Budgeting Basics

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NATIONAL LEAGUE of CITIES

CONGRESSIONAL CITY CONFERENCE

CCC  2016

#NLCDC
Orientation to BUDGETING BASICS

Presenters:
Kathie Novak, Jon Johnson & Chris Fabian
March 6, 2016
A Brief Introduction

JON JOHNSON

KATHIE NOVAK

CHRIS FABIAN

#NLCDC
Engage with Us!

Keep up with all the CPBB updates and innovations through social media!

#NLCDC
Now that I’ve been elected... WHAT’S NEXT?
Your world has changed

Jon M Bishop
What are the issues I’m facing?

THE ECONOMY
What are the issues I’m facing?

PUBLIC SENTIMENT
What are the issues I’m facing?

TRUST, TRANSPARANCY and ACCOUNTABILITY
What are the issues I’m facing?

INCIVILITY
What are the issues I’m facing?

DIFFERING PERSPECTIVES
How the customer explained it
How the project leader understood it
How the engineer designed it
How the programmer wrote it
How the sales executive described it

How the project was documented
What operations installed
How the customer was billed
How the helpdesk supported it
What the customer really needed
What are the issues I’m facing?

The most dangerous phrase in the language is “we’ve always done it this way.”

Rear Admiral Grace Hopper (1906-1992)

RESISTANCE to CHANGE
Insanity

Doing the same thing over and over again and expecting different results
What are the issues I’m facing?

MICROMANAGEMENT vs. OVERSIGHT

We have to keep our focus on the little picture.
MICROMANAGEMENT...

Five common board/council excuses:
1. “The public expects me to have these answers!”
2. “How can I make decisions/policy if I don’t know the details?”
3. “I have to make sure that it gets done correctly.”
4. “I have some expertise in this.”
5. “We can’t trust staff. They make mistakes or filter information.”
WHAT IS MY OVERSIGHT ROLE?

• Setting long-range mission, goals and priorities
• Establishing sound financial policies
• Articulating and monitoring long-term plan
• Monitoring activities
• Evaluating results
What are the issues I’m facing?

DO WHAT IS RIGHT, NOT WHAT IS EASY

COMPLACENCY
What are the issues I’m facing?

MISMATCHED PERCEPTIONS
POSITIVE RELATIONS WITH STAFF...

Sometimes I feel that I have the worst job in the world!

Ya...right!

Tim Pockham
What is the Budget... and why am I involved with it?
TRUE or FALSE:
“The budget is the single most important policy document a local government adopts”
What is a Budget?

- an **ACCOUNTING EXERCISE** to satisfy the needs of the finance/budget office?

- a **NECESSARY EVIL** to meet the mandates of state legislation and city code?

- a **WASTE of TIME (and paper)** since once it’s adopted, no one pays attention to it?
What is a Budget?

A **STATEMENT of PRIORITIES** for the community that:

- **COMMUNICATES** to stakeholders what services they can expect and how their tax dollars are being spent
- Defines how the local government **ALLOCATES** its **RESOURCES** to achieve what is important to the community
- Translates **POLICIES into ACTION**
What is a Budget?

A critical **CONTROL TOOL** that:

- Provides the **LEGAL AUTHORITY** to conduct day-to-day operations
- Sets clear **BOUNDARIES** related to spending and fiscal oversight
- Ensures **ACCOUNTABILITY, TRUST and TRANSPARENCY** in managing “someone else’s money”
- Offers a **MONITORING** device to ensure compliance with “the plan”
What is a Budget?

A MANAGEMENT TOOL that:

- Establishes a **SPENDING PLAN** for the upcoming fiscal year
- Demonstrates how services are being delivered in the most **EFFECTIVE** and **EFFICIENT** way possible
- Identifies and articulates **HOW MUCH IT COSTS** to provide services
- Offers staff a “**LINE OF SIGHT,**” connecting “what” they do with “why” they do it to benefit the community
What is a Budget?

A *PLANNING TOOL* that:

- Establishes a link between *STRATEGIC OBJECTIVES* and how *RESOURCES are ALLOCATED*

- Offers a “roadmap” for carrying out elected official’s *POLICY OBJECTIVES*

- Helps decision-makers make the *BEST USE of LIMITED RESOURCES*

- Provides for long-term *FINANCIAL SUSTAINABILITY*
Ultimate Goal

TO PREPARE A BUDGET THAT:

– Reflects the priorities and long-term interests of the community

– Offers assurance that funds are being used to achieve those priorities

– Insures objectivity and transparency in decision-making
I DON’T KNOW ANYTHING ABOUT ACCOUNTING …

so what is my role in the Budget?
So, what am I supposed to do with this?
Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2009 Baseline and CBO's Estimate of the President's Budget

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<td><strong>Summary Outlays</strong></td>
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**National League of Cities**

#NLCDC
“I’ll pause for a moment so you can let this information sink in.”
"Failure to understand financial outcomes is more dangerous to states and localities than ever, and there’s a big gap between what public leaders know about finance and what they need to know."

We Must “See” the Difference

GOVERNING
THE STATES AND LOCALITIES

FINANCE | HEALTH | INFRASTRUCTURE | MANAGEMENT | ELECTIONS | POLITICS | PUBLIC SAFETY | URBAN | E

FINANCE 101
SPECIAL SERIES

The Difference Between a Sustainable Budget and a Balanced Budget

A balanced budget isn’t always a healthy one.

BY LIZ FARMER | MAY 12, 2014

#NLCDC
ASSESS FINANCIAL REALITY –

“What is our “picture of Fiscal Health”?”

• Being able to “see” and communicate more clearly the organization’s fiscal reality over the next few years allows policy makers to better understand how to plan for the financial sustainability of the organization in the long term.
ACHIEVING FISCAL HEALTH

-"Spend Within Our Means"
-Transparent About the “True Cost of Doing Business”
-Understand Variances (Budget vs. Actual)
-Establish and Maintain Reserves
-Incorporate Economic Analysis and Long-Term Planning into Decision Making
Terms you should know

• Governmental Accounting (vs. Corporate Accounting)
• Fund Balance
• CAFR
• Accounting Fund
  – General
  – Special Revenue
  – Capital Projects
  – Debt Service
  – Internal Service
  – Fiduciary
• Interfund Transfer or Internal Charge
Terms you should know

- Operating Budget
- Capital Budget
- CIP
- Warrant (Check) Register
- Budget Message
- Management Letter
- Revenue vs. Income
- Expenditure vs. Expense
Strategic Questions

How much do we have available to spend? - (not “How much do you need”?)

“Spend Within Our Means”
Approach to Fiscal Health: “Spend Within Your Means”

Apply Diagnostics – DO YOU...

- **Start with revenues?**
  - Know what “drives” each major revenue source?
  - Prepare a formal organization-wide Revenue Manual?

- **Distinguish one-time from ongoing sources and uses?**
  - Have a process in place to “track” them separately?
  - Demonstrate this differentiation in your forecasts and other financial documents?

- **Differentiate Program Revenues from General Government Revenues?**
  - Adjust budget allocations to departments for changes in associated Program Revenues?
Published “Revenue Manual”
# Differentiate Ongoing and One-time

## EXECUTIVE SUMMARY

### GENERAL FUND

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2007 Actuals</th>
<th>2008 Budget</th>
<th>2009 Budget</th>
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<tr>
<td></td>
<td></td>
<td>As Amended</td>
<td>As Amended</td>
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<tr>
<td></td>
<td></td>
<td>Ongoing</td>
<td>One-Time</td>
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<tr>
<td></td>
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<td>45,873,254</td>
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</table>

### SOURCES OF FUNDS

#### General Governmental Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>2007 Actuals</th>
<th>2008 Budget</th>
<th>2009 Budget</th>
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</thead>
<tbody>
<tr>
<td>Taxes &amp; Special Assessments</td>
<td>110,359,249</td>
<td>117,935,085</td>
<td>118,251,318</td>
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<tr>
<td>Licenses &amp; Permits</td>
<td>53,545</td>
<td>56,500</td>
<td>49,000</td>
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<td>Charges for Services</td>
<td>5,667,608</td>
<td>6,213,000</td>
<td>5,419,000</td>
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<tr>
<td>Intergovernmental Assistance</td>
<td>475,647</td>
<td>1,356,070</td>
<td>464,400</td>
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<tr>
<td>Fines &amp; Forfeitures</td>
<td>131,056</td>
<td>246,000</td>
<td>261,500</td>
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<tr>
<td>Investment Income</td>
<td>4,262,577</td>
<td>2,500,000</td>
<td>3,300,000</td>
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<tr>
<td>Other Income</td>
<td>528,244</td>
<td>50,000</td>
<td>100,000</td>
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#### Intra-County Transactions (Transfers)

<table>
<thead>
<tr>
<th>Description</th>
<th>2007 Actuals</th>
<th>2008 Budget</th>
<th>2009 Budget</th>
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<tr>
<td>Indirect Cost Allocation</td>
<td>4,502,535</td>
<td>3,549,984</td>
<td>4,668,096</td>
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<td>Treasurer's Fees</td>
<td>2,426,922</td>
<td>2,669,600</td>
<td>2,692,000</td>
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<tr>
<td>Interfund Transfers</td>
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<tr>
<td>Employee Benefits Fund</td>
<td>4,000,000</td>
<td>2,000,000</td>
<td>3,000,000</td>
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<tr>
<td>Social Services HVAC</td>
<td>1,742,688</td>
<td>0</td>
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<tr>
<td>Patrol Fund (for Emergency Mgmt)</td>
<td>1,982</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Public Trustee Fund (net revenues)</td>
<td>916,259</td>
<td>0</td>
<td>250,855</td>
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</table>

#### Total General Governmental Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>2007 Actuals</th>
<th>2008 Budget</th>
<th>2009 Budget</th>
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<td>135,068,312</td>
<td>136,576,239</td>
<td>138,455,769</td>
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#### Departmental/Program Revenues

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<tr>
<th>Description</th>
<th>2007 Actuals</th>
<th>2008 Budget</th>
<th>2009 Budget</th>
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</thead>
<tbody>
<tr>
<td>Intergovernmental Assistance</td>
<td>5,018,614</td>
<td>4,214,427</td>
<td>4,397,766</td>
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<tr>
<td>Fines &amp; Forfeitures</td>
<td>30,814</td>
<td>0</td>
<td>25,000</td>
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<tr>
<td>Licenses &amp; Permits</td>
<td>2,610,640</td>
<td>2,892,000</td>
<td>2,154,000</td>
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<tr>
<td>Charges for Services</td>
<td>15,399,233</td>
<td>16,724,024</td>
<td>15,319,225</td>
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### Approach to Fiscal Health #1: 
**“Spend Within Your Means”**

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<thead>
<tr>
<th></th>
<th>Ongoing</th>
<th>One-time</th>
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<tbody>
<tr>
<td><strong>General Government</strong></td>
<td>1</td>
<td>2</td>
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<tr>
<td><strong>Program-specific</strong></td>
<td>3</td>
<td>4</td>
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Think of an example for each zone (for extra credit, think of an example that spans a combination of zones)
Approach to Fiscal Health: “Spend Within Your Means”

Available Treatments:

- **Achieve ongoing alignment**
  - Fund operating expenditures with reliable ongoing revenues
  - Prevent reliance on volatile revenues (*that might not come in!*)

- **Achieve one-time alignment**
  - Fund one-time costs with one-time sources
  - Ensure reserves aren’t used for ongoing expenses

- **Promote revenue diversification and enhancement**
Diagnostic Questions to Ask

? Does your organization differentiate between one-time and ongoing revenues and expenditures?
? If yes, how are they tracked? Does your forecast demonstrate this differentiation?

? How does your organization differentiate “program” revenues from “enterprise” revenues such as taxes, earnings on investments, franchise fees, etc.?

? Does your organization prepare a formal Revenue Manual?
? If yes, what type of information is included?
Strategic Questions

Why do we need to keep “money in the bank”?

Establish & Maintain Reserves
Approach to Fiscal Health: Establish and Maintain Reserves

Apply Diagnostics – **DO YOU**…

- **Understand what makes up Fund Balance(s) and why you hold reserves?**
  - Have a formal “inventory” of all restricted or designated fund balance reserves, stating their purpose, the authority establishing them and how they are to be calculated?

- **Have a written fund balance reservation policy?**
  - Monitor fund balances to ensure that reserves are maintained?
  - Ensure established working capital reserves are sufficient to meet emergency needs or short-term revenue shortfalls?

- **Monitor Fund Balance levels to ensure they “aren’t too little” OR “too much”, but “just right”?**
Determining the “Right” Level

• Baseline recommendation (General Fund)—
  • 5% to 15% of operating revenue
  • 1 to 2 months operating expenditures

• Adjust for:
  • Historic Events and Past Experience
  • Government Size
  • Revenue Stability
  • Future Capital Needs
Standard & Poor's Views

- Low = 0% or below
- Adequate = 1% to 4%
- Good = 4% to 8%
- Strong = 8% to 15%
- Very Strong = Above 15%
Approach to Fiscal Health: Establish and Maintain Reserves

Available Treatments

- **Establish a written Working Capital/Emergency Reserve policy**
  - Provides back-up plan for emergencies, revenue shortfalls, or other unforeseen changes

- **Identify, document and understand all reserves**

- **Review adequacy of Fund Balance levels**
  - Hold only appropriate amount in reserve to establish credibility with internal and external stakeholders

- **Set aside funding for long-range plans, major maintenance and asset replacement**
Diagnostic Questions to Ask

? Does your organization have a written fund balance reservation policy?

? If yes, how are you monitoring those reserves to ensure that they are properly and adequately maintained?

? Are established working capital reserves sufficient to meet emergency needs or short-term revenue shortfalls?

? Does your organization have an inventory of all restricted or designated fund balance (reserves)?

? If yes, does it indicate the purpose for the reserve, cite the authority for its establishment and show how it is calculated?
Strategic Questions

What’s the “difference”?  
Understand Variances (Budget to Actual)
Approach to Fiscal Health: Understand Variances

Apply Diagnostics – **DO YOU…**

- **Include cyclical (one-time) expenditures in ongoing operating budgets?**
- **Allow Departments to budget for contingencies?**
- **Consistently have revenue/expenditure variances at year-end?**
  - Overlook thorough analysis of budget-to-actual variances?
- **Count on “savings” resulting from budget-to-actual variances?**
- **Have large capital project “carry-forwards” at year end?**
Approach to Fiscal Health: Understand Variances

Available Treatments

- Strive to align budget with actuals (a source of “hidden treasure”)
  - Refine salary and benefit projections, to align with actual costs incurred
  - Provide more effective budget monitoring and management to eliminate variances
  - Identify and eliminate the “fluff”
- Fund cyclical expenditures with one-time funding sources
- Consolidate contingencies maintained in department budgets
- Analyze and understand revenue variances
- Promote multi-year budgeting for capital projects
Diagnostic Questions to Ask

? Are variances between budgeted and actual revenues and expenditures analyzed and explained?

? If yes, how do those variances impact future budget cycles?

? Does your organization utilize a formal Compensation Plan to establish employee salary/wage ranges?

? If yes, how often is the plan updated?

? When assessing the adequacy of employee compensation, are employee benefit packages included in this assessment?
Strategic Questions

“*It costs how much*”

*Transparent About the “True Cost of Doing Business”*
Approach to Fiscal Health: Transparent About “True Cost of Doing Business”

Apply Diagnostics – **DO YOU…**

- Allocate overhead and administrative costs to Funds and/or Departments that benefit from those services?
- **Utilize Internal Service Funds** to align delivery and cost of internal services with customer demand?
  - Know what services are best adapted to an Internal Service Fund approach?
  - Understand how internal charges are established and distributed?
  - Ensure that internal customers perceive that costs are transparent and there is an ability to influence those costs by altering their own demand?
Approach to Fiscal Health: Transparent About “True Cost of Doing Business”

Apply Diagnostics – **DO YOU**…

- **Identify total cost (direct AND indirect) for all programs?**
  - Prepare a **Full Cost Allocation** plan in addition to an **OMB A-87 Cost Allocation Plan**?
  - How is this **Plan** incorporated into the budget process?

- **Establish fees for service that recapture appropriate level of total costs of providing that service?**
Approach to Fiscal Health: Transparent About “True Cost of Doing Business”

Available Treatments:

- **Establish Internal Service Funds and engage Departments in assessing demands for these services**
- **Promote enhancement of cost recovery for programs where appropriate**
- **Diversify cost burden from General Fund by appropriately sharing costs among other dedicated revenue streams**
- **Inventory and cost all programs**
  - Utilize Full Cost Plans to better determine the true cost (direct and indirect) of offering programs/services
Diagnostic Questions to Ask

? Does your organization utilize *Internal Service Funds*?

? If yes, what are the services provided by each fund and how are internal charges established and distributed?

? Are appropriate demand metrics evaluated when determining how internal charges are to be assessed or distributed?

? Do internal customers perceive that the calculation and assessment of those internal charges is transparent and that they can influence those charges by altering their own demand?

? Does your organization prepare a Full Cost Allocation plan in addition to an OMB A-87 Cost Allocation Plan?

? If yes, how is this plan incorporated into the budget process?
Strategic Questions

• “What’s the plan and what could cause it to change?
• What does the future look like?
• What if............???
Approach to Fiscal Health: Economic Analysis & Long-term Planning

Apply Diagnostics – **DO YOU**…

- **Incorporate ALL long-term plans developed within the organization into your financial forecasts?**

- **Prepare comprehensive, multi-year Capital Improvement Plan, and clearly identify associated ongoing operating costs?**
  - Understand how the CIP impacts the budget process and your long-term financial forecasts?

- **Identify only relevant economic indicators to monitor?**

- **Effectively utilize appropriate “tools” to communicate financial position to all stakeholders (elected officials, citizens and staff)?**
KEY ECONOMIC INDICATORS

– Both External and Internal
– Focus on only what is relevant!!!!
– Utilize TRENDS over Benchmarks
– Demonstrate organizational impacts
Approach to Fiscal Health: Economic Analysis & Long-term Planning

Available Treatments:

• Prepare a 5 to 10 year financial forecast
  • Use relevant key indicators and trend analysis to improve decision-making
  • Update and present on regular basis throughout the year
  • Identify potential points of failure and plan for needed changes

• Utilize simple, graphic communication tool to illustrate fiscal health position to all stakeholders
  • Keep decision makers focused on high-level stewardship role
  • Access impact of “today’s” decisions on future financial sustainability
  • Allow scenario-planning which encourages flexible and adaptive decision-making
Diagnostic Questions to Ask

? Does your Five-Year forecast incorporate ALL other long-term plans developed by your organization?

? Does your organization prepare a Capital Improvement Plan (CIP)?

? If yes, what information is included and how is it utilized in your budget process and your financial forecasts?

? What tools does your organization use to communicate financial information to its elected decision-makers?
Looks like a Financially “Healthy” Organization – Right?
Let’s Look through a Different Lens!

City of Wheat Ridge Colorado

Fiscal Health > Reserves > Ongoing > One-time
Fund: 3 - COMBINED GENERAL & CAPITAL FUNDS
Scenario: Baseline

Create Scenario

Ongoing Alignment
- Ongoing Revenues
- Ongoing Expenses

One Time Alignment
- Sources
- Uses
- Reserves

FILL GAP (+)
Year | Active Amount
--- | ---
2013 | Y \$1,889,697 (remove)
2014 | N \$0 (remove)
2015 | N \$0 (remove)
2016 | N \$0 (remove)
2017 | N \$0 (remove)

FUNDING SOURCES (+)

INITIATIVES (+)

Title Y/N Year 1 Year n Amount
Project
32nd Ave Reconstruction

Appr. Active Yr.
\[ N \] 2011

Ongoing $ One Time $
“FISCAL HEALTH DIAGNOSTIC TOOL” – Tell the Story with a “Picture”
“FISCAL HEALTH DIAGNOSTIC TOOL” – Tell the Story with a “Picture”
“Looking Through the “New Lens”

• Is the organization able to clearly communicate its fiscal position to its various stakeholders?

• Does the organization “SPEND WITHIN ITS MEANS”?

• What are the organization’s “ongoing” sources of revenue as compared with its “one-time” sources of funding?

• Are these “ongoing” sources sufficient to fund “ongoing” operational expenses?
  – Are “one-time” funds being used to cover “ongoing” expenses?

• Are their sufficient “one-time” funding sources to pay for future “one-time” project and capital needs?
“Looking Through the “New Lens”

• Does the organization monitor its level of “Restricted” Fund Balance?
  – Does the organization maintain sufficient “Emergency/Working Capital Reserves” by adopted policy?
• Do actual revenues and expenditures align with adopted budget amounts?
• Are the impact of “ongoing” expenses discussed when approving “one-time” capital projects?
• Are future financial impacts of current decisions clearly understood at the time those decisions are made?
Live Demonstration of
“Fiscal Health Diagnostic Tool”
Budget Cycle

- **Developing the Budget**
- **Deliberating the Budget**
- **Approving the Budget**
- **Appropriating the Budget**
- **Communicating the Budget**
Scanning the Environment

- **Political Environment**
  - Lack of Trust
  - Lack of Perceived Transparency

- **Economic Environment**
  - Increased Economic Uncertainty
  - Increased Marketplace “Competition”

- **Social Environment**
  - Changing Demographics
  - Changing Community Demands/Needs
Scanning the Environment

- **Legal Environment**
  - More Legislative “Rules”
  - More Compliance Standards

- **Natural Environment**
  - Impacts of Disasters
  - Impacts of Unsustainable Practices
Developing the Budget

Questions to ask–

“How much do we have?”
   Rather than “How much do you need

Where are we starting from?
   This year’s budget?
   Last year’s actuals?
   This year’s estimates?

What are our “legal or statutory requirements?”
   State legislation?
   City charter?
   Council policy?
Developing the Budget

Questions to ask–

Does everyone understand what is expected?
- Their role?
- The rules?
- The deadlines?
- The “fiscal reality?”

Is the process collaborative?
- Conservers vs. Advocates?
- Organizational vs. Departmental?
Deliberating the Budget

Questions to ask–

- Do department budget requests demonstrate:  
  - How continued resources support programs rather than quantify line items?
  - How continued resources help achieve community priorities?
  - How new resources, programs, and initiatives support community priorities?

- Are budget discussions focused on goals or simply an informational “sales pitch”?

- Do elected officials know what you are asking of them when you hand them the draft budget book?
Adopting the Budget

Questions to ask–

What are we adopting?
- A “balanced budget?” How did we make it balance?
- A plan for what we expect to spend
- An approval of debt service payments?
- A requisite tax rate to support spending?

At what “level” are we adopting the budget?
- By line item?
- By department?
- By fund?
Appropriating the Budget

Questions to ask–

- How is this different than adopting the budget?

- What happens if things change?
  - How can we spend more than we have budgeted?
  - What if our revenues fall short of what we expect?
Communicating the Budget

Questions to ask –

Did we “check in” with the community?
  - How effective was the engagement?
  - Did we only hear from the “professional citizen”, Sid (Single Issue Dominator)?

Did their input impact the final budget?
  - Are we really seeking their input...
  - ... or did we give them their “3 minutes” at the public hearing?
How do I know “the rules”? 
Rules, Regulations and Policies

Questions to ask–

➢ Are there any LEGAL requirements
  ➢ Federal? – Perhaps
    ➢ Do you accept federal monies?
  ➢ State? – Probably
    ➢ Adoption format and deadlines
    ➢ Reporting requirements and deadlines
    ➢ Legislative restrictions
      ➢ TABOR (Taxpayer Bill of Rights) in Colorado
      ➢ Hancock Amendment in Missouri
      ➢ Proposition 13 in California
  ➢ Local? - Possibly
    ➢ Charter or Incorporation Documents
    ➢ Code
Rules, Regulations and Policies

Questions to ask–

➢ Are there any Policy requirements
  ➢ Financial Policies
  ➢ Budget Policies
  ➢ Board/Council Procedures

➢ Are there any “Best Practices”
  ➢ Regulatory Agencies
  ➢ Professional Associations
  ➢ Academic Literature
Recommended Financial Policies

- **Use of One-time Revenues**
  - Allowable uses and restricted uses
  - Define unpredictable revenues

- **Revenue Diversification**
  - Encourages flexibility and resiliency

- **Fund Balance Reserves**
  - Stabilization Funds (Working Capital or Contingencies)
  - Emergencies or Disasters

- **Cost Recovery**
  - Level of recoupment for fees and charges for services (have to identify costs first!)

- **Debt Issuance and Debt Capacity**
  - Limitation of amount of debt
  - What can be funded with debt (types of assets)

- **Balanced Budget**
  - Defines what is meant by balancing the budget
  - Includes statutory requirements

- **Budget to Actual Expenditure Comparisons**

- **Long-range Financial Planning**
Rules, Regulations and Policies

Questions to ask–

➢ And when all else fails –

WHAT DOES COMMON SENSE TELL YOU???????
Evolution of Budgeting

Line-by-Line Budgeting  Incremental Budgeting  Zero Based Budgeting  Results Based Budgeting  Priority Based Budgeting
The Evolving Budget Process

- **1906** – City of New York’s Bureau of Municipal Research calls for all city agencies to use a budget

- **1960s** – **LINE ITEM** budgeting continues as standard (accounting driven)
  - Most traditional – builds the budget by types of expense
  - Focuses on what the organization “buys”

- **1970s** - **ZERO BASED** budgeting created
  - Designed by Texas Instruments
  - Base level, current service level, and enhanced level or builds from “scratch”
  - Also focuses on what the organization “buys”

- **1980s** – **INCREMENTAL** or **TARGET BASED** budgeting emerges
  - Meant to simplify process
  - Supported “across the board” mentality
  - Still focused on what the organization “buys”
The Evolving Budget Process

1990s – PERFORMANCE budgeting re-emerges
- Federal government tool to control costs in 1950s
- Measures “outputs” or what is being accomplished
- Measures “inputs” or amount of resources required for desired output
- Builds the budget by “how much” is done and at what level of service

2000s – PROGRAM budgeting resurgence
- Developed in 1960s to emphasize budget as “policy” not “accounting” document
- Focus on policy questions of “program necessity”
- How to allocate limited resources among competing needs
- Builds the budget by “how” money is spent
- Focuses on what the organization “does”
The Evolving Budget Process

- **Mid 2000s – RESULTS BASED budgeting introduced**
  - Focus on “results” and “priorities” rather than costs
    - Innovative shift from “PAYING for services to BUYING results”
    - Merging of strategic planning and the allocation of resources through the budget process
  - Builds the budget by linking resources to outcomes
  - Focuses on “why” the organization does what it does

- **2 Distinct Methodologies**
  - Budgeting for Outcomes
  - Priority Based Budgeting
The Evolving Budget Process

➢ **PRIORITY BASED BUDGETING**
  ➢ Provides framework for allocating resources to the priorities of your community
  ➢ Combines principles of “Zero Based,” “Program Based,” “Performance Based,” and “Results Based”
  ➢ Avoids “Across-the-Board” mentality
Recommended Budget Practices
National Advisory Council on State & Local Budgeting

• Published in 1998
• Joint effort of:
  – GFOA
  – ICMA
  – National League of Cities
  – National Association of Counties
  – U.S Conference of Mayors
  – Council of State Governments
  – National Conference of State Legislators
  – Association of School Business Officials
Recommended Budget Practices
National Advisory Council on State & Local Budgeting

◆ “The mission of the budget process is to help decision-makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process

◆ “The budget process consists of activities that encompass the development, implementation and evaluating of a plan. .”
  - Incorporates a long-term perspective
  - Establishes linkages to broad organizational goals
  - Focuses budget decisions on results and outcomes
  - Involves and promotes effective communications with stakeholders
Thank You!

CENTER FOR PRIORITY BASED BUDGETING
Using a Unique Lens to Focus Community Resources on Results

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