Municipal Budgeting
For elected officials

Toni Nelson, Finance Consultant, MRSC
Mike Bailey, Finance Consultant, MRSC
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Agenda

• Some terminology
• Funds – what are they?
• Requirements for municipal budgets
• Key elements of budget best practices (aka: budget policies)
• Getting the most from your budget process
• Additional Resources
Some basic premises

- Government is accountable to its:
  - Citizens
  - Legislative bodies
  - Oversight bodies (State, Federal and Regulatory agencies)
- Governmental business is conducted in open public meetings
- Budget adoption by legislative body before it can spend money

Government Accounting Terms and Acronyms

- **BARS** – Budgeting, Accounting & Reporting System (WA)
- **GAAP** – Generally Accepted Accounting Principles
- **Cash Basis aka: OCBOA** – Other Comprehensive Basis of Accounting
- There is a “**BARS Manual**” for both GAAP and Cash
“BARS” – What is it?

Budgeting, Accounting and Reporting System

Legal authority (RCW 43.09.200):

• The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class
• Provides a common chart of accounts for local government comparative statistics (LGFRS)

Washington Options for Governmental Accounting

GAAP
• Meets “Generally Accepted Accounting Principles”
• Is a standard by which to measure financial presentations
• Uniform standards and guidelines for financial accounting and reporting
• Double entry accounting practice

CASH
• Non-conforming to GAAP standards
• Prescribed by SAO – RCW 43.09.200
• Must adhere to governmental accounting principles which require demonstration of compliance with finance-related legal and contractual provisions
• Single entry accounting practice
More Accounting Terminology

- **Appropriation** – Legal authorization granted by council to make expenditures
- **Reserved Fund Balance** – balance not available for appropriation because it is legally restricted
- **Unreserved Fund Balance** – balance available for appropriation, may also be known as “ending” fund balance
- **Inter-Fund Transfer** – Flow of assets (such as cash) without equivalent flow in return and without requirement to repay
- **Inter-Fund Loan** – Loan mechanism authorized between funds if legislative authority adopts, provides for concise repayment plan
- **GO Debt** – General obligation debt. Repayment obligation uses property tax revenues as funding source
- **Revenue Debt** – Typically associated with proprietary funds; repayment obligation funded with user fees

What is “Fund Accounting”?

- Government accounting systems are organized and operated on a **fund** basis
- Used to segregate resources related to specific activities
- Often used to segregate restricted resources
- Defined as a fiscal and accounting entity with a self-balancing set of accounts
Basic Fund Types

**General Governmental**
- General
- Special Revenue
  - Hotel/Motel Tax
  - City Street (Gas Tax)
  - Impact Fees
- Debt Service
  - General Obligation
- Capital Projects
  - Arterial Street (Gas Tax)
  - Construction in Progress

**Proprietary**
- Enterprise
  - Water
  - Sewer
  - Storm
  - Electric
  - Golf
- Internal Service
  - Data Processing
  - Equipment Rental
  - Print Shop
  - Unemployment Compensation

**Fiduciary**
- Trust
- Agency
- Pension
- Permanent

**Governmental Fund Types**

**General Fund (aka: Current Expense)**
- Chief operating fund of state/local government
- Used to account for all financial resources except those required to be accounted for in another fund (everything not in other funds)

**Special Revenue Funds**
- Account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes
- Examples: Street fund, hotel/motel tax, real estate excise tax
Governmental Fund Types (cont.)

**Capital Projects**
- Account for financial resources to be used for acquisition or construction of major capital facilities
- Does not include capital facilities financed by proprietary funds/trust funds

**Debt Service**
- Account for accumulation of resources for, and payment of, general long-term principal and interest (debt payments)

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Primary Resources of Governmental Funds

Revenue Types:
- **Taxes** –
  - Property tax
  - Retail Sales tax
  - Business & Operations and Utility taxes, gambling, leasehold, motor vehicle fuel tax, etc.,
  - Charges for services
  - Licenses/permits
  - Intergovernmental – state shared revenues and grants
  - Rental fees
  - Assessments
Restricted Revenues & Funds

SHOULD BE SEPARATE FUNDS

• Real Estate Excise Tax
  • RCW 82.46.010 (REET 1)
  • RCW 82.46.035 (REET 2)
• Hotel/Motel Tax
  • RCW 67.28.181
• Criminal Justice Tax
  • RCW 82.14.340

Proprietary Funds

Enterprise Funds

• Operated/financed similar to private business, where intent of governing body is cost recovery
• Account for operations financed through user charges

Internal Service Funds

• Finance goods/services provided by one department/agency to other government departments
• Used to allocate cost of providing services to other funds
Primary Resources for Proprietary Funds

Revenue Types:
• Charges for services
• Connection fees
• Sale of merchandise
• Inter-departmental costs
• Rental fees
• Assessments
• Grants/loans/bonds

Fiduciary Funds

Trust & Agency Funds
• Assets held by governmental entity in trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds
  • Expendable trust funds
  • Non-expendable trust funds
  • Pension and Investment trust funds
  • Agency funds
Key Elements of City Finance

- **Budgeting**
  - Appropriation ordinance for immediate needs
  - Strategic planning (long-term)

- **Reporting**
  - Internal and external

- **Oversight (Internal Control)**
  - Review
  - Monitoring
  - Policies

Budgeting

- Budget is economic plan that focuses entity's financial & human resources on the accomplishment of specific goals & objectives established by policymakers
- Establishes annual (or biennial) expenditure levels for all departments & funds
- Expenditure levels are called appropriations & represent spending limits
**Budgeting Mission**

**Mission of budget process is:**

- Help **decision makers** make informed choices about provision of services and capital assets
- Promote stakeholder participation in the process

*Source: National Advisory Council on State and Local Budgeting*

**Requirements**

Fundamentally - Budget adopted prior to start of fiscal year

**Steps:**

1. Request for budget estimates (RCW 35.33.031)
2. Estimates filed with Clerk (RCW 35.33.031)
3. Clerk presents preliminary estimates to CAO (RCW 35.33.051)
4. CAO presents Preliminary Budget to Legislative (RCW 35.33.135)
5. CAO files “Final Budget Proposal” with Clerk (RCW 35.33.055)
6. CAO Files “Final Budget Proposal / Budget message” with Legislative (RCW 35.33.057)
7. Publication and conduct of hearings (RCW 35.33.061 & 057 & 071; also RCW 84.55.120)
8. Legislative Adopts a Budget (RCW 35.33.075)
Budget Policies

Sample topics to consider:
1. Type of budget (program, department, outcome / results, line item)
2. Duration (annual or biennial)
3. Use of one-time resources / definition of balanced budget
4. Fund balance targets
5. Amending the budget
6. Budget calendar / approach
7. Fees / user charges

Getting the Most...

Policy Elements
• Strategic focus / alignment with policy goals
• High level description of value delivered
  • Budget message
  • Budget “highlights” section
• Financial Policies
• Capital investments
• Debt program
Getting the Most...

Operations
- Translating policy guidance into action
  1. Organization chart
  2. Authorized employees (with comparison)
  3. Department descriptions
     1. Or similar organizational unit information
     2. Goals, accomplishments, action plans, performance data

Getting the Most...

Financial Elements
- Strategic Financial Plan
  1. Sources and uses of funds (including the appropriation)
     1. Multiple years for comparison
  2. Operating unit budgets (departments, divisions)
  3. Description of revenues / basis for forecasts
  4. Long-range forecast (description and schedule)
Getting the Most...

Communication Elements

• Organizational transparency (it’s other people’s money!)

1. Budget message (again)
   1. Also highlights
2. Clearly organized
   (include a table of contents / glossary)
3. Environmental scan (what’s changed that you are reacting to?)
4. Charts, graphs
Reports – What to Look For

Budget comparison
• How are year-to-date expenditures and revenue estimates compared to budget appropriations?
• Understand what the variables are

Fund balance
• Do you have any funds with cash flow issues?

Debt analysis
• Are you considering additional debt?
• Are there interfund loans?
• Do you presently reserve for future capital needs?

Reporting “Pyramid”
- Policy level
- Senior staff level
- Middle staff level
- Line staff level
- Transactions

AWC Budget Workshops

Leavenworth – August 22-23rd, 2019

Register at wacities.org
State Auditor’s Office

- State Auditor’s Office (SAO) established by state constitution
- RCW 43.09.200 states that SAO shall prescribe the accounting and reporting to be used by governmental entities
- Center for Government Innovation “The Center”

Resources

- AWC (wacities.org) – workshops/training
- MRSC (mrsc.org) – webpages & trainings
  - mrsc.org/financialpolicies
  - mrsc.org/budgeting
  - Call/email with questions
- GFOA (gfoa.org/publications)
  - Publication series for elected officials
  - Best practice series
- WA State Auditor’s Office (sao.wa.gov)
  - The Center – performance@sao.wa.gov
  - SAO Helpdesk
Questions?

**Toni Nelson**
MRSC Finance Consultant
tnelson@mrsc.org

**Mike Bailey**
MRSC Finance Consultant
mbailey@mrsc.org