



Municipal Budgeting
June 26, 2019
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Budgeting for the Unexpected: *Contingencies/Reserves/Other*

Group Exercise 1 **Using Contingencies and Reserves to Offset Shortfalls**

You are on the Council for Anytown, Maryland. At your October Council Meeting, the Finance Officer reports that revenue for the first quarter of Fiscal Year 2019 is lower than had been projected. Specifically, property tax revenue is down by 10%, income tax revenue is down by 15%, and user fees are down 20%.

(1) What questions would you have for the Finance Officer?

The Finance Officer reports that the estimated total revenue shortfall for the year is four times the amount that was included as a contingency in the FY 2019 budget. A Council Member proposes that all the contingency funds be used to make up for a quarter of the shortfall.

(2) How would you react to the Council Member's proposal? Should all the contingency funds be directed to offsetting the shortfall?

The Finance Officer reports that Anytown has enough money in its reserve fund to cover half the estimated shortfall in revenue. A Council Member proposes that the entire reserve fund be used to offset the shortfall.

(3) How would you react to the Council Member's proposal? Should all the reserve funds be directed to offsetting the shortfall?

Group Exercise 2
Other Actions to Offset Shortfalls

The Council of Anytown decides to apply the entire FY 2019 contingency and half the reserve fund to offset the shortfall of revenue during FY 2019. These actions cover half the shortfall.

(1) What actions should the Council consider to offset the remaining FY 2019 shortfall?

(2) What actions should the Council consider in preparation for the FY 2020 budget?

References

Reference List

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, 2015*
<http://dls.state.md.gov> (under "Policy Analysis Subject Areas," click on "Intergovernmental Matters & Public Administration")

City of Hagerstown

City Website at www.hagerstownmd.org

Adopted Budget for Fiscal Year 2019/20 available on City website under Departments/Finance/Budget

Presenter Contact Information:

Alfred E. Martin, Retired Finance Director, City of Hagerstown, Maryland
(301) 991-3468 aemartin24@aol.com

Stephanie M. Walker, CPA, CPFO
(414) 840-4506 Stephanie.Walker@WalkerCross.com

Municipal Budgeting:

Homework

Homework #1

1. Who prepares the annual budget in your municipality?

- Mayor
- Manager
- Finance Director
- Other: _____

Is this consistent with the requirements of your town's charter and/or budget ordinance?

Yes No Not sure Not addressed by charter/ordinance

2. What sources of information does this person use to estimate revenues and expenditures?

3. In recent years have actual revenues and expenditures matched the estimates contained in your municipality's budget? If not, what explains the differences?

4. How is the public involved in the budgeting process?

Is this consistent with the requirements of your town's charter and/or budget ordinance?

Yes No Not sure Not addressed by charter/ordinance

5. What is the process for amending the budget during the year?

Is this consistent with the requirements of your town's charter and/or budget ordinance and with state law contained in the Local Government Article, Title 5?

Yes No Not sure Not addressed by charter/ordinance

Homework #2

1. Does your municipality budget for any other funds, such as water and sewer funds, in addition to the general fund?

a. If so, what are the other funds?

b. If not, does the municipality conduct any activities for which it would be appropriate to isolate revenue and expenditures? For example, does the municipality provide water or sewer service or some other type of service for which fees are charged only to users of the service?

2. What is the format of your municipality's budget document?

- Line item
- Program
- Performance
- Outcome
- Combination or other, describe:

3. At what level are funds appropriated for expenditure by your Council or Commission?

- Line item
- Program
- Department
- Other, describe:

Homework #3

1. How much revenue would a \$0.01 increase in the property tax rate generate in your municipality?

Hint: First, find out the assessable base of your municipality. Then, follow the example property tax calculations on page 25.

2. Determine how much of a tax increase would be required in your municipality to fund a new position that costs \$45,000 for salary plus an additional 30% for benefits?

Hint: First, compute the total cost of the position by multiplying $1.30 \times \$30,000$ to determine the cost of the salary and related employee benefits and the employer share of payroll taxes. Then, divide by the answer to question 1, above, and multiply by \$0.01.

3. If a new position is added as described in #2 above, how much will the required tax increase cost the average homeowner?

Hint: First, find out the average assessed value of a home in your municipality. (You can obtain market data for your community or you can estimate the value by dividing the total assessable base by the number of households.) Then, multiply the average assessed value of a home by the answer to question 2, above.

Homework #4

1. Identify the sources of revenue in your municipality's most recent general fund budget.
2. Determine the percentage of total general fund revenue contributed by each revenue source.
3. Compare the percentages obtained in #2 above to the statewide averages shown in the pie chart of revenue sources.
4. Identify any revenue sources on which your municipality is relying far more or far less than the statewide average, and explore the reasons for the variations.

Homework #5

1. Identify a program or service in your municipality's general fund that is of particular interest to you.
2. Determine the following for this program or service:
 - a. the total annual expenditure
 - b. the expenditure as a percentage of total general fund revenue
 - c. the expenditure per capita (the amount spent divided by the municipality's population)
3. Find out what is spent on this program or service in two or three other municipalities that you consider to be comparable to your municipality.
4. Determine the percentage of total general fund revenue and the expenditure per capita for the program or service in each of the other municipalities
5. Compare the values you obtained for other municipalities in questions 3 and 4 above to the values obtained for your municipality in question 2.
6. Explore reasons for any differences in expenditure levels among the municipalities.

Homework #6

1. Review your municipality's budget for the past fiscal year and the actual revenues and expenditures during the year and answer the following questions:

- a. How did actual revenues compare to budgeted revenues?

- b. How did actual expenditures compare to budgeted expenditures?

- c. To what extent did the municipality need to rely on amounts budgeted for contingencies in order to cover expenditures?

- d. To what extent did the municipality need to use its reserve funds in order to cover expenditures?

2. Review your municipality's budget for the current fiscal year to determine how much was budgeted for contingencies. Given last year's experience, does the amount seem appropriate?

3. Review your municipality's most recent financial statements to determine the amount of funds in the General Fund Undesignated/Unreserved Fund Balance. Compare the amount of this reserve fund to the amount recommended by the Government Finance Officers Association.