

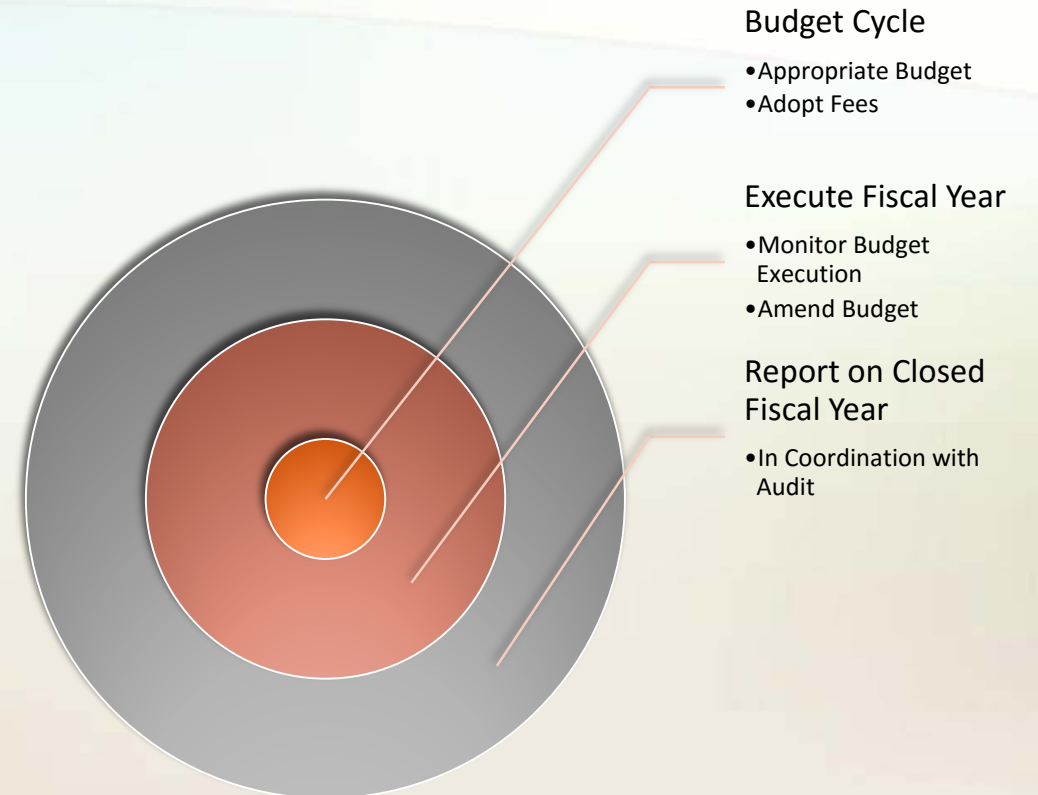
# Budgeting Basics

# Agenda

- Financial Cycle
- Budget Calendar
- Other Information
- Expenditures
- Revenues
- Adoption of Budget
- Levy for Property Tax

# Financial Cycle

- Budget Cycle
- Execute Fiscal Year
- Report on Closed Fiscal Year



Budgeting is part of the continuous cycle of planning and executing to achieve the stated goals and objectives of the organization.

# Budget Development Cycle

- Building the Budget Calendar from the final deadlines
  - Property Tax Levy filed with County
    - Adoption of Budget Ordinance and Fee Resolution
      - Public Hearing for Proposed Budget and Proposed Fees
        - Publication of Public Hearing for Proposed Budget and Proposed Fees
          - Develop Budget for City Funds
            - Revenues
            - Expenses
            - Other Information
            - Fund Reserves
            - Inflation rate
            - Service Level Information

# Budget Calendar

- December/January Develop Service Level Information
- February/March Develop Other Information and Budget Strategy decisions
- March/April Departments build their budgets
  - April 30<sup>th</sup> Notify County of Public Hearing date
- April/May/June Department presentations to City Council
- June Revenue Projections and City Council guidance
- June Balance Budget – tax solution approach

# Budget Calendar - Continued

- July Property Tax decision and budget decisions before public hearing
  - Send notice to the paper for the public hearings for the budget appropriation ordinance and the proposed fee changes
- July 27<sup>th</sup> receive property tax valuation information and make final decisions for budget
- August 4<sup>th</sup> Public Hearing
- August 18<sup>th</sup> Adoption of Appropriation Ordinance and Fee Resolution
- September (first week) file L-2 forms with County Clerk

# Other Information

- Fund Balance
  - Analysis of Fund Balance Review prepared after prior fiscal year audit completed
- Budget Strategy Checklist
  - Decisions critical to developing a viable budget
- Inflation Rate
  - Determine consumer price index for the inflationary rate on materials and services

# Purpose of Reviewing Reserves

- To develop a reserve policy
- To determine if the organization has the necessary reserves to meet cash flow needs based on the revenue cycle
- To determine if the organization has excess reserves which can be used to assist with expenditure needs to meet budgetary objectives
  - Use of reserves can be accomplished in next budget cycle or with a budget amendment
- To determine if the budgetary plan needs to rebuild the reserves



# Fund Reserve Review

Fund	Type	2016 Expense Budget	25% Operating Reserve	Capital Reserve	Reserves Required	2016 Available Reserves	Excess (Short fall)	FY 2016 Planned Use of Reserves	Adjusted Excess (Shortfall)	% of Required
General	Tax Fee	\$33,098	\$8,274	\$-	\$8,274	4,984	\$(3,290)	\$-	\$(3,290)	60%
Street	Tax	\$5,799	\$1,449	\$-	\$1,449	\$1,794	\$344	\$-	\$344	124%

Amounts expressed in thousandths

GFOA recommends minimum of 2 months for operating reserves . City of Pocatello policy states 3 months

# Budget Strategy Checklist

- Critical Decision Items needed to build a better initial budget
  - Review of Levy limitation on tax funds
  - Budget Policies
  - Property Tax – initial guidance
  - Fee Supported Utilities
  - Major Revenue Issues
  - Inter-fund Charges – such as Fuel

**Budget Strategy Checklist  
for Fiscal Year 2017**

	<b>Initial Budget Build Guidance</b>	<b>Final Guidance</b>
<b>General Fund Levy Limitation</b>		
Move Zoo Division to Recreation Fund	03/10/16	
Add Legal Division to Admin Support Calculation	03/10/16	
Add administrative support items from Non-dept	03/10/16	
Electric Franchise Fee revenue to General Fund	03/10/16	
Risk management insurance General fund -levy direct	03/10/16	
<b>Policy Decisions</b>		
Fund - Reserves policy	03/10/16	
<b>Property Tax Levy</b>		
Initial budget build (decrease or flat)	03/10/16	
3% increase	03/10/16	06/16/16
Foregone Tax	03/10/16	06/16/16
	<i>(only increases or minor decreases)</i>	

**Budget Strategy Checklist  
for Fiscal Year 2017**

<b>100% Fee Supported Funds</b>			
Build budget according to rate study	03/10/16		
<b>Department request for additional personnel</b>			
Tax funds	02/25/16		
100% Fee supported funds	02/25/16		
<b>Employee Compensation</b>			
Pay plan for fiscal year 2017	03/10/16		
<b>Health Benefits</b>			
Insurance provider for FY 2017	04/14/16		
Distribution for employee share	04/14/16	06/16/16	
<b>Revenue Analysis</b>			
Determination of additional revenues	06/02/16	06/16/16	

## Consumer Price Index FY11-FY16



CPI growth for FY 2016 is 0.17% less than a quarter of one percent.  
Calculation  $= (237.838 - 237.433) / 237.433 = .17\%$   
Slight growth in comparison to previous years

# Expenditures

- **Budgetary Approaches:**
  - Line Item Budgeting
  - Performance Budgeting
  - Program and Planning Budgeting
  - Zero Based Budgeting
  - Site Based Budgeting

# Line – Item Budgeting

- This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility within the organizational unit.
- Most widely used approach.
- Provides expenditure data for use in trend and historical analysis.
- Provides flexibility in the amount of control established for the use of resources.
- Can invite micro-management of budget with little or no performance information.

# Performance and Programming Budget

- **Performance Budgeting**
  - Budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of activity.
    - This approach lacks flexibility and reliable standard cost information.
- **Program and Planning (Programming) Budgeting**
  - The budget is prepared in terms of a few broad programs rather than the line item detail or organizational cost of inputs per activity.
    - This approach has limitations in adequate program cost data.
    - There is usually a lack of consensus regarding program objectives and the evaluation of changes in long term goals.



# Zero Based and Site Based Budgeting

- **Zero Based Budgeting**
  - The basic principle is that program activities and services must be justified annually.
  - The budget is broken into decision packages at a minimum level of service. The cost of goods or services are attached to decision package for the level of services to produce for the defined outputs or outcomes.
- **Site Based Budgeting**
  - This approach places local managers at the center of the budget preparation process making them responsible for the preparation and maintenance of the budget.
  - Most practical budgeting approach for the school district environment.

# Expenditure Budgeting Approach

- The line item budgeting approach is the most commonly used approach.
- Early decisions on health benefits and pay plan changes help to create a better initial line item budget.
- A powerful presentation is to combine the service level report presentation with the budget presentation.
  - This will provide the information of the cost of services in more detail.
  - This will allow better decision making for determining service objectives.

# Major Revenues

Property Tax

Sales Tax

Liquor Tax

Highway User Tax

Bannock County Road & Bridge

Building Permits

Magistrate Court

Electric Franchise Fees

Natural Gas Franchise Fees

Cable Franchise Fees

Cemetery

Interest

Grants

Fees for Service



# Property Tax Information

- Importance of understanding the Levy Rate Calculation
- Levy Rate = Amount to be Levied/Assessed Taxable Valuations
- City controls amount to be levied
- County determines the value of the assessed taxable property
- Legislators determine tax exemption values and create impacting property tax laws
- To maintain consistent services entities should focus on amount to be levied instead of the levy rate



# Forecasting Using Historical Trends

- Develop revenue information for a specific source with a minimum of 5 years of data
- Create a trailing 12 month data point of information this will usually include 6 months of the prior fiscal year plus 6 months of current information
- Reflect current budget information
- Other information
  - AIC Revenue Projection Data
  - Economic Data
  - Pending Legislation

# Major Revenues Historical Trends

Item	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	Prior 12 mo (FY15/FY16)	FY16 Budget	FY17 Budget
Sales Tax	\$3,450,901.69	\$3,647,102.60	\$3,918,803.14	\$4,067,130.86	\$4,233,210.29	\$4,268,645.53	\$4,200,000	\$4,400,000
Highway User	\$1,837,340.21	\$1,814,926.46	\$1,802,459.49	\$1,804,708.00	\$1,899,603.18	\$2,228,314.45	\$2,300,000	\$2,350,000
Building Permits	\$652,305.71	\$380,613.68	\$456,143.86	\$422,899.29	\$631,230.25	\$854,676.14	\$504,000	\$675,000
Nat. Gas Franchise	\$434,121.88	\$365,459.08	\$366,141.54	\$385,107.79	\$353,410.63	\$360,299.17	\$375,000	\$365,000
Liquor Tax	\$553,787.00	\$587,180.00	\$600,015.00	\$576,433.00	\$570,235.00	\$575,929.00	\$587,000	\$575,000
Gen Fund Interest	\$40,495.52	\$18,115.31	\$25,596.19	\$165,925.40	\$171,154.54	\$203,798.30	\$166,000	\$204,000
Cable Franchise	\$351,450.14	\$338,061.70	\$289,730.63	\$292,102.00	\$267,161.00	\$285,653.00	\$270,000	\$240,000
Magistrate Court	\$263,160.15	\$288,769.24	\$249,337.86	\$274,701.97	\$320,344.75	\$293,875.95	\$270,000	\$294,000
Electric Franchise	\$349,763.13	\$351,957.97	\$402,479.19	\$430,716.75	\$424,396.39	\$428,180.49	\$430,000	\$428,000
Cemetery Charges	\$260,385.00	\$277,840.00	\$284,105.00	\$330,955.00	\$273,190.00	\$296,525.00	\$300,000	\$296,000
<b>Total For FY</b>	<b>\$8,193,710.43</b>	<b>\$8,070,026.04</b>	<b>\$8,394,811.90</b>	<b>\$8,750,680.06</b>	<b>\$9,143,936.03</b>	<b>\$9,795,897.03</b>	<b>\$9,402,000</b>	<b>\$9,827,000</b>

## State-Collected City Sales Tax Revenue: Understanding the Basics



For each dollar sale subject to state sales tax...

The state collects 6 cents in revenue...



...Approximately seven-tenths of a cent is distributed to local governments...

56.4% through the State Distribution

43.6% through the County Distribution



State Distribution

County Distribution

28.2% Cities   28.2% Counties   35.9% Cities & Counties   7.7% Special Districts

**State Distribution:** the cities' portion is allocated based on assessed market value (50%) and population (50%).

**County Distribution:** the base is distributed based on the fourth quarter 1999 distribution plus 5%. The excess is distributed 50% to cities and 50% to counties. The cities' portion of the excess is distributed by population.



# Sales Tax- Presentation Example

- Replacement dollars not state aid
- 11.5% of tax (0.7 cents of the 6 cent tax) = Revenue Sharing

2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	Prior 12 mo (FY15/FY16)
\$3,450,901.69	\$3,647,102.60	\$3,918,803.14	\$4,067,130.86	\$4,233,210.29	\$4,268,645.53

- State distribution 1.4% increase County Distribution 4.03% suggests increase of \$114,240
- AIC FY17 estimate = \$4,434,779-increase of \$234,779
- Prior 12 mo actual is safe; AIC estimates have been met expectations
- [Council Guidance](#) \_\_\_\_\_

# Highway User Tax

- Local portion of 25 cent gas tax and registration fees
- 57 % State Highway Districts and 5 % Law Enforcement
- 38 % Local government units
  - 70% to Counties and Highway Districts
  - 30% to Cities based on population
- Local portion of 7 cent gas tax and increase in registration fees
  - 40% to Local Government Units
  - 60% State Highway Account

# How Services are Funded

- Tax versus Fee
- The City's policy of how we determine this composition – also known as cost recovery policy
- For example 30% tax versus 70% fee to recover the cost of the service provided

# Revenue Policy

- Cost Recovery Revenue Policy
- Consistent Recovery of costs for similar fees
- Appropriate level of tax subsidy to support service
- Long term revenue source for services

# Goals of Fees

- Goals of fees are to provide maximum discretion in the use of taxes to meet the cost of services that provide a larger public benefit and to recover the full or partial cost of services that largely or solely benefit individuals.

# Cost Recovery

## Higher Cost Recovery Rate

- The service is similar to services available in the private sector or through another agency.
- Strong relationship between the amount paid and benefit received.
- Goal is to discourage service or limit demand.
- The service is regulatory and can be monitored by government.

## Lower Cost Recovery Rate

- There is a community-wide benefit to the service.
- The fee will discourage compliance with regulatory requirements.
- There is a weak relationship between amount paid and benefit received.
- Calculating the fee is not cost effective.
- An emergency service whose need customers do not anticipate in advance, yet depend upon with virtually no notice.

# Grants

- **Aggressive Approach**
  - Budget for all grants applied for but yet to be awarded
  - Pro – no budget amendment required
  - Con – budget authority exists without revenue to support
- **Conservative Approach**
  - Budget for only grants that have been awarded at time of budget development
  - Pro – budget authority does not exist until revenue is available to support expenditure
  - Con – budget amendment is required to obtain the necessary authority

# Adopting a Budget – Final Steps

- Publish Notice of public hearing for budget appropriation and for proposed fees which increase 5% or more
  - 2 publications a week apart before the public hearing
- Conduct public hearing for budget appropriation and proposed fee changes
- Adopt Budget Ordinance
- Adopt Fee Resolution
- Publish Adopted Ordinance
- Prepare and File L-2 Levy Form with your County



# Budget Execution

- Monitor the budget execution with Budget to Actual Reports
  - This is a critical function in order to ensure the budget tool is effective
- Make adjustments as required
  - Budget holdbacks
  - Budget amendments

# Budget Adjustments with Amendments

- Conservative Budget Approach
- Budget Amendments are required to obtain the necessary authority for unforeseen grants and other unanticipated revenues
- The process is the same for amendments as it is for the adoption of the original budget ordinance
  - Publish public hearing notice 2 times a week apart before public hearing
  - Conduct a public hearing
  - Adopt Ordinance



# Questions

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