

Introduction to Budgeting

Presented by Harlita R. Tomlinson
for 2019 Ohio GFOA 32nd Annual Conference

OHIO GFOA



Government Finance Officers Association



City of Forest Park



Agenda

- Why do we have to budget?
- The Budget Process
- Budget Elements
- Level of Budgetary Control
- Phases of the Budget
- Monitoring the Budget

What is a Budget?

- It is a document prepared by a government or other political entity presenting anticipated revenues and proposed expenditures for specific period of time, either:
 - Annual
 - Biennially
- The budget is constantly monitored throughout the year to determine how well the government is adhering to its own plan.
- Throughout the year, budgets can be adjusted up or down to adjust to real-life events.



What is the purpose of a Budget?

- Serves as a policy guide
- Serves as a financial planning tool
- Serves as an operations guide
- Serves as a communication device





Why establish a Budget?

- The Budgetary Process is prescribed by the Ohio Revised Code Chapter 5705 and includes:
 - the annual tax budget (5705.28)
 - a resolution setting tax amounts and rates (5705.34)
 - the official certificate of estimated resources (5705.36)
 - the annual appropriation ordinance or resolution (5705.38)
 - the county auditor's certificate that appropriations are within estimated resources (5705.39)
 - amending and supplementing budget (5705.40)
 - full detail on ORC:

<http://codes.ohio.gov/org/5705>



Legal Requirments ORC 5705.39

- Appropriation Limits
 - *The total appropriations from each fund **shall not exceed** the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals.*
 - ***No appropriation measure** shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.*
 - *When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.*
 - *Appropriations shall be made from each fund only for the purposes for which such fund is established.*

Effective Date: 09-26-2003



The Budget Process

- The steps or phases an organization takes to prepare future spending over the next twelve months.
- Every organization has a unique process to achieve the same goal.
- To guide others through the budget process some organization develop a budget calendar
 - To remember legal requirements
 - To understand each persons role in the process
 - To achieve the primary goal of producing a balanced budget.

The Budget Process



Budget Calendar

2020 Budget Calendar for Cities and Towns

**March—
August**

Pre-Budget Items

- Council retreat
- Update and/or adopt financial policies
- Public hearings for capital facility plan updates
- Public forums or community outreach (ex: community priorities)
- Mayor/Manager communicates budget objectives to staff

September

- Sept 9** Budget request to all department heads.
- Sept 9–22** Department heads prepare estimates of revenues and expenditures. Clerk prepares estimates for debt service and all other estimates.
- Sept 23** Budget estimates from department heads filed with clerk
- Sept 25** Implicit price deflator calculated (only applies to cities of 10,000+ population)

October

- Oct 1** Clerk provides estimates filed by department heads to Mayor/Manager showing complete financial program.
- Oct 7** Mayor/Manager provides Council with estimates of revenues from all sources including estimates prepared by clerk for consideration of setting property tax levy.
- Mid-October to Mid-November (suggested)**
Public hearing on revenue sources including possible increases in property tax.

November

- Nov 1** Mayor/Manager prepares preliminary budget and budget message. Files with clerk and council.
- Nov 1–18** Publication notice of preliminary budget and final hearing.
- Nov 1–25** Public hearing(s) on preliminary budget. Public hearing on revenue sources for levy setting.
- Nov 20** Copies of budget available to public
- Nov 30** Property tax levies set by ordinance and filed with the County

December

- Dec 2** Final budget hearing
- Dec 31** Budget adoption





Budget Classifications

- Deficit budget
 - When proposed expenditures exceed anticipated revenues.
- Balanced budget
 - When anticipated revenues equal proposed expenditures.
- Surplus budget
 - When anticipated revenues exceeds proposed expenditures.



Budget Types

- Operating Budget
 - Projection of the maximum amount the organization can spend on each program or service offered.
- Capital Budget -
 - Plan to determine the investment the organization will make in long-term assets such as new roads, buildings, or the purchase of equipment.



Operating Budget Types

- Revenue Budget
 - Consists of all the receipts of the organization used to support appropriations.
- Personnel (Salary & Benefits) Budget
 - Consists of the funding needed to pay for labor costs for the organization.
- Appropriation Budget
 - Consists of all the spending planned for the budget period.



Budget Methods

- Line-item budgets
- Program budgets
- Project budgets
- Zero-based budgets
- Performance-based budgets
- Priority-based budgets



What is an Appropriation?

- A legal authorization granted by the legislative body to make expenditures and incur obligations for specific purposes.
- Usually for a limited:
 - amount
 - time to expend



Appropriations

- Annual appropriations passed by ordinance or resolution
 - Must adopt by April 1
- Temporary appropriations are also passed ordinance or resolution
 - Covers January 1 to March 31
 - Limited to ordinary expenditures
 - Must be included in the annual appropriations
- Amendments are passed by ordinance or resolution and they modify the existing appropriations by adding to, or subtracting from prior appropriations.



Budget Terms & Definitions

- Estimated resources
 - The anticipated receipts the organization expects to receive during the budget period.
- Encumbrances
 - Are authorized purchase commitments related to unperformed agreements for goods and services.
 - Once the purchase is performed, the encumbrance is removed and an expenditure is posted.
- Fund Balance
 - The amount left over after all a funds assets have used to pay all the funds liabilities.



Legal Level of Budgetary Control

- The level at which the governing body sets appropriations, which means:
 - The level at which spending in excess of the budgeted amount would be a violation of law
 - The lowest level at which a government's management may not reallocate resources without receiving additional approval from the governing body



Legal Level of Budgetary Control (cont'd)

- Legal level of control should remain consistent throughout the year
- Need to consider:
 - The frequency of budget amendments
 - The amount of flexibility to be granted to management.
 - The existence of current budget policies and practices



Legal Level of Budgetary Control (cont'd)

- Statutory appropriation level
 - ORC §5705.38(C):
 - “appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and with each, the amount appropriated for personal services.”



Recording the Budget

- Ohio Administrative Code § 117-2-02(C)(1)
 - All local public offices should integrate the budgetary accounts, at the legal level of control, into the financial accounting system.
 - Estimated receipts posted to the financial accounting system should equal; the estimated receipts on the certificate of estimated resources.
 - Appropriations posted to the financial accounting system should equal the sum of the annual appropriations measure and all its amendments.



Where do I begin?

- The Budget Process begins with the Tax Budget.
- It is a financial plan for the operations of the upcoming calendar year that identifies how much money is expected from the government's own resources, anticipated cash carry-over fund balance and how much is needed to provide the planned programs and services over the same period.



Role of the Finance Director

- The Director is the Chief Budget Officer
- Key responsibilities of the Director
 - Develop the budget calendar
 - Design and approve budget worksheets and forms
 - Understand the different phases or versions of the budget and there purpose
 - Verify budget calculations



Role of the Budget Officer

- There are 3 roles of the budget officer:
 1. Providing coordination of budget materials
 2. Providing guidance on financial policies, especially budget policy
 3. Providing direct supervision over budget policy implementation



Tax Budget

- Used to set property tax rates
- Presents the need to levy property taxes
- Used to allocate the local government fund
- Outlines the plan for the upcoming year
- Can be waived by the County's Budget Commission
- Requires a public hearing
- Must be adopted by July 15th
- Must be filed with the County Auditor by July 20th, unless an extension is granted.

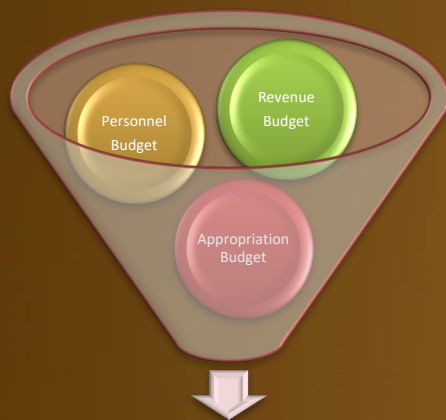


What do I do next?

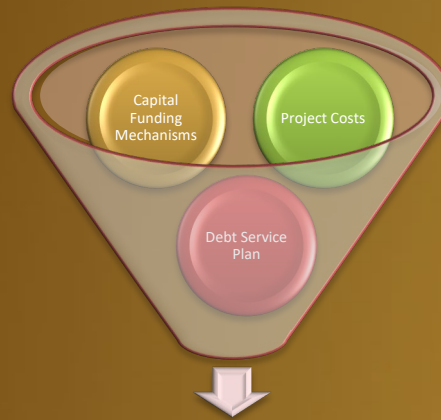
- Follow the steps outlined in the budget calendar
- For Forest Park:
 - Strategic planning with City Council, and
 - Forecasting:
 - Revenue Budget
 - Personnel Budget



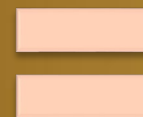
Budget Process – City of Forest Park



OPERATING BUDGET



CAPITAL BUDGET





Budget Process

- In Forest Park:
 - The Finance Director prepares the Revenue Budget
 - The Assistant Finance Director prepares the Personnel Budget
- Both budgets are input into our budgeting software
- Then the budget is ready for the next phase



Budget Phases – City of Forest Park

1. Tax Budget
2. Finance Budget
 - Enter Revenue and Personnel budgets for the entire City
3. Departmental Budget
 - Departments enter their own budget information with a four forward forecast
4. City Manger Budget
 - Department can view only
 - Budget used for Budget Hearings
5. Recommended Budget
 - Budget presented to City Council
6. Approved Budget
 - Budget approved by City Council



Departmental Budgets

- Role of the Department Head
 - Oversee the preparation of their unit's budget proposal submitted to the Budget Officer.
 - Explain and clarify:
 - Current financial conditions of their unit
 - Future fiscal prospects
 - Modifications or enhancements to budget plans for the unit



City Manager's Budget

- After the department's have submitted their information.
- When the department's discuss with the Chief Administrator the funding needed for their unit for the upcoming year
- Budget hearings should be held for each unit of the organization that is requesting funding.



Budget Hearings

- What is the purpose?
 - Opportunity for each unit of the organization to present their plans for the next year or more
 - Describe new initiatives
 - Justify extraordinary changes in spending requests
 - Explain new funding options
 - Address questions and concerns of others in attendance at the meeting



Budget Hearings (cont'd)

- May or may not be open to the public
- May or may not be recorded
- Format of the Hearing can be:
 - Formal – PowerPoint presentation with handouts
 - Informal – from the information compiled by the Budget Officer, or presented by the Department Head to the Administrator and Budget staff.



What comes next?

- Once the Budget Hearing are completed the budget corrections are made
- Reports are run to determine the budget classification:
 - If surplus or balanced budget.....
 - If deficit budget you must determine what it will take to get the budget balanced





Balanced Budget Definitions

Balanced Budget

- A balanced budget occurs when the total sum of money collected in **one** budget year equals or exceeds the amount of money spent over the same period.

vs. Structurally Balanced Budget

- A balanced budget that supports long-term financial sustainability over **multiple** years (usually 3 or more) where non-recurring revenue and cash reserves are not used to pay current year expenses.

Budget Strategies to Achieve Balance

- 1) Enhancing revenue generation and collection
- 2) Across-the-board cuts
- 3) Reduce spending
- 4) Eliminate duplicate or overlapping costs
- 5) Use automation
- 6) Restructure existing debt
- 7) Increase the level of debt





What to I do when the Budget is done?

- Prepare the budget ordinance or resolution.
- Prepare the budget presentation for City Council
- Prepare the budget document to post on the website for the general public.
- **MOST IMPORTANT:** Monitor the plan





What should be reviewed?

- Anticipated revenue to Actual revenue received
- Estimated resources to appropriations
- Appropriations to Actual expenditures
- Encumbrances
- Fund balances to unencumbered cash balances





Monitoring the Budget

- As the Finance Director or Budget Officer you should:
 - Review appropriation line-items for errors or omissions to accurately reflect current activity
 - Make modifications to the budget as needed to insure that estimated resources exceed appropriations
 - Review open purchase orders
 - Close out encumbrances no longer needed to free up available resources
 - Review actual expenditures
 - Make sure they are appropriate and being charged to the proper account



Monitoring the Budget

- Review actual revenue collected
 - Assess whether the revenue was anticipated or not
 - Consider amending estimated resources
- Review fund balance reports
 - Compare prior year to current year for the same period of time.

Questions ?





Additional References

- Ohio Auditor of State Compliance Supplement
 - <https://ohioauditor.gov/references/compliancemanuals.html>

Contact Information

Harlita R Tomlinson, CPA, ACPFA, ACPFIM

Director of Finance & Tax Commissioner

htomlinson@forestpark.org

(513) 595-5265 office

(513) 595-5293 fax



City of Forest Park

1201 West Kemper Road

Forest Park, OH 45240

