

# BUDGETING 202

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## Local Government Education Committee SUNY IT

**August 25, 2008**

**Presented By:**

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# **TRAINING OBJECTIVES**

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- ❑ Basic Budget Principles**
- ❑ The Flow of Financial Information**
- ❑ Maintaining Structural Balance**
- ❑ Fund Balance & Equity Issues**
- ❑ Establishing the TRUE COST of services**
- ❑ Establishing Sufficient User Fees**
- ❑ Use of Reserve Fund**
- ❑ The Merits of Long Term Planning**

# The Annual Budget

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- ❑ The annual budget is a plan that sets forth appropriations for **NECESSARY** government activities and the **MOST EQUITABLE** means of financing these activities.
- ❑ It is an opportunity for Boards to ask these questions:
  - What are necessary government services?
  - What is the most equitable way to finance these activities?
- ❑ Board members should adhere to basic principles of government when adopting annual budgets.

# Basic Government Principles

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- Board members are the caretaker of the taxpayer dollars. Accordingly, they must follow the laws adopted to safeguard these dollars and adhere to the financial principles the laws were derived from.
  - **The Pay-As-You-Go Principle**
  - **The Benefit code**

# Pay-As-You-Go Principle

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- ❑ Government operations should be financed by current property tax dollars and other current revenues.
- ❑ Board members should not apply personal financial philosophies to government financial matters (i.e. the merits of saving)
  - Unneeded surplus fund balance at the end of each year should be used as a financing source for the ensuing year's budget in order to reduce the property tax levy.
  - Governing Boards should determine what is a "reasonable amount" of fund balance to retain from year to year.

# Benefit Principle

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- When possible, the cost of government services should be financed by those who benefit from the service.
  - User fees should be established to finance the **total** cost of the operations;
  - Alternatives to financing government services on an ad-valorem basis should be considered
    - The value of a taxpayer's property is not a good measure of their ability to pay and should not always be used to determine their share of the cost of government services.

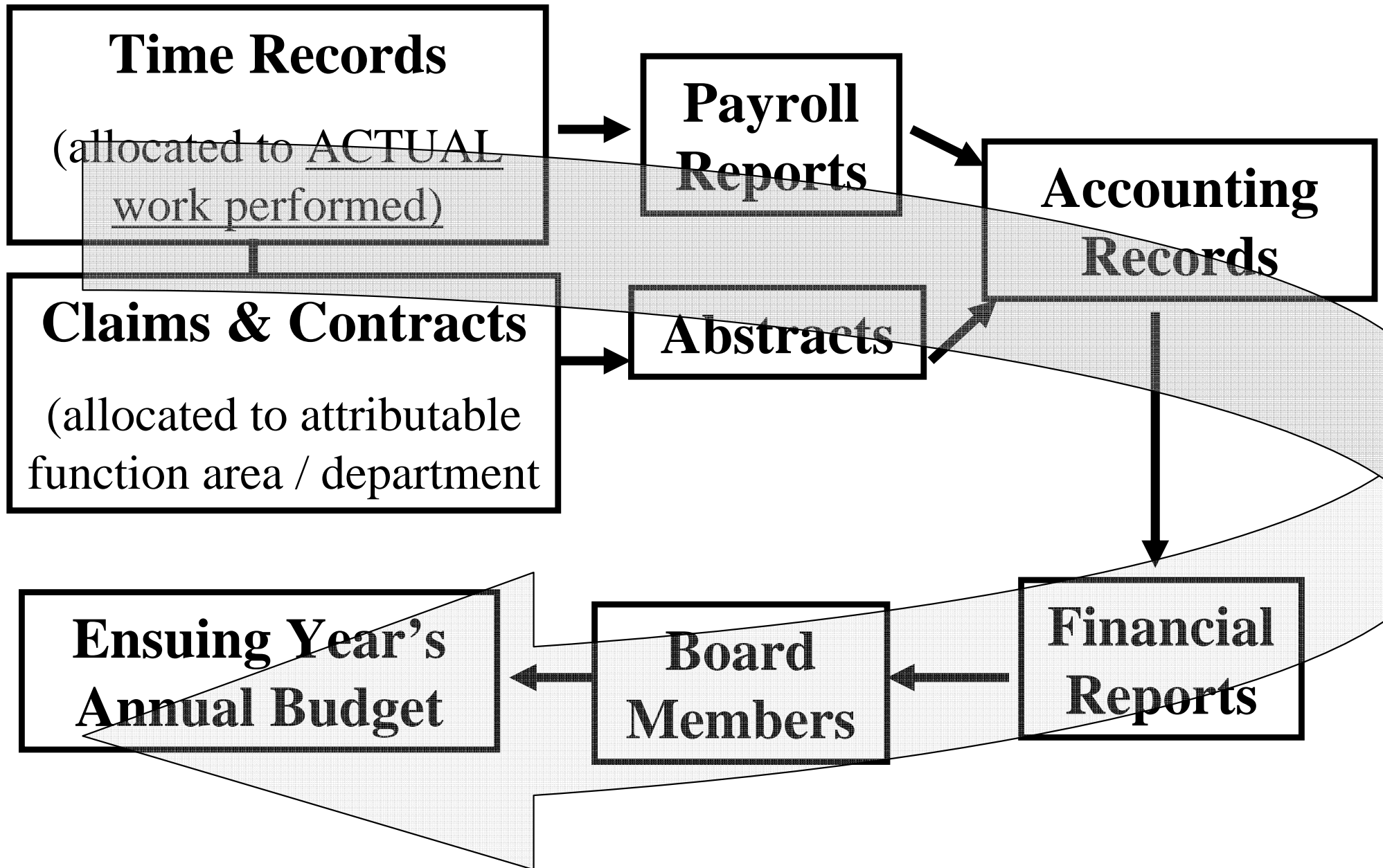


# Accounting & Recordkeeping

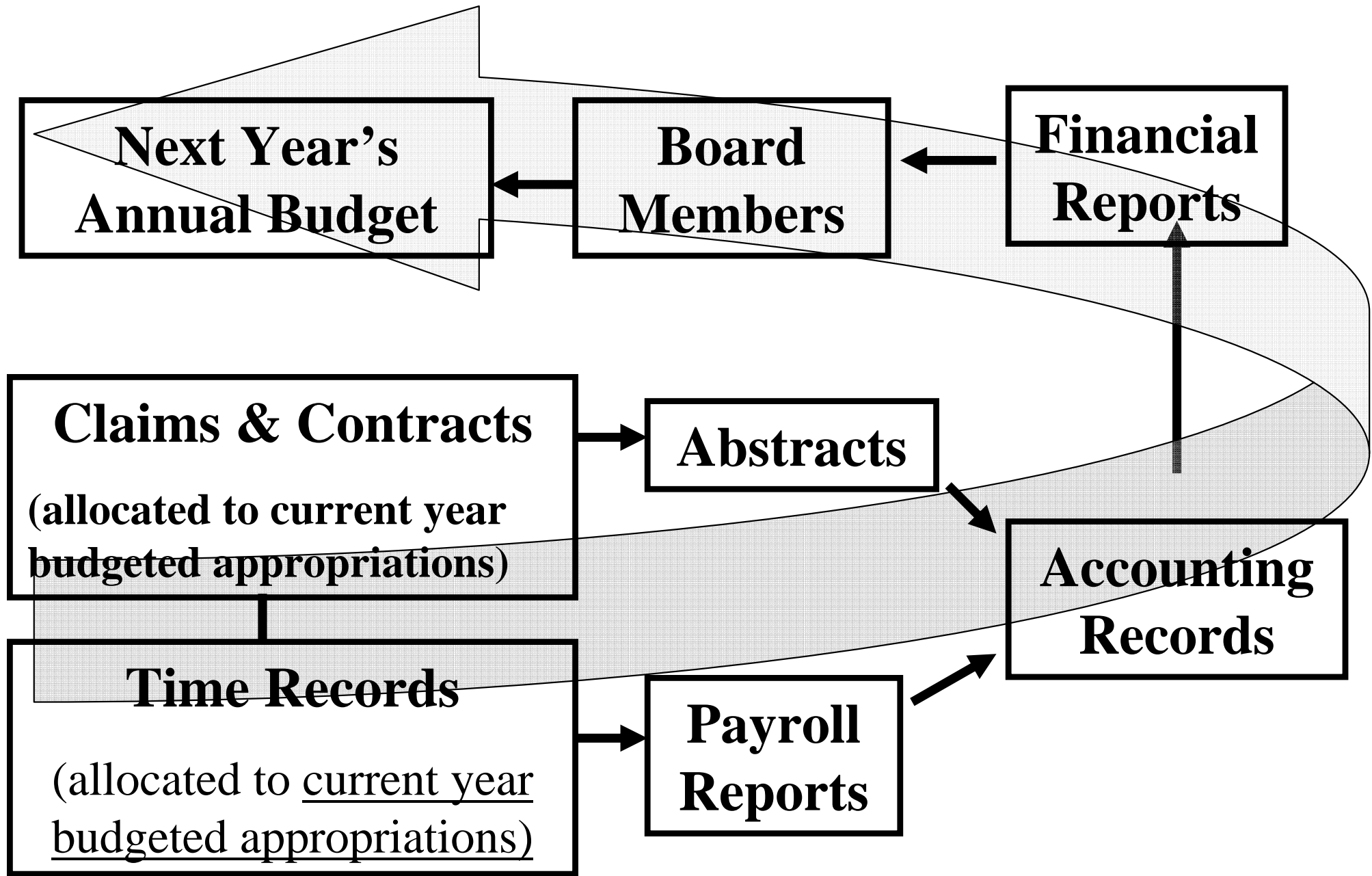
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- ❑ **Bad decisions result from bad information**
  - **Cost of services**
  - **User Charges/fees**
  - **Budget estimates**
- ❑ **The correct flow of financial information is crucial to making good decisions.**

# The CORRECT Flow

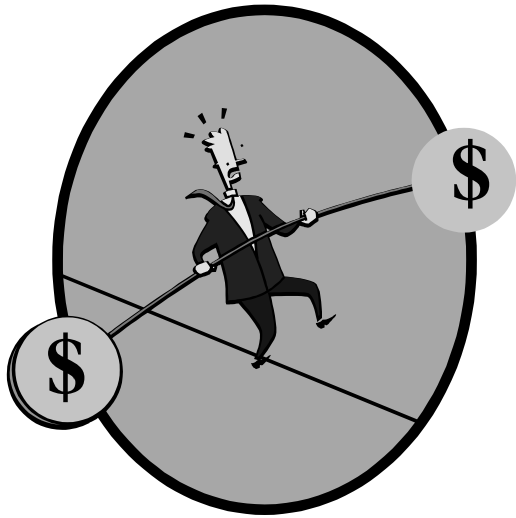


# The INCORRECT Flow



# What is *Structurally Balanced*?

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- Finance reoccurring operations with reoccurring revenues
- Avoid reliance on one shot revenues
- More Reliance on “Locally Controlled” Revenues
- Sufficient contingencies
- Reserves in Place

# Non-Recurring Revenues

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## *One-Shot Revenues*

- **Those revenues that are not derived from the government's normal operating cycle, and therefore are not available from year to year.**
  - Sale of property and equipment, Special non-recurring grants, Issuance of long-term obligations, Appropriation of Fund Balance
- **These revenues should be used to finance reserve funds or one-shot expenditures such as equipment purchases, capital improvements, etc.**

# Fund Balance

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- What is Fund Balance
- How much can you use?
- How much should you use?
  - 2001 Legislation
  - Pay-As-You-Go principle
  - Maintaining Structural Balance (one-shot revenue)



# What is Fund Balance?

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- **Fund balance (FB) is the total accumulation of operating surpluses and deficits since the beginning of a local government's existence.** (*Assets – Liabilities = Fund Balance*)
  - **Reserved FB** – The portion of total FB that is not available for discretionary appropriation due to the creation of LEGALLY established reserves.
  - **Unreserved FB** – The total fund balance at the end of the fiscal year less any reserved portion.
    - **Appropriated**
    - **Unappropriated**

# What is Fund Balance?

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- **Unreserved, Appropriated FB** – The portion of unreserved fund balance that has been appropriated for use in the next fiscal year's budget.
  - Amount appropriated must be able to be converted to cash at the beginning of the year.
- **Unreserved, Unappropriated FB** – The portion of fund balance available to finance unforeseen expenditures during the year.
  - This is the amount government officials need to establish a policy on how much is "reasonable".

# Estimating Available Fund Balance

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Cash Balances @ 8/29/08	\$675,520
<u>+ Projected Revenues (9/1 – 12/31)</u>	<u>\$355,000</u>
Subtotal	\$1,030,520
<u>- Projected Expenditures (9/1 – 12/31)</u>	<u>\$460,000</u>
Projected Cash Balance @ 12/31/08	\$570,520
Fund Balance Reserved	<u>\$200,000</u>
Unreserved Fund Balance Available	\$370,520

# **What is a “Reasonable” Amount**

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- It Depends on a number of factors:**
  - Size of the Fund**
  - Past Budget Practices**
  - Composition of Fund Balance (Cash, Receivables, etc.)**
  - Amount of Reserves**
  - Contingent Accounts**

# Excessive Fund Balances

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- ❑ **Disregard for basic government principles**
  - ❑ Officials who apply personal financial practices to government finances;
- ❑ **Often Used for political purposes**
- ❑ **Often used to disguise municipal frauds**

# Reliance on Locally Controlled Revenues

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- Economic indicators such as the recent credit crunch, declining home values and rising energy costs have a significant impact on local government revenues that are dependent on economic expansion.
  - Sales Tax
  - Mortgage tax
  - State & Federal Aid
- Local governments need to rely more on revenues which they can locally control
  - User Fees
  - Departmental Revenues
  - Services to Other Governments

# Contingent Appropriations

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- ❑ The budget may contain an appropriation for contingencies. The contingency amount is limited to 10% of total appropriations less amounts budgeted for debt service and judgments;
  - Towns – General Funds (A, B)
  - Village – General, Sewer, Water (A, FX, G)
  - Cities – usually same as villages but check the Charter.
- ❑ Cannot charge expenditures directly to the contingency account (1990.4) – you must transfer from it to another account.

# APPROPRIATIONS

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*To Budget or Not to Budget - That SHOULD be the question*

## □ Consider other options

- Is the service or equipment a NECESSARY expenditure this year?
- Can it be offered more efficiently by another government?
- Can it be offered cooperatively with other government (Article 5-g of GML)?
- Can it be offered more efficiently by outsourcing it to a private vendor?

## □ Determine the TRUE Cost of Services

# Calculating TRUE COST of a Service

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**Direct Costs + Indirect Costs**

**—** **Attributable Revenues**

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**=** **True Cost**

# **Direct Costs**

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- Normally contained in each function area of the Budget**
  - Personal Services (.1)**
  - Contractual Expenditures (.4)**
  - Equipment & Capital Outlay (.2)**



# Indirect Costs

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- **Allocate based on use or benefit**
  - Employee benefits
  - Shared Services
  - Debt Service
  
- **Significant Impact on cost**
  
- **Based on materiality and ability**



# Payroll & Employee Benefits

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- ❑ **45% of village and 47% of town expenditures \***
- ❑ **Requires detailed time records**
- ❑ **Allocate payrolls to services**
- ❑ **Allocate benefits to services**

# **Contractual Expenditures**

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- 32% of total village and 34% of total town expenditures \***
  
- Allocate to service areas**
  
- Object of Expenditure Code**
  - Budget at minimum level**
  - Account for at higher level**



\* Source: 2006 & 2007 Comptrollers Report

# Parallel Expenditure-Revenue Codes in Uniform System of Accounts

		<u>Revenue Codes</u>			
<u>Major Function</u>	<u>Expend Code</u>	<u>Dept.</u>	<u>Inter Gov't</u>	<u>State Aid</u>	<u>Federal Aid</u>
General Gov't	1000.0	1200	2200	3000	4000
Education	2000.0	1300	2230	3100	4100
Public Safety	3000.0	1500	2260	3300	4300
Health	4000.0	1600	2280	3400	4400
Transportation	5000.0	1700	2300	3500	4500
Economic Assis	6000.0	1800	2310	3600	4600
Culture & Rec	7000.0	2000	2350	3800	4800
Home & Comm	8000.0	2100	2370	3900	4900
Undistributed	9000.0				

**ATTRIBUTABLE REVENUES**

	<b>Expense</b>	<b>Dept.</b>	<b>Other Gov'ts</b>	<b>State Aid</b>	<b>Fed Aid</b>	<b>Net Cost</b>
<b>General Gov't Support</b>	<b>234,233</b>	<b>14,787</b>	<b>0</b>	<b>31,521</b>	<b>0</b>	<b>187,925</b>
<b>Public Safety</b>	<b>157,199</b>	<b>12</b>	<b>3,398</b>	<b>0</b>	<b>0</b>	<b>153,789</b>
<b>Health</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transportation</b>	<b>288,657</b>	<b>4,452</b>	<b>21,005</b>	<b>16,783</b>	<b>0</b>	<b>246,417</b>
<b>Economic Assist &amp; Opportunity</b>	<b>33,469</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>33,469</b>
<b>Culture and Recreation</b>	<b>102,296</b>	<b>14,309</b>	<b>0</b>	<b>6,439</b>	<b>0</b>	<b>81,548</b>
<b>Home &amp; Community</b>	<b>632,033</b>	<b>524,713</b>	<b>21,004</b>	<b>58,722</b>	<b>92,117</b>	<b>-64,523</b>

# **ESTABLISHING USER FEES**

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- Adheres to the Benefit Principle**
- Intention is to make the service be self-supporting**
  - Little or no reliance on ad-valorem tax**
- Includes Tax Exempt Properties**
- Must have accurate accounting records**
  - Records should reflect the TOTAL COST**

<b>Direct Costs</b>		
<b>FX8310.1</b>	<b>WATER ADMIN, PERS SERV (50% of Salary)</b>	<b>\$28,406</b>
<b>FX8310.4</b>	<b>WATER ADMIN, CONTR (50% of Total)</b>	<b>\$16,400</b>
<b>FX8330.4</b>	<b>PURIFICATION, CONTR EXPEND</b>	<b>\$5,196</b>
<b>FX8340.1</b>	<b>TRANSPORTATION &amp; DISTR, PERS SERV</b>	<b>\$78,970</b>
<b>FX8340.4</b>	<b>TRANSPORTATION &amp; DIST, CONTR EXPEND</b>	<b>\$12,670</b>
<b>Indirect Costs</b>		
<b>FX9010.8</b>	<b>STATE RETIREMENT SYSTEM</b>	<b>\$6,509</b>
<b>FX9030.8</b>	<b>SOCIAL SECURITY, EMPL BENEFITS</b>	<b>\$9,744</b>
<b>FX9060.8</b>	<b>HOSPITAL &amp; MED INS, EMPL BENEFITS</b>	<b>\$19,450</b>
<b>A1410.1</b>	<b>CLERK, PERS SERV (25% of Salary)</b>	<b>\$8,250</b>
<b>A1650.4</b>	<b>CENTRAL COMMUNICATION (10% of total)</b>	<b>\$1,670</b>
<b>A1670.4</b>	<b>CENTRAL PRINT &amp; MAIL (35% of total)</b>	<b>\$2,030</b>
<b>OTHER</b>		
	<b>DEPRECIATION of Equip &amp; Infrastructure (Amount to be placed in Capital Reserve)</b>	<b>\$24,000</b>
<b>TOTAL COST OF WATER OPERATIONS</b>		<b>\$213,295</b>

<b>Total Cost of Water Operations</b>	<b>\$213,295</b>
<b><u>Total Water Revenues Received</u></b>	<b><u>\$189,678</u></b>
<b>Surplus or (Deficit) Generated</b>	<b>(\$ 23,617)</b>

<b>Number of gallons of water processed</b>	<b>66,345,906</b>
<b>Number of gallons of water billed</b>	<b>55,067,102</b>
<b>Cost per gallon processed</b>	<b>0.003 ¢</b>

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**Option #1: Raise Rate Per Gallon (or minimum rate)**

**Option #2: Investigate reason for difference between gallons processed and gallons billed (leaks, faulty meters, etc.)**

# **Reserve Funds**

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## **□ What are Reserve Funds?**

- **A portion of the fund equity that is LEGALLY segregated for a specific future use**
- **Designed to segregate resources to provide for future contingencies**
- **Plan for major capital outlays**

# **Why Use Reserve Funds?**

- Reduces the need to rely on borrowing or outlays of current funds**
- Grant applications (i.e., matching funds)**
- Preserves fund balance - making it immune from depletion for political or other motives.**

# Common Reserve Funds

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*To consider at Budget time*

- Capital Reserves (GML §6-c)
- Repair Reserve Funds (GML §6-d)
- Contingency and Tax  
Stabilization Reserves (GML §6-e)



# Capital Reserves GML §6-c,

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- ❑ To finance all or part of the cost of construction, reconstruction or acquisition of a specific item or type of capital improvement or acquisition of a specific item or type of equipment (§§6-c [2], 6-g [2]).
- ❑ Can be issued by counties, cities, villages, towns, fire districts (GML §6-g) and water and sewer districts
  - In Towns – In addition to the Town Board, the Town Highway Supt. and County Highway Supt. must approve the establishment of the reserve and the Town Highway Supt. must order the expenditure from (GML §6-c(5)(b)).

# Capital Reserves

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- “Type” improvement or equipment
  - No public notice or referendum required to establish
  - Permissive Referendum / Public Notice (if necessary) required when expended
    - Examples: Buildings, equipment

# Capital Reserves

- “Specific” improvement or equipment
  - Permissive Referendum / Public Notice requirement (if necessary) required when established
  - Expenditures thereafter do not require public notice or referendum
    - Examples: Highway barn, police car, grader



# **SPECIAL PROVISIONS**

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When state lands subject to taxation in a town in the Adirondack Park are assessed at more than 30% of total taxable assessed valuation, the State Comptroller must consent to the establishment of, and expenditures or transfers from a capital reserve fund in the town or in a fire district in whole, or in part, within the town

GML § §6-c[13], 6-g[13]



# Multi-Year Planning

*Future Operational & Capital Needs Must  
be Carefully Considered*

## □ Merits of Long Term Planning

- Allows decision makers to set long term priorities and work toward goals rather than make decisions based on needs and politics
- Shows the impact of decisions over a period of time
- Increases chances for receiving grants

# Steps In The Planning Process

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- ❑ Decide on a time frame (usually 3 to 5 years)
- ❑ Select a level of detail that meets your needs
- ❑ Gather data on operations and capital needs
  - 5 year financial reports from OSC
  - Projections and capital needs from department heads and other key officials
  - Demographic trends and predictions (local, state and federal)

# Steps In The Planning Process

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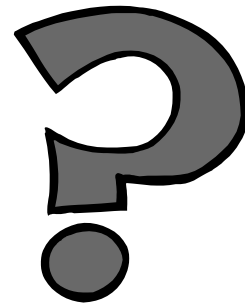
- ❑ Use the plan to generate public discussion
- ❑ Evaluate and prioritize capital needs and financing sources (debt, reserves, etc.)
- ❑ Make Expenditure Projections at appropriate level of detail
  - Function areas (transportation, public safety, etc.)
  - By Object (personal service, contractual, debt, employee benefits, etc.)

# Steps In The Planning Process

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- Make Revenue Projections
  - Consider demographic trends
  - Consider Policy changes (local, state, federal)
  - Use of One-shot revenues (fund balance, equipment sales, etc.)
  - Be conservative
- Consult OSC publication and consider using the blank Excel-based template available on our website ([www.osc.state.ny.us](http://www.osc.state.ny.us))

# QUESTIONS





# Need Help ?

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