



Florida Government Finance Officers Association

# **Municipal Budgeting**

## **Certified Government Finance Officer (CGFO)**

### **Review Session**

*Updated July 2024*



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Network<sup>1</sup>ing, Leadership and Information.



# Exam Topics

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**Governmental Budgeting Overview – 10%**

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**Budget and Planning Processes and Best Practices – 50%**

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**Revenue Management and Forecasting – 15%**

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**Capital Improvement Program (CIP) – 10%**

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**Budget Monitoring, Performance Management, and Outcomes – 15%**





# **Governmental Budgeting Overview**

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# Learning Objectives

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**Recall** the role of the budget

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**Identify** the types of budgets used in governments

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**Recall** the budget process and steps



**Recall the role of the budget**





# What is a Budget?

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- A financial plan for a defined period of time, usually one year
- A plan for the allocation of scarce resources among competing priorities
- Provides the legal authority to expend funds







# Budget Overview – Role of the Budget

**Governments allocate funds to programs and services through the budget process**

**Allocations of scarce resources among competing priorities**

- Indicate goals and priorities for the upcoming year
- Reflects the choices made by the governing body





# Budget Overview – Role of the Budget

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**The budget is a plan** – how do you know when you are done without a plan?

## Benefits of the budget:

- Stable service delivery
- Determines impact of current decisions
- Identifies future trends early – doesn't identify current trends accurately







# Budget Overview – Role of the Budget

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- ❑ Many governments struggle with building credibility and trust within their community.
- ❑ One of the ways they can improve that credibility and trust is to have transparency as a core value of governmental budgeting.





# Budget Overview – Role of the Budget

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- Disparities between Generally Accepted Accounting Principles (GAAP) and the budgetary basis of accounting may occur.
- One of the ways this may occur is due to regulations governing budget (e.g., laws or ordinances of the state) differ from GAAP.





# Budget Overview – Role of the Budget

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- ❑ The National Advisory Council on State and Local Budgeting (NACSLB) budgeting best practices recommends establishing broad goals to guide government decision making.
- ❑ A strategic plan is a tool to memorialize those goals.
- ❑ The strategic planning aspect of the budget includes providing direction on allocating resources to outcome driven key performance indicators supported by the governing body.





# Budget Overview – Role of the Budget

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- Management is responsible for preparing the budget.
- The administrative or managerial aspect of the budget includes effectively coordinating the preparation of the budget and ensures expenditures are made in accordance with the adopted budget



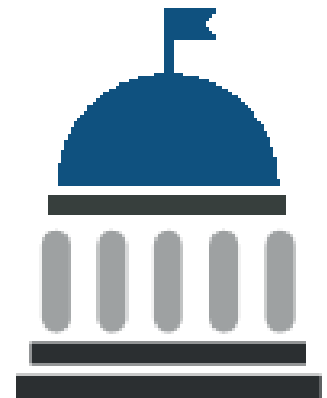
# Identify the types of budgets used in governments





# Budget Overview – Types of Budget

- Types of Budget vary among governments
- Designed to assist decision makers in prioritizing the budget requests as well as provide rationale for budget decisions
- Budget type depends on management and legislative body







# Budget Overview – Types of Budget

The types of Budget include



Executive Budgeting

Incremental Budgeting

Performance Budgeting

Program Budgeting

Zero-Based Budgeting

Budget Allotment

Priority-Based Budgeting





# Executive Budgeting

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- Control of budget preparation lies with the Chief Executive Officer or City Manager
- Earliest version used a simple line-item format
  - Financial control is the primary focus of line-item
- Cities and states were the first to adopt to this format





# Incremental Budgeting

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- Current year's budget forms the basis for the upcoming year's budget
- Works best during periods of stable revenues and expenditures
- Works reasonably well in mature communities that have stable service demands





# Incremental Budgeting

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- Can present financial challenges in the new norm of relatively flat or declining revenues
- Inadequate method for addressing revenue shortfalls, sharply increasing service demands or during other volatile periods





# Performance Budgeting

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First major reform after executive budget format

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Major feature is the inclusion of various workload measures that emphasize purposes and accomplishment

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Expenditures are based on measurable performance activities and programs

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Sets primary focus on evaluation of the efficiency of existing activities





# Program Budgeting

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A budget wherein revenues and expenditures/expenses are based on the program of the government

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Organized by specific functions

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Functional areas show related revenues and expenditures

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Links revenues and expenditures to goals, objectives, and outcomes







# Zero-Based Budgeting

Continued existence of programs and activities must be justified annually



Purpose is to force conscious decisions between disparate goals

Designed to address the appropriateness of each goal, rather than the most cost-effective program to achieve the goal





# Budget Allotments

A portion of the budget is allocated to an interim period based on historical spending patterns and needs

## Advantages include:

- Avoidance of rushed year-end spending
- Aids planning cash flow needs
- Helps managers plan inventory needs





# Priority Based Budgeting

Resources allocated according to how effectively a program or service achieves goals and objectives that are of great value to the community:

- Also known as Budgeting for Results/Outcomes
- Strategic alternative to incremental budgeting
- Philosophy of how to budget scarce resources and a flexible structured process for achievement





# Priority Based Budgeting

## Priority based budgeting process:

Government identifies its most important strategic priorities

Programs and services are ranked according to alignment with the priorities using a collaborative evidence-based process

Funding is allocated according to the ranking

- Useful tools to align expenditures more closely with community values





# Review

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**Which of the following is not a characteristic of a budget?**

- A. Allocates resources among competing priorities
- B. Plan for managing Spending
- C. Offers solutions to macro-economic problems
- D. Properly allocates financial resources





# Review

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**Which of the following is not a characteristic of a budget?**

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- C. Offers solutions to macro-economic problems**
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# Review – Answer Online

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**Which of the following is not a characteristic of appropriations?**

- A. Both citizens and Elected Officials should be involved
- B. If Unspent, they are held over for future years.
- C. Typically authorized for a single year.
- D. May be approved and controlled at the line-item level.





# Review

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**Which of the following is not a characteristic of appropriations?**

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- C. Typically authorized for a single year.
- D. May be approved and controlled at the line-item level.





# Review

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**Which type of budget starts with the current year's budget as the basis for the upcoming year's budget?**

- A. Incremental Budgeting
- B. Priority Based Budgeting
- C. Performance Budgeting
- D. Program Budgeting





# Review

---

**Which type of budget starts with the current year's budget as the basis for the upcoming year's budget?**

- A. Incremental Budgeting**
- B. Priority Based Budgeting
- C. Performance Budgeting
- D. Program Budgeting





# Review

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**Which of the following is NOT a type of budget?**

- A. Budget Allotment
- B. Cost-Benefit Budgeting
- C. Performance Budgeting
- D. Program Budgeting





# Review

---

Which of the following is NOT a type of budget?

- A. Budget Allotment
- B. Cost-Benefit Budgeting**
- C. Performance Budgeting
- D. Program Budgeting





# Review – Answer Online

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**Which of the following is not a Type of Budget discussed?**

- A. Citizen-Based Budgeting
- B. Executive Budgeting
- C. Budget Allotment.
- D. Priority Based Budgeting







# Review

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**Which of the following is not a Type of Budget discussed?**

- A. Citizen-Based Budgeting
- B. Executive Budgeting
- C. Budget Allotment.
- D. Priority Based Budgeting





# Review – Answer Online

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**Which Budget Method usually starts with workload measures?**

- A. Performance Budgeting
- B. Executive Budgeting
- C. Program Budgeting
- D. Zero Based Budgeting





# Review

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**Which Budget Method usually starts with workload measures?**

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- B. Executive Budgeting
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# Review

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## **Budget Allotments are based on?**

- A. Historical spending patterns and needs
- B. Equal allocation to each accounting period
- C. Allocation by performance measure
- D. Matching of expense budget to revenue





# Review

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## Budget Allotments are based on?

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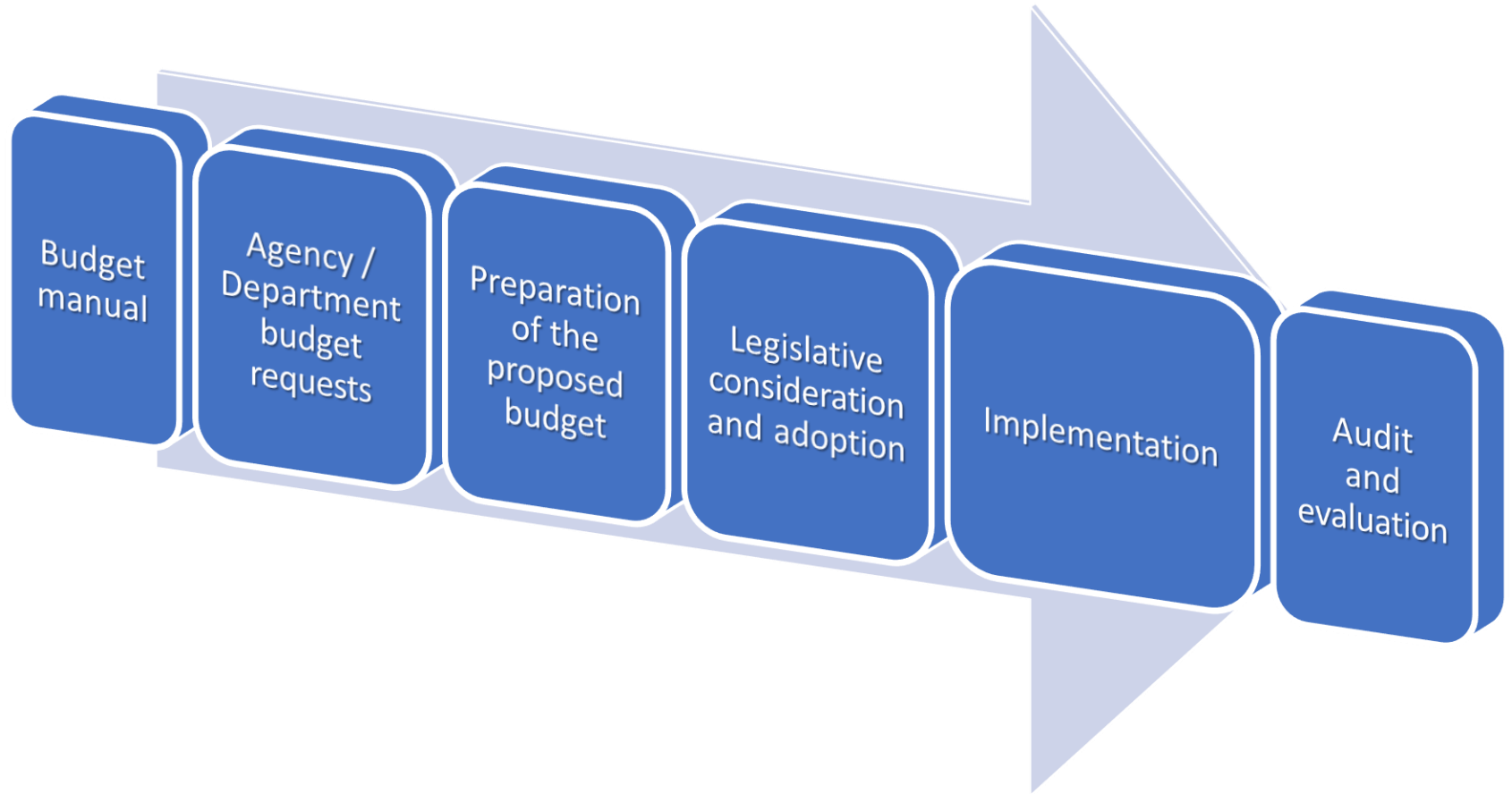


# Recall the budget process and steps





# Budget Process







# Budget Process

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- An efficient budget preparation process ensures that all the participants know what is expected of them.
- Reflecting upon the goals and priorities for the previous budget year is NOT a part of the budget process.





# Budget Overview – Role of the Budget

## The budget process should:

Incorporate a long-term perspective

Establish linkage to broad organization goals



Focus decisions on results and outcomes

Achieve stakeholders' acceptance of decisions related to goals, services, and resource allocation





# Budget Overview – Role of the Budget

- ❑ Must be responsive to constituents' needs and desires
- ❑ Governments should engage in long-term financial planning, including multi-year revenue and expenditure projections
- ❑ **The budget process regulates the flow of decisions** – who will have a say and at what point in the process





# Budget Overview – Role of the Budget

- Process should effectively involve major stakeholders and reflect their needs and priorities
- Appropriations are normally not held over for future use if they were not expended in the year they were appropriated
- Appropriations in the annual budget are typically authorized for a single year





# Budget Process – Manual

**Chief executive officer is responsible – budget guidance outlining fiscal positions**

**Contains instructions for preparing and submitting the operating and capital budgets**

- Description of budget process
- Budget calendar
- Assumptions to be used for requests
- Forms to be used with instructions





# Budget Calendar

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- The Budget Calendar is a roadmap for the budget preparation process.
- The amount of time needed to prepare and adopt a budget is sufficient time to complete the preparation of the budget so that it is adopted before the start of the fiscal year.





# Budget Process - Departmental Requests

- Transmittal memo that outlines its major objectives and initiatives for the budget year
- Budget schedules that detail the amount requested
- Narrative justification of requested amount
- Workforce ratios for some expenditure items
- Requests that are not consistent with departmental and government-wide goals and objectives should not be funded.



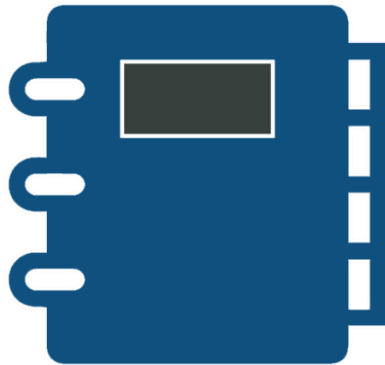




# Budget Process – Departmental Requests

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## **Narrative justifications include:**



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Description of current services

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Identify additional needs with supporting detail

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Discuss implications of not funding the requested amounts

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Supporting documentation

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# Budget Process – Preparation

**Budget staff reviews requests to ensure:**

- Compliance with budget instructions
- Revenues and expenditures balance
- Realistic revenue projections



**Works with chief executive and management team to determine which requests and funding levels will be included in the budget**

**Compiles the approved requests into a proposed budget document that is submitted to the legislative body for review and decision**





# **Budget and Planning Processes and Best Practices**

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# Learning Objectives

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**Recall** requirements for GASB Budgeting and recognize Florida laws (statutes) that govern the budget process

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**Recall** the National Advisory Council on State and Local Budgeting (NACSLB) principles and elements for budgeting best practices

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**Differentiate** the various cost of providing government services

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**Recall** categories and criteria for the GFOA Budget Award



**Recall requirements for GASB  
Budgeting and recognize  
Florida laws (statutes) that  
govern the budget process**





# GASB Requirements

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- GASB requires:
  - Certain reporting, if there is a budget.
  - Budget-to-actual comparison information for the General Fund and major special revenue funds with legally adopted budgets.







# Property Taxes

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- In Florida, ad valorem tax (property taxes) are authorized by the State Constitution.
- Property taxes, as well as fine and forfeitures are defined as imposed nonexchange revenue.







# Legislative Consideration and Adoption

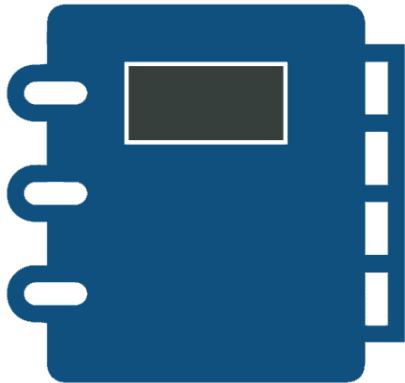
- Proposed budget is presented to legislative body for consideration
- Reviews budget to ensure constituent needs are addressed
- Holds public hearing in accordance with Florida Statutes and local ordinances





# Legislative Consideration and Adoption

## Budget document should:



Provide summary information to the public/media

Include a transmittal letter that outlines key policies and strategies

Be readable and understandable

Explain events/conditions that require changes in operations to ensure financial stability

Be posted on the taxing authorities' official website at least two days before budget hearing





# Legislative Consideration and Adoption

## Chapter 200, Florida Statutes – Truth in Millage (TRIM)

- Open discussion of millage rates and budgets
- Purpose is to provide transparency in how local taxing authorities propose and approve millage rates
- Outlines requirements to be in TRIM compliance
- Determine if there is a tax increase proposed based on the rolled-back rate





# Legislative Consideration and Adoption

## Rolled-Back Rate



- The millage rate necessary to raise, in the aggregate, the same amount of money this year from the taxpayers on last year's tax roll that was raised a year ago (excludes new construction)
- Levying a millage rate higher than the rolled-back rate requires the taxing authority to advertise a tax increase not in the legal or classified section





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- Maximum millage rate for cities and counties is 10 mills
- Defines a “county of special financial concern” as a county where **one mill** raises less than **\$100 per capita**
- Outlines requirements to be in TRIM compliance
- Department of Revenue is responsible for enforcing compliance of the TRIM (property tax ad valorem) process





# Legislative Consideration and Adoption

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## Truth in Millage (TRIM) Process:



Tax revenue is based on Certification of Value provided by the Property Appraiser and is the valuation of the taxable value within the jurisdiction

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Requires taxing authorities to utilize a minimum of 95% of the certified taxable value

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Requires two public hearings for open discussion of millage rates and budgets

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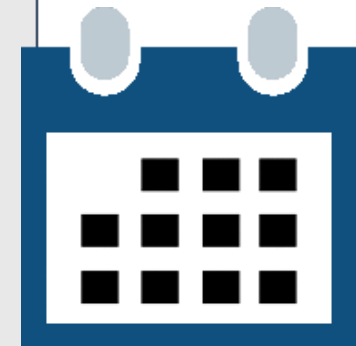




# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- Taxing authorities cannot levy any millage until its governing body has approved a resolution or ordinance
- The tentative millage rate cannot exceed the proposed millage rate unless each taxpayer is mailed a revised TRIM notice
- The final millage rate can be less than the tentatively adopted millage rate
- There are specific timelines to adhere to, but the process does NOT have to be completed within 105 days







# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- **Trim Day 1** is July 1 or the date of certification, whichever is later
- **NLT Trim Day 35** – advise property appraiser of its proposed millage rate and first public hearing date
- **NLT Trim Day 55** – property appraiser distributes Notice of Proposed Taxes (TRIM Notice)





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

**NLT Trim Day 35** – each taxing authority must inform the property appraiser of:

- Prior year millage rate
- Current year proposed millage rate
- Current year rolled-back rate
- The date, time, and meeting place of the tentative (first) budget hearing





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

**NLT Trim Day 35** – If a taxing authority fails to provide the information to the property appraiser within 35 days:

- The taxing authority will be prohibited from levying a millage rate greater than the rolled-back rate.
- The property appraiser will compute the rolled-back rate and use it to prepare the Notice of Proposed Property Taxes.





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

### NLT Trim Day 55 – August 24th

- The property appraiser must mail the Notice of Proposed Property Taxes (TRIM notice) within 55 days of certification.
- If DOR issues a review notice, the property appraiser cannot mail the TRIM notice until the Department has approved the assessment roll.





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- Between days 65 (September 3) and day 80 (September 18) taxing authorities should hold a public hearing on the proposed millage rate and budget.
- Within 15 days of holding the first public hearing (September 18 – October 3) the taxing authority must publish an advertisement to adopt the final millage and budget





# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- During that timeframe (September 18 – October 3), the taxing authority must advertise a:
  - Notice of Proposed Tax Increase or
  - Notice of Budget Hearing and a
- Budget Summary Advertisement





# Legislative Consideration and Adoption

## Advertisements:

- The Notice of Proposed Property Tax Increase advertisement has a size requirement of one-quarter page of the newspaper

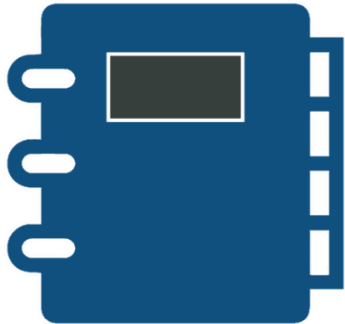






# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:



- Second Public hearing must be held between two and five days after the advertisement has been published
- Adopt the millage before adopting the budget





# Legislative Consideration and Adoption

## Public Hearings:

- Taxing authorities must announce the taxing authority's name, the rolled-back rate, the percentage increase over the rolled-back rate, and the millage rate to be levied
- The millage rate must be discussed first before the budget.
- General public is allowed to speak before governing body can take any action
- Millage must be adopted before budget adoption





# Legislative Consideration and Adoption

## Public Hearings:

- Must be held Monday through Friday after 5:00 p.m. and anytime on Saturday
- The Board of County Commissioners cannot schedule its hearing on days the school board has hearings scheduled
- Multi-county authorities must make every reasonable effort to avoid scheduling hearings on days the counties or school districts in its jurisdiction use
- The school board has first priority of a hearing date

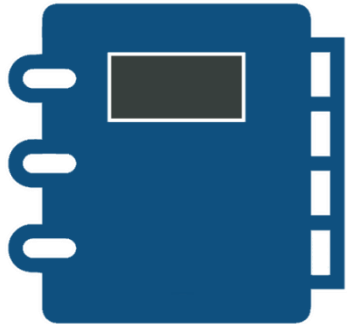




# Legislative Consideration and Adoption

## Truth in Millage (TRIM) Process:

- Requires taxing authorities to send the resolution adopting the final millage rate to the property appraiser, tax collector, and the Department of Revenue within three days of adoption
- Requires taxing authorities to certify compliance with the provisions of chapter 200, Florida Statutes within 30 days following adoption of the millage and budget ordinances or resolutions





# Legislative Consideration and Adoption

## Maximum Levy Limits:

- The maximum millage rate for cities and counties is 10 mills
- Taxing authorities may levy a millage rate of up to 110 percent of the majority vote maximum millage rate by two-thirds vote
- The maximum millage rate (as calculated by DR-420MM-P) a taxing authority may authorize by majority vote is up to the rolled-back rate as calculated on Form DR-420 adjusted by the percent change in per capita Florida personal income





# Legislative Consideration and Adoption

## Maximum Levy Limits:

- **Majority vote** – up to the Rolled-back rate (RBR) adjusted for change in per capita Florida personal income
- **Two-thirds vote** – up to 110% of RBR adjusted for change in per capita Florida personal income
- **Unanimous vote (3/4 if 9 or more)** – up to 10 mill cap
- **Referendum** – up to 10 mill cap
- Super-majority vote is of the membership of the governing body, not the members who are present





# Legislative Consideration and Adoption

- ❑ **No adopted budget** – Florida Statutes allows taxing authorities to readopt its prior year's adopted final budget, as amended, and expend moneys based on this budget until such time as the tentative budget is adopted, if the fiscal year begins prior to adoption of the tentative budget







# Amending the Budget

- ❑ The governing body of each county, municipality, and special district have the authority to amend the Adopted Budget anytime within a fiscal year for that year and may within the first 60 days of a fiscal year amend the budget for the prior fiscal year
- ❑ The Board of County Commissioners have the authority to establish procedures by which the designated budget officer may authorize budget amendments if the total appropriations of the fund does not change





# Amending the Budget

- ❑ If a budget amendment is required for a lawful reason not specifically authorized in Section 129.06 (2a-2e), Florida Statutes, the Board of County Commissioners may adopt the budget amendment by resolution following a duly advertised public hearing at least 2 days, but no more than 5 days, before the date of the hearing





# Review

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**A “county of special financial concern” is defined as**

- A. One mill raises less than \$10,000
- B. One mill raises less than \$1,000 per capita
- C. One mill raises less than \$100 per capita
- D. One mill raises less than \$100,000





# Review

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A “county of special financial concern” is defined as

- A. One mill raises less than \$10,000
- B. One mill raises less than \$1,000 per capita
- C. One mill raises less than \$100 per capita**
- D. One mill raises less than \$100,000





# Review – Answer Online

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**Where can the Notice of Proposed Tax Increase Ad appear?**

- A. Legal Section but not classified
- B. Classified but not Legal
- C. Legal or Classified
- D. Not in Legal or Classified.





# Review

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## Where can the “Notice of Proposed Tax Increase” Advertisement appear?

- A. Legal Section but not classified
- B. Classified but not Legal
- C. Legal or Classified
- D. Not in Legal or Classified.





# Review – Answer Online

---

## What is the rolled-back rate?

- A. The same rate as the prior year adjusted for inflation
- B. The rate needed to raise the same amount as last year
- C. The same as “B”, excluding new construction.
- D. The same as “A”, excluding new construction.







# Review

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## What is the rolled-back rate?

- A. The same rate as the prior year adjusted for inflation
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- C. The same as “B”, excluding new construction.
- D. The same as “A”, excluding new construction.





# Review

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## TRIM Requires?

- A. Use of a maximum of 95% of taxable value
- B. Use of a minimum of 95% of taxable value.
- C. Use of a maximum of 95% of market value
- D. Use of a minimum of 95% of market value.





# Review

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## TRIM Requires?

- A. Use of a maximum of 95% of taxable value
- B. Use of a minimum of 95% of taxable value.**
- C. Use of a maximum of 95% of market value
- D. Use of a minimum of 95% of market value.





# Review – Answer Online

---

## What is TRIM Day 1?

- A. The later of July 1 or certification date
- B. The earlier of July 1 or certification date
- C. July 1, regardless of certification date.
- D. The first week-day following July 1.





# Review

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## What is TRIM Day 1?

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# Review

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**When do we advise Property Appraiser of proposed millage rate?**

- A. TRIM day 35
- B. TRIM day 45
- C. TRIM day 55
- D. TRIM day 65





# Review

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**When do we advise Property Appraiser of proposed millage rate?**

- A. TRIM day 35
- B. TRIM day 45
- C. TRIM day 55
- D. TRIM day 65







# Review – Answer Online

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**When do we advise Property Appraiser of First Public Hearing Date and location?**

- A. TRIM day 35
- B. TRIM day 45
- C. TRIM day 55
- D. TRIM day 65





# Review

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**When do we advise Property Appraiser of First Public Hearing Date and location?**

- A. TRIM day 35
- B. TRIM day 45
- C. TRIM day 55
- D. TRIM day 65





# Review

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**When does the Property Appraiser distribute the TRIM notice?**

- A. TRIM day 45
- B. TRIM day 55
- C. TRIM day 65
- D. None of the Above





# Review

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**When does the Property Appraiser distribute the TRIM notice?**

- A. TRIM day 45
- B. TRIM day 55**
- C. TRIM day 65
- D. None of the Above





# Review – Answer Online

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## When is the First Public Hearing?

- A. Between TRIM day 65 and day 75
- B. Between TRIM day 55 and day 75
- C. Between TRIM day 70 and day 85
- D. Between TRIM day 65 and day 80





# Review

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## When is the First Public Hearing?

- A. Between TRIM day 65 and day 75
- B. Between TRIM day 55 and day 75
- C. Between TRIM day 70 and day 85
- D. Between TRIM day 65 and day 80





# Review

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## When is the Second Public Hearing?

- A. Between TRIM day 65 and day 75
- B. Between TRIM day 55 and day 65
- C. Between five and ten days after the advertisement
- D. Between two and five days after the advertisement







# Review

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## When is the Second Public Hearing?

- A. Between TRIM day 65 and day 75
- B. Between TRIM day 55 and day 65
- C. Between five and ten days after the advertisement
- D. Between two and five days after the advertisement





# Review – Answer Online

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**What votes are needed to adopt the adjusted rolled back rate?**

- A. Simple Majority plus one
- B. Simple Majority
- C. Two-Thirds Vote
- D. Three-Quarters Vote





# Review

---

**What votes are needed to adopt the adjusted rolled back rate?**

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# Review

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**What votes are needed to adopt  
110% of the adjusted rolled back rate?**

- A. Simple Majority plus one
- B. Two-Thirds Vote
- C. Three-Quarters Vote
- D. Unanimous Vote





# Review

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# Review – Answer Online

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**What votes are needed to adopt the statutory maximum millage?**

- A. Two-Thirds plus one
- B. Unanimous vote and a referendum
- C. Unanimous Vote or a Referendum
- D. Unanimous vote of all attending members





# Review

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- C. Unanimous Vote or a Referendum**
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# Review

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## Which statement is false?

- A. Maximum millage for cities and counties is 10 mills
- B. Florida Auditor General enforces TRIM Compliance
- C. Anything over the rolled-back rate is a “Tax Increase”
- D. TRIM requires use of a minimum of 95% of taxable value.





# Review

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## Which statement is false?

- A. Maximum millage for cities and counties is 10 mills
- B. Florida Auditor General enforces TRIM Compliance**
- C. Anything over the rolled-back rate is a “Tax Increase”
- D. TRIM requires use of a minimum of 95% of taxable value.





# Budgeting Best Practices

- ❑ **National Advisory Council on State and Local Budgeting (NACSLB)** has established four principles and twelve elements for budgeting best practices
  - Four Principles of the budget process are comprised of Twelve Elements
  - Twelve Elements assist in translating the guiding principles into action components



**Recall the National Advisory  
Council on State and Local  
Budgeting (NACSLB) principles  
and elements for budgeting  
best practices**





# NACSLB – Four Principles

Establish broad goals to guide government decision making

Develop approaches to achieve goals

Develop a budget consistent with approaches to achieve goals

Evaluate performance and make adjustments





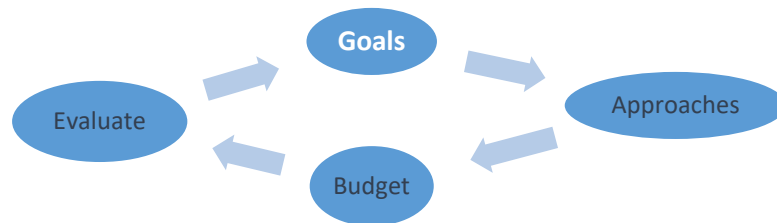
# Elements of Principle One

## ■ Establish Broad Goals

1. Assess community needs, priorities, challenges, and opportunities

2. Identify opportunities and challenges for government services, capital assets, and management

3. Develop and disseminate broad goals





# Elements of Principle Two

- **Develop Approaches to Achieve Goals**

4. Adopt financial policies

5. Develop programmatic, operating, and capital policies and plans

6. Develop programs and services that are consistent with policies and plans

7. Develop management strategies







# Elements of Principle Three

- **Develop a Budget Consistent with Approaches to Achieve Goals**

8. Develop a process for preparing and adopting a budget

9. Develop and evaluate financial options

10. Make choices necessary to adopt a budget





# Elements of Principle Four

- **Evaluate Performance and Make Adjustments**

**11.** Monitor, measure,  
and evaluate  
performance

**12.** Make  
adjustments as  
needed

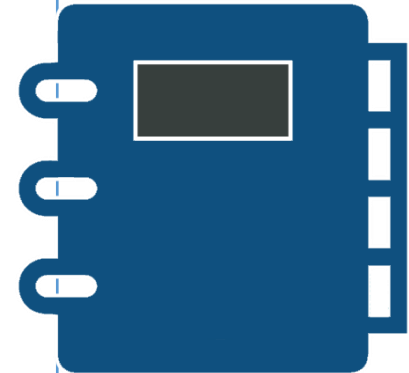




# Principal 1: Establishing Goals (Strategic Plans)

## Element 1

- A recommended practice by GFOA:  
**Assess Community Needs**
- Drawn from the NACSLB (National Advisory Council on State and Local Budgeting)
- Public Hearings
- Surveys
- Interaction and Communication

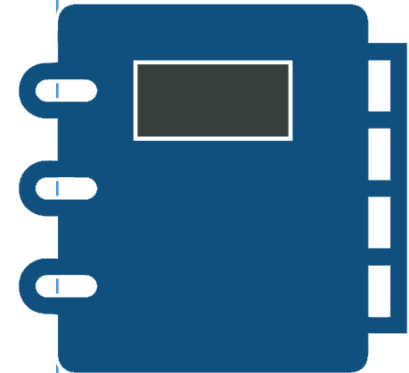




# Principal 1: Establishing Goals (Strategic Plans)

## Element 2

- **Identify opportunities and challenges for government services, capital assets, and management**
  - Issues and Trends
  - External Factors
  - Studies
  - Community Dynamics

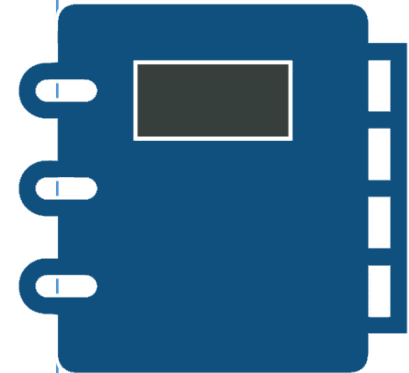




# Principal 1: Establishing Goals (Strategic Plans)

## Element 3

- **Develop and disseminate broad goals (a strategic plan should)**
  - Be based on stakeholder concerns
  - Link to the Budget
  - Be Outcome Driven
  - Be supported by Elected Officials
- Disseminate – Publish the goals.





# Principal 2: Develop Approaches (Fiscal Policies)

## Element 4



- **Adopt Financial/Fiscal Policies**
  - Policies are adopted by the governing body
  - All fiscal policies should have an element for measuring performance and reporting



## Operating Budget Policies (2.4)

- Define a balanced operating budget
- Develop with the goal to maintain a **structurally balanced budget**  
(operating revenue = operating costs)
- Identifies who is responsible for budget preparation - **management**





## Revenue Policies (2.4)

---



- How much change in the property tax rate is acceptable in a given year
- How one-time revenues will be used
- How frequently should service charges and fees be reviewed
- Revenue diversification
- Items that will not be budgeted (i.e. savings)





# Fund Balance Policies (2.4)

**Establish policy on the General Fund's spendable and unassigned fund balance based on the government's own circumstances:**

Predictability of revenues

Volatility of expenditures

Risk of significant one-time outlays (disasters)

Commitments and assignments

Conformity with legal/regulatory constraints





# Stabilization Policies

- **Stabilization funds** may be called rainy day funds, committed balances, or contingency funds
- Policy will guide creation, maintenance, and use of resources held for financial stabilization purposes
- Policy will identify purpose for which funds can be used





## Contingency Planning Policies (2.4)



- ❑ General guide to improve the ability to take timely action and to aid management when an emergency occurs
- ❑ Should include a basic financial plan in the event of emergencies, natural disasters, or other unforeseen events



## Debt Policies (2.4)

- Guides the issuance and management of debt
- Address the issue of debt capacity
  - GFOA Budget Awards Requirement
  - What is the maximum long-term debt burden that the government can incur?
  - Mix of long-term debt and current revenues for capital projects
- Use of bond proceeds
- When will short-term debt be used





# Principal 2: Develop Approaches (Fiscal Policies)

## Element 5



- Develop Programmatic, Operating, and Capital Policies and Plans
- Service and program policies and plans translate broad goals into strategies for achieving those goals



# Principal 2: Develop Approaches (Fiscal Policies)

## Element 6



- Develop programs and services that are consistent with policies and plans.
  - Performance Measures
  - Benchmarks



# Develop Management Strategies

## Principal 2, Element 7

Develop mechanism for budgetary compliance



- **Relies on the management structure** (process and systems) to ensure compliance with the adopted budget
- Institutes procedures to review budget periodically (budget to actual comparisons) either monthly or quarterly





# Develop Budget

## ■ Principal 3

### Develop a Budget

- Develop a budget process for preparing and adopting a budget
- Develop and evaluate financial options (this would include multi year or long-range projections)
- Make choices necessary to adopt a budget







# Develop Budget

## ■ Principal 3

### Element 8

- **Develop a process for preparing and adopting a budget**
  - Obtain Input from Stakeholders
  - Create and publish a Budget Calendar
  - Policy Guidelines and Instructions
  - Coordination, Preparation, and Budget Review
  - Discuss, Reconcile, and Resolve Conflicts
  - Adopt and transmit





# Develop Budget

## ■ Principal 3

### Element 9



#### • **Develop and evaluate financial options**

- A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies.
- A government should prepare multi-year projections of revenues and other resources.
- A government should evaluate and understand the effect of potential changes to revenue source rates and bases.





# Develop Budget

## ■ Principal 3

### Element 10



#### • **Make Choices Necessary to adopt a budget**

- A government should prepare and present the plan for review and adoption.
- Policies, plans, programs and the goals should be identified.
- Key issues and decisions should be highlighted.
- Accounting policies should be highlighted.
- Budget Book should be easy to understand.





# Evaluate Performance

## ■ Principal 4

### Element 11

- **Monitor, measure, and evaluate performance**
  - Evaluate the performance of programs and services.
  - Evaluate stakeholder satisfaction
  - Budget-to-actual comparisons
  - Financial Condition Monitoring
  - Monitor External Factors
  - Monitor Capital Programs





# Evaluate Performance

## ■ Principal 4

### Element 12

- **Make Adjustments as Needed**
  - Unforeseen Events
  - Adjust policies, plans, programs, and management strategies as needed.
  - Adjust goals if appropriate.





# Review – Answer Online

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## Which statement is false?

- a. Strategic plans should link to the budget
- b. Strategic plans should be outcome driven
- c. Budget office should develop the strategic plan.
- d. All of the above





# Review

---

## Which statement is false?

- a. Strategic plans should link to the budget
- b. Strategic plans should be outcome driven
- c. Budget office should develop the strategic plan.**
- d. All of the above







# Financial Forecasting in the Budget Preparation Process

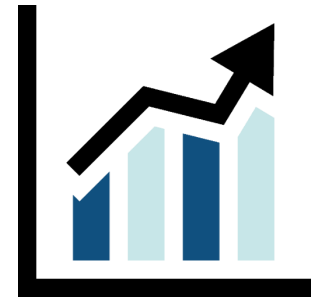
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# Key Steps in Sound Forecasting Process

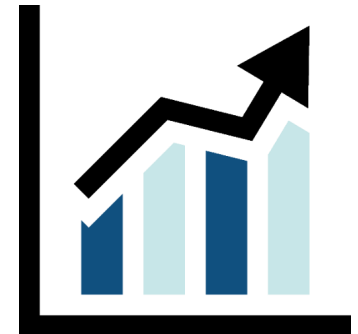
- Define assumptions - the fundamental assumptions impacting the forecast
- Gather information
- Include preliminary/exploratory analysis
- Select and implement the forecasting method - determine the qualitative and/or quantitative forecasting methods that will be used
- Use the forecasts





# Analysis in Forecasting Process

- Include an examination of historical data and relevant economic conditions.
- The forecaster is looking for consistent patterns or trends.
- In particular, the forecaster should look for evidence related to:
  - Business cycles – Does the revenue tend to vary with the level of economic activity in the community?
  - Demographic trends
  - Outliers and historical anomalies
  - Relationships between variables – Are there important relationships between variables that could aid in forecasting?





# Select Forecasting Methods

Three basic models of forecasting to consider include:

- Extrapolation
  - Uses historical revenue data to predict future behavior by projecting the trend forward
- Regression/econometrics
- Hybrid
  - Combines knowledge-based forecasting with a quantitative method of forecasting

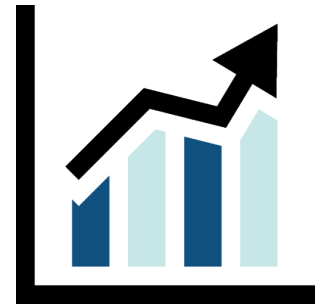




# Use Forecasts

The purpose of a forecast is to inform and assist in decision making. Three items that are essential to a compelling and informative forecast presentation include:

- Credibility of the forecaster
- Presentation approach
- Linking the forecast to decision-making





# Achieving a Structurally Balanced Budget

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# Structurally Balanced Budget

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- A true structurally balanced budget is one that supports financial sustainability for multiple years into the future
- As a first step, the government should identify key items related to structural balance. These include: recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves.





# Structurally Balanced Budget – Revenues

- An example of recurring revenues is property taxes
- An example of non-recurring revenues is a settlement from a lawsuit
- Some revenue sources, such as permit revenues, may have both non-recurring and recurring components
- Revenue sources that have both non-recurring and recurring components require financial officials to exercise judgement in determining how much of the source is truly recurring







# Budget Control

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# Budget Controls

- Budget controls are necessary to ensure that a government does not spend more than the amount legally appropriated by its governing body.
- By establishing clear spending boundaries, budget controls also promote accountability and bolster trust throughout the organization.
- Budget controls are applied to individual financial transactions and can be classified as “hard” or “soft.”





# Budget Controls

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- A hard budget control does not allow a financial transaction to proceed if there are not sufficient funds; e.g., encumbering funds for a purchase order, paying an invoice, or approving a personnel requisition
- A soft budget control allows a financial transaction to proceed with an alert to the staff personnel or a request for an additional level of approval





# Rethinking Budgeting Initiative

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# Rethinking Budgeting Initiative

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- One of the primary reasons for this initiative is spending plans need to be adaptable to a resource-constrained environment
- It defines a key role of the budget officer as one that fosters trust in the process
- It refers to the budget officer as a decision architect





# Budget Officer = Decision Architect

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- Widen the option set – see the big picture and find a wider set of possible solutions
- Test assumptions – identify uncertainties and test assumptions before overinvesting
- Find high-value options
- Foster trust in the process – ethos of objectivity (if not neutrality)





# Budget Stress Test

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Includes:

- Susceptibility of revenue streams
- Flexibility of expenditure decisions
- Margins for enduring new reality







# Various GFOA Information

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# Various GFOA Information

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- The main purpose of a Budgetary Pooled Contingency Policy is a cost-effective way to provide a form of “insurance” against unplanned and unavoidable expenditures
- Consider the following steps when making effective financial policies:
  - Scope
  - Development
  - Design
  - Presentation
  - Review







# Working Capital Targets for Enterprise Funds

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# Working Capital Targets for Enterprise Funds

- Local governments should adopt a target amount of working capital to maintain in each of their enterprise funds.
- Additionally, governments should use working capital as the measure of available margin or buffer in enterprise funds.





# Working Capital Targets for Enterprise Funds

- The following are characteristics of working capital in an enterprise fund:
  - Strength of collection practices
  - Support from the general government
  - Customer concentration
- Less working capital may be needed for newer and/or well-maintained capital assets



# Stress Tests; Building Resilience in an Unpredictable World





# Stress Tests - Steps

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1. Start with your 5-year model, including baseline assumptions
2. Develop alternative scenarios for the stress test
3. Think about realistic budget adjustments
4. Summarize and report results





# Stress Tests – Consider These Scenarios

- What if economic development patterns accelerated or decelerated?
- What happens if the largest employer in your community closes or leaves town?
- **What natural disasters is your community susceptible to?** (Even the unlikely ones—the country has experienced a number of unexpectedly severe weather events, fires, and so on in recent years.)
- What is your community's competitive advantage, and what would happen if it went away?







# Stress Tests – Realistic Budget Adjustments

- Holding existing vacancies open
- Deferring capital expenditures
- New service fees
- Reducing each departments operating costs by ten percent is NOT a realistic budget adjustment







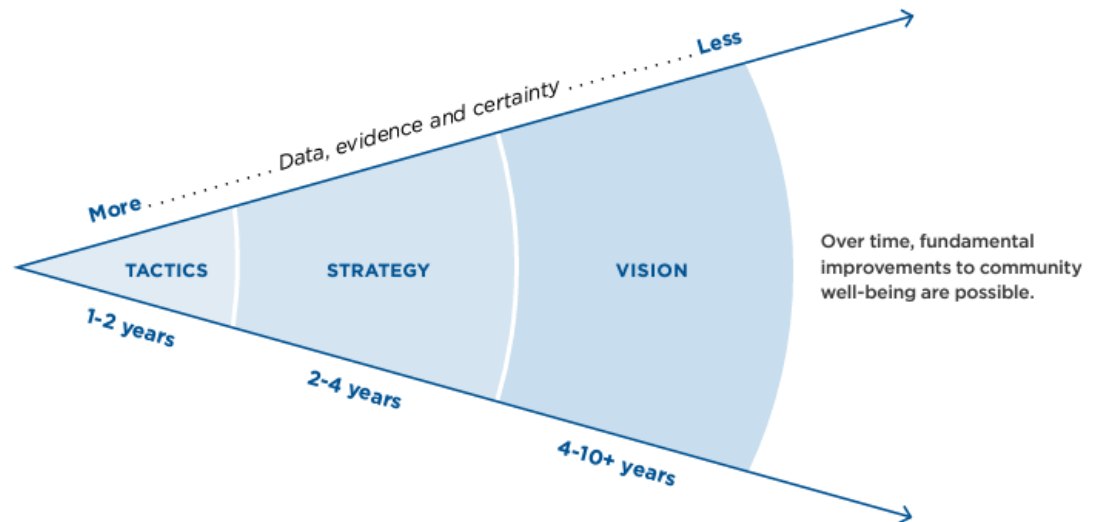
# Rethinking Strategic Planning



# Rethinking Strategic Planning

As part of the GFOA initiative “Rethinking Strategic Planning” the time cone shows us that tactics, strategy, and vision are simultaneously part of the strategic planning process

EXHIBIT 1 | THE TIME CONE\*



The time cones shows us that tactics, strategy, and vision are all, simultaneously, part of strategic planning but receive different emphasis based on how far you are looking into the future.

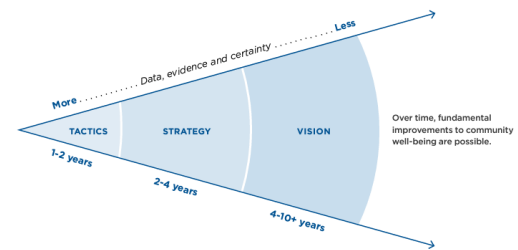




# Rethinking Strategic Planning

- The main rationale behind the time cone approach is that parts of strategic planning should receive different emphasis based on how far you are looking into the future
- The change in perspective includes the need to:
  - **Accept uncertainty**
  - **Define the problem before defining the solution**
  - **Provide focus with constraints**
  - Develop a rolling planning process
  - Make sure planning is collaborative
  - Make sure planning is fair

EXHIBIT 1 | THE TIME CONE\*



The time cones shows us that tactics, strategy, and vision are all, simultaneously, part of strategic planning but receive different emphasis based on how far you are looking into the future.

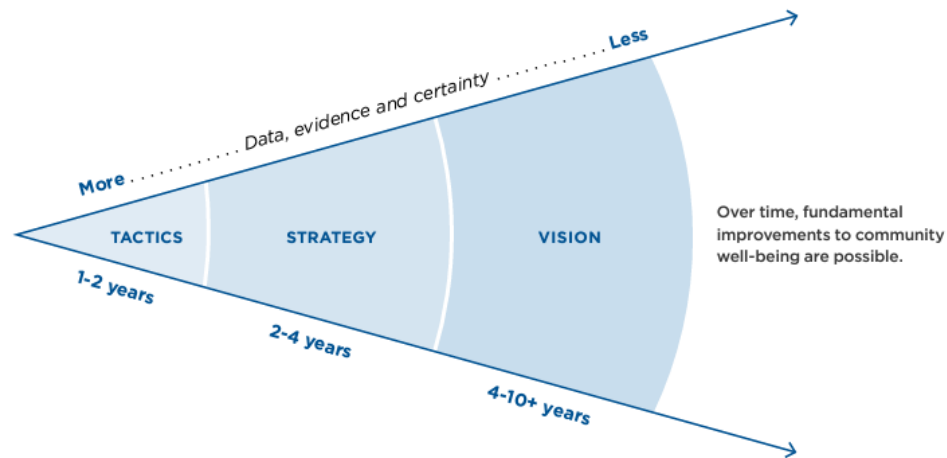




# Rethinking Strategic Planning

The goal of a rolling plan is to refine the strategies considering changing conditions and priorities resulting in strategies that are relevant, responsive, and inclusive of issues facing the community

EXHIBIT 1 | THE TIME CONE\*



The time cones shows us that tactics, strategy, and vision are all, simultaneously, part of strategic planning but receive different emphasis based on how far you are looking into the future.



# Fund Balance Guidelines for the General Fund

Governments should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.







# Fund Balance Guidelines – General Fund

- The government should establish a formal fund balance policy. All of the following should be included:
  - Time period over which components of fund balance will be replenished
  - Conditions that would warrant the use of fund balance
  - Solid plan to replenish the fund balance if it falls below the government's policy level





# Fund Balance Guidelines – General Fund

- The total amount of fund balance where the only constraints on spending, if any, is imposed by the government itself is termed unrestricted fund balance
- In a establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including the potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds







# Fund Balance Guidelines – General Fund

- Generally, governments should seek to replenish their fund balances within one to three years of use
- Revenue sources that would typically be looked at for replenishment of fund balance include budget surpluses
- Political continuity, financial planning time horizons, and recovering from an extreme event are factors influencing the replenishment time horizon for fund balance



# Differentiate the various cost of providing government services





# Cost of Government Services

## Full Cost

- Encompasses all direct and indirect costs related to that service

## Direct Cost

- Salaries, wages, and benefits of employees working exclusively on government services or programs provided. The direct cost also includes other operating costs such as materials and supplies

## Indirect Cost

- Shared administrative expenses that may be performed centrally (e.g., purchasing and information technology)





# Cost of Government Services

## Life-cycle costs

- Includes all costs over the life of an asset including purchase price, engineering and design, construction, installation, operations and maintenance, repairs, and/or rehabilitation
- Useful when deciding to purchase major equipment



## Opportunity costs

- Benefit of options forgone by choosing another options





# Cost of Government Services

## Sunk costs

- A cost that has been incurred and cannot be reversed (should be ignored when evaluating other options)

## Marginal Cost

- Expense that would be incurred from one additional unit of production

## Operating Cost

- Must be considered during the budget process when considering the cost of a capital project





# Object Codes

- The Uniform Accounting System Manual for Florida Local Governments classifies expenses into objects and sub-objects

Object	Description
10	Personnel Services
30	Operating Expenditures/Expenses
60	Capital Outlay
70	Debt Service
80	Grants and Aids
90	Other Uses







# Cost of Government Services

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- Capital expenditures (outlays) can be described as non-recurring, have a useful life of five years or more, and the purchase price in excess of a threshold established by the local government
- The regular maintenance and repair of existing infrastructure is addressed by the capital replacement schedule







# Cost of Government Services

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- A significant fixed cost that must be included in the budget is principal and interest required for debt service
- Debt service is the annual payments due for principal and interest on debt obligations
- Monies that are transferred between funds of the same reporting entity and that can have a significant impact on the budget are interfund transfers





# Cost of Government Services

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- A significant portion of the operating budget includes salaries and benefits, such as other post-employment benefits, government share of group insurance, and overtime
- Position control which includes authorized full-time equivalent positions by department is a significant component of budgeting for salaries and benefits





# Cost of Government Services

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- Strategies for determining optimal staffing levels include classifying positions by goal, seasonal and temporary positions, and population to employee ratios
- The personnel services expenditure budget should consider inflation and cost of living adjustments, vacancy adjustments, and employee benefits



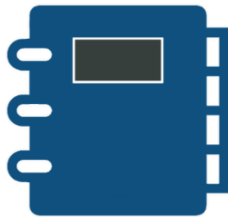
# Recall categories and criteria for the GFOA Budget Award





# Award Program Outline

## Four categories:



Policy document

Financial plan

Operations guide

Communications device

## 25 Criteria

- 15 of them are mandatory requirements
  - For budgets beginning 1/1/21 or later

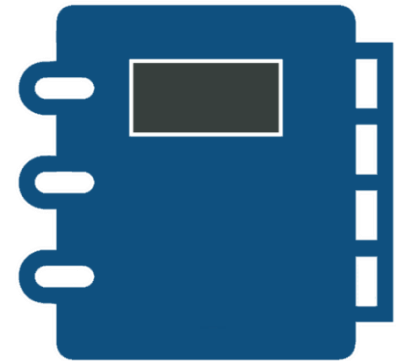




# Award Program Outline

Six Sections of the Detailed Criteria  
Location Guide –  
(provide page numbers, not “yes”)

- Introduction and Overview
- Financial Structure, Policy and Process
- Financial Summaries
- Capital and Debt
- Departmental Information
- Document-wide Criteria







# The Detailed Criteria Location Guide

Name of Entity: \_\_\_\_\_

State/Province: \_\_\_\_\_

First Submission? Yes  No



## Distinguished Budget Presentation Awards Program Government Finance Officers Association

### Detailed Location Criteria Guide

Budgets beginning 1/1/21 or later

Cite specific page references on the lines in response to each question.

**#C1. *Mandatory:* Include a table of contents that makes it simple to locate information.**

**Table of Contents**

1. Is a comprehensive table of contents provided for easy navigation (may take a variety of forms related to the approach used to present budgetary information)?  
\_\_\_\_\_
2. Do all pages in the table of contents electronically link to the corresponding content location (pages in a traditional document or other content in an electronic form)?  
\_\_\_\_\_
3. Are the page numbers or similar reference points in the table of contents consistent with the referenced page numbers? \_\_\_\_\_

**#P1. *Mandatory:* Provide a coherent statement of organization-wide, strategic goals and strategies that address long-term concerns and issues.**







# Requirements for Award

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Reviewed by 3 judges

Must be rated proficient or outstanding by 2 judges for each mandatory criteria





# Budget as a Policy Document

- Statement of entity-wide long-term financial policies (**mandatory**)
- Describe process for preparing, reviewing, adopting, and amending the budget (**mandatory**)
- Budget message that articulates priorities and issues for upcoming budget year (**mandatory**)





# Budget as a Policy Document

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- Statement of organization-wide strategic goals and strategies (like a vision statement)
- Describe entity's short-term factors that influence the decision made in the budget development



# Budget as a Financial Plan

## Define (explain) the basis of budgeting for all funds:

- Include whether or not the basis of budget is the same as the basis of accounting, if not describe difference
- Debt service is an example where they may differ

Budget document should include and describe all funds that are subject to appropriation (that may be different than the audited financial statement)

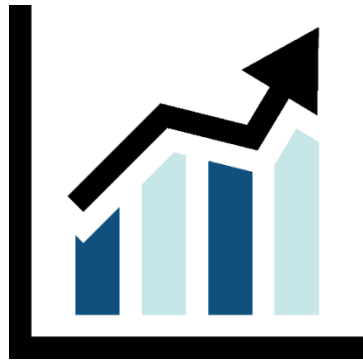




# Budget as a Financial Plan

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## **Projected changes in fund balances (mandatory):**



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Define fund balance in the document

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Must include all funds appropriated

---

Explain changes in fund balance greater than 10% and related issues

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At a minimum, include information on each major fund and on non-major funds in the aggregate

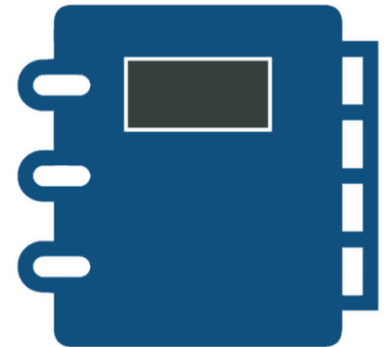
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# Budget as a Financial Plan

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- Summary of major revenues and expenditures, and financing sources and uses, to provide an overview for all total resources (mandatory)
- Summaries of revenues, expenditures, and other financing sources and uses for three years (mandatory)





# Budget as a Financial Plan

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- Describe major revenue sources, explain the underlying assumptions for the revenue estimates and discuss significant revenue trends for at least **75%** (in dollars) of the major revenue (mandatory)
- Explain the long-range financial plans and its affect upon the budget and the budget process







# Budget as a Financial Plan

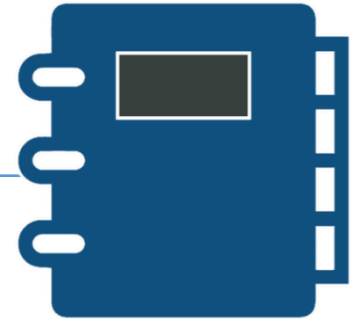
- Include total amount of budgeted capital expenditures (Mandatory) **AND** Define!
- Describe impact of significant non-recurring capital investments
- Break out revenues by type and expenditures by function, program, or spending component for all funds total
- Both revenue and other financing sources and expenditures and other financing uses must be presented





# Budget as a Financial Plan

Financial data on current debt obligations and description of the relationship between current debt levels and the legal debt limits  
**(mandatory)**



- Must indicate legal debt limit for the jurisdiction
- If there is no legal debt limitation, that should be clearly stated





# Budget as an Operations Guide

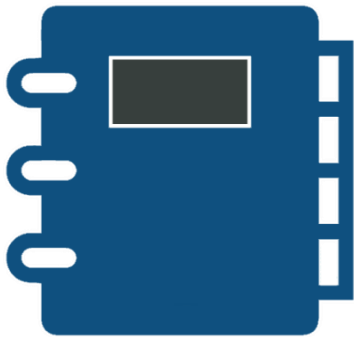
- Include entity-wide organizational chart (mandatory)
- Explain relationship between functional units and funds
- Schedule or table summary of personnel or position counts for prior, current, and budgeted year (**mandatory**)





# Budget as an **Operations Guide**

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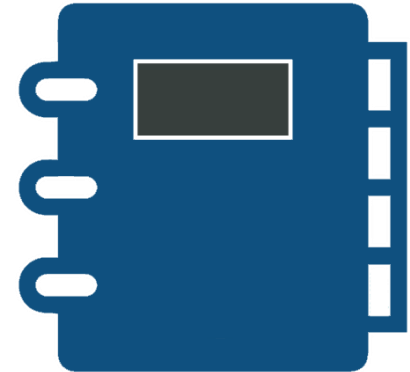


- Describe activities, services, or functions carried out by organizational units (mandatory)
- Include goals and objectives of organizational units
- Provides objective measures of progress toward accomplishing the government's mission



# Budget as a Communications Device

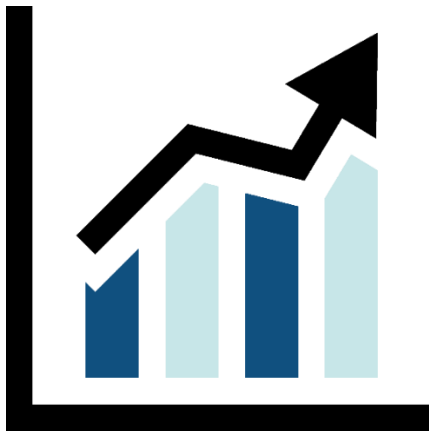
- Include a comprehensive table of contents (mandatory)
- Provide an overview of significant budgetary items and trends as a separate section (e.g., budget-in-brief or integrated within the transmittal letter) (mandatory)
- Include statistical and supplemental data to describe the organization, community, and population
- Include a glossary





# Budget as a Communications Device

- Use charts and graphs to highlight financial and statistical information
- Produced and formatted to enhance understandability and usability by the average reader





# Revenue Management and Forecasting

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# Learning Objectives

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**Identify** techniques used in revenue forecasting

---

**Identify** GFOA Best Practices for evaluating service delivery alternatives

---

**Define** the components for a revenue manual



# Identify techniques used in revenue forecasting





# Forecasting Revenues

- ❑ Estimating revenues is the first step in determining level of resources that will be available for budget appropriations

## Influenced by the following factors:

- Administrative
- Political
- Economic
- Policy Context



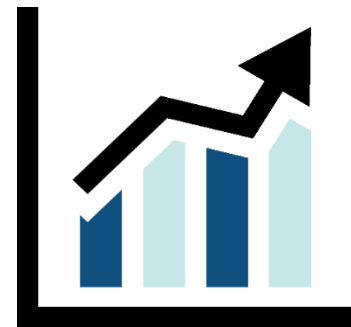
- **Stability of revenue stream improves the forecast –** utilities have an advantage over governmental revenues





# Forecasting Revenues

- Involves use of analytical techniques to estimate
- Should be decentralized with each program following a common set of assumptions and methods
- Used to establish spending targets
- Assists in projecting future financial conditions
- Projects capital project pay-go and debt financing
- Should be extended at least **three** (3) years

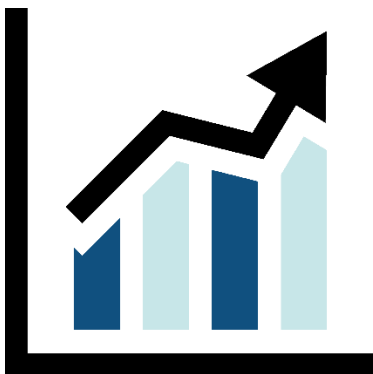




# Forecasting Methods

## Two types of forecasting methods

- Qualitative
- Quantitative





# Qualitative Methods

**Qualitative revenue forecasting methods rely on judgements about future revenues**

## Consensus:

- Group collectively reaches agreement on revenue projections based on previous experience, collection patterns and knowledge
- May be used for new revenues or sources that have inadequate or unreliable data





# Qualitative Methods

## Judgmental

- Informed decision based on history and general economic conditions
- May be used for revenues with a high degree of uncertainty

## Expert

- Uses economists, demographers, etc. to study trends
- May be used for revenues affected by national and/or regional trends







# Qualitative Methods

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## Weaknesses:

Responds to political pressures

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Focus on current issues/events

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Lack of comparability over time

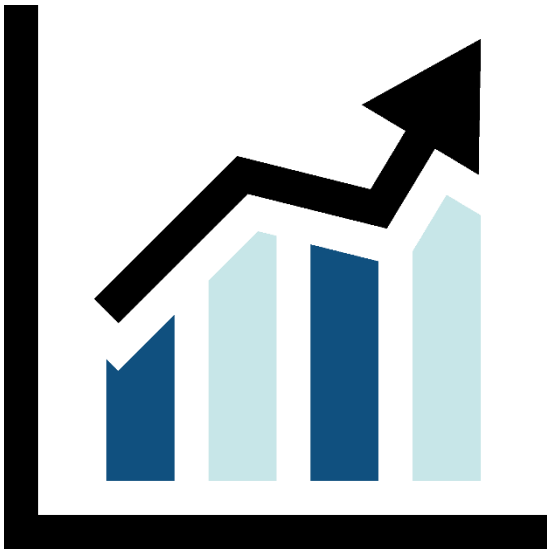
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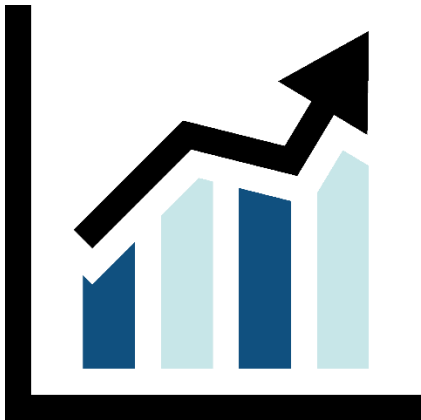
# Quantitative Methods

- **Relies on numerical data** – this enables testing to see if underlying data assumptions are met.
- Requires extensive amounts of historical data to generate dependable projections
- Should collect at least **40** data points





# Quantitative Methods



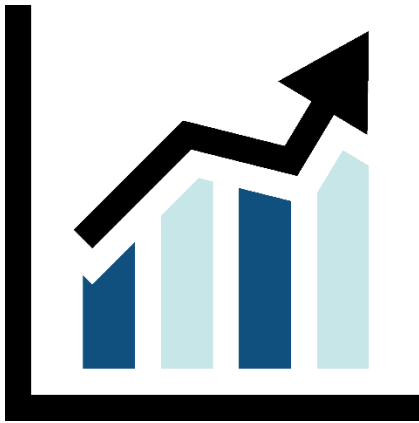
- ❑ **Trend analysis** – forecasting future revenues based on short-term historic trends
  - ❑ Simple linear and multiple regression analysis
- ❑ **Time series analysis** – forecasting revenue based on financial data over extended periods (e.g., **40** or more periods) collected at equally spaced intervals





# Quantitative Methods

- Econometric** – involves projecting future revenues by taking into account the economic factors that influence revenue
  - Generates revenue forecast using an equation that includes a number of variables that influence the revenues being projected
    - Sales Tax
    - User Chargers (building permits)
    - Utility (Public Service) Tax





# Quantitative Methods

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## Weaknesses:

Expensive and time consuming

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Improper representation of the target population

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Difficulty in data analysis

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# Identify GFOA Best Practices for evaluating service delivery alternatives

Governments should carefully analyze all aspects of a service delivery option, including levels of service, service quality and expected performance, service revenues and costs, required transition activities and other relevant factors before changing service delivery methods.





# Evaluating Service Delivery Alternatives

- ❑ Evaluating service delivery alternatives may be triggered by financial pressures or dissatisfaction through customer feedback
- ❑ Consideration of alternatives poses risks, such as financial, political, legal, and service quality







# Evaluating Service Delivery Alternatives

- ❑ **Executive Direction** – the government should establish clear expectations and standards in analyzing service delivery options.
- ❑ **Strategic Link** – the government is encouraged to closely evaluate the strengths and weaknesses of the jurisdiction relative to the service delivery options





# Evaluating Service Delivery Alternatives

- Consideration should be given to how service delivery is affected by demographics, the economy, geography, citizen sensitivity and the local political environment
- Stakeholders that need to be appropriately involved include advocacy groups, media, and employees
- A reason to conclude that a government should not provide a service is because the cost may be prohibitive





# Evaluating Service Delivery Alternatives

- The financial impacts of an alternative service delivery arrangement are key to its overall feasibility
- Avoidable costs are those costs the government would potentially be able to eliminate as a result of the alternative service delivery method
- Some types of service delivery arrangements call for specialized management skill sets that may require seeking that specialized skill set by private providers





# Evaluating Service Delivery Alternatives

- ❑ **Transition** – significantly changing how a service is delivered has the potential to interrupt the delivery of that service. A carefully developed transition plan will help to insure as smooth a transition as possible.
- ❑ It is important that communications with these stakeholders start early, so that they understand the nature of what is being considered, the timeline for decision, and how their interests are being recognized





# Evaluating Service Delivery Alternatives

- A service agreement should be treated as a contract
- Governments should carefully consider who bears legal liability and consequently the costs associated with quality, performance, or safety problems should something go wrong



# Define the components of a revenue manual







# Revenue Manual

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- Documents revenue sources and factors relevant to present and project future levels of those revenues
- Promotes better understanding of government's resources
- Supports decision-making
- Internal staff training tool



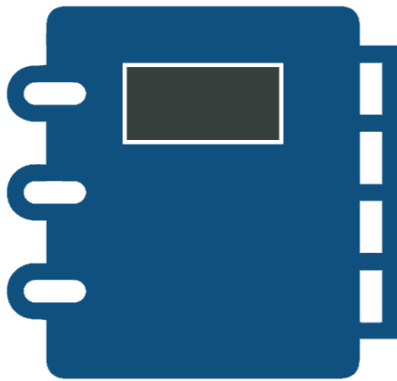




# Revenue Manual

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**For each revenue source, describe:**



Title and brief description of the revenue source

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Authorization and limitations of the revenue source

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Collection methodology

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Historical data for each source of revenue

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# Revenue Manual

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- Property taxes are considered a major revenue source
- Governments should consider if formal policies are in place articulating the rationale for any subsidies when developing charges for services
- Past legislative changes is relevant historical information that should be included in a revenue manual for a specific revenue source





# Capital Improvement Program (CIP)

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# Learning Objectives

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**Recall** CIP and Financial Planning best practices and advantages





# Capital Assets

- ❑ **Capital assets** are government facilities, infrastructure, equipment, or networks that enable the delivery of essential public sector services
- ❑ **GFOA** recommends governments establish a system for assessing their capital assets
- ❑ Plan and budget for any capital maintenance and replacement needs





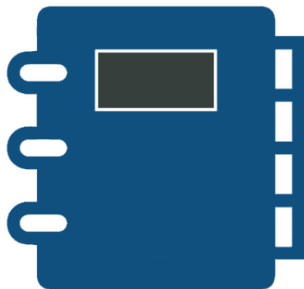
# Capital Assets Inventory

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- Complete inventory and periodic measurement of the physical condition should be conducted at least annually

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## Inventory should include:



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Location of Asset

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Engineering Description

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Book Value of Asset

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Condition of Asset

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Replacement Costs

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Operating Costs

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# Capital Improvement Program (CIP)

- Is a tool for implementing your community's comprehensive plan, strategic plan, and other planning documents
- Is a plan of capital investment for a period of time, usually **5 to 7 years**
- Should include citizen recommendations







# Capital Improvement Program (CIP)

- Provides a framework for identification of funding sources and prioritization of capital projects
- Should be included and adopted at the same time as the budget
- Is a decision-making tool
- Is the outcome of the organization's long-term strategic planning process





# Capital Improvement Program (CIP)

- ❑ Provides transparency on projects the governmental agency is constructing or implementing

## Advantages of adopting a formal plan:

- Financial management tool
- Contributes to long-range planning
- Reduces the influence of political considerations in determining which projects to fund





# Capital Improvement Program (CIP)

- Capital Improvement Planning benefits long-term financial planning in all the following purposes:
  - Identify unfunded liabilities
  - Determine long-term debt capacity
  - Forecast long-term expense





# Capital Improvement Program (CIP)

## Multi-year program:

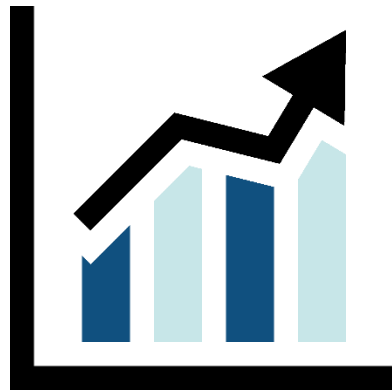
- Budget year (first year) is included in the adopted budget
  - Future years are awaiting funding and move up until included in the adopted budget
- Projects are based on priorities and may not be funded due to other higher priority projects





# Capital Improvement Program (CIP)

## Steps to identify Capital Improvement Projects:



Review status of previously approved project

Identify new projects

Assess alternatives

Complete forms

Evaluate ability to fund





# Capital Improvement Program (CIP)

The government should develop a prioritization process to select and rank capital projects to include in the plan

## Evaluate new Capital project:

- Project description
- Location
- Justification
- Cost by year
- Impact of future revenues
- Future operating costs
- Discount capital costs to present value (e.g., measure the benefit given up today when committing to future costs)





# Capital Improvement Program (CIP)

## Ranking Capital Project criteria:

- Should be developed to select and rank
- Agreed upon by decision makers

## Consider:

- Repair and replacement of infrastructure
- Community input
- Growth patterns
- Ongoing operating costs associated with the project







# Methods to Finance Capital Projects

## Current revenues (pay-as-you-go):

- Impact fees
- Gas taxes
- Infrastructure surtaxes

## Debt

- Long-term
- Short-term

## Grants





# Methods to Finance Capital Projects

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- An example of a current revenue source is tax increment financing
- Tax increment financing should be used only to revitalize areas where property values have fallen and conditions of blight exist





# Methods to Finance Capital Projects

Pay-as-you-go revenues requires current revenues to be saved for the project



## Advantages

- No interest or financing costs
- Suited for smaller projects not feasible to finance



## Disadvantages

- Current taxpayers pay the project's entire cost but will be enjoyed by future taxpayers
- Reduces future financial flexibility





# Methods to Finance Capital Projects

Debt Financing is the issuance of bonds, commercial paper, and/or bank note

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Intergenerational equity</li><li>• Preserves reserves</li><li>• Suited for larger projects</li></ul>	<ul style="list-style-type: none"><li>• Interest and finance costs</li><li>• Dedicated revenue stream restricts future use</li></ul>





# **Budgeting for GASB, Budget Monitoring, Performance Management, and Outcomes**

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# Learning Objectives

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**Recall** requirements for GAAP Budgeting, Identify GFOA Best Practices for budget monitoring and recognition of encumbrance accounting

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**Identify** techniques used in variance analysis

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**Recall** performance measures and characteristics of each





**Recall requirements for GAAP  
Budgeting, Identify GFOA Best  
Practices for budget  
monitoring and recognition of  
encumbrance accounting**







# Budget Monitoring

- The purpose of budget monitoring is to:
  - Enforce accountability related to spending
  - Ensure plans that were developed and approved for implementation as part of the budget process are being implemented
  - Provide information that may lead to corrective action or operational improvement





# Budget Monitoring

- ❑ GFOA recommends governments establish a formal set of processes for comparing budget to actual results that includes all of the following key items:
  - ❑ Operations to identify if services are being provided as anticipated
  - ❑ Economic trends
  - ❑ Performance measures and linkages to financial outcomes





# Budget Monitoring

- The following elements should be analyzed as part of the budget monitoring process:
  - Root cause
  - Timeframe
  - Requirements
  - Basis of comparison
- A robust analysis of budget to actual expenditures should include:
  - Previous year actuals, or averages of several prior years
  - Drawdown of encumbrances
  - Projections and forecasts





# Budget Monitoring

- Analysis detail should mirror an organization's chart of accounts
- Budget to actual comparison schedules must report original budget, final budget, actuals + encumbrances outstanding





# Managing Health Care Costs

- GFOA recommends all of the following strategies for managing health care costs:
  - Monitor medical plan provider network
  - Educate employees
  - Review Federal requirements





# Encumbrance Accounting

- Best practices for monitoring and controlling spending include:
  - Preparing and reviewing monthly budget reports
  - Encumbrance accounting
  - Automated overspend protection
- Encumbrances
  - Help determine available appropriations
  - Serve as a tool to control spending
  - Are a pre-expenditure/expense





# Encumbrance Accounting

Entry	Debit	Credit
Record the issuance of a new purchase order for the purchase of a vehicle	Encumbrance	Encumbrance Outstanding
Reverse the encumbrance for the receipt of a vehicle ordered	Encumbrance Outstanding	Encumbrance





# Identify techniques used in variance analysis





# Variance Analysis

- Evaluating budget variances includes careful attention to detail and entails a balancing act with accountability
- Effective trend analysis in budgeting requires at a minimum, five years of data
- The usefulness of trend data often can be enhanced by examining the percentage relationship among data elements over time
  - An example of the percentage relationship among data elements is Public Safety expenditures as a percentage of total expenditures





# Variance Analysis

- Budget monitoring is important to:
  - Enforce accountability related to spending
  - Demonstrate transparency by sharing findings from regular monitoring
  - Learn more about trends and other deviations that may impact future operations
- In identifying deviations from budget versus actual, an important element to consider is to determine the “root cause” of the deviation in order to move toward a resolution





# Variance Analysis

A city is conducting a mid-year analysis of its fuel account. Based on the following data, what is the estimated expenditure for the current fiscal year?

	Prior Fiscal Year	Current Fiscal Year
Budget	\$110K	\$120K
Expenditures as of 4/30/XX	\$48K	\$60K
Actual at 9/30/XX	\$108K	?





# Variance Analysis

A city is conducting a mid-year analysis of its fuel account. Based on the following data, what is the estimated expenditure for the current fiscal year?

	Prior Fiscal Year	Current Fiscal Year
Budget	\$110K	\$120K
Expenditures as of 4/30/XX	\$48K	\$60K
Actual at 9/30/XX	\$108K	\$135K

The expenditures as of 4/30/XX increased 25% from the Prior to the Current Fiscal Year; therefore, a 25% increase of the \$108K = \$135K





# Variance Analysis

A city is conducting a mid-year analysis of its fuel account. Based on the following data, what is the recommended action to ensure the account is not over-spent for the fiscal year?

	Prior Fiscal Year	Current Fiscal Year
Budget	\$110K	\$120K
Expenditures as of 4/30/XX	\$48K	\$60K
Actual at 9/30/XX	\$108K	?





# Variance Analysis

A city is conducting a mid-year analysis of its fuel account. Based on the following data, what is the recommended action to ensure the account is not over-spent for the fiscal year?

	Prior Fiscal Year	Current Fiscal Year
Budget	\$110K	\$120K
Expenditures as of 4/30/XX	\$48K	\$60K
Actual at 9/30/XX	\$108K	\$135K

A budget transfer of \$15k. The expenditures as of 4/30/XX increased 25% from the Prior to the Current Fiscal Year; therefore, a 25% increase of the \$108K = \$135K







# Variance Analysis

- Salaries and benefits make up the largest portion of the expenditure budget. If a government fully funds all vacancies within the budget process, the government is building a potential cushion into the budget and should develop policies on how to treat these vacancies
- The actual amount for salaries may exceed the amount budgeted for the following reasons:
  - Retirement incentives
  - Payouts of vacation leave not budgeted
  - Retirement payouts not budgeted





# Variance Analysis

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- During the budget monitoring process related to revenues, governments need to carefully analyze sources of funds with particular attention to the relationship to economic indicators and potential impacts
- Pooling budgetary risks across departments is a cost-effective way to provide a form of insurance against the risk of unplanned, unavoidable expenditures





# Recall performance measures and characteristics of each

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# Performance Measurement

Process for determining how a program is accomplishing its mission

**Four key steps:**

Identification and definition of indicators

Collection of appropriate data

Analysis of data

Reporting results

Focus on achieving goals and objectives unlike a line-item budget which is focused on controlling inputs





# Performance Measures

## Input

- Resources used in producing output or outcome

## Output

- Completed activities and amount of work done

## Workload

- Level of productivity in providing goods and services

## Effectiveness

- Goals and objectives are met within deadlines

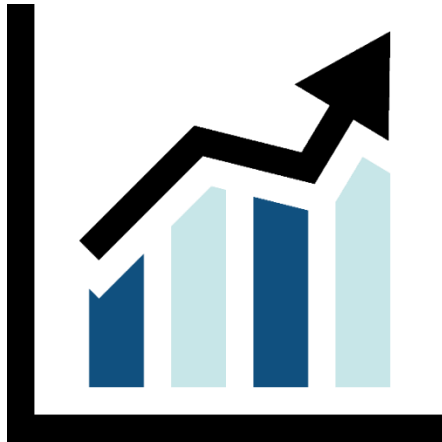
## Efficiency

- How much it costs to produce the outcome





# Performance Measures



- ❑ Definition: a quantified assessment of results
- ❑ Linked to specific program goals and objectives
- ❑ Measures should be valid, reliable, and verifiable
- ❑ Links the budget to outcomes by establishing performance measures agreed upon by managers and decision makers





# Performance Measures

## Answer key questions:

How much did we do (quantity)?

How well did we do it (quality)?

How hard did we try (effort)?

Is anyone better off (effect)?

## Why measure?

- Improve performance
- Enables good decision making (quantified)
- Report to the public

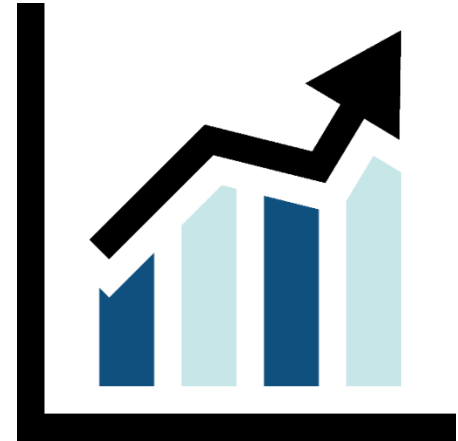






# Program Components

- Clearly defined service area
- Activity and tasks
- Planned outcomes or achieved results
- Link expenditures and revenues to outcomes
- Expenditures and revenues are related to specific functions
- A program objective should be related to a program goal





# Performance Benchmarks

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- Useful in assessing how well a function, program, or activity meets their purpose
- Identifying best practices
- Consistently defined and measurable
- Comparative standards that provide a framework for evaluation program/service quality or effectiveness





# Performance Benchmarks

- Indicators or benchmarks are measures that help quantify the achievement of a result
- Assess progress toward accomplishing desired outcomes



## Examples:

- Crime rate
- Percent of buildings without graffiti
- Number of audit findings





# Customer Driven Organizations

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- Focus is on providing service and meeting customer needs
- Customer represents a percentage of target population
- Includes both internal and external customers of the organization
- Goals and objectives incorporate customer preferences in addition to internal organization goals



# Review – Answer Online

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## What are program outcomes?

- a. The number of customers served
- b. The total budget of the program, including employees.
- c. The activity of converting input into output
- d. The measure of results achieved.





# Review

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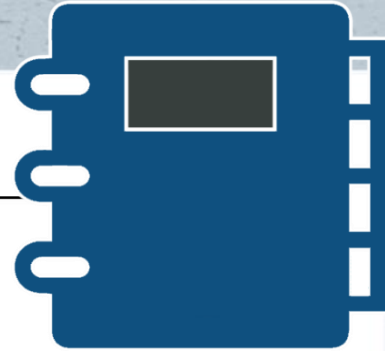
## What are program outcomes?

- a. The number of customers served
- b. The total budget of the program, including employees.
- c. The activity of converting input into output
- d. The measure of results achieved.





# Source Materials



## Florida Statutes

- Chapter 129.06 – County Annual Budget
- Chapter 200 – Determination of Millage
  - 200.065 – Method of fixing millage
  - 200.068 – Certification of compliance
  - 200.071 – Limitation of millage; counties
  - 200.081 – Millage limitation; municipalities
  - 200.181 – Bond payments; tax levies; restrictions

<http://www.leg.state.fl.us/statutes>





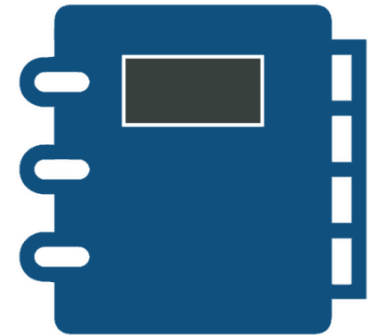


# Source Materials

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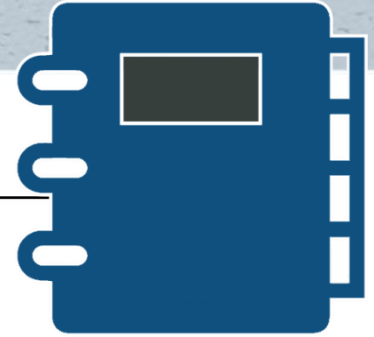
## National Advisory Council on State and Local Budgeting (NACSLB)

- *Budgeting Best Practices*
  - *Principles and Elements*





# Source Materials



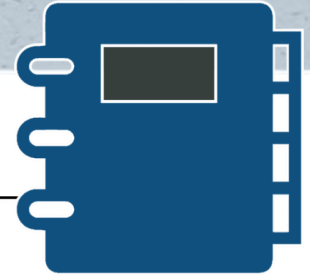
## Government Finance Officers Association

- *Capital Improvement Programming: A Guide for Smaller Governments*
- *An Elected Official's Guide to Revenue Forecasting*
- *An Elected Official's Guide to Performance Measurement*
- *An Elected Official's Guide to Debt Issuance*
- *Distinguished Budget Presentation Award Criteria*
- *Effective Budgeting of Salaries and Wages*





# Source Materials



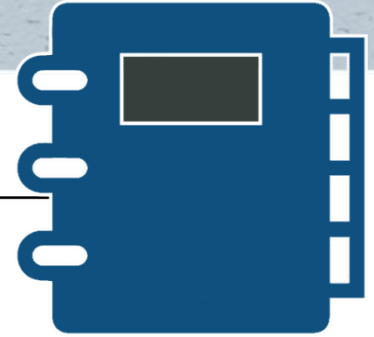
## Government Finance Officers Association – Best Practices

- *Budgeting and Financial Planning*
- *Financial Forecasting in the Budget Preparation Process*
- *Achieving a Structurally Balanced Budget*
- *Budget Control*
- *Working Capital Targets for Enterprise Funds*
- *Basis of Accounting versus Budgetary Basis*
- *Adopting Financial Policies*
- *Fund Balance Guidelines for the General Fund*
- *Evaluating Service Delivery Alternatives*
- *Long-Term Financial Planning*
- *Budget Monitoring*
- *The Use of Trend Data and Comparative Data for Financial Analysis*





# Source Materials



## Government Finance Officers Association

- *Rethinking Budgeting Initiative*
- *Budgetary Pooled Risk Contingency Policy Template*
- *Government Finance Review October 2021 “Stress Tests; Building Resilience in an Unpredictable World”*
- *Government Finance Review June 2022 “Rethinking Strategic Planning”*
- *Governmental Accounting, Auditing and Financial Reporting, Chapters 16 & 17*
- *Strategies for Managing Health Care Costs*

<https://www.gfoa.org/>





# Questions?





Thank You!

