

# Putting it all together

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1

## Session goals

1. Overview of SAO Content
2. Managing the budget process and fiscal responsibilities
3. Balancing the roles
4. Policymaking for fiscal success
5. Specific budget policies to consider (and why)
6. Biennial budgeting and long-range forecasts

**This session was designed and intended to be interactive. We will go where you take us (within reason).**



2

## SAO Update



### Key takeaways

- The most common audit issue is over financial statement preparation
  - Know you're reporting requirements and have an independent review
- Procurement is still an area of concern in both federal and accountability audits
- Monitor your budget and create a plan if your fund balance is declining
- Fraud is on the rise in local government. Trust but verify!



3

## A potential schedule (for fiscal issues)?

<b>January</b>	<b>February</b>	<b>March</b>
"13 <sup>th</sup> period" (Year-end close)	4 <sup>th</sup> quarter report (Preliminary budget year close)	Retreat (Strategic planning for next cycle)
<b>April</b>	<b>May</b>	<b>June</b>
1 <sup>st</sup> quarter report	Review AFR *	Call to budget
<b>July</b>	<b>August</b>	<b>September</b>
2 <sup>nd</sup> quarter report	Budget class	Budget estimates
<b>October</b>	<b>November</b>	<b>December</b>
3 <sup>rd</sup> quarter report Preliminary budget	Budget workshops	Budget adopted

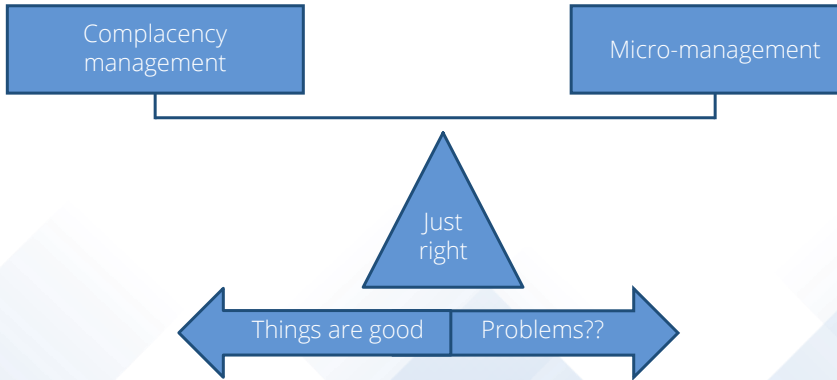
- \* Annual financial report
- An audit should be included depending on entity size



4

4

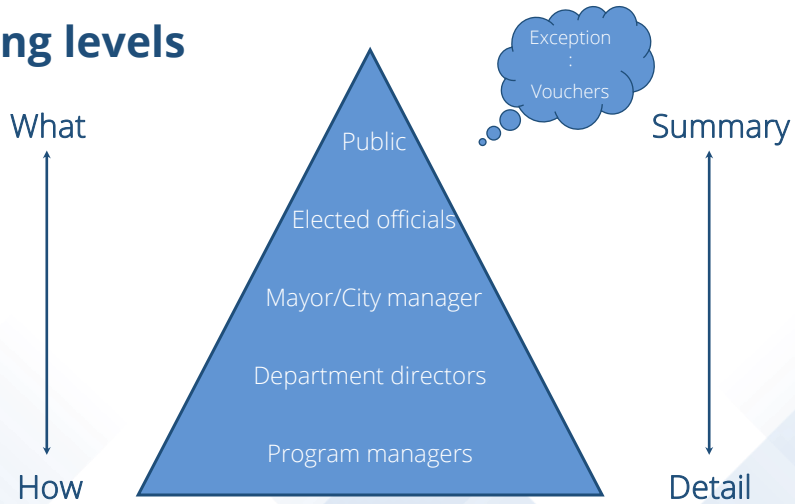
# Policy oversight: Finding the right balance



5

5

# Reporting levels



6

6

## How do policymakers meet this oversight challenge?

1. Review relevant information
2. Ask questions
3. Play on the “team”



## Policies – The foundation

Policy board should:

- Set policies!
- Set goals / direction
- Establish accountability
- Monitor:
  1. Compliance with policies
  2. Results
  3. Accountability reports



***Start building on a strong foundation!***

## What are financial policies?

1. Guidelines for operational & strategic decision making (guardrails)
2. Ideally, adopted by the governing board
3. Identify acceptable, preferred and/or unacceptable courses of action
4. Establish operating parameters
5. Provide a standard to judge performance



## The reasons for policies

- Institutionalize good financial management
- Clarify & crystallize strategic intent for financial management
- Define boundaries
- Promote long-term & strategic thinking
- Manage risks to financial condition

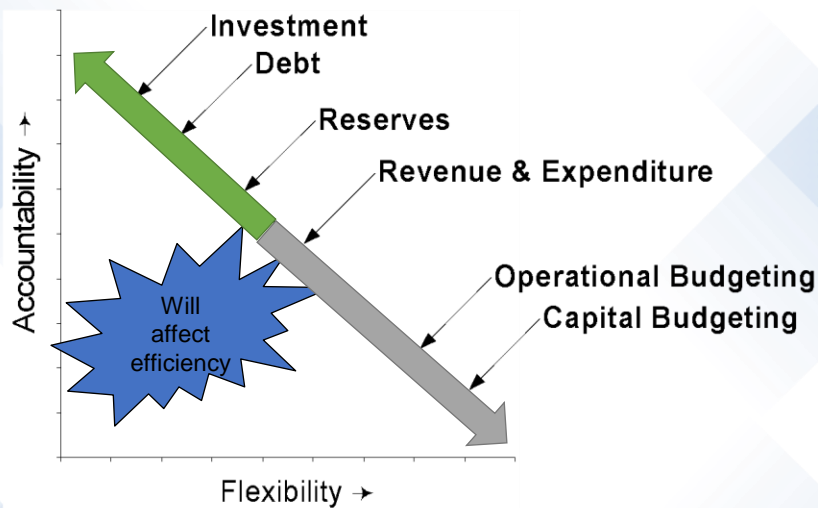
***Generate constructive conversations!***



## Key concept: Accountability vs. flexibility

- **Accountability:** The requirements of responsibility to the public and to follow regulations
- **Flexibility:** The ability of managers to take action in pursuit of public goals
- The **tension** between the two is the classic dilemma of public administration:
  - Accountability requires checks & balances to ensure procedural integrity
  - Flexibility demands freedom of action to meet performance goals
- **Takeaway:** Policies can provide varying levels of discretion to public officials.

## Accountability vs. flexibility



## Policy vs. procedure

- Can be hard to distinguish → **That's OKAY - Talk about it!**
- Policies...
  - Are principles adopted by the board
  - Are written for a broad audience
  - Require procedures to put policy into practice
- Procedures...
  - Comprise administrative details
  - Are written for a narrower audience

## Establish a vision for financial condition

- Define the big-picture policy vision for financial condition
  - Define “financial sustainability” in the board’s words
- Have the “**conversation**”
  - Seek opportunities to ground a topic in the policy elements
  - Remind yourselves of the policy “north star”
- Policies are the tool to bring vision to reality

Here’s a link to “**It Depends**” blog post on MRSC’s website

# Types of financial/budget policies

The screenshot shows the MRSC (Metropolitan Regional Service Center) website. The header includes the MRSC logo with the tagline "Local Government Success" and navigation links for "Contact Us", "Partners", and "Rosters". A search bar is present. Below the header, there are four main menu items: "RESEARCH TOOLS", "EXPLORE TOPICS", "STAY INFORMED", and "TRAINING". The "EXPLORE TOPICS" menu is active, showing a breadcrumb trail: "Home > Explore Topics > Finance > Financial Policies Tool Kit". There are social media icons for Facebook, Twitter, and LinkedIn. The main heading is "Financial Policies Tool Kit". Below this, a paragraph states: "MRSC, in partnership with the State Auditor's Office Center for Government Innovation, has developed this series of online resources to help local governments in Washington State develop and adopt effective financial policies and procedures." A bulleted list follows:

- [Financial Policies Overview](#) – Includes benefits of financial policies, examples of comprehensive financial policies, and recommended resources for writing effective policies
- [Asset Management Policies](#)
- [Cost Allocation](#)
- [Credit Card Use Policies](#)
- [Debt Management Policies](#)
- [Fund Balance and Reserve Policies](#)
- [Investment Policies](#)
- [Travel and Expense Reimbursement Policies](#)

15



15

## Budget policies

Describe roles of the participants

- Potential roles include: policy, citizen/community, business sector, management, labor

Document budgeting purpose and ideals

- Role of strategic planning in the budget process

Identify type and use of budget development

- Incremental vs. zero-based vs. budget by objectives, etc.
- Schedule



16

16



## Essential budget features



### Scope

- What funds or units will be included?

### Length of the budget period

- Annual or biennial?  
(more on biennial in a moment)

### Basis of budgeting

- Cash, GAAP, or modified GAAP  
(modified accrual)?

### Level of control

- Not too much, not too little!

17



17

## Define a balanced budget

- State law calls for a “balanced budget”
  - However, this may only mean that sources = uses
  - This may not be sustainable
- Develop a local standard for a balanced budget
  - Strict: recurring revenues = recurring expenditures
  - Less strict: operating revenues = operating expenditures

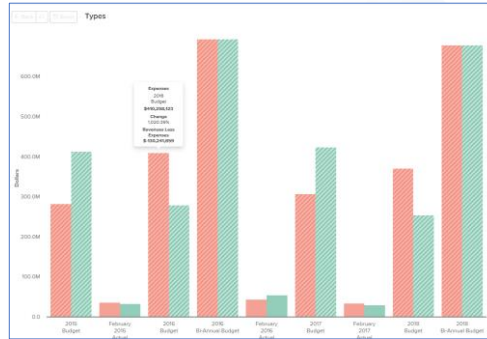
18



18

# Budget reporting

- **Frequency**
  - At least quarterly to policy body (monthly may be preferred, also more widely available is preferred)
  - At least monthly to management
- **Type**
  - Written
  - In person (virtual)
  - Pre-Recorded
- **Availability**
  - At council/board meetings
  - On website



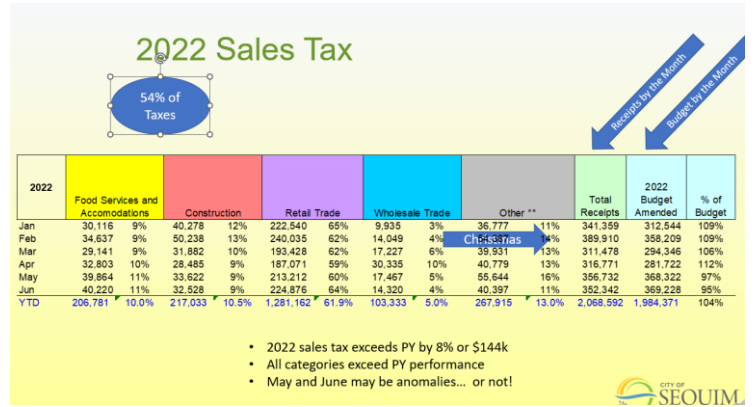
# Examples of top-level information

## Summary by Fund

	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	
	BUDGET Beg Fund Balance	BUDGET Net Gain (Loss)	BUDGET End Balance	BUDGET Revenues	ACTUAL Revenues	ACTUAL Rev - BUDGET Rev	% from Budget	BUDGET Expenditures	ACTUAL Expenditures	ACTUAL Exp - BUDGET Exp	% from Budget	ACTUAL Beg Fund Balance	ACTUAL Net Gain (Loss)	ACTUAL End Balance				
<b>General Fund</b>	2,739,059	4,353	2,743,412	6,194,749	6,190,364	\$5,615	1%	6,130,396	5,697,621	(\$432,775)	-7%	3,338,317	492,743	3,831,060				
<b>Special Revenue Funds</b>																		
301 Street Unrestricted	336,204	(23,000)	313,204	524,901	603,722	78,821	15%	547,901	556,672	8,771	2%	301,017	45,050	346,067				
107-12 Stormwater Unrestricted	218,640	115	218,755	72,056	72,247	191	0%	71,351	\$5,440	(\$14,463)	-23%	240,827	16,799	257,626				
111 Street Restricted	2,876,649	224,114	3,098,763	1,416,334	841,339	(\$574,995)	-41%	1,192,220	896,724	(\$295,496)	-25%	2,666,338	(\$5,338)	2,610,953				
112 Affordable Housing Tax	36,704	16,200	51,904	16,200	30,343	(\$5,857)	-36%	-	-	-	-	42,350	10,343	52,693				
115 Lodging Tax, Hotel / Motel	725,316	(177,017)	548,299	177,050	177,065	40,015	29%	314,067	295,829	(\$18,238)	-19%	884,517	(\$7,744)	895,753				
116 Stormwater Restricted	206,003	(17,794)	188,209	-	16,508	\$6,508	3%	37,784	94,624	(\$56,840)	-49%	209,146	(\$10,946)	179,000				
120 Criminal Justice	386,645	(11,204)	375,441	234,936	340,749	105,813	45%	246,140	189,093	(\$57,047)	-23%	439,855	15,656	455,511				
121 Police Asset Secure	37,932	(14,862)	23,070	138	348	10	7%	15,000,000	-	(\$15,000)	-	24,750	148	24,898				
140 Parks Restricted	1,252,947	189,076	1,442,023	208,602	194,046	(\$14,556)	-7%	19,526	14,028	(\$5,498)	-28%	1,263,542	180,008	1,443,550				
150 Real Estate Excise Tax	544,292	(159,710)	384,522	227,730	449,365	215,635	96%	387,500	7,500	(\$380,000)	-98%	961,440	435,865	1,397,305				
160 Giftng & Donations	36,589	6,562	49,151	35,002	34,810	(\$192)	-1%	28,440	16,490	(\$11,950)	-42%	46,018	18,320	64,338				
164 Equip Reserve	1,355,782	37,050	1,390,832	927,548	350,051	(\$567,497)	-61%	800,498	227,234	(\$573,264)	-73%	1,404,426	121,217	1,527,743				
180 American Rescue Plan	617,000	932,002	1,549,002	1,067,000	1,075,125	8,125	0%	134,998	27,074	(\$107,924)	-4%	1,070,730	1,048,051	2,118,781				
199 Rainy Day Fund	2,021,428	(246,934)	1,774,494	3,006	10,824	7,818	260%	250,000	472,336	(\$222,336)	-45%	1,897,104	(461,512)	1,435,592				
<b>Debt Service Fund</b>																		
200 Debt Service Fund - City Hall	549,784	120,662	670,446	319,000	321,461	2,461	0%	198,338	197,538	(\$800)	0%	552,200	123,923	676,123				
<b>Capital Funds</b>																		
306 Capital Facilities & City Hall	167,247	47,430	214,677	215,104	111,254	(\$103,850)	-48%	167,674	69,467	(\$98,217)	-59%	101,467	41,797	143,264				
<b>Enterprise Funds</b>																		
401 Water Unrestricted	1,269,930	205,535	1,375,465	1,261,809	1,182,694	(\$79,115)	-6%	1,156,274	1,128,372	(\$27,902)	-2%	1,458,461	54,322	1,512,783				
411 Water Restricted	4,350,062	(264,068)	4,085,997	445,996	557,016	111,020	25%	730,061	220,901	(\$489,160)	-69%	4,386,338	336,115	4,672,853				
430 Sewer Unrestricted	2,197,963	(212,654)	1,985,297	2,274,856	2,380,500	5,244	0%	2,538,512	2,456,789	(\$81,723)	-3%	2,308,238	(78,689)	2,229,559				
435 Sewer Restricted	7,306,467	(524,650)	6,781,715	724,492	565,808	(\$158,684)	-21%	1,247,384	186,641	(\$1,060,743)	-86%	7,360,833	379,287	7,740,120				
<b>Internal Service Funds</b>																		
500 Unemployment Compensation	187,611	(16,503)	171,111	32,500	32,500	-	0%	49,000	750	(\$48,250)	-98%	236,611	31,750	268,361				
<b>Trust, Agency &amp; Permanent Funds</b>																		
011 Flexible Spending Account	10,328	-	10,328	22,500	15,235	(\$7,265)	-32%	22,500	21,066	(\$1,434)	-3%	8,826	(6,633)	2,193				
621 Police Expensible Trust	745,000	-	745,000	-	-	-	0%	-	-	-	0%	0	0	0				
635 Intergovernmental Agency Fund	12,316	2,798	15,114	88,968	9,264	(\$79,704)	-90%	86,172	3,468	(\$82,682)	-96%	3,240	5,776	9,016				
701 Water Park Fund Permanent	41,671	223	41,894	223	247	24	11%	-	-	-	0%	41,547	247	41,794				
<b>Totals</b>	29,430,322	(3,416)	29,426,906	16,488,700	15,544,425	(\$944,275)	-6%	16,492,114	12,762,485	(\$3,729,629)	-23%	31,197,818	2,778,840	33,973,758				



# Examples of top-level information

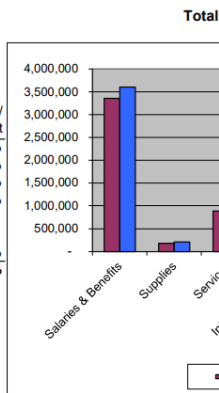


# Examples of top-level information

## Narrative Summary of Q2 2022 Results General Fund

**As of 6/30/2022**

	YTD Actual	YTD Budget	Actual / Budget
Salaries & Benefits	3,356,216	3,604,025	93%
Supplies	181,056	214,802	84%
Services	880,277	1,018,118	86%
Intergovernmental	263,872	273,487	96%
Capital	7,758	11,666	
or Non Expenditures	1,008,443	1,008,298	100%
<b>Total Expenses</b>	<b>5,697,622</b>	<b>6,130,396</b>	<b>93%</b>



****	***	**	*	*
Excellent	On Target	Need to Monitor	Caution	Extreme Caution
Revenues/Fund Balance exceeded Budget	Revenues/Fund Balance met Budget	Revenues/Fund Balance 1-2% under Budget	Revenues/Fund Balance 3-5% under Budget	Revenues/Fund Balance under 5% or more under Budget
Expenditures below Budget 3-5%	Expenditures at/near Budget	Expenditures 1-2% over Budget	Expenditures 3-5% over Budget	Expenditures 5% or more over Budget

Item	Description	Results
Beginning Fund Balance (Reserve)	Actual beginning fund balance for 2022 was \$3,338ml and better than forecasted - very healthy with respect to Policy. Our General Fund performance (hence the healthy fund balance) is predominantly the result of a healthy mix of revenues sources, growth, one-time revenues (due to a strong retail environment and development activity) and controlled spending in 2021.	****
Revenues Summary	101% of budget or \$56k more than budgeted.	***
Sales Tax	104% of budget or \$84k more than budgeted, even after increasing this budget with amendments to utilize excess receipts to support increases in wages. Taxes related to meals, accommodations, and construction, and retail remains strong. Total sales tax receipts to date exceeded the prior year's receipts by \$144k or 8%. Council should note, we've witnessed two straight months of at or below budget which may indicate cooling of the economy.	****
Property Tax	99% of budget or \$6k less than budgeted.	***

## Examples of top-level information

### Possible 2022 amendments

- Possibly Police Department Union Contracts (in process)
- ARPA funds and spending plan (in process)
  - Tyler Technologies ERP Solutions
- Property purchase (Rainy Day fund)
- E Fir Street Improvements (REET)

Amendments

23



23

## Budget change

- **Adjustments vs. amendments?**
  - Amendments require Council approval
  - Adjustments are administrative
- **Amend** when changing appropriation
- **Adjust** when making changes within the appropriation



24



24

## Biennial budgets (1 of 3)

Some thoughts about biennial budgets:

1. It might be too late – law requires an early decision
2. Benefits:
  - More strategic – both fiscally and in planning
  - More work to budget – but you get the “off” year
    - Everyone gets the “off-budget” year
  - Easier to manage (for everyone)
  - Some political benefit in the timing (not sure if this was intended, but...)

## Biennial budgets (2 of 3)

More thoughts about biennial budgets:

3. Potential drawbacks:
  - Concern over loss of control
  - It is more work (and more complicated)
    - Logistical issues (most of which can be addressed)
  - Difficulty in forecasting
    - Revenue forecasting
    - Expenditure forecasting
  - Tendency to abuse mid-biennium review

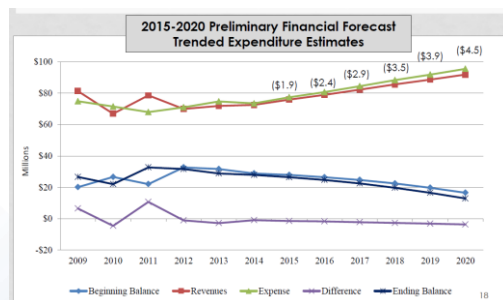
## Biennial budgets (3 of 3)

Still more thoughts about biennial budgets:

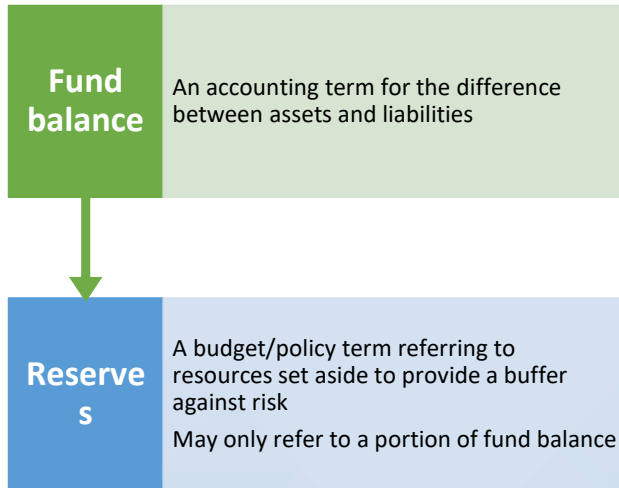
4. Approaches to biennial budgeting:
  - Full 24-month appropriation
  - Two separate 12-month appropriations
    - But the second 12 months is appropriated
  - First 12 months appropriated, second 12 months pending appropriation
5. Caution: Be careful to avoid overcomplicating this – it will rob you of the benefits

## Long-range financial planning

1. Major operating funds (including utilities)
2. Capital planning
3. Context for budget
4. Parameters
  - A. Estimates
  - B. Assumptions
  - C. Policy issues



## Fund balance vs. reserves



## Reserves

Key questions to consider during policy discussions



What is the right level of reserves?

What factors influence the "right" level of reserves?

What are the most important elements of a reserve policy?

What is the right financial **strategy** for using reserves for budgetary stabilization?

## The right level of reserves?

### What does the Government Finance Officers Association (GFOA) recommend?

- As a baseline for the general fund:
  - 16% of regular operating revenues
  - 2 months of regular operating expenditures

### S&P's views on available reserves:

- Low: Below 0%
- Adequate: 1%-4%
- Good: 4%-8%
- Strong: 8%-15%
- Very strong: Above 15%



31

31

## Reserves

### When to use them?

- Basic fund balance – Not intended to be “used”
- Rainy day funds – When it is raining
  - Establish criteria before attempting to balance a budget
- Stabilization funds
  - Build criteria for acceptable use into authorization (ordinance)

### When to replenish them

- When below their stated targets
- With year-end “surplus”

GFOA best practice on replenishing



32

32



# Reserves

## Enterprise Funds

- Use “working capital”
  - Current assets minus current liabilities

## How much and how to manage:

- Consistent with rate analysis work
  - Often associated with outstanding debt (bonds, loans, etc.)
  - Create economic cushion (cool summer = less water)
  - Long-range stability



*GFOA best practice on working capital in enterprise funds*

33

33

# Goals for the workshop

1. Gain an understanding of basic financial accountability in local governments
2. Understand your respective roles
3. Learn how to make your community better through sound financial management
4. Learn basic budget building, timelines, and statutory requirements
5. Consider strategic approaches to budgeting



34

34

## Budget tools available

- MRSC
  - [2024 Budget Suggestions](#)
    - State Shared – revenue forecasts
  - [MRSC Revenue Guide](#)
  - [MRSC – Economic Data](#) web pages
- AWC
  - [Tax & User Fee Survey/Salary & Benefit Survey](#)
- Office of Financial Management (OFM)
  - [Population estimates](#)
- State Auditor’s Office
  - [Financial Intelligence Tool](#)



35

35

## Additional resources available

- [GFOA – Budgeting Suite](#)
  - Extensive series of publications on the various components of budget development
  - Separate publications for newly elected officials and others interested in local government finance – written in lay terms
- [www.gfoa.org](http://www.gfoa.org)
- [Rethinking Budgeting Initiative](#)



36

36

## Additional resources available

- **SAO Website** – [www.sao.wa.gov](http://www.sao.wa.gov)
  - BARS Manual – under BARS & Annual Filing
  - Resource data – under Improving Government
  - #BeCyberSmart – under Improving Government
  - Helpdesk – under Client Login
  - Contact us – under About SAO

36



37

## Questions?

- Budgeting is a process that requires:
  - Communication
  - Time (comprehensive budget documents take several years to develop)
  - Commitment
- Questions?

37



38