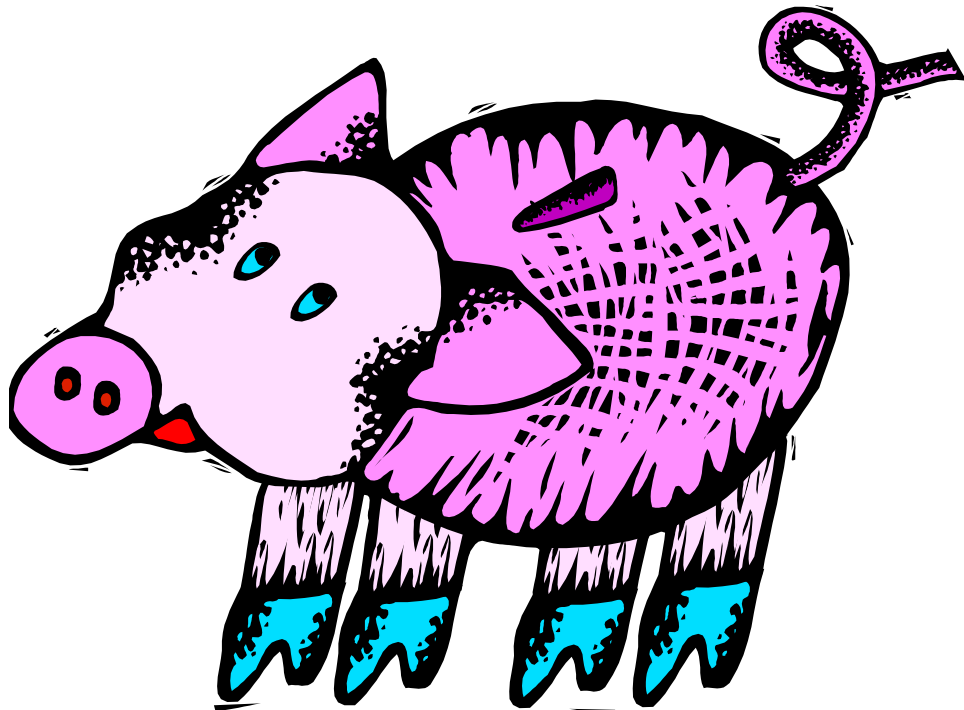


GUIDELINES FOR PREPARING THE MUNICIPAL BUDGET

A HANDBOOK FOR MUNICIPAL ELECTED OFFICIALS



WYOMING ASSOCIATION OF MUNICIPALITIES 2011

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*A budget is more than just a series of numbers on a page;
it is an embodiment of our values.*

—Barack Obama, 2005—

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“The Budget – Yuck! There is nothing worse than doing the budget every year!”

It is easy to understand why those who prepare the municipal budget every year might feel this way about their task. It is a lot of work and not nearly as satisfying as accomplishing the projects identified in the budget. Nevertheless, it has to be done. There really is no other option.

Under Wyoming law, every city and town must prepare and adopt a budget every fiscal year (July 1 - June 30). If desired and pursuant to W.S. §16-4-104(h), a two-year budget cycle may be employed.

However, we don't have to regard the budget as a boring chore that must be endured every year. Rather we can recognize that a budget is a very helpful tool for any community. It is an essential part of getting things done in the best possible way. When the process is done properly it requires doing a good job of choosing what to do – what services and facilities a city will provide – rightsizing the government. Finally, it can be a valuable tool for keeping citizens

involved and informed about what their local government is doing to serve their home community.

A budget is a financial plan that shows how much money will be available, where it comes from, and how it will be used. The preparation and adoption of a budget is the responsibility of the governing body of each city and town. The budget is a tool for implementing the policies adopted by the governing body. It provides financial and operational direction. It facilitates decision-making and controlling the activities and expenditures of government. A well-defined, sound budgeting process is an indispensable component of an economical and efficient local government.



THE PROCESS

1. *Strategic Planning*

Strategic Planning is an important first step in developing a municipal budget. By developing an organizational core value statement, vision and mission and setting specific goals and objectives, the budget process logically follows by attaching financial resources to the goals.

Obtaining community input to help in the strategic planning process can be achieved through citizen surveys, community forums or other public participation processes.

2. *Draft goals*

Draft goals can be prepared by the governing body and staff and presented through a public participation process. Goals communicate your community visions, desires and promises and set the philosophical tone of the organization.

3. *Adoption of goals*

Once a governing body has received sufficient public input and made appropriate changes to the draft goals, it should then adopt final goals for the ensuing fiscal year or years. These final goals become the roadmap for the

direction the governing body wants the municipality to go.

4. *Preparation of budget tied to goals*

Staff works on development of a draft budget tied to the adopted goals. The governing body will have the opportunity to determine if the goals are achievable given revenue and/or time constraints and to address any other issues related to the goals.

a. The budget document will include operating and capital costs.

b. The operating budget includes expenditures for personnel services, materials and supplies, contractual services, utilities, etc.

c. The capital budget includes long-term capital improvements, facilities and equipment.

5. *Adoption of Budget*

The budget is adopted by either resolution or ordinance (*an emergency ordinance may be necessary if the budget is not adopted at the time of the public hearing.*)

6. *Implementation of Goals*

Finally, the work anticipated in the budget begins. Governing bodies need to remember that the budget is a means to an end—the “end” is goal achievement.

*A budget is just a method of worrying
before you spend money,
as well as afterward.*

—Anonymous—

REQUIREMENTS

Every municipality - all first class cities and incorporated towns - must prepare, adopt and operate with a budget. The budget must include both operating and capital funding and costs. Although not part of an annual or biennial budget, it is a good idea to develop a five year plan for long-term capital purchases and projects. Each year, that year's capital plan can be integrated into the current budget and a new fifth year capital plan can be developed.

Fund Accounting

Municipal governments operate under an accounting standard called fund accounting. Budget projections for revenues and expenditures will typically be made within general categories by fund. The various funds of a city or town are generally grouped into generic types:

General fund - the chief operating fund. All financial transactions not properly accounted for in another fund go here.

Special revenue funds - these funds are used to account for resources that are legally or administratively restricted for specific purposes (*an example would be a grant-funded School Resource Officer position.*)

Debt service funds - payment of principal and interest on long-term debt other than special assessment and revenue bonds.

Capital project funds - used for the acquisition of capital assets other than those specified by enterprise and special assessment funds. May involve long-term debt and intergovernmental grants.

Special assessment funds - used for money received from special assessments levied against properties specially benefited by the making of local improvements.

Enterprise funds - These funds are used to account for operations that are financed and operated in a manner similar to business enterprises (*water, sewer, sanitation.*)

Trust and agency funds - assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units (*a good example is a Cemetery Perpetual Care Fund.*)

Internal service funds - the financing of special activities and services performed by a department or agency to other departments on a cost-reimbursement basis (*motor pool, health insurance fund.*)

Within each of these funds, budgets will be broken down by department and further by division. As an example, the General Fund might have a Police Department and a Patrol Division. Each division may have categories of expenses (*sometimes called charts of accounts*) that will include:

- Personnel expenses (*wages, salaries and benefits, training and development*)
- Operating expenses (*utilities, supplies, equipment maintenance, contract services*)
- Capital outlay (*equipment, buildings, land, other improvements*)

Required Contents of Municipal Budget:

- Actual revenues and expenditures completed in the last fiscal year
- Estimated total revenues and expenditures for the current fiscal year
- Estimated total revenues and expenditures for the ensuing budget fiscal year



- Specific work programs and supportive data also need to be included
- A budget message that outlines the proposed financial policies for the budget year and explains any changes from the previous year.
- All municipalities are specifically statutorily required to include all convention or meeting expenses in the annual budget. It is a misdemeanor to allow or pay out of city funds any bill for expenses incurred for any municipal officer or employee incurred while attending a meeting or convention unless the expenses are specifically budgeted (W.S. §16-4-124).

Budget Message

One of the most important sections of the budget document is the narrative portion called the budget message. This message gives an overview of all of the key issues, assumptions and priorities for the ensuing fiscal year. It reveals major assumptions that the budget is built upon, identifies financial, economic and inflation rates, and focuses attention on changes from the last budget in terms of service and funding level. The budget message is a

great tool for the public's understanding of the overall budget document.

Limits on appropriations

A governing body cannot make any appropriation in the budget of any fund in excess of the estimated expendable revenue of the fund for that budget year.

Appropriation lapse

All appropriations (*excluding appropriations for capital projects*) shall lapse following the close of the budget year to the extent they are not expended or encumbered.

LEGAL DETAILS

There are different statutes in effect depending on whether a municipality is an incorporated town with a population under 4,000 or a community with a population over 4,000 or defined as a First Class City (W.S. §15-3-101).

Incorporated town - Population under 4,000

Incorporated towns or cities with a population of less than 4,000 must prepare their budgets in a format acceptable to the State Auditor (W.S. §16-4-125(c)).

Key Steps

- Within the last quarter of the fiscal year, the governing body must pass an annual appropriation ordinance for the next fiscal year. The ordinance must specify the objects and purposes for which the appropriations are made and the amount appropriated for each object or purpose.
- Prior to adoption of the budget, the governing body must determine the amount of general (property) taxes necessary and determine any special taxes or levies.
- By the fourth Monday in May, the governing body must notify the County of the required mill levy and file a copy of the budget with the County Clerk (W.S. §39-13-104(k)(i)(A)).
- Year-end budget information must be published immediately after the end of the fiscal year.

- Amendments – since the budget is an ordinance, it must be amended by ordinance, any amendments must be done by ordinance.

First Class Cities, Towns over 4,000 Population and City Manager Forms of Government

Unless changed by charter ordinance, these designated municipalities must comply with the Uniform Municipal Fiscal Procedures Act (W.S. §16-4-101 through §16-4-125) in preparing their budgets.

Key Steps

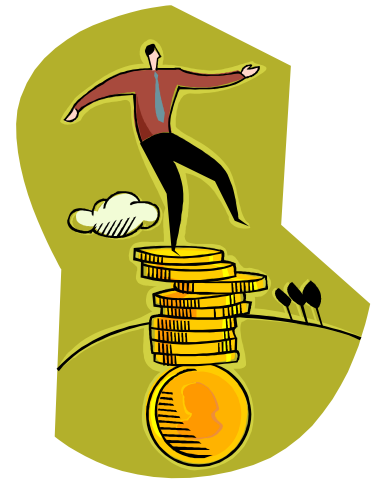
- On or before May 1 - Departments must submit budget requests to budget officer
- On or before May 15 - Budget officer must prepare tentative budget for each fund and submit to governing body
- Publication of budget summary must occur at least one week prior to the Public Hearing (*if there is no newspaper of general circulation, summary must be posted in three conspicuous places in municipality*)
- Public Budget Hearing must be held between the 2nd and 3rd Tuesday in June

- Within 24 hours of the budget hearing, the budget must be adopted by resolution or ordinance
- By July 31, it must be filed with the County Clerk for the necessary property tax levy (W.S. §39-13-104(k)(i)(B)).
- Semi-annual and annual financial statements are to be published pursuant to W.S. §15-3-306.
- Amendments – the budget can be amended by resolution of the governing body.
 - * At the request of the budget officer or upon its own motion after publication of notice, a governing body may by resolution transfer any unencumbered or unexpended appropriation balance from one fund, department or account to another.
 - * The budget of the general fund may be increased by resolution of a governing body. The source of the revenue must be identified (*i.e., unanticipated income, unappropriated surplus, donations, etc.*)
 - * If a governing body determines an emergency exists and the expenditure of money in excess of the general fund budget is necessary, it may make such expenditures from reserves as necessary to meet the emergency.

Notice of the declaration of emergency must be made in the same manner as for public hearing notices.

THE REVENUE SIDE

Estimating how much money will be available to a city or town can be the most challenging part of preparing a budget. It may also be the most important part. Some of the largest revenues are highly variable and very hard to predict. Estimates that are too high can cause real headaches as the fiscal year progresses. *It is best to err on the safe side and underestimate revenues.*



I'm proud to be paying taxes in the United States. The only thing is — I could be just as proud for half the money.

—Arthur Godfrey—

Revenues fall in several different categories. It is impossible to have a proper budget without understanding the nature of all the revenues that are involved. Some are ongoing and others are one-time. Some are very stable and others have wide variations. Some are restricted for specific uses and others have no restrictions. Most come from either local or state sources, but there are also federal funds and those from other sources. There are some that are determined by the local governing body but there are many that are beyond any local control. The Wyoming Constitution gives local officials very little decision making authority when it comes to taxes and fees.

“The legislature shall restrict the powers of such municipal corporations to levy taxes and assessments, to borrow money and contract debts so as to prevent abuse of such power...”

—*Wyoming Constitution*
Article 13, Section 3—

It is best to err on the safe side and underestimate revenues.

State Shared Revenue Sources

- *Sales and use tax (4¢)* – The largest and most important revenue source. Can be highly variable, especially in mineral industry and tourism counties. No restrictions on how it is used. *A good approach is to use the long-term trend forecast for ongoing expenses and treat spikes as one-time revenue.*
- *Federal mineral royalty and mineral severance tax* – very stable, no restrictions on use, statewide total amount has a fixed cap.
- *Supplemental appropriation for direct distribution* – no restrictions, very unpredictable depending on current inclination of the legislature, could even be suspended. This has become a very important part of the revenue system.
- *Fuel taxes* – Gasoline and diesel (“special fuels”) – very stable, must be used for roads, streets, bridges, traffic control, etc.
- *Cigarette tax* – very stable, no restrictions.

- *Impact assistance payments* – sometimes temporarily paid to impacted local governments by state following commencement of an industrial facility such as a power plant. No restrictions, but highly variable and unpredictable.

Local Revenue Sources

(unless noted otherwise, no restrictions on use and quite stable)

- *General Purpose Local Option Sales Tax* – A very large revenue source in many counties. Amount can be quite variable and the entire tax is vulnerable to defeat in an election.
- *Specific Purpose Local Option Sales Tax* – Requires voter approval for each listed capital project. Can be used only for the specific projects passed by voters. Is discontinued when the approved amount has been raised.
- *Franchise Fees* - charges for use of municipal public right-of-way (*electricity, phone, natural gas, cable television.*) A franchise is a “rent” for the use of a public right-of-way and is not a tax.
- *Interest Income* - money received from investments in various funds and depositories. Quite variable.

- *Property Tax* - in its annual budget, each city or town must certify to the County Clerk the amount of property tax revenues it will need for the operation and maintenance of the municipality for the coming fiscal year. The tax levy of a municipality is limited to eight mills by Wyoming Constitution Article 15, Section 6.

- *Vehicle Registration fees* - similar to property taxes on vehicles.
- *Fines and Forfeitures* - available if municipality operates a municipal court.
- *Business Licenses* - any city or town can impose license taxes on any business conducted within the municipality. Somewhat variable.
- *Permits and Fees* - planning, building, etc. Quite variable depending on local economic activity.
- *Liquor Licenses* - number and maximum amount of license fee controlled by statute.
- *Cemetery Fees* - opening and closing fees, cost of lot, perpetual care.
- *Management Fees* - charge to enterprise funds for overhead expenses from the general fund.

- *User fees* - swimming pool fees, golf course green fees, park use fees, enterprise (*utility*) fund fees, etc.

Water, sewer, sanitation, electricity are all utility-type revenues that are spent or saved within their respective enterprise, and are not for general use. These can be a very large revenue source.

- *Development fees* - plant investment fees (*tap fees*); annexation fees, subdivision fees, etc. Quite variable.

Grants

Wyoming cities and towns derive a significant benefit from both state and federal grants. Typical grants are for specific purposes and include strict conditions and requirements. Most grants require a local match and there are often grant-loan combinations. Grants may be for operating needs such as training and technical assistance, but grants for capital projects are more common.

Some of the sources of state grants are the Wyoming Business Council, the State Loan and Investment Board (SLIB) and the Wyoming Water Development Commission. Sources of federal grants include USDA Rural

Development, Homeland Security, and the Justice Department.

Typically a grant agreement summarizing the requirements for expenditures and documentation will be required as a condition of grant receipt. Expenditures will be limited to those outlined in the grant and grantee accounting and reporting responsibilities are crucial. For some grants the requirements and recordkeeping are so onerous that the grant is more trouble than it is worth. Grants that are known at the time of budgeting must be included in the budget. Those secured during the year may require a budget amendment.



Borrowed Funds – Bonds and Loans

Bond proceeds must be included in the budget. Two common types of borrowing are general obligation bonds and revenue bonds. General obligation bonds pledge the “full faith and credit” of the local government. Local governments agree to use tax money to repay the debt. Wyoming municipal governments are limited to eight mills of their assessed property tax valuation in the issuance of general obligation bonds. General obligation bonds cannot be issued unless a majority of the voters approve.

Revenue bonds are repaid from revenues the project itself generates. Water and sewer projects lend themselves well to the issuance of revenue bonds, where revenues from user fees can be used for repayment. Communities have also pledged the future revenue from a specific purpose local option sales and use tax to finance bonds that allow for early construction of the approved project.

Quite often grant programs require accompanying loans. Like bond proceeds, loan proceeds must be included in a municipal budget.

THE EXPENDITURE SIDE

In order to provide the services and facilities that the public wants and needs, cities and towns make a wide variety of expenditures. The activities of government generally fall into two categories – utility-type functions and general government functions. Within each of these categories, the costs also generally fall into two categories – operating expenses and capital expenses. *There is a natural tendency to be optimistic when estimating future expenses. However, in preparing a municipal budget it is wise to be cautious and resist the temptation to estimate costs on the low side.*

Operating Expenses

In general the operating expenses of cities and towns are ongoing rather than one-time. Since municipal services are people intensive, the costs of wages, salaries and benefits are the greatest cost for cities and towns. It is wise to approach any increases in compensation with great caution. Once granted, increases are very difficult to take back—this is a very personal matter—and the obligations continue far into the future.

Other typical costs include supplies, utilities, insurance, maintenance, communications, transportation, information technology, training, required publications, professional services, etc. It is often the case that the most expensive functions are law enforcement, fire protection and street maintenance.

Many operating expenses are quite consistent from year to year. The budget changes may be as simple as an adjustment for general inflation. However, if substantial changes in operations are expected, the budget should reflect these changes. Energy and fuel costs have experienced a lot of variation over the past several years. Health insurance costs have increased much more rapidly than inflation. Pension systems are under close scrutiny and are another area where cost increases are quite likely.

Capital Expenses

Capital expenses are those that involve acquiring or constructing physical assets. Major costs for land, buildings, equipment, treatment plants, and pipelines are capital costs. Capital costs within a specific area of activity are usually one-time or infrequent expenses. Small communities may go quite some

time between capital expenditures. Large communities usually have capital expenses every year. Municipalities typically pay for capital projects by obtaining grants from state or federal agencies, saving up money for several years, or borrowing.

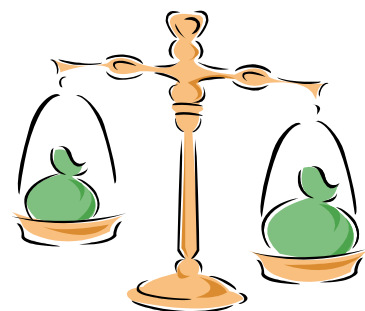
TIPS FOR A SUCCESSFUL BUDGET PROCESS

Be Selective – Government Can't Be All Things To All People

- What core services and facilities are most important to provide?
- What can we afford?
- Don't start a program that can't be sustained.
- Don't build a facility that can't be maintained.

Don't Be Afraid to Ask Questions

- Can you explain this again? I'm not sure I understand.
- What will this new program accomplish?



- Could we contract this service out?
- Is this a program we could cut back or even eliminate?
- Have we followed all the correct procedures – notices, hearings, etc?

TEMPTING – BUT DO NOT

- Inflate revenue estimates
- Underestimate expenditures
- Raid reserves and enterprise funds
- Fail to repay interfund transfers
- Defer costs to the future

If You Are Cutting Back - Common Mistakes

- Exhausting reserves - short-term strategy with detrimental long-term consequences
- Freezing hiring for all vacant positions - can be one of the most counterproductive strategies - some positions are more critical than others
- Across the board uniform cuts - reinforces poor budgeting practices (*padding*)
- Deferring maintenance of equipment and facilities – often costs more in the long run

- Deferring equipment purchases - people need equipment to carry out their jobs
- Cutting capital expenditures - short-sighted and expensive strategy
- Eliminating training - local governments are in the service business and 60-80% of their budgets are personnel costs - poorly trained employees cost money
- Directing staff where to cut— instead, give them a target and let them make the cuts
- *Even during hard times it is important to keep a positive outlook. Reserve at least a small part of the budget for amenities, quality of life, and long term investments for the future.*

Budget Document Assessment

- Is the budget message informative and easy to read?
- Does the budget message address major issues, including public concerns?
- Does the budget document include an overall mission statement?
- Does the budget message include specific goal statements?

Evaluation Process

The budget doesn't stop with adoption! Midway through the fiscal year, take time to review goal accomplishments and setbacks. Don't focus so much on staying within budget that you fail to evaluate the programs themselves.

Information Resources

- Local records – past budgets and expenditures
- Staff experience
- State agencies
- WAM Revenue Bulletins
- Other municipalities
- Economic forecasts
- National League of Cities (NLC)
- International City/County Management Association (ICMA)

THE BUDGET IS A TOOL, NOT A BIBLE!

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