



# Presentation Objectives

- Introduction/Overview
- Purpose of Budgeting/Roles
- Components of a Budget
- Development of Budget Process
  - Revenues
  - Expenditures
- Adoption/Implementation of Budget
- How to Read Your Budget
- Questions/Discussions



# Purpose of Budgeting

- To meet organizations strategic goals
- Process to determine what & how services will be delivered to citizens
- How the services will be financed

# Purpose of Budgeting

- Internal Control mechanism for planning and controlling operations
- One of the most important activities undertaken by governments
- Revenues **MUST** = Expenditures
- Bottom line, you can add revenues, reduce expenditures or a combination of both!

# Purpose of Budgeting



## Simplistic Version

“On what basis shall it be decided to allocate X dollars

to activity A versus activity B?”

*Not as easy as it sounds.....*

# Roles in Budgeting



# Roles in Budgeting

- Citizens
- Elected Officials
- Public Employees



# Roles in Budgeting

## **Citizens:**

- Voice heard as to priorities/service levels and cost of providing desired priorities/service levels

## **Elected Officials:**

- Set Policy Guidelines, Establish Priorities, Communicate Position to Constituents, Resolve Conflicts



# Roles in Budgeting

## Public Employees:

- **Department Staff** - Develop Program Objectives, Identify Service Levels, Prepare Budget Requests
- **Executive Management** - Prepare a Recommended, Balanced Budget, Incorporate Elected Priorities, Assess Service Levels



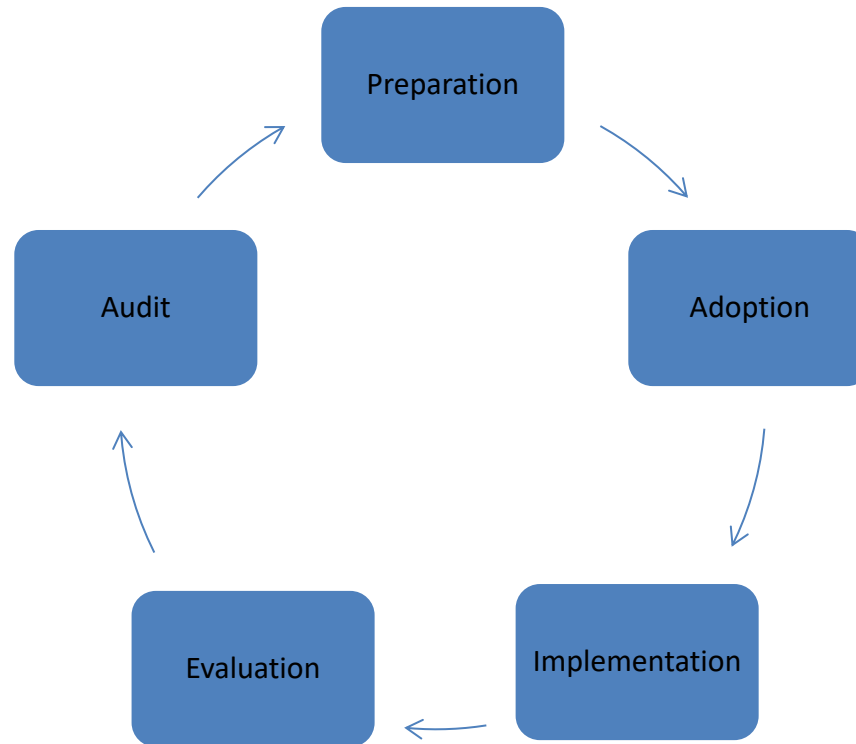
# Difference Between Large & Small Cities & Towns

- Roles for Citizens & Elected Officials are the same
- Only difference with Department Staff and Executive Management – They may be one in the same!

# Building a Budget



# Never Ending Cycle

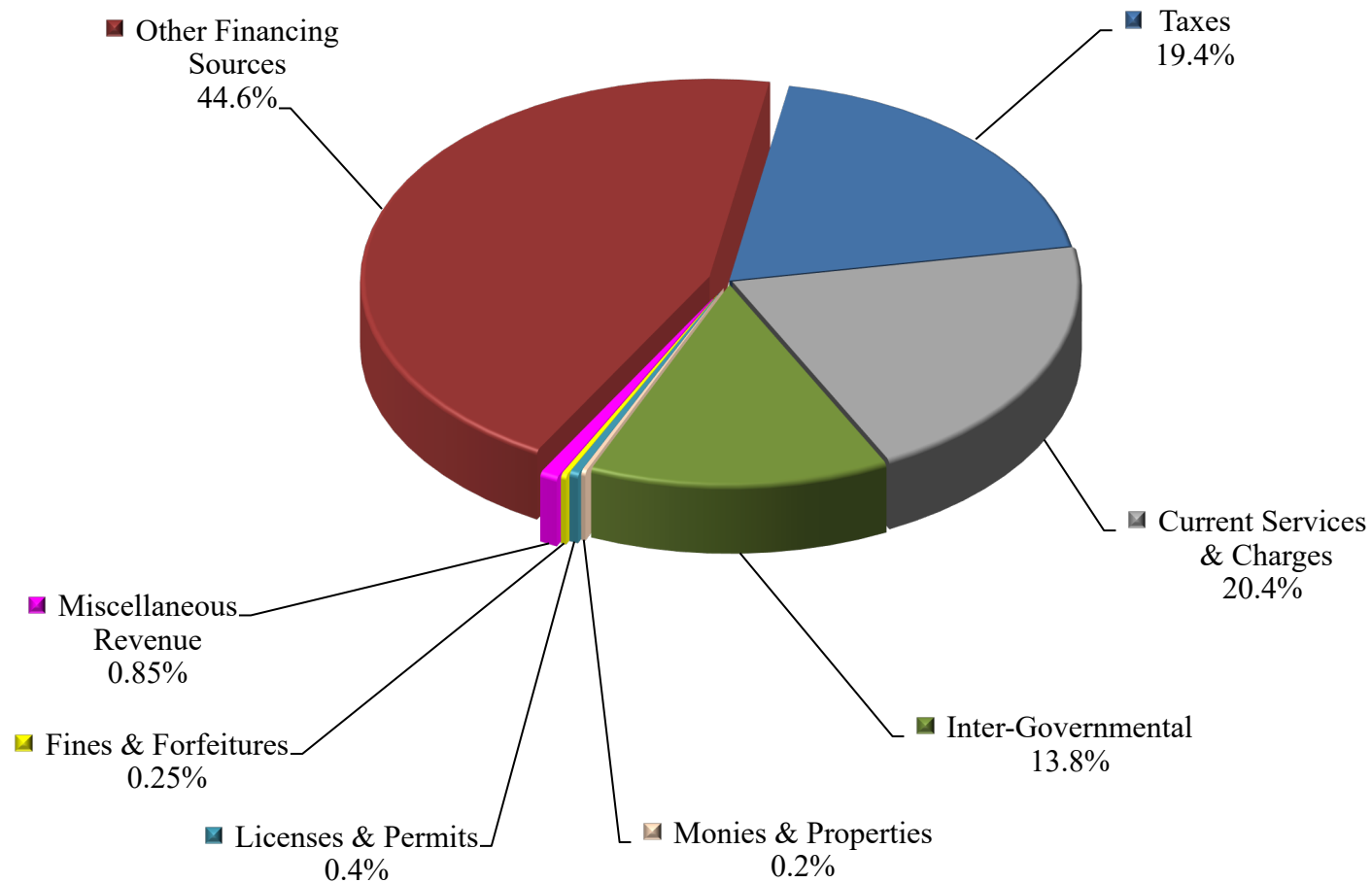


# Components of a Budget



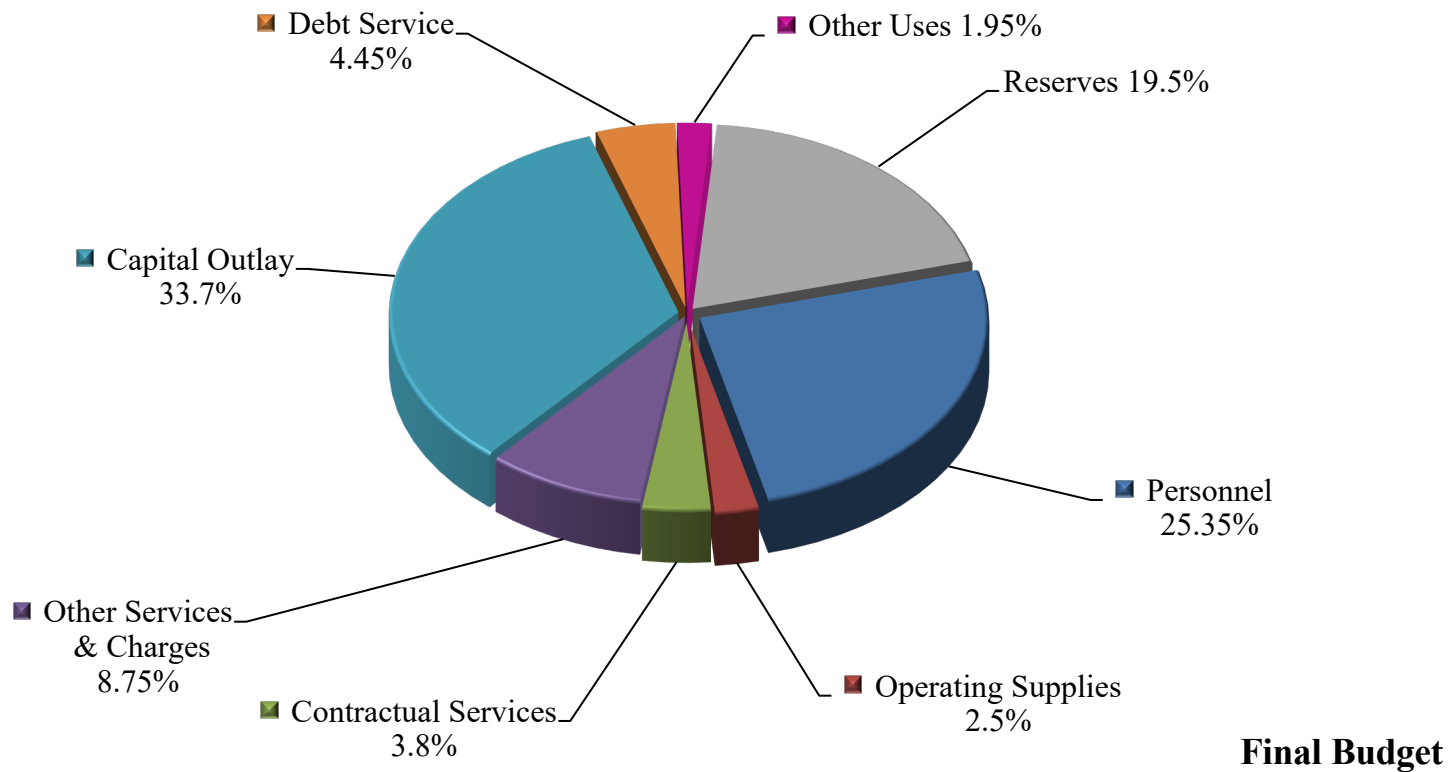
# Components of a Budget

## All Funds Consolidated Revenues by Source



# Components of a Budget

**All Funds Consolidated Expenditures  
by Category**

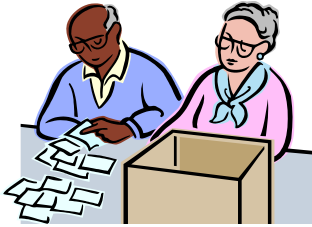


# Funds

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Projects
- Debt Service
- Enterprise Funds
- Fiduciary Funds



# General Fund Required by Statute



- Revenues to be used for any municipal purpose
- Contains most departments in the State/County/City/Town

# Special Revenue Funds

- Revenues collected for specific purpose and are restricted in their use
- Highway User Revenue Fund (HURF) required by statute
- Grants

# Internal Service Funds

- Fleet Management
- Risk Management
- Print/Copier Funds
- Information Technology

# Capital Budgets (CIP)

- Multi-year and of considerable value (5 to 10 years)
- Finance by pay as you go, grants, or borrowing
- First year of CIP becomes part of annual budget



# Enterprise Funds



- Like a business, needs to be “self supporting”
- Revenues cover cost of providing service
- User based versus tax based revenues
- Enterprise Funds:
  - Utilities (Water, Sewer, Electric)
  - Universities

# Budget Process

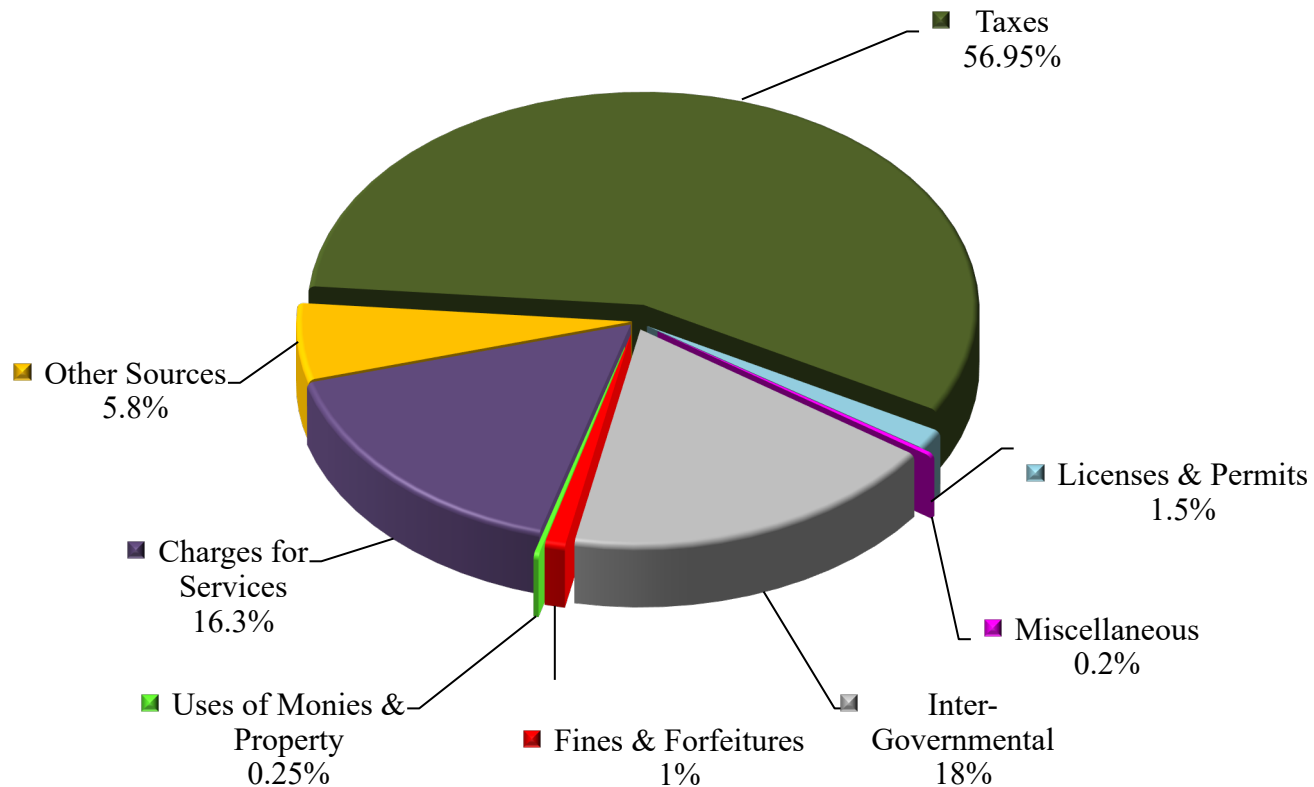
- Project out your revenues
- Expenses-One time versus on-going
- Fund balances (carryover funds)

# REVENUES



# Summary of General Fund Revenues

## General Fund Revenues Fiscal Year 2017





# Revenues

- Local revenues
  - Sales tax
  - Franchise taxes
  - Licenses, permits & fees
  - Fines
  - Property taxes



# Sales Taxes

- Major Revenue Categories:
  - Retail
  - Construction
  - Utilities
  - Rental
  - Restaurant & Bar

# Franchise Taxes

- Permission for utilities to use City/Town's right away for underground lines
- Must be approved by vote of the people
- Usually based on % of gross sales
- Cannot exceed 25 years



# Property Taxes- Municipal

- Primary tax rate can be used for any municipal purpose
- Establishing a “new” primary property tax requires a vote of the people
- Election is held 3<sup>rd</sup> Tuesday in May
- Secondary rate can only be used for payment of debt service (principal and interest) on bonds approved by voters

# State Shared Revenues

- State Sales tax
- Income tax
- Auto Lieu
- Highway User Revenue



# Other Finance Sources

- Bonds
  - General Obligation Bonds
  - Revenue Bonds
  - Highway User Revenue Bonds
  - Special Improvement District Bonds
  - Municipal Property Corporation Bonds
  - Water Infrastructure Financing Authority (WIFA)

# Preparation of Budget

- Revenue Forecasting
- Producing a “balanced budget”
- Phantom deficit reductions that will catch up with you
  - Unrealistic revenue projections
  - One-time versus on-going
  - Ducking the decision

# Council's role?

- Understand the various revenue sources and their restrictions (if any)
- Understand how the estimates were arrived at and if there are sound assumptions behind them



# Expenditures

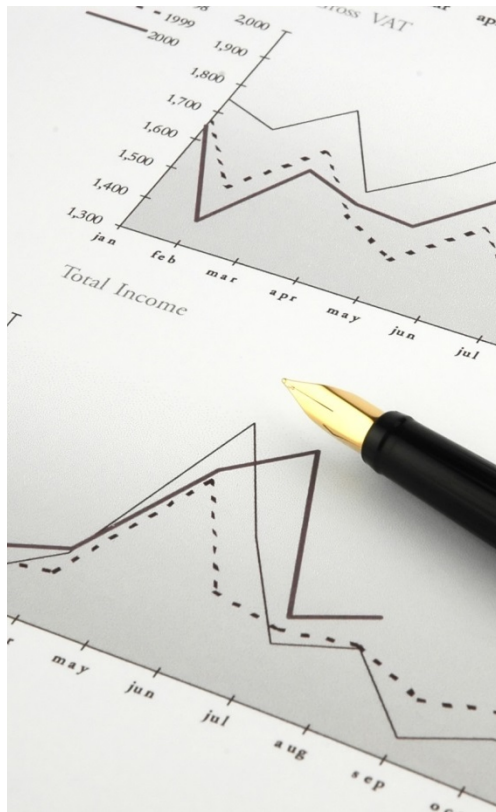


# Expenditure Limitation

- State Expenditure limitation
- Alternative?
  - Home Rule
  - Permanent Base Adjustment
  - One time override

# Preparation of Requests

- Council vision and goals
- Fiscal picture for next year (Revenue Projections/Expenditure estimates)
- Instructions/rules to follow in preparation
- Budget justification
- Cost Estimations



# Types of Budget Processes

# Budget Processes

- Performance Based
- Program
- Zero Based
- Modified Zero-Based (Target)
- Incremental
- Expenditure Control Based (ECB)
- Line Item

# What is Council's Role?

- City or Town Manager are responsible for presenting a budget to Council
- Usually more requests than resources
- Align expenses with Council goals
- Keep out of the weeds and look at policy level
- Approve a balanced budget

# Difference Between Large & Small Cities & Towns

- Processes can be used by large or small communities
- Small communities tend to get into line item but that can cause losing sight of the “big picture”
- Same revenue sources, just at different levels

# Difference Between Large & Small Cities & Towns

- Expenditure projection process-departments not as involved
- Can become more political in smaller communities
- Expenditures not of same magnitude but.....can be more than revenues base allows



# Budgeting in Arizona – Keeping it Legal



# Budget Issues Impacting Arizona

- Compensation
- Growth-Related Issues
- Revenue Reliance
  - Leakage
  - Competition
  - Unfunded Mandates
- Industry Attraction/Retention
- Water supply
- Regional Transportation
- Community Development

# Budgeting in Arizona

- Must adopt a balanced budget
- Tentative budget must be adopted by third Monday in July
- No requirement for final budget unless City/Town has property tax
- Property Tax must be adopted by 3<sup>rd</sup> Monday in August but 14 days after final budget adoption
- Various restrictions on funds – HURF, Impact Fees

# Budgeting in Arizona

- Tentative budget is required to be itemized per Auditor General Forms
- Published once a week for two consecutive weeks
- Notice of hearing date for final budget
- Both tentative and final must be published on City/Town website 7 business days after adoption
- Must remain posted for 60 months (five years)

# Publication Requirements

- Cities/Towns must establish and maintain an official internet website
- Posted no more than 7 days after estimates of revenues and expenditures are given to governing body
- A.R.S 42-17105 & 17103:
- Requires adoption of expenditure estimates (tentative budget)
- Posting of tentative and final budgets for 60 months

# Important Budget Related Statutes

- 9-499.15. Proposed municipal taxes and fees; notification required; exception
  - If New or increased tax rate or fee, post written notice of the proposed increase on the home page of the municipality's website at least sixty days before the date the proposed new rate is approved or disapproved by the governing body of the municipality.

# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments
  - Water & Wastewater rate, fee or service charge must file a written report supporting increase at least 30 days prior to a public hearing
  - Council adopt a “notice of intention” at a regular council meeting and set the public hearing date, but must be within 60 days.

# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
  - Must publish notice of intention in local newspaper with public hearing date, time & place no less than 20 days before public hearing
  - After public hearing, Council can adopt by resolution or ordinance rate, fee or service charge increase



# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
  - Increase does not become effective until 30 days after the adoption of the resolution or ordinance

# Truth in Taxation

- Levy versus rate!
- Bottom line, if current AV goes up, truth in taxation may be required
- Citizen perspective: If you had a house that was valued at \$100K last year and it is valued at \$110K this year and the rate stays the same, your levy is going up!

# Budget Related Elections

## Bonds

- General Obligation Bonds – Yes!
- Revenue Bonds – Yes! (Exception of utility for Cities/Towns under 50,000)
- Highway User Bonds – Yes!
- Municipal Property Tax Corporation Bonds – No!

# Budget Related Elections

- Establishment of a Primary Property Tax
- Alternative Expenditure Limitation (Home Rule) every 4 years
- Permanent Base Adjustment
- One-time override

# Small Communities



# Issues Facing Small Communities

- Decreasing tax base
  - Assessed valuation
  - Sales tax base
- Limited revenue options
  - Sales Tax
  - Fees & Charges
  - Property taxes

# Issues Facing Small Communities

- Deteriorating infrastructure
  - Water
  - Wastewater
  - Streets
- “Catch 22” with creating new jobs and attracting new businesses
- Services expected above revenues received

# Issues Facing Small Communities

- Hiring qualified personnel
- Growth is not always welcomed
- Keeping identity but not being available to afford it (resistance to regionalization of services)
- Minority voice can become majority
- Deep culture---long history



# Large Communities



# Issues Facing Large Communities

- Decreasing tax base (unless growing)
  - Assessed valuation
  - Sales tax base
- Limited revenue options
  - Sales Tax
  - Fees & Charges
  - Property taxes

# Issues Facing Small Communities

- Prevent Deteriorating infrastructure
  - Water
  - Wastewater
  - Streets
- Services expected above revenues received

# Issues Facing Large Communities

- Competition is high between communities
- Growth is not always welcomed
- Minority voice can become majority
- Want to keep community identity but sometimes more expensive – i.e. downtown redevelopment, sport complexes, etc.

# Resources

Government Finance Officers Association

**<http://www.gfoa.org/budgetaward>**

AZ Auditor General Office

**<http://www.auditorgen.state.az.us>**

AZ League of Cities & Towns-Budget and Finance Manual

**<http://www.azleague.org/>**

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# Questions?

