Municipal Budgeting

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Municipal Budgeting: 
*Is this you?*
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
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
Revenue:
Projection Techniques

Madame Bicks
Capital Plans
Forecast

Future capital needs must be carefully considered.
Revenue

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

2015 Data

- Property Taxes, 36.1%
- Service Charges, 32.8%
- Other Taxes, 1.5%
- Federal Grants, 2.3%
- County grants, 4.4%
- State Grants, 5.8%
- Income Taxes, 7.8%
- Other, 9.4%
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

State aid:
• Fire, rescue, and ambulance services
• Police protection

Other:
• County property tax rebate
• Grants
• Borrowing
• Fines
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 0.0001

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 0.0001

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

OPERATING COSTS MAY OUTWEIGHT 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 Demographics – Department of Legislative Services

2015 Data

- Public Safety, 23.6%
- General Government, 12.7%
- Parks & Recreation, 8.0%
- Debt Service, 5.9%
- Public Works, 42.9%
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: \textit{Contingencies}

\textbf{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
- 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
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
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)

• 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

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.us (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 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 under Conferences & Training
Municipal Budgeting

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