

# Municipal Budgeting



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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

# Common Terms:

## *Funds*



- Separate “pots” of money dedicated to a specific purpose. (or General Fund if not separated)
- Used for large, continuing operations
- General Fund
- Special Revenue Funds
- Capital Projects
- Debt Service
- Utilities

# Common Terms:

## *Fund Balance*



- Accumulation of all previous years’ revenues minus expenditures
- Exists within each fund
- Focus typically on “Unassigned” – no claims on it (General Fund only)



# Financial Policies



- **Balanced Budget**
  - Include fund balance as revenues
  - Only look at current year revenues
  - Only look at recurring
- **Fund Balance**
  - Minimums, or targets
  - Allowed uses for excess
  - Method for replenishing if under

# Financial Policies



- Revenue / Rate structures
  - Recurring vs one-time
  - Rate development full cost vs some costs
  - Tax rate limits
- Debt
  - Types
  - Limits on repayment structure
  - Limits on total debt outstanding

# Financial Policies: Resources



- GFOA Best Practice guides
  - <http://www.gfoa.org/best-practices-z>
- City of Hagerstown: Proposed Budget Section 10
  - <https://www.hagerstownmd.org/DocumentCenter/View/7364/FY19-Adopted-Budget>

# Budget Organization:

## *Types / Components / Formats*



- Purpose:
  - Policy document
  - Financial plan
  - Operations guide
  - Communication device
- Broad sections:
  - Overview
  - General Fund (operating budget)
    - Revenues
    - Expenditures (or appropriations)
  - Other Funds and Capital
- Types – line item, or programmatic / departmental

# Budget Organization:

## *Examples/Award Criteria*

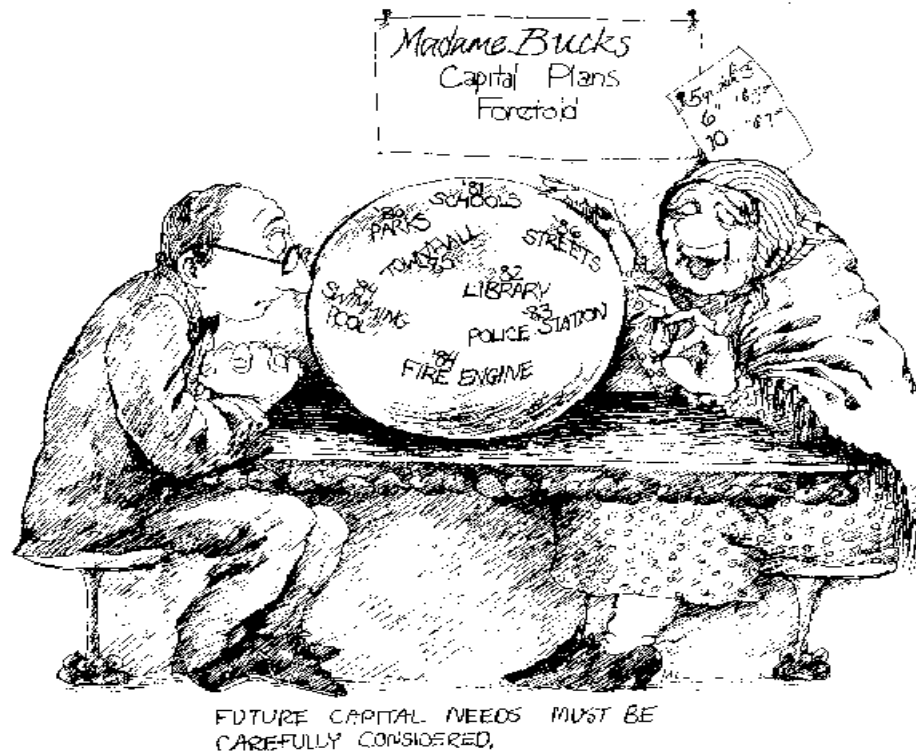


See award criteria from  
Government Finance Officers Association  
(GFOA) at [www.gfoa.org](http://www.gfoa.org)

# Revenue: *Projection Techniques*



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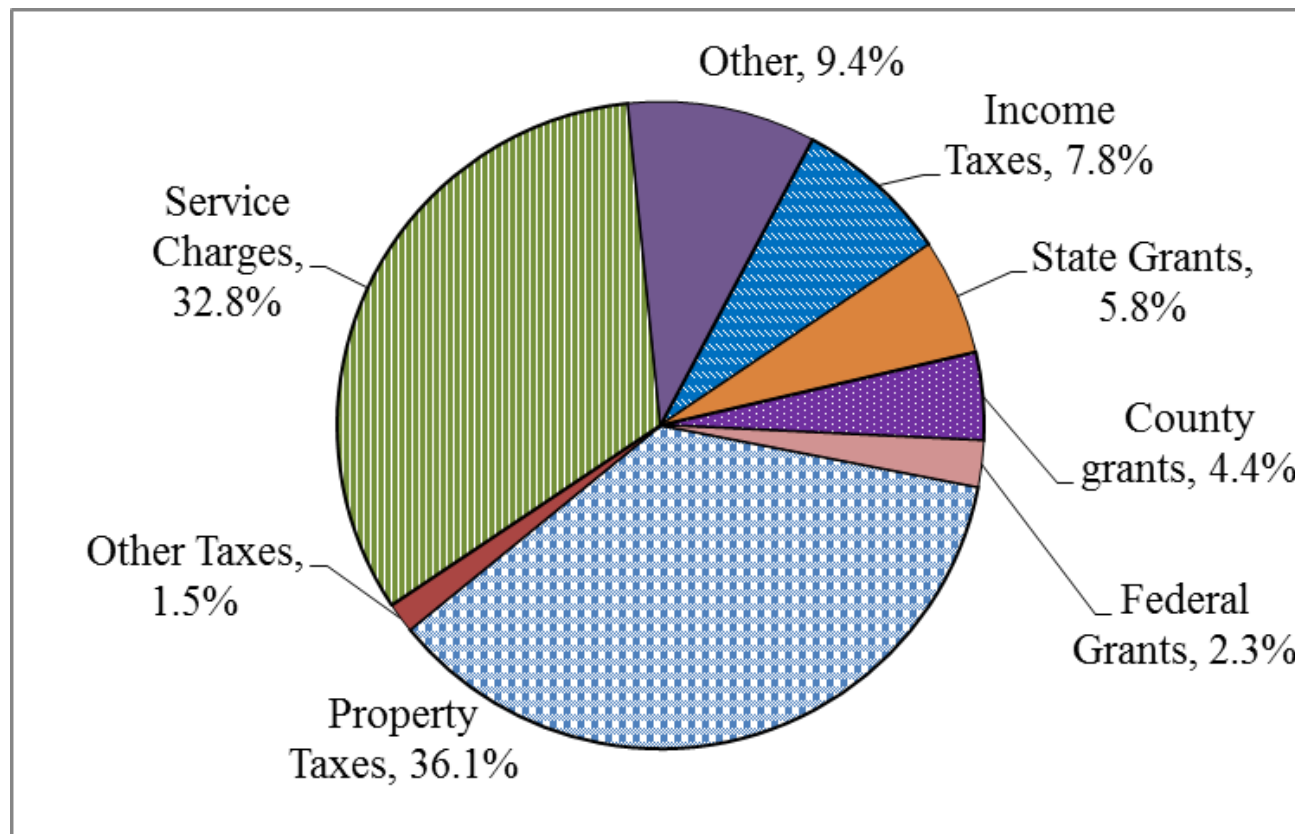
# Revenue



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## 2018 Overview of Maryland Local Governments Finances and Demographics – Department of Legislative Services

2015 Data



# Revenue:

## *Own Source*



- Admissions and amusements tax
- Boat slip user fee
- Recreation fees
- Permit, licensing, and administrative fees
- Stormwater fees
- Water, sanitary sewer, electric fees
- Interest income



# Revenue:

## *State and Other Sources*

### State-shared:

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

### Other:

- County property tax rebate
- Grants
- Borrowing
- Fines

### State aid:

- Fire, rescue, and ambulance services
- Police protection

# 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

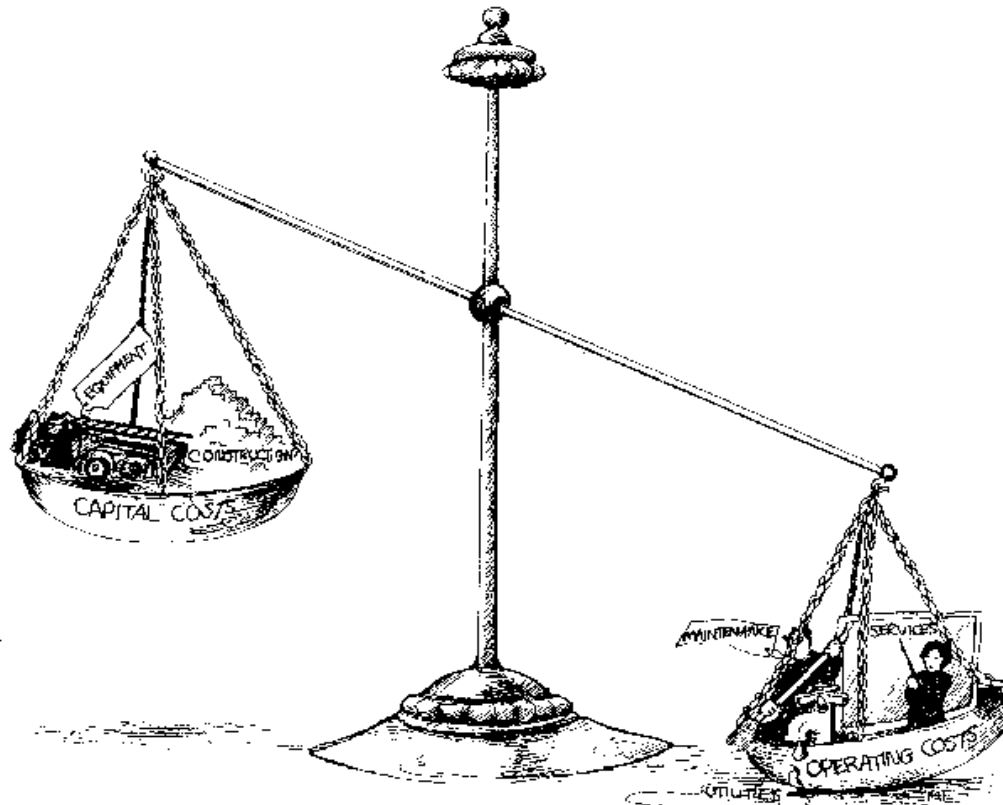
#### Example from the hypothetical Village of Modesto:

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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OPERATING COSTS MAY OUTWEIGH CAPITAL COSTS.

# Expenditures:

## *Policy Questions/Considerations*



### Key Questions:

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

### Key Considerations:

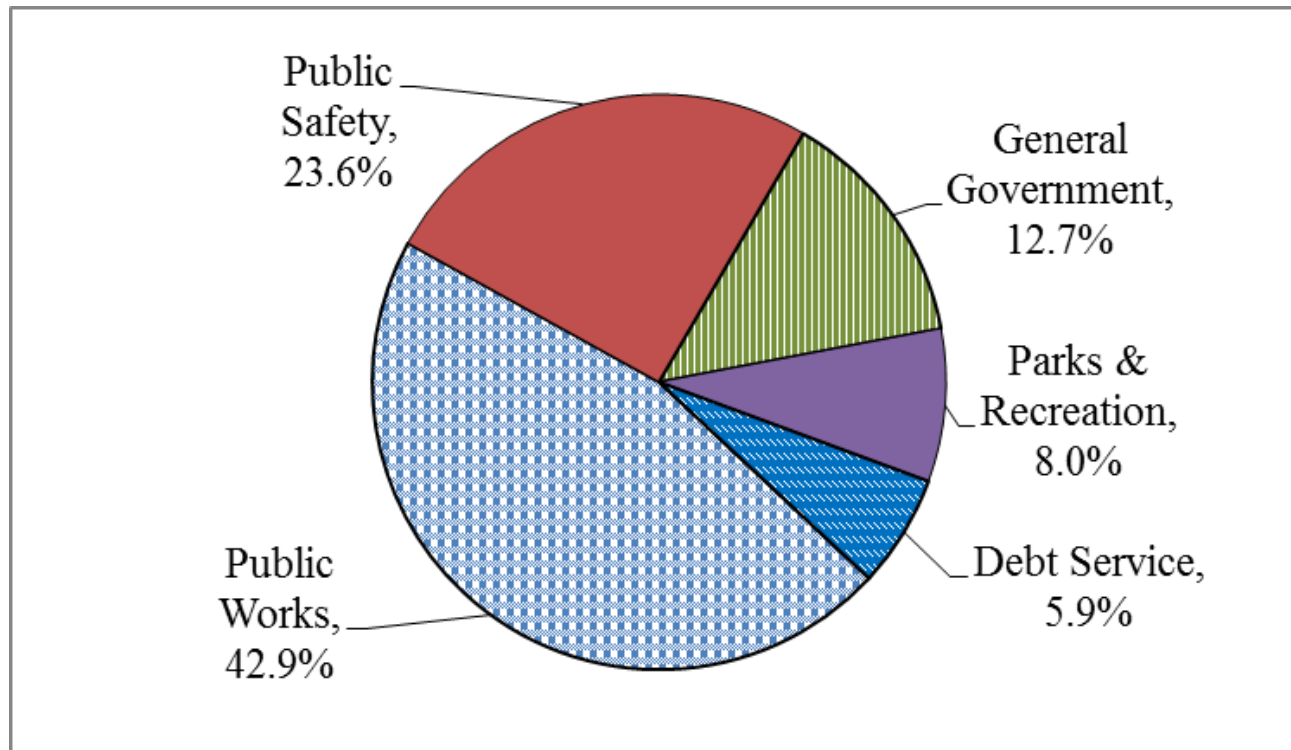
- Legal authority
- Legal mandates
- Community characteristics and needs
- Goals and priorities
- Services provided by other entities
- Available revenue

# Expenditures: *Allocations to Programs*



2018 Overview of Maryland Local Governments Finances and  
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# Budgeting for the Unexpected: *Contingencies*



- Important to deal with the uncertain or unexpected
  - Termination/retirement payouts
  - Ice and snow removal
  - Large equipment/facility failures
  - Union negotiations / Raises
  - Other emergencies
- How much should be in your Contingency budget?

# Budgeting for the Unexpected: *Contingencies*



## **It Depends**

- Relative size of budget vs raw dollars.
- How accurate are you typically budgeting
- What other options do you have if you needed funds
  - Fund balance
  - Expenditure reductions
  - Untapped revenue
- Timing



# Budgeting for the Unexpected: *Fund Balance*



## General Fund Unassigned Fund Balance

- Other common names:
  - Reserves
  - Undesignated / Unreserved Fund Balance
  - Working Capital
  - Rainy Day Fund
- How much should be in Unassigned Fund Balance?

# Budgeting for the Unexpected: *Contingencies*



## **It Depends - GFOA recommendations**

- Establish formal policy
- Minimum recommended level of 16.7% of General Fund revenues or 2 months of operating expenses
- <http://www.gfoa.org/fund-balance-guidelines-general-fund>
- Take the time to evaluate risk factors

# Budgeting for the Unexpected: *Contingencies / Fund Balance*



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](http://www.gfoa.org)

# Budgeting for the Unexpected:

## *Fund Balance*



### **Should you use it?**

- How does your current level compare to your fund balance policy?
- Is the need short-term or long-term?
  - Think about the impact using it has financial sustainability

# Budget as a Process: *Steps*



- Preparation
  - Review and adoption
  - Implementation
  - Evaluation
- 
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graph TD; Evaluation --> Preparation; Evaluation --> Preparation;
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# Budget as a Process: *Preparation*



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

# Budget as a Process:

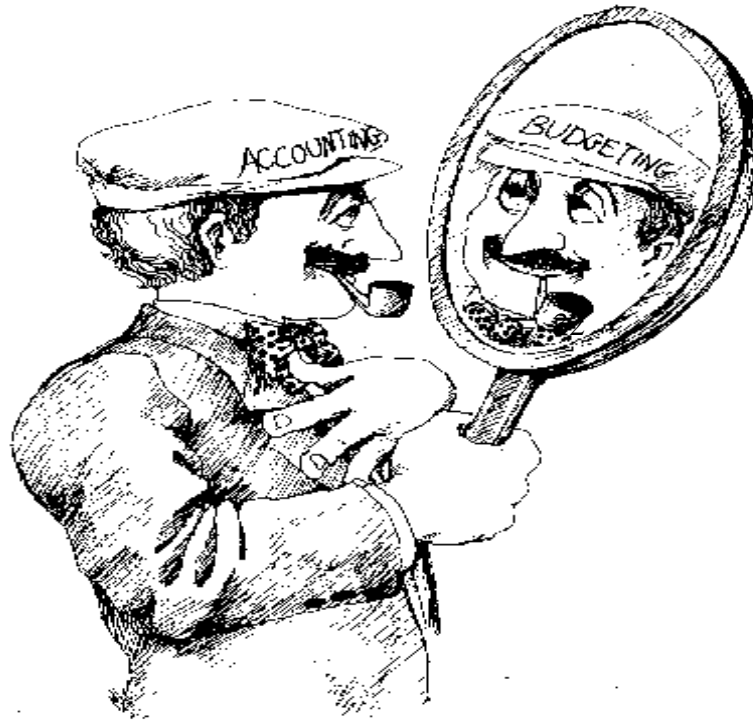
## *Review and Adoption*

- 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)
- Budget transfer authority
- Amendments

# Budget as a Process: *Evaluation*



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

# Budget Tips & Tricks



Reduce conservative budgeting and budget pad

- Budget Postmortem
- Compare to actuals (multi-year when possible)
- Salary vacancy
- Current year projections for revenues and expenditures

# Municipal Budgeting: *References*



## Government Finance Officers' Association (GFOA)

Additional GFOA information and resources available at [www.gfoa.org](http://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 Powder

*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, 2015*

<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](http://www.hagerstownmd.org)

Adopted Budget for Fiscal Year 2018/19 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](http://www.mdmunicipal.org) under Conferences & Training

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