

Municipal Budgeting



Presented by:

Alfred E. Martin, CPA, Retired Finance Director
City of Hagerstown, Maryland

With research assistance by

Jeanne E. Bilanin, PhD, Associate Director
Institute for Governmental Service and Research
University of Maryland
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Municipal Budgeting: *Is this you?*



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Municipal Budgeting:

Class Objectives



- Introduce participants to the framework and fundamental concepts of municipal budgeting in Maryland
- Help participants better understand their municipality's financial picture
- Give participants ideas for how to handle the extraordinary fiscal issues facing municipal governments in these difficult economic times

Legal Framework:

Maryland Law



- Fiscal Year: July 1 – June 30 (*Art. 24, Sec. 1-102*)
- Expenditures: must be for public purpose (*Art. 23A, Sec. 2(b)(2)*)
- Amendments: 2/3 vote required (*Art. 23A, sec. 2(b)(2)*)
- Constant yield tax rate (*Tax-Property Art., Sec. 6-308*)
- Financial reporting (*Art. 19, Sec. 35 – Sec. 41*)
- Audit (*Art. 19, Sec. 35 – Sec. 41*)

Legal Framework: *Financial Reporting*



Requirements of *Manual of Uniform Financial Reporting* issued by Department of Legislative Services (DLS):

- Submission of annual Uniform Financial Report to DLS
- Expenditures must be classified by function or program
- Functions must be further broken down by type
- Expenditure type detail, at minimum:
 - Salaries
 - Other operating expenses
 - Construction
 - Other capital

Legal Framework:

Municipal Charter/Ordinances



- Responsible person; schedule; required content
- Requirement that budget be balanced
- Public review, notice, and hearings and adoption process
- Amendment procedures
- Requirement that unencumbered appropriations lapse

Financial Policies: *Examples*



See examples from City of Hagerstown web site

www.hagerstownmd.org

Proposed Budget 2017/18

Section 10, Pages 1-7 “Fiscal Policies”

Budget Organization:

Types / Components / Formats



- Types of budgets: operating and capital
- Funds: general and special
- Budget sections: revenues and appropriations
- Alternative formats: line item, program, performance-based

Budget Organization:

Examples/Award Criteria



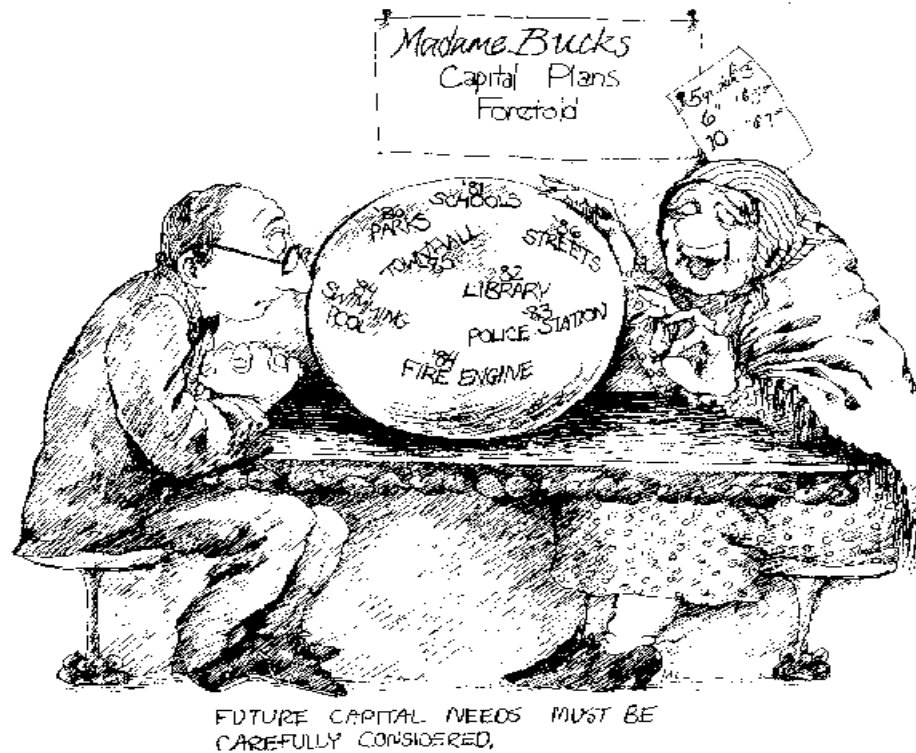
See examples from City of Hagerstown 2017/18
Proposed Budget at www.hagerstownmd.org

See award criteria from
Government Finance Officers Association (GFOA)
at www.gfoa.org

Revenue: *Projection Techniques*



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Revenue:

Own-Source



- Property taxes
- Admissions and amusements tax
- Boat slip user fee
- Permit, licensing, and administrative fees
- User charges

Revenue:

State and Other Sources

State-shared:

- Local income tax
- Highway user taxes
- Business license fees
- Financial institution shares tax

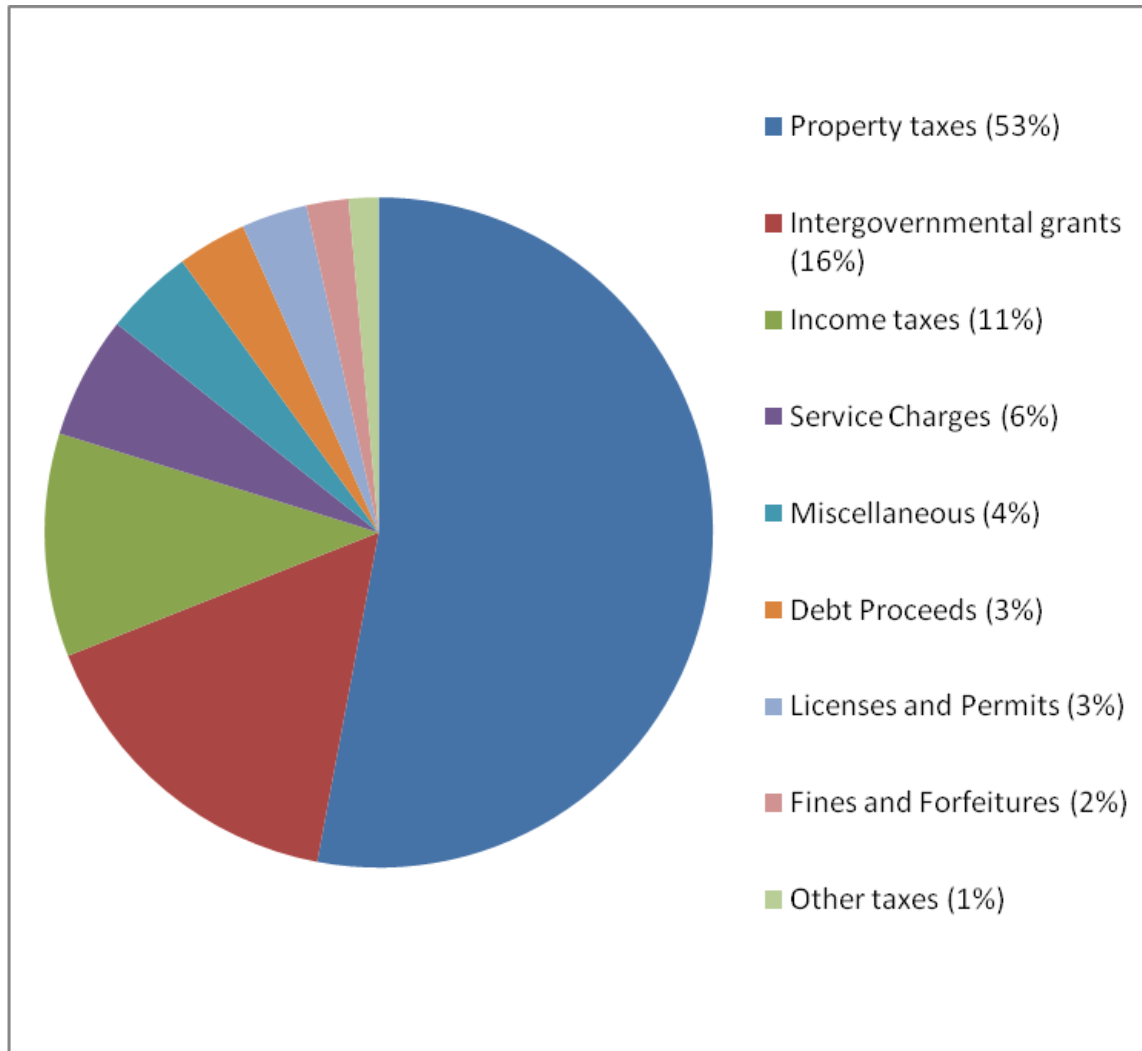
State aid:

- Fire, rescue, and ambulance services
- Police protection

Other:

- County property tax rebate
- Grants
- Borrowing
- Fines
- Interest on deposits

Revenue: *Contributions of Sources*



Revenue:

Property Tax Basics



- Real property
- Commercial personal property
- Assessments: 100% valuation
- Tax rates
- Constant yield tax rate

Revenue:

Property Tax Calculations



Property Tax Calculation Examples

How much revenue will a \$0.01 increase in property taxes generate?

Example from the hypothetical City of Greatland:

Assessable base	\$ 1,579,726,160
Times increase in tax rate of \$0.01 per \$100 (or \$0.0001 per \$1 valuation)	x <u> .0001</u>
Equals revenue generated by \$0.01 tax increase	= \$ 157,973

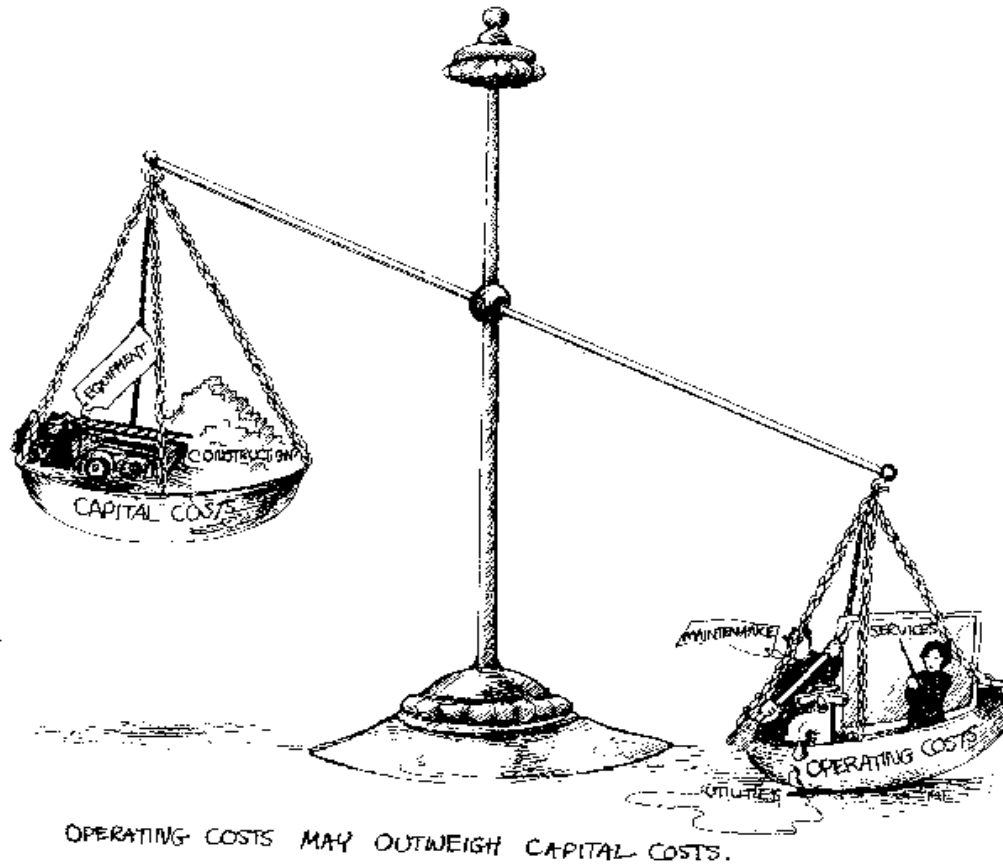
Example from the hypothetical Village of Modesto:

Assessable base	\$ 23,241,440
Times increase in tax rate of \$0.01 per \$100 (or \$0.0001 per \$1 valuation)	x <u> .0001</u>
Equals revenue generated by \$0.01 tax increase	= \$ 2,324

Municipal Budgeting: *Expenditures*



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Expenditures:

Policy Questions/Considerations



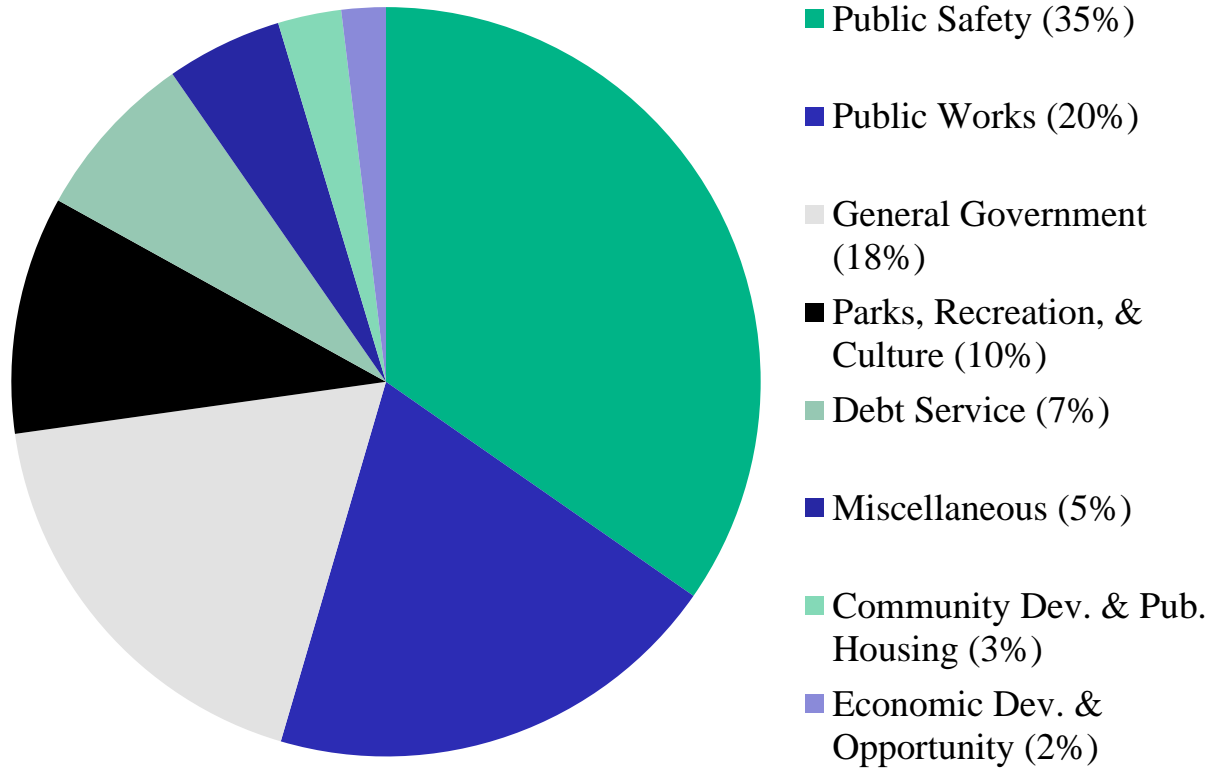
Key Questions:

- What types of programs and services?
- At what spending or service levels?

Key Considerations:

- Legal authority
- Legal mandates
- Community characteristics and needs
- Goals and priorities
- Services provided by other entities
- Available revenue

Expenditures: *Allocations to Programs*



Budgeting for the Unexpected: *Contingencies*



- Important to deal with the uncertain or unexpected
- Examples:
 - reserve for emergency
 - termination/retirement payouts
 - ice and snow removal
 - energy costs
 - vacancy savings

Budgeting for the Unexpected:

Reserves



General Fund Undesignated/Unreserved Fund Balance

- What is it?
 - Working Capital
 - Rainy Day Fund
- How much should be kept in reserves? GFOA recommendations:
 - Establish formal policy on the level of fund balance
 - Minimum recommended level of 16.7% of General Fund revenues or 2 months of operating expenses

Budgeting for the Unexpected: *Contingencies / Reserves / Other*



See GFOA reserve guidelines

See Group exercises 1 and 2 on Handout

and

See GFOA Paper on Building a Financially Resilient Government at www.gfoa.org

Budget as a Process: *Steps*



- Preparation
 - Review and adoption
 - Implementation
 - Evaluation
-
- A diagram consisting of a vertical line on the right side, with a horizontal line extending to the left from the top of the vertical line, ending in an arrowhead pointing to the left. Another horizontal line extends to the right from the bottom of the vertical line, ending in an arrowhead pointing to the right. This creates a rectangular loop that connects the 'Preparation' step at the top to the 'Evaluation' step at the bottom, indicating a feedback loop.

Budget as a Process: *Preparation*



- Set fiscal guidelines
- Estimate revenues and expenses
- Develop proposed budget

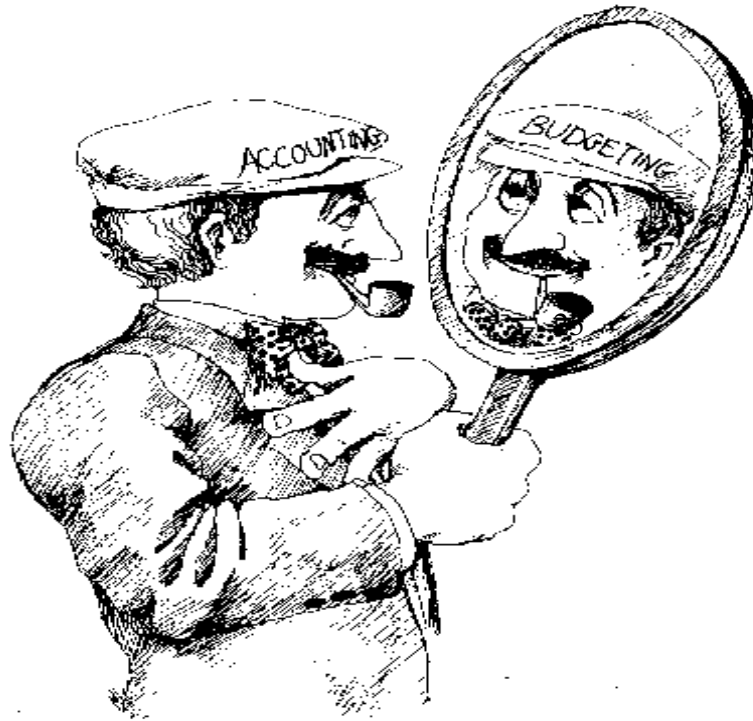
Budget as a Process: *Review and Adoption*

- Disseminate information; provide notice as required by State and any local requirements
- Conduct presentations and hearings (e.g., State constant yield tax rate)
- Discuss issues
- Obtain public comment
- Make adjustments
- Adopt budget; set tax rate

Budget as a Process: *Implementation*



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BUDGETING AND ACCOUNTING SHOULD
REFLECT EACH OTHER.

Budget as a Process: *Implementation*



- Administrative procedures for spending
- Periodic reporting of budget versus actual (accounting – budget link)
- Administrative transfers
- Amendments

Budget as a Process: *Evaluation*



- Annual financial report
- Annual audit
- Baseline for budget development

Municipal Budgeting: *References*



Government Finance Officers' Association (GFOA)

Additional GFOA information and resources available at www.gfoa.org

Local Government Finance: Concepts and Practices, Petersen and Strachota, eds.

Recommended Practices for State and Local Government

The Operating Budget: A Guide for Smaller Governments, Juliet Powdar

Distinguished Budget Presentation Awards Program: Awards Criteria

University of Maryland Institute for Governmental Service and Research

Handbook for Maryland Municipal Officials, Barbara Hawk, Patti Belcher and Jeanne Bilanin, eds.

Maryland Department of Legislative Services

Local Government Finances in Maryland: Fiscal Year Ending June 30, 2011

<http://dls.state.md.us> (under “Policy Analysis Subject Areas,” click on “Intergovernmental Matters & Public Administration”)

City of Hagerstown

City Website at www.hagerstownmd.org

Proposed Budget for Fiscal Year 2017/18 available on City website under Departments/Finance/Budgets

Municipal Budgeting: *Homework*



See homework problems 1-6 in Municipal Budgeting
Class Participant Handbook Available online at
www.mdmunicipal.org under Conferences & Training

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Presented by:

Alfred E. Martin, Retired Finance Director
City of Hagerstown, Maryland
(301) 991-3468

aemartin24@aol.com

With research assistance by

Jeanne E. Bilanin, Associate Director
Institute for Governmental Service and Research
University of Maryland