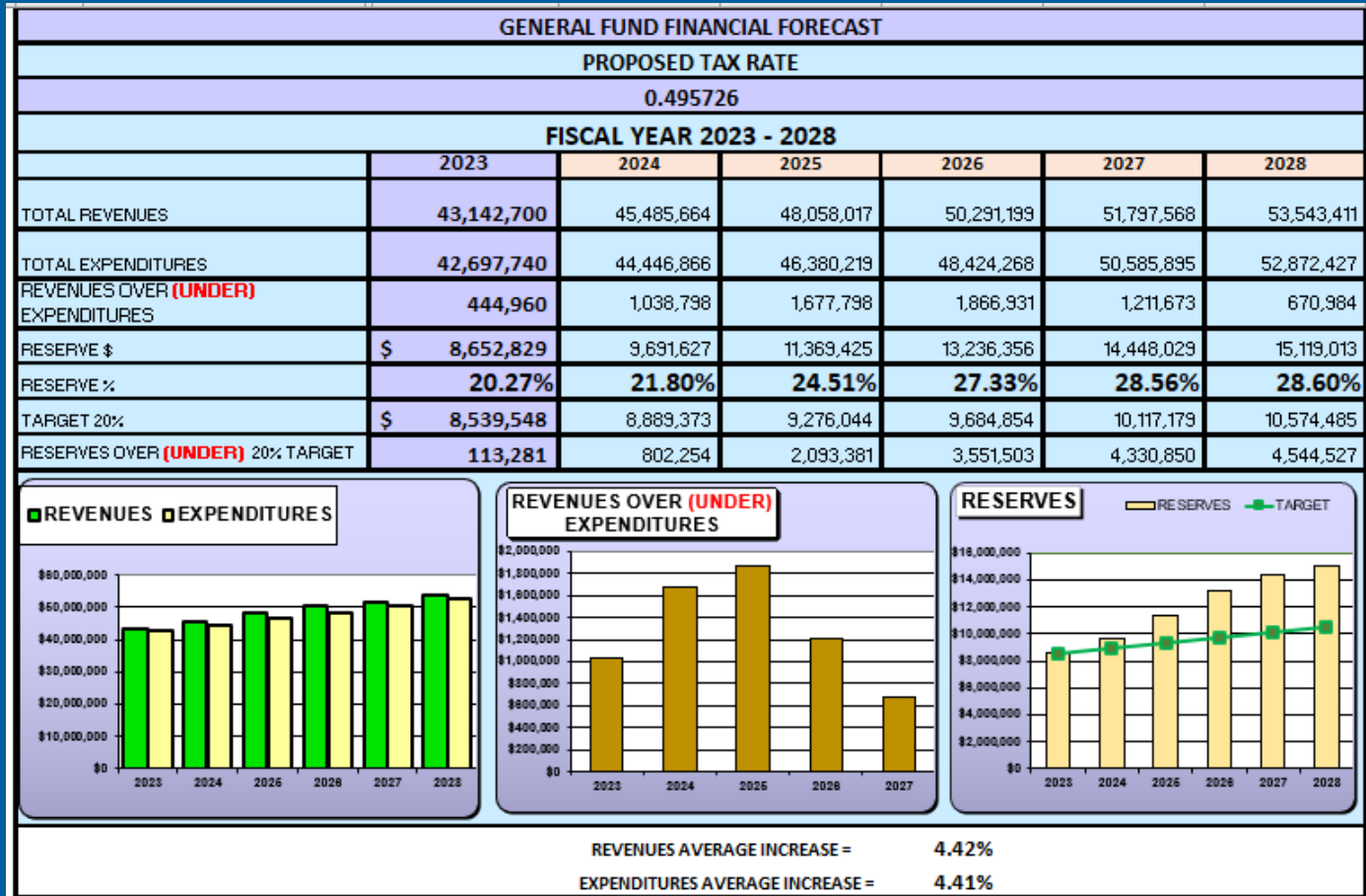


Economic Outlook & Perspective



- A forecast of the City's finances recognizes that the fiscal health is directly linked to the success of local, national, and global economies
 - Unemployment rate and employment growth
 - CPI growth
 - Housing prices and inventory
 - Hotel demand
- Know what is applicable to your community

Provide an Overview



City of Bedford Long Range Plan

Capital Improvement Program



What is a CIP

Capital Improvement Project: Construction, major maintenance and improvement projects. Includes infrastructure upgrades and replacement

- Capital Improvement Plan: A 5 to 10 Year Plan
 - Update Annually – Not “One and Done”
 - Approved by Council
 - Future Capital Improvement Projects



What qualifies as a Capital Improvement Project?



**MAINTAINS/
IMPROVES A CITY
ASSET**



**NEW
CONSTRUCTION**



EXPANSION



RENOVATION



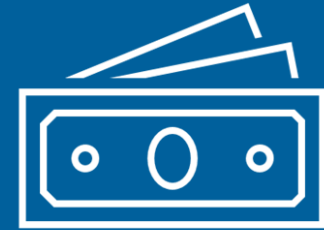
REPLACEMENT



**USUALLY
COMPLETED OVER
MULTI-YEARS**

Why Budget for Capital

- High Price Tag
- Debt Issuance
- Costs Occur Over Multiple Years
- Projects May Occur at the Same Time



Where Does this fit?

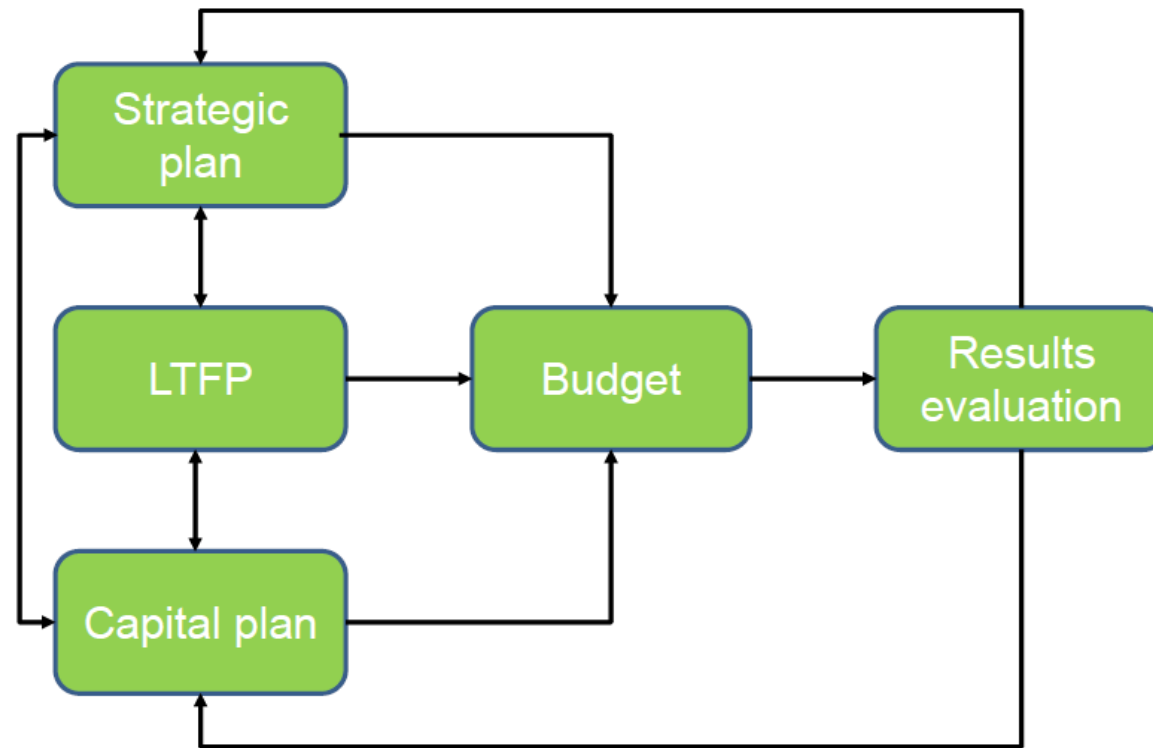


Image source: Shayne Kavanagh and Monica Han Na, *An Elected Official's Guide to Long-Term Financial Planning for Local Government* (Chicago, IL: GFOA, 2008), 15.

3 Key Pieces In Developing a Capital Improvement Plan

- Capital Management Policies
- Quantify Operating & Maintenance Costs of Projects
- Identify Funding Sources

Capital Management Policies

City Commits to Full Comprehension of its Fixed Assets Investment; Full Reporting of Assets Costs and Tracking

A Minimum of 5 Year of Future Planning for Existing Deficiencies as well as New Growth

Strategy or Plan for Maintenance, Rehab, Replacement

Full Recognition and Awareness of Developer Contributions

Examples of CIP Policies

[City of Corinth](#) – Asset Management Plan

[City of Round Rock](#) – Financial Policies

[City of Boerne](#) – Fiscal & Budgetary Policy

[City of Lago Vista](#) – Fiscal & Budgetary Policy

Quantifying Operating & Maintenance Costs Associated with the CIP

GFOA Budget Award requirement to identify the operating and maintenance costs associated with the CIP

These costs are important for the development of the operating budget and future forecasts

Decision makers, whether it be council, management, or citizens need to be made aware of the future spending implications

Operating costs projections should extend out further than one year

Examples of GFOA Award Recipients for Capital Projects

Upper Trinity Regional Water District (TX) – [2019](#)

Parker (CO) – [2020](#)

Barnstable (MA) – [2020](#)

Narragansett Bay Commission (RI) – [2020](#)

Lake Havasu City (AZ) – [2019](#)

Lakewood (CO) - [2019](#)

Types of Funding Sources

Fund Savings

General Obligation Bonds

Certificate of Obligation Bonds

Revenue Bonds

Public Private Partnerships

Special Revenue Funds

Impact Fees

Developer Contributions

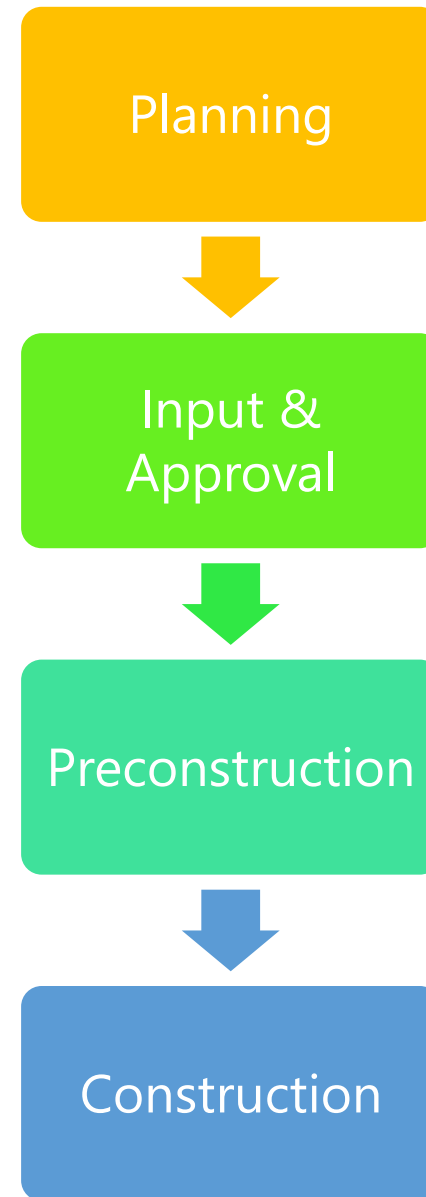
TIRZ

Grants

**The Life of a
Capital
Improvement
Project –
Cradle to
Construction**



The Life of a Capital Improvement Project – Cradle to Construction



The Life of a Capital Improvement Project – Cradle to Construction

Planning

- Identify Needs
- Determine Financial Impact & Scope
- Prioritize Capital Requests
- Evaluate Available Funding Sources & Potential Partnerships
- Draft Preliminary financial plan for review

The Life of a Capital Improvement Project – Cradle to Construction

Input & Approval

- Present Plan to Council
- Conduct Public Hearings
- Hold Election (Depending on Funding Source)

The Life of a Capital Improvement Project – Cradle to Construction

Preconstruction

- Studies & Reviews
- Property Acquisitions
- Designs Finalized
- Request for Proposals (If bidding the project out)
- Awarding of Construction Contract (If bidding the project out)

The Life of a Capital Improvement Project – Cradle to Construction

Construction

- Construction Management
- Project Tracking
- Changes Orders
- Weather Delays
- Project Finish Out

EXAMPLE



Planning

- 2004 - Water Master Plan Identifies the need for an elevated storage tank to support the Town
- 2012 – New Development Agreement increasing density and water needs
- Jan. 2018 – Water Impact Fee established increasing the scope of the design and providing a funding source for engineering costs

Input & Approval

- Spring 2018 - Staff presents Council & citizens with proposed debt issuance to fund the project
- July 2018 Water Tower funding included in FY 2019 Budget
- Sept. 2018 – Council Approves 2018 COs

Preconstruction

- 2019 - Site Acquisition starts along with preliminary engineering
- Fall 2019 - ROW is purchased and engineering plans are finalized
- Sept. 2019 – Project is put out to bid
- Nov. 2019 – Contractor is selected, and bid is approved by Town Council

Construction

- Jan. 2020 Construction Begins
- Sept. 2021 Construction is complete

The Budget Connection – How do these projects fit

- Project Planning is often an operational cost
- Annual Budgets Must Include Operating and Maintenance Costs of Assets
- Inflation Should be Factored into the Equation
- Contingency Funding can impact the operating budget
- Internal Service Funds Used to Set Aside Funds for Future Purchases
 - SCBA
 - Information Technology
- Long Term Forecasting Included in the Annual Budget Process

Why develop a CIP?



“If You Fail to Plan,
You Plan to Fail”

Benjamin Franklin

Questions & Comments

Contact Information

Karen Rhodes-Whitley, RTA/C	John Zagurski, CGFO	Aaron Rector, CGFO
Budget Director	Director of Finance	Dir. Of Administrative Services
City of Plano	Town of Northlake	City of Keller
972-941-7472	940-242-5706	817-743-4026
Karenr@plano.gov	jzagurski@town.northlake.tx.us	arector@cityofkeller.com

Meg Jakubik, CGFO	Martie Simpson, CPA
Strategic Services Manager	Executive Director
City of Bedford	GFOAT
817-952-2117	254-223-0885
meg.jakubik@bedfordtx.gov	martie@gfoat.org