

Budgeting ABC's

Finance Department/Budget Division

4/26/2016

What is a Budget

- * Policy Document
- * Financial Plan
- * Operations Guide
- * Communication Device

What is a Budget

- * Forward Looking Document
 - Provides a view of the financial picture in the future
 - Based on assumptions
 - Based on policy goals
- * A Living Document
 - Will change during the year as priorities and economic realities change
 - Serves a guiding document for policy decision in a changing environment
- * A Resource Allocation tool
 - Provides guidance for service provision within available resources
- * A Management Tool
 - Serves as an internal control for managing service delivery during the year.

Legal Requirements

City Charter – Article 11

- ❖ Establishes the deadline for submission to council
- ❖ Requires a Capital Budget
- ❖ Establishes deadline for adoption of the budget
- ❖ Provides for Budget Control
- ❖ Section 11-6(a) – provides that procedures and other matters concerning the budget not addressed in the Charter are governed by State Statutes.

Local Government Budget Law

Part 1, Section 29-1-101 through 115

- * Requires the adoption of a budget
- * Provides Notice requirement
- * Provides for operations when the governing body fails to adopt
- * Provides for ability to change the budget during year
- * Establishes budget control

What is an Appropriation

Section 29-1-102 (1)

“Appropriation” means the authorization by ordinance or resolution of a spending limit for expenditures and obligations for specific purposes.

How is an Appropriation Different from a Budget

- * Case law has further defined the spending limit to be on the **fund basis**. Projects within a fund do not have a specific appropriation.
- * The budget provides the internal control for management of projects and services within a fund to stay within the appropriated amount.
- * There is flexibility for management to change project or services budgets as long as the fund appropriation limit is maintained.

How we do Budgets

Budget Development

Type of Budget

- * Modified Program-Incremental Budget

- Identifies costs on a Fund/Department basis

- Developed based on the prior year Adopted Budget with changes up or down based on available revenue and policy direction.

Steps to Budget Development

- * Council Planning Session
 - Provides management with Policy Direction
- * Staff Develops “Core” Expense budget
- * Staff Develops Revenue Forecast
- * Determination of Reserve Needs
- * Develop Budget instructions to Departments based on available revenue

Budget Oversight

What should Council look for in approving a Budget:

- * Is there appropriate funding to meet service delivery requirements and major policy initiatives?
- * For Operating Funds – Does on-going (annually recurring) revenue equal or exceed on-going operating expense?
- * Are reserves/fund balances declining? Is this a planned spend down or a revenue issue?
- * Projection Assumptions: developed by staff based on data and Profession Judgment – Do they seem reasonable?

Key Components

- * What is a fund
 - * Revenues, Expenses, Assets, and Liabilities grouped together to carry out certain activities
 - * “Pots” of Money
 - * Tracked independently
- * Why do Governments use Fund Accounting
 - * Different Fund types have different accounting rules
 - * Separation into Funds makes it easier to track large, significant, and interesting activities
- * Fund Categories
 1. General Government Funds
 2. Enterprise Funds
 3. Fiduciary Funds

Key Components

- * City Funds: 53 Total
 - * 7 General Government
 - * 13 Enterprise
 - * 26 Special Revenue
 - * 4 Internal Service
 - * 3 Fiduciary

Key Components

- * Fund Balance Types
 1. Non-spendable
 2. Restricted – Federal or State law
 3. Committed- by Ordinance to a specific purpose
 4. Assigned – balance set-aside by management for a future purpose
 5. Unassigned – balance in a fund for any purpose
- * City Reserve Policy
 - Unassigned reserves will be at least 15% of operating fund expenditures.
 - Purpose: to reserve resources to provide a bridge for funding services in deteriorating economic environment

Key Components

Relationship of CAFR to Budget

- * CAFR reports actual financial positions at the end of the year: A look backward based on actual results
- * Budget shows potential financial positions: A forward looking document based on assumptions of what will occur
- * The Fund reporting may be different: Management Funds vs. GAAP required Funds
- * Fund Balances will be different: CAFR uses all assets and liabilities; Budget closely related to cash basis

Key Components

Other Key Assumptions

- * Costs for all Authorized Personnel included
- * Total Cost of a Capital Project included in the first year, unless there is planned, identifiable, phasing of components
- * Capital Budgets based on “Pay-as You-Go” philosophy
- * Timing of including a capital project in the budget should take into account the impact of operating costs associated with it on the Operating Budget.

Budget Control

Budget Administration

Changes to the Budget

Supplemental Budgets

- ❖ Reappropriation prior Projects or initiatives (Rollover)
 - Necessary for projects that cross the fiscal year
- ❖ Unanticipated Revenue: Grants or other revenue not anticipated needs appropriated to give staff authority to spend
- ❖ New Priorities or Initiatives that arise mid-year
 - May have reserved funds for the purpose
 - Unassigned fund balance may be available as funding source

Budget Control

- ❖ Flexibility is needed for changes that occur mid-year:
Departments accountable to allocated fund amount
- ❖ Directors have the ability to move budget between
operating line items to meet unexpected needs
- ❖ City Manager can reallocate between Departments to
meet unexpected needs.

Evaluating the Budget

- * Actual Spending and Budget amounts will never be the same
 - Is the variation significant?
 - What is the cause of the variation?
- * Budget Division Performance Goals
 - Adopted General Fund revenues budgets will be below actual collections, but by no more than 5%
 - Adopted General Fund expense budget will be below budget, but within 5% of actual costs

Budget-Year End

- * Appropriations expire at end of year
 - Early in new year, Rollover Ordinance brought to Council
 - * Projects that began but weren't completed in prior year
 - * Projects that were expected to begin in prior year but were delayed
 - * Some Operating Budget MAY be rolled over
 - * No new appropriations

TABOR

- * City can retain excess revenues due to voter approval
 - Excess revenue is restricted to specific uses
- * City may not enter into multi-year General Obligation debt without voter approval
 - Ent Funds may issue debt secured by operating revenues
- * City may not raise taxes or enact new taxes without voter approval

Purchasing and Contracting

- * Governed by Chapter 3.12 of the Loveland Municipal Code
- * Bid Requirements
 - For services and supplies estimated to cost between \$5,000 and \$9,999, the city shall solicit at least three verbal quotes
 - For services or supplies estimated to cost between \$10,000 and \$29,999, the city shall solicit at least three written quotes
 - For services or supplies estimated to cost \$30,000 or more, the city shall solicit formal bids
- * Contracts up to \$500,000 may be approved by the City Manager or designee
- * Contracts \$500,000 or more must be approved by City Council or Loveland Utilities Commission