Municipal Budgeting

Presented by:

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Municipal Budgeting: *Is this you?*

I never quite feel that I get a complete understanding of my city's financial picture.
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
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

- Property taxes (53%)
- Intergovernmental grants (16%)
- Income taxes (11%)
- Service Charges (6%)
- Miscellaneous (4%)
- Debt Proceeds (3%)
- Licenses and Permits (3%)
- Fines and Forfeitures (2%)
- Other taxes (1%)
Revenue:

Property Tax Basics

• Real property

• Commercial personal property

• Assessments: 100% valuation

• Tax rates

• Constant yield tax rate
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 _______ .0001

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 _______ .0001

Equals revenue generated by $0.01 tax increase = $ 2,324
Municipal Budgeting: Expenditures

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

- Public Safety (35%)
- Public Works (20%)
- General Government (18%)
- Parks, Recreation, & Culture (10%)
- Debt Service (7%)
- Miscellaneous (5%)
- Community Dev. & Pub. Housing (3%)
- Economic Dev. & Opportunity (2%)
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
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

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


*Recommended Practices for State and Local Government*


*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](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)

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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