

Budget and Finance Boot Camp

What you learn here will be only a beginning. You are just getting ready to learn how "to learn how" to go to war.

This Class is not...

- How to build a budget
- Major “legal stuff” of municipal budgeting
- Accounting practices
- Portfolio management
- Financial management policies
- Strategic/financial planning
- How to trick city hall (or the fire chief)

This class is sort of, but not really...

- How to manage a budget
- Basic legal requirements of a budget
- What to present in a budget

This class is....

Basic info about:

- What a budget is (and perhaps is not)
- Budget vocabulary
- Process of building a budget
- Management of a budget
- Some do's and don'ts and other unsolicited advice

"THE BUDGET"

In municipal government, and perhaps all government, there is no action, plan document, task or process that absorbs more time, energy, thought, attention, cussing and discussing than the formation and management of the budget.

It sometimes seems that we live and die by
"THE BUDGET"

*"To govern is to choose and the essence of governing is budgeting."
Boswell*

What is "*The Budget*"?

- The master financial plan of your municipality
- A budget is an itemized summary of estimated or intended revenues (**where the \$\$ comes from**) and expenditures (**where the \$\$ goes**)
 - The proposed cost for each function of government
 - The proposed means for financing these activities

What is "*The Budget*"?

- Government Finance Officers Association characterizes the budget document as a:
 - Policy document
 - Financial planning document
 - Operations plan
 - Communication tool

"The basic law of budgets: You can only spend it once."

Anonymous

Why Have *"The Budget"*?

- **ACCOUNTABILITY** – *legitimatize public expenditures and account for control and usage*
- **PLANNING** – *planning, coordinating and scheduling programs*
- **OPERATIONS** – *carrying out the actual operations of doing the business of the city*
- **EVALUATION** – *source for review of project effectiveness*
- **INFORMATION** – *useful management and communication documents*

Budget Vocabulary

What in the world are they talking about?

Budget Vocabulary

- **Expenses** - The cost for personnel, materials, and equipment required for a department to function as well as costs for debt, reserves, services, activities, etc. and all other govt. functions and responsibilities
- **Revenue** - Funds that the government receives as income to pay for ongoing operations. It includes such items as taxes, fees from specific services, interest earnings, and grant revenues

Revenue Sources for Cities

- Property tax
- Sales & Use Tax
- Franchise tax
- Licenses
- Fees
- Permits
- Fines and forfeitures
- Charges for service
- Interest income
- Transfers in
- Interagency / intergovernmental
- Reimbursements
- Salvage sales
- Leases
- Other miscellaneous

Budget Vocabulary

- **Fiscal Year (FY)** - A twelve-month period designated as the operating year for accounting and budgeting purposes
- **Ordinance** - A law of a municipality enacted by the governing body of the municipality
- **Budget Calendar** - The schedule of key dates which a city follows in the preparation and adoption of the budget

- **Fund** - An accounting unit used to segregate financial activities, (*e.g., general fund, capital projects fund, debt service fund*)
- **General Fund** – main fund of the city financed with general tax revenues and receipts from other City funds. The GF provides the financing for general govt. operations like fire, police, city manager and library.
- **Debt Service Fund** – Principal and interest on long-term debt

- **Capital (Project/Expense/Improvement) Fund** - major construction, acquisition, or renovation activities which add value to a govt's physical assets or significantly increase their useful life. *e.g.* streets, buildings, vehicles
- **Special Revenue Funds** – accounts for revenues that can only be used for specific purposes, *e.g.*, occupancy tax, storm water drainage, certain sales taxes, etc.
- **Enterprise Fund** – accounts for operations financed and operated much like a business enterprise, (*e.g.*, *water & sewer*). Enterprise funds should stand alone. No tax money is used

Taxes - compulsory charges levied by a government for the purpose of financing services performed for the common benefit of the people

- **Ad Valorem Tax** - Also known as property taxes, they are levied on both real and personal property according to the property's valuation and the tax rate
- **Sales Tax** – tax collected at time of purchase of certain products. TX = 6.25%; Cities up to 2%
- **Assessed Valuation** - The valuation set upon real estate and certain personal property by the Assessor as a basis for levying property taxes

- **Taxable Value** - the assessed value less allowable exemptions resulting in an amount to which the tax rate is applied to determine property taxes due. (*home = \$100,000*)
- **Tax Rate** – tax charge expressed in percentage of dollar per \$100 value of property being taxed. (rate = .43456)
- **Tax Levy** - the resultant product when the tax rate per one hundred dollars valuation is multiplied by the tax base.
($.43456 \times \$100,000 \div 100 = \434.56)

The Budget Building Process

What in the world are they doing?

Building a Budget

Both a technical and a political process

- Technical part relates to calculating the revenues that will come in and the expenses incurred to achieve different objectives
 - city employees at all levels are the technicians
- Political part is related to elected officials making the decisions on which programs should be funded among numerous alternatives
 - It's all about values and motivation

Building a Budget

Boswell's Principles of Budgeting

- Needs are always infinite; resources are always limited
- Budgeting is about trade-offs. Saying “yes” to something means saying “no” to something else. You can't spend, or save, a dollar twice.
- The needs for all programs, neighborhoods, groups, departments, etc., are in competition with each other. There are always winners and losers

Building a Budget

Boswell's Principles of Budgeting

- Resource allocation decisions are best made when all needs are considered in context. When budgetary needs are not evaluated in relationship with one another, the resulting decisions may not reflect your true priorities
- Balancing a budget is relatively easy. Reaching consensus on how to balance the budget is difficult

Building a Budget

- Identification of revenues and financial position (budget office)
- Identification of needs and required resources (depts., admin., finance)
- Preparation of budget requests (depts.)
 - Base budget
 - Supplemental requests
- City manager reviews of department requests. Meetings with depts.

Building a Budget

- City manager develops and submits proposed budget to council
- Council publicly reviews and discuss
- Public hearings held for citizen input
- Council sets tax rates
- Council amends proposed budget
- Adoption of an approved budget and tax rate
- Legalities: Ordinances, Postings, Submittals

Building a Budget

Who Cares?

- Citizens
- Businesses
- Community
- Individual employees
- Employee groups
- Special interests
- Media
- Industry

“A government which robs Peter to pay Paul can always depend on the support of Paul”

“but probably not Peter”

George Bernard Shaw

Steve Bass

Budget Flowchart



Manage the Budget

Now that we got it, what do we do
with it?

Manage the Budget

- Remember that it is not your money—we are just the steward for the public; it's their money
- It is their business
- Stay inside the lines
- Make it your business to know the business
- Review, analyze, adjust

Do's and Don'ts

and other things you just need to hear

*Probably the real stuff you came to
hear*

...and other things you just need to hear

- There is always a degree of uncertainty in the budget process
 - Planned expenditures have to be balanced against “anticipated” revenues
- If the revenues do not meet expectations, adjustments have to be made to reduce spending

...and other things you just need to hear

- Local revenue has a history of cyclical behavior
 - Local economy affects revenue collected by local government. The national economy...
 - Property values have a direct impact on property tax revenues
- Learn how to weather the storm rather than being tossed around by it
- Try to prepare for everything and anything

...and other things you just need to hear

Budgeting for a city including forecasting, preparing and managing, is just like doing it at home

- You determine how much money you will have
- You determine your needs and wants
- You prioritize
- You spend
- When there is not enough to go around, you make adjustments by determining what you will and will not do
 - You don't always get what you want
 - Sometimes you get a little extra

Do's and Don'ts

- Remember that integrity is foremost, regardless of at what point in the process you may be
- Be very diligent in determining your expectations, forecasts, needs, wants
- **Be all about the details**
- Be prepared to answer questions—from anyone; external, internal, yourself

Do's and Don'ts

- Understand the politics and the environment of your city, community and council
- Make it a point to know “pet peeves” and “pet projects” of each member
- Understand your manager
- Review every number, word, and document that you submit. *“Perception is reality”*
- Formulate alternatives; have them ready year round

Do's and Don'ts

Don't subscribe to:

- “You have to ask for way more than you need in order to get what you need”
- “You have to over spend or they won't think you needed what they gave you”
- “You always have to give back money at the end of the year”
- “Spend as fast as you can early in case they cut your budget later”

In Conclusion

- Make it a point to learn about your city, your department and your officials. Know what, why and how they do what they do
- Never be afraid to tell them what you have analytically determined is a department need—and why. Don't ask if you can't justify it
- Have your facts straight and accurate
- Watch your budget and **be proactive**
- Never but never give reason for your integrity to be questioned

THANK YOU

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