Municipal Budget - Dollars and $ense
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Agenda
- Budget and Appropriations
  - Who is responsible?
  - Why it is important?
- Budget Resources
  - Where can I find help?
- Budget Policies
  - What are the guidelines to achieve our objectives?

Agenda
- Budget Timeline
  - When do I have to start and finish
- Budget vs. Cash
  - What is the difference
- Budget Preparation
  - Balanced budget
Agenda

Means of Finance
- Cash Applied
- Tax limitations
- Opt Out
- Revenue Elements

Appropriations and Accumulations
- Contingency
- Capital Outlay Accumulations—Saving up.
- Expenditure Elements

Budget Adoption

Budget Execution

Future Budgets

Additional Information and Policies
- Reserve Policies
- Long Term Financial Planning Policies
- Debt Service Policies
- Capital Asset Management Policies

Budget

The Budget is one of the most IMPORTANT documents governing financial transactions of any government as it represents the Master Financial Plan of the County.

It is the governing board’s responsibility to adopt a budget.
Budget Resources

- Department of Revenue
  - [http://www.state.sd.us/drr2/propspectax/property/auditor.htm](http://www.state.sd.us/drr2/propspectax/property/auditor.htm)

- Department of Legislative Audit (DLA)
  - [http://legislativeaudit.sd.gov](http://legislativeaudit.sd.gov)
  - Municipalities
    - Municipal Accounting Manual
      - Section VI-Budget and Appropriations

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Operating Budget Policies

- Purpose:
  - Provides guidelines to help the board and staff consider the broader implications of their budget discussions and, ultimately, prepare a budget that is consistent with public finance best practices.

- Key Features
  - Scope, budget period, level of control, etc.
  - Policies for special situations
  - Budget process
  - Budget control system

- Definition of balanced budget (important)
Budget Timeline

- July and August – Gather data from departments. Rough out an ordinance.
- No later than first meeting in Sept or within 10 days thereafter – First reading of ordinance.
- At least five days after first reading – Second reading and adoption of ordinance. Publish.
- Prior to October First - Certify levies in dollars to the county.

Budget vs Cash

- If you have a million dollar budget and no cash, you cannot make a purchase.
- If you have a million dollars cash and no budget, you still cannot make a purchase.

Balanced Budget

- Government required to pass a balanced budget
  - Legal definition can be vague
- True structural balance
  - Recurring revenues = recurring expenditures
  - One time revenues will be used for one time expenditures
  - Use of surplus and reserve
Balanced Budget
- Each Fund has two sides to its budget
  - Means of Finance (includes cash applied)
  - Total Appropriations and Accumulations

Budget-Means of Finance
- Means of Finance side has three distinct areas:
  - Cash Applied
  - True Revenues
  - Transfers-In and or Other Financing Sources

Cash Applied
- Represents Unassigned or Unrestricted Fund Balance of the prior year that is used to balance the subsequent year’s budget.
- First line in the prescribed budget format in the means of finance section. It is very important to understand the effects of this number.
Cash Applied
- Cash applied is often thought of as negative or described as a structural deficit.
- But if properly managed it can be an annual budget tool.
- Factors that give rise to cash applied:
  - 5% Contingency
  - Unspent expenditure budget
  - Capital outlay accumulated in prior years
  - Over collected revenues

Cash Applied
- Must have fund balance available in order to apply to subsequent year.
  - Cash Balance Estimation Worksheet (Appendix A)
- How much fund balance should be applied?

Tax Limitation
- The property tax limitation regulates the amount of property taxes……not the amount of the BUDGET.
- Department of Revenue—Tax limitation and Opt Out Information for all taxing districts.
Tax Limitation

- Last year’s Levy in Dollars
  - Plus
- Consumer Price Index (3% or less)
  - Plus
- Taxes Raised on New Construction
- Equals the maximum a city may request as a levy in dollars (unless you opt out 10-13-36)

If a municipality lowers the levy request to give the taxpayers a break, then the municipality has effectively lowered the maximum tax levy of all future years.

(may bankroll CPI for three years)

Revenue Elements-Opt Out

- Opt Out – Asking to tax more than statutorily allowed:
  - Resolution before July 15th
  - Notice
  - State how much and how long
  - Schools are different
Revenue Elements
- Sales Tax—Economic factors + or –
- Building Permits—increase in building?
- Federal Grants—what is the status of available funds?
- Interest Earned—???
- Budget Worksheet for Revenues (Appendix B)

Revenue Budget - General

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Cash Applied</td>
<td>10,000</td>
</tr>
<tr>
<td>Taxes</td>
<td>50,000</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>30,000</td>
</tr>
<tr>
<td>Fines &amp; Forfeits</td>
<td>10,000</td>
</tr>
<tr>
<td>Transfer – In</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$120,000</strong></td>
</tr>
</tbody>
</table>

Budget Appropriations & Accumulations

There are three levels of expenditures in the budget as follows:
- General (Fund)
  - Police (Department)
    - Salary (Object)
  - Street (Department)
    - Salary (Object)
    - Supplies (Object)
Contingency

- SDCL 9-21-6.1 allows for a contingency line to be included as a part of the budget. This line shall not exceed 5% of the total municipal budget.
- The contingency is reported as a line of the General Fund.

You may never spend directly against the contingency account.

This account is not a fund, it is not cash, it represents budget authority that may be transferred.

By resolution of the board, contingency transfers may occur as follows:
- To other line items of the General Fund
- To newly created lines of the General Fund
- To various line items of other governmental funds

Example of Contingency Transfer (Appendix G)
Capital Outlay Accumulations

- SDCL 9-21-14.1 Capital Outlay
  Accumulations authorized for municipalities—Maximum Accumulations
  - Resolution
  - Capital Outlay Purposes includes:
    - Acquisition of or additions to plant, or equipment, including expenditures for land, existing facilities, improvements of grounds, construction of facilities, addition to facilities, or purchase of equipment

- Maximum CO Accumulations for all purposes may not exceed:
  - 1st Class= $4/$1,000 of assessed value within municipality
  - 2nd Class= $10/$1,000 of assessed value within municipality OR $125,000 whichever is greater.
  - 3rd Class= $125,000

- SDCL 9-21-14.2 requires:
  - Resolution enacted by 2/3 vote of governing board.
  - Resolution shall set forth clearly the purposes and maximum amount that may be accumulated.
  - Funds accumulated shall be expended within 60 months from date of resolution.
  - Unspent accumulations revert to the general fund.
Capital Outlay Accumulations

- Capital Outlay is included in adopted budget each year for the amount to be accumulated for that particular year.
- Reminder to budget for actual expenditure in the appropriate line item in the year that the accumulation is to be spent.
- GL account 266.02 F/B Assigned for CO Accumulations is used to account for actual fund balance accumulated to date.

Expenditure Elements

- Even though county expenditures are budgeted by Fund and Department, consider developing those figures by viewing expenditures on segment by segment basis.
  - Budget Worksheet by Dept. & Object (Appendix C)
  - Budget Worksheet by Function and Activity (Appendix D)

Expenditure Elements

- Salary – how much, how many, turnover
- Health Insurance
- Supplies – analyze by type; fuel, culverts, asphalt, road oil, etc.
Expenditure Elements

- Debt Service – payment schedules
- Insurance
- Repairs and Maintenance

Expenditure Elements

- Capital Outlay:
  - Technology
  - Vehicles
  - Buildings
  - Other Equipment

Expenditure Budget - General

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Governing Board</td>
<td>10,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>5,000</td>
</tr>
<tr>
<td>Police</td>
<td>20,000</td>
</tr>
<tr>
<td>Street</td>
<td>65,000</td>
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<tr>
<td>Capital Accumulation</td>
<td>20,000</td>
</tr>
<tr>
<td>Total Appropriations</td>
<td>$120,000</td>
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</tbody>
</table>
Budget Adoption

- No later than first meeting in Sept or within 10 days thereafter – First reading of ordinance

- At least five days after first reading – Second reading and adoption of ordinance. Publish adopted budget.

Budget Adoption

- Appropriation Ordinance (Appendix E)
  - Part I = Governmental Funds
  - Part II = Proprietary and Fiduciary Funds
  - Part III = Electorate approved spending authority.
    - Debt Service
  - Part IV = Certified levies
    - General Purpose
    - Interest and Debt Service
      - Report to County Auditor prior to October 1st.

Budget Execution-Set Up

- Budget set up in accounting system
  - Allows for reports to assist in the monitoring of budgets and overall budget execution.
Budget Execution--Monitoring the Budget
- Monitoring the budget—WHO
  - Head of Department – daily
  - Finance Officer – provides status
  - Governing Board - monthly

Budget Execution--Monitoring the Budget
- Monitoring – WHY
  - Deterrent of fraud
  - Statutory compliance
  - Pulse of the County – where are we at and where are we going

Maximum Authorization to Spend
- SDCL 9-21-9 Expenditures limited to appropriated amounts.
- SDCL 9-21-10 Contracts prohibited unless covered by appropriation or bonds.
- Expenditures are limited to appropriated amounts.
- Department heads should be addressing budget issues with the governing board “BEFORE” a budget is overspent
Budget Over-expenditures

- If the governing board is approached “before” the over-expenditure occurs, the board has a chance to make the following choices:
  - Increase the budget
  - Contingency Transfer (previous slides)
  - Formal Supplemental Appropriation Ordinance
  - Automatic Budget Supplement
  - Control/reduce expenditures

- A formal budget supplement takes the passage of an ordinance (two readings, adoption and publication) SDCL 9-21-7

- Formal Supplemental Appropriation Ordinance (Appendix F).
  - Appropriation and Means of Finance.

“Automatic” supplements (ones approved by simple motion of the governing board) may be passed in the following circumstances:
- When receiving state, federal and county grants
- When performing work for other governments
- When receiving revenue from insurance claims (SDCL 9-21-9.1 & 9.2)
End of Year??

- Year end cutoff –
  - Cash Basis – when paid
  - GAAP Basis – when goods delivered or services rendered
  - Communicate deadlines with departments

Future Planning

- How far ahead do I project?
  - Too far and its accuracy is questioned, we are in a world of change.
  - Going a year or two does not present much of a trend.

Tomorrow’s Budget

- Why care about the future?
  - How long does it take to get –
    - An opt out dollar
    - A statutory change in increased revenue or new revenue source.
    - Out of a fiscal hole
Budget Indicators

- Is the cash balance declining?
- Is the debt load increasing?
- Is the deferred maintenance on roads, bridges, and buildings increasing?

Budget Flow

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Beginning Balance</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>Revenues</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Expenditures</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>110</td>
<td>115</td>
</tr>
</tbody>
</table>

Is it bad if the ending balance grows each year?

Reserves

- How much should you have???
- Consider the following:
  - Risk of large unforeseen expenditures
  - Capital Accumulations
  - Other future capital needs
  - Cash flow (Jan-May)
  - Risk of decreasing revenues
Reserve Policies

- Purpose:
  - Reserves are the cornerstone of financial flexibility. They provide a government with options to respond to unexpected issues and afford a buffer against shocks and other forms of risk.

Reserve Policy

- Prepare for operational uncertainty
  - Extreme events and public safety concern
  - Revenue stabilization
  - Emergency cash flow needs
  - Other? Can depend on your entity (transfers)
- Maintain good standing with rating agencies
- Avoid interest expense/ generate investment income.

Reserve Policy

- Determine how to measure target level
  - Reserves as a percent or number of days (months) of
    - Regular operating revenues or
    - Regular operating expenditures
  - Which is more predictable
- Conduct an analysis
  - Determine major influencing factors (risks)
  - Analyze past experience and likely future implications of factors (probability)
Reserve Policy

- GFOA baseline recommendation for General Fund:
  - 16% of regular operating revenues, or 2 months of regular operating expenditures
  - If needed, adjust according to local conditions
- S&P’s views on reserves:
  - 0% to 4% = Adequate
  - 4% to 8% = Good
  - 8% to 15% = Strong
  - >15% = Very Strong

Reserve Policy

- Factors to Consider:
  - Risk Factors
  - Extreme events and public safety concern
  - Revenue stability
  - Expenditure volatility
  - Liquidity
  - Other Fund’s Dependency
  - Growth
  - Capital Projects

Reserve Policy

- Other Drivers:
  - Budget Practice
  - Government Size
  - Borrowing capacity
  - Public Perception
  - Political Support
Reserve Policy

- Most Important Policy Elements
  - Reserve target levels
    - Consider breaking into subcategories
  - How to reach target levels
    - Broad guidance in policy
      - Increase by X per year until reach Y
    - Use a long-term financial plan for more specifics

Reserve Policy

- Most Important Policy Elements
  - Conditions for use of reserves
    - Use of reserves
    - Authority to use reserves
    - Replenishment of reserves
    - Excess reserves

Long-Term Financial Planning Policies

- Purpose:
  - Assists the government in providing stable tax and service levels to the community over multi-year period because it helps the government strategically and proactively recognize and address issues impacting financial position.
## Long-Term Financial Planning Policies

- Commit to doing a plan
- Scope of plan
  - Items included, time horizon, funds, etc.
- Relationship to strategic planning
- Find imbalances
- Long-Term balance
  - The plan contains solutions

## Debt Policies

- **Purpose**
  - To ensure that debt is used wisely and future financial flexibility remains relatively unconstrained

## Debt Issuance Guidelines

- **Conditions**
  - Favorable market conditions
  - Consistent with financial and legal limits
  - Capital projects with 5 year minimum life
  - Resources can cover debt service
  - Permissible debt instruments

- **Restrictions**
  - Using long-term debt to fund operations
  - Issuing debt with longer amortization than life of assets
Debt Issuance Guidelines

- Revenue Debt Limitation (usually Enterprise)
  - Debt service coverage ratio for utilities
- Restrictions
  - Size of issuance
  - Prohibited debt instruments
- Requirements on pay-as-you-go
  - Debt per Capita
  - Revenue Debt Limitation (usually Enterprise)
  - Debt service coverage ratio for utilities

Debt Issuance and Management

- Debt Limitation Indicators
  - S&P provides analytical characteristics
  - General Debt Limitation
    - Debt service as % of Expenditures
    - Debt per Capita
  - Revenue Debt Limitation (usually Enterprise)
    - Debt service coverage ratio for utilities

- Debt issuance process
  - Approval of issue
  - Determine method of sale
  - Selection/ use of professional service providers
- Debt management process
  - Investment of bond proceed
  - Compliance practices
  - Market and investor relations
  - Criteria for refunding bonds
Capital Asset Management Policies

- **Purpose:**
  - Must be flexible enough to accommodate a community’s political will, while also providing guidance sufficient to help the government make sound financial choices.

- **Capital Improvement Planning (CIP):**
  - Include operating budget impacts
  - Balanced CIP important
  - Tie capital budgeting to CIP

- **Capital Asset Maintenance:**
  - Establish intent to keep assets maintained
  - Inventory and assess the condition of all major capital assets
  - Commit to funding a maintenance plan