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Preparing Budgets in Uncertain Times

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Presenters



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Danny Sklenicka, Senior Manager

Danny has more than 14 years of experience in governmental accounting and auditing. He is a member of the firm's professional standards team where he focuses on GASB standards, pension and OPEB accounting, and the Uniform Guidance (single audits).

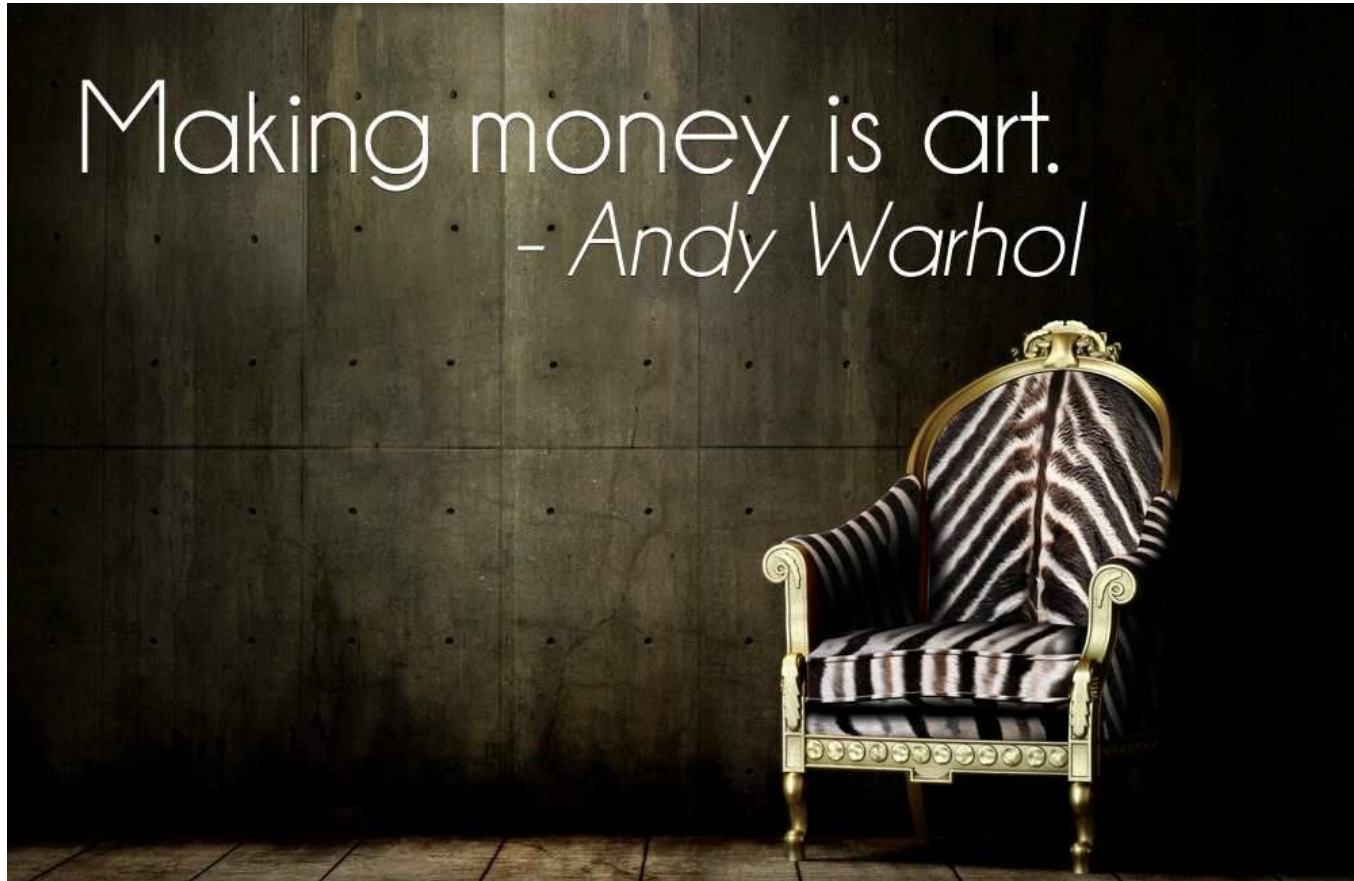


Overview of today's discussion

- Budgeting basics and concepts
- Budget process
- Budget monitoring and administration



Hang in there...





Polling question 1

How many years of experience do you have working in government?

- Less than a year
- 1-5 years
- 6-10 years
- 10+ years



Polling question 1 results

How many years of experience do you have working in government?

- Answer A
- Answer B
- Answer C
- Answer D

DISPLAY LIVE POLLING RESULTS



Budgeting basics and concepts



Purpose of governmental financial statements

The purpose of governmental reporting is to demonstrate accountability for the money entrusted to it

- The individual fund statements demonstrate how you spent taxpayers' money.
- The government-wide statements demonstrate whether the current set of taxpayers has paid the full cost of government services (or not).



Budget concepts

Budget definition and mission

- Budget: A plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them.
- 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.



Budget concepts (continued)

Budget definition and mission (continued)

- In one sense, the “budget document” is the package of information that the governing body reads to educate and inform itself so that it may give the legal approval to management to incur expenditures during any given fiscal year.
- When done well, a budget document can serve as:
 - A public policy document;
 - A financial plan;
 - An operations guide;
 - A communication device; and
 - A control on spending.



Budget concepts (continued)

Balanced budget

- A balanced budget is one where expenditures should equal revenues AND FUND BALANCE
- Does not result in a deficit of fund balance
- It's OK if expenditures exceed revenues for the year, as long as there is enough fund balance
- It's OK if revenues exceed fund balance and a surplus is expected. Don't inflate expenditures to hide the surplus!



Budget concepts (continued)

Good budgeting

- A good budget process is characterized by several essential features. A good budget process:
 - Incorporates a long-term perspective,
 - Establishes linkages to broad organizational goals,
 - Focuses budget decisions on results and outcomes,
 - Involves and promotes effective communication with stakeholders, and
 - Provides incentives to government management and employees.

- A good budget is not just numbers!



Budget concepts (continued)

Budget challenges

- The following issues need to be taken into account in the tools and techniques that support budgetary practices:
 - Managing the budget process and changes to budget practices
 - Dealing with differences between governments, including size and legislative processes
 - Adjusting for organizational structure and issues
 - Desire to have change or to prevent change
 - Level of resources available for programs
 - Available level of technical system and support
 - Dealing with high (or low) expectations
 - Legal requirements
 - Ensuring citizen processes work
 - The level of stakeholder understanding
 - Accuracy of projections and assumptions
 - Level of disclosure
 - Ongoing effects of the pandemic



Polling question 2

For how many funds does your entity prepare a budget?

- Only the general fund/one fund
- 2-5 funds
- 5-10 funds
- More than 10 funds—it's quite a process



Polling question 2 results

For how many funds does your entity prepare a budget?

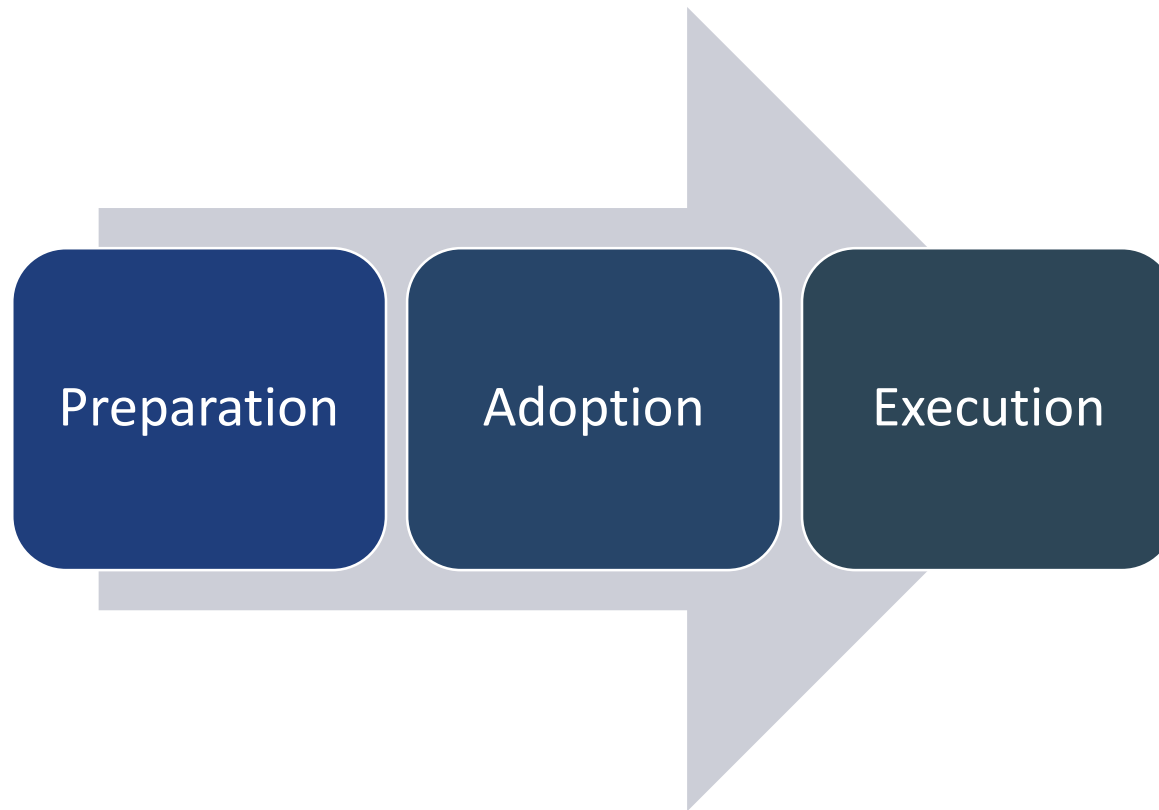
- Answer A
- Answer B
- Answer C
- Answer D

DISPLAY LIVE POLLING RESULTS



Budget concepts (continued)

The annual budgetary process involves the following three phrases:





Budget Preparation



Legal requirements

Ohio Revised Code (ORC) 5705.28: Annual tax budget

- “...the taxing authority of each subdivision or other taxing unit shall adopt a tax budget for the next succeeding fiscal year:”
 - On or before the fifteenth day of January in the case of a school district;
 - On or before the fifteenth day of July in the case of all other subdivisions and taxing units.





Legal requirements (continued)

Ohio Revised Code (ORC) 5705.38: Annual appropriation

- “...On or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure...”

Ohio Revised Code (ORC) 5705.391: School district projections

- “...a board of education shall submit to the department of education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years...”



Legal requirements (continued)

Ohio Revised Code (ORC) 5705.392: County spending plan

- “...A board of county commissioners may adopt as a part of its annual appropriation measure a spending plan, or in the case of an amended appropriation measure, an amended spending plan, setting forth a quarterly schedule of expenses and expenditures of all appropriations for the fiscal year from the county general fund...”



Polling question 3

What department leads/oversees the budget process at your government?

- Mayor's office
- Auditor's office/budget office
- Finance department
- Other



Polling question 3 results

What department leads/oversees the budget process at your government?

- Answer A
- Answer B
- Answer C
- Answer D

DISPLAY LIVE POLLING RESULTS



Budget preparation

Short- and long-term objectives

- Most governments have broad goals that guide the direction for the government and serve as a basis for decision-making. In the best practices, these goals are committed to writing; but if not, the broad goals probably still exist.
- Further, many governments have specific approaches to move towards achievement of these long-term goals (policies, plans, programs, and management strategies).
- The budget should discuss these goals and approaches; the budget document should explain how this budget moves the government towards achievement of the goals.



Budget preparation (continued)

Data-gathering techniques

- Strong message of importance from top official
- Start early – consider separate meeting with department heads
- Adopt and adhere to a budget calendar
- Require completion of standard format forms to facilitate compiling of data
- Establish a centralized repository
- New personnel and capital requests should be separate
- Consider the use of a widely understood software platform such as Excel



Budget preparation (continued)

Best practice suggestions for community engagement

- Public budget workshops
- Citizen focus groups
- Town hall meetings
- Citizen input via the Internet
- Video presentations



Budget preparation (continued)

Suggested content of a budget preparation manual

- Budget message and objectives
- Instructions and clearly defined due dates
- Summary of changes in process from prior years
- Line-item budget worksheets if not electronic entry
- Personnel and fringe benefit worksheets
- Department fee and rate schedules
- Capital request forms – if not done separately



Budget preparation (continued)

Types of budgets

- Line item (wages, benefits, operating supplies, etc.)
- Cost center (department, activity, program or function)
- Fund total — provided it meets activity level exception

Budgets are commonly prepared on a line-item basis and adopted at a less restrictive level.



Budget preparation (continued)

Accounting basis used in the budget

- Cash basis for certain smaller component units
- Modified accrual basis: governmental funds
 - Revenues: available/measurable
 - Expenditures: when liabilities are incurred
- Full accrual basis: enterprise funds, trust/custodial funds
 - Revenues: when earned
 - Expenditures: when liabilities are incurred
- Sometimes enterprise funds will use a modified accrual approach to show debt service and cost of capital in budget





Budget preparation (continued)

Use of contingencies

- The term “contingencies” is used in the budget process in a number of different ways:
- A contingency included as a budgetary expenditure item or department represents a cushion for unforeseen spending, although it is often used to make expenditures "match" revenue and obscure a surplus.
- The term “contingency fund” often is used to describe fund balance. This term is sometimes interchangeable with “rainy day fund.”



Budgets in uncertain times

What do governments need to consider?

- Think about pandemic and post-pandemic effects on revenue streams
 - Income taxes (including municipal jurisdiction and HB 157)
 - Property taxes
 - Bed/hotel taxes
 - State/Federal sources
 - What about ARPA?
 - District Court, Recreation bounce back?
 - Building Permits



Budgets in uncertain times

What do governments need to consider?

- Personnel Costs
 - Consider union contracts and changes in terms
 - Retro pay?
- Delayed capital improvements?
- Using ARPA funds?

- How will the above impact fund balances? Will cuts need to be made?
 - With cuts, is there ability to cooperate on services with local governments?



Budgets in uncertain times

How will you deal with a deficit?

- Use Fund balance?
- Raise taxes?
- Additional state/federal funding
- Can ARPA revenue loss calc provide funds for operational government expenditures?
- Head count changes?
- Delay capital expenditures longer?
- Change service providers for healthcare or professional services?
- Outsource municipal services?
- Partnership with neighboring municipality?



Fund Balance Considerations

Is fund balance available to be spent as the governing body decides?

- Fund balance is reported based on how constrained it is; the categories are:
 - Nonspendable (not in spendable form)
 - Restricted (external legal restrictions)
 - Committed (internally – by formal action)
 - Assigned (internally; less formally)
 - Unassigned

The governing body always has the authority to re-commit or re-assign fund balances





Fund Balance Considerations (continued)

Is there a minimum fund balance requirement?

- Most governments should be in the 10–20% range (fund balance as a percent of expenditures)
- A very small government might have a 20–25% target
- A very large government might have 5–10% as a target

The GFOA (Government Finance Officers Association) in its best practices document, suggests two months' worth – 16.7%, as a minimum for the general fund and 12.3% for enterprise funds.



Fund Balance Considerations (continued)

Fund balance goals are often determined in the budget process

In addition to the base amount of fund balance, you should add to your target when:

- Your tax year is different than your fiscal year;
- You are saving resources in the General Fund for designated uses in the future (e.g., saving to buy a fire truck); or
- You have significant risks at the moment (perhaps the risk of loss of state revenue or tax revenue base).



Budget Adoption



Budget adoption

Legal level of budgetary control

“The level at which spending in excess of budgeted amounts would be a violation of law”

-OR-

“The lowest level at which a government’s management may not reallocate resources without special approval”

Note: Legal level of control can vary among governments. Detailed budgets are developed for planning and control; however, councils will typically approve at a higher level



Budget adoption (continued)

Legal level of budgetary control (continued)

- In Ohio, the legal level of control is the level at which the appropriation measure is passed by governing body.
- ORC prescribes the minimum level of budgetary detail.
 - OAC 117-2-02(c)(1) prescribes that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system.
 - This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.
- Charter communities can set their own level of authority



Budget adoption (continued)

Communication and messaging



Beyond the “legal” requirements –
getting a budget adopted is a
*communication process – selling
the document.*



Strong, clear budget message
Communicate the economic and fiscal conditions
that support the budget
Establishment of priorities, linking the detail to
those priorities
Why things were done this way



Budget adoption (continued)

"Selling" the budget

- Do the following:
 - Discuss highlights in the budget including challenges, issues, and concerns
 - Overall fiscal condition of the organization
 - Economic outlook with high-level facts
 - Key capital projects and any personnel changes
- Avoid the following:
 - Focusing on problems without an identified solution
 - Acronyms and accounting/technical jargon
 - Presenting at too detailed of a level for the audience
 - Focusing only on the “good” and not the “issues”



Budget Execution and Monitoring



Budget monitoring

Congratulations! The budget just passed and is already obsolete...



Budget monitoring

Things to consider

- At what level was the budget adopted?
 - Line-item basis is difficult to maintain administratively
 - Department basis
 - Program basis
- How often are you/should you monitor?
 - Daily?
 - Weekly?
 - Monthly?
 - Quarterly?



Polling question 4

How frequently do you monitor/meet on your budgets?

- Weekly
- Monthly
- Quarterly
- 1-2 times a year



Polling question 4 results

How frequently do you monitor/meet on your budgets?

- Answer A
- Answer B
- Answer C
- Answer D

DISPLAY LIVE POLLING RESULTS



Budget monitoring (continued)

Responsibility and reporting

- A team approach is best
- Each department should be accountable for monitoring its budget results and variances
- Reporting should be at the department head level and then department heads should present to CFO/finance director
 - Results then get presented high-level to board/council
- Departmental reporting
 - Finance can provide reports showing budget to actual results
 - Departments should be reporting on the variances in the results
 - Consider timing of reporting with time of year. (i.e., if it's 6 months into the fiscal year, the budget should be approximately 50% spent)



Budget monitoring (continued)

What data are reported?

- Balance sheet
- Revenue vs. budget
- Expenditures vs. budget
- Special items
 - Good news
 - Bad news
 - Actions needed and actions taken

Structure of report

- Executive summary
 - Revenue/expenditures vs. budget
 - Prorated budget
 - Percentage comparison
 - Incremental budget
- Provide a summarized narrative of key items and variances



Budget monitoring (continued)

Sample Budget Report - "Annual basis"

For the six months ended sometime

	Annual Budget	YTD	Variance	Explanation of Variance
Revenue:				
Property taxes	\$2,400,000	\$2,295,000	\$ (105,000)	Taxes collected early in the year
State revenue-sharing	1,200,000	605,000	(595,000)	
Interest	60,000	32,000	(28,000)	
Other	24,000	10,000	(14,000)	
Total revenue	3,684,000	2,942,000	(742,000)	
Expenditures:				
Legislative	72,000	45,000	27,000	Board retreat (\$12,000) one-shot item November election
Clerk	84,000	53,000	31,000	
Treasurer	360,000	179,999	180,001	Purchased new police cars Expenses higher in winter
Public safety	2,400,000	1,500,000	900,000	
Public works	600,000	235,000	365,000	
Other	180,000	89,000	91,000	
Total expenditures	3,696,000	2,101,999	1,594,001	
Net revenue (expenditures)	(12,000)	840,001	852,001	
Fund balance - Beginning	400,000	400,000	400,000	
Fund balance - Ending	\$ 388,000	\$1,240,001	\$1,252,001	



Budget monitoring (continued)

Sample Budget Report - "Prorated Basis"

For the six months ended sometime

	Annual Budget	Prorated Budget	YTD	Variance	Explanation of Variance
Revenue:					
Property taxes	\$2,400,000	\$1,200,000	\$2,295,000	\$1,095,000	Taxes collected early in the year
State revenue-sharing	1,200,000	600,000	605,000	5,000	
Interest	60,000	30,000	32,000	2,000	
Other	24,000	12,000	10,000	(2,000)	
Total revenue	3,684,000	1,842,000	2,942,000	1,100,000	
Expenditures:					
Legislative	72,000	36,000	45,000	(9,000)	Board retreat (\$12,000) one-shot item November election
Clerk	84,000	42,000	53,000	(11,000)	
Treasurer	360,000	180,000	179,999	1	
Public safety	2,400,000	1,200,000	1,500,000	(300,000)	Purchased new police cars Expenses higher in winter
Public works	600,000	300,000	235,000	65,000	
Other	180,000	90,000	89,000	1,000	
Total expenditures	3,696,000	1,848,000	2,101,999	(253,999)	
Net revenue (expenditures)	(12,000)	(6,000)	840,001	846,001	
Fund balance - Beginning	400,000	400,000	400,000	400,000	
Fund balance - Ending	\$ 388,000	\$ 394,000	\$1,240,001	\$1,246,001	



Budget monitoring (continued)

Sample Budget Report - "Percentage Basis"

For the six months ended sometime

	Annual Budget	YTD	Percentage	Explanation of Variance
Revenue:				
Property taxes	\$2,400,000	\$2,295,000	96%	Taxes collected early in the year
State revenue-sharing	1,200,000	605,000	50%	
Interest	60,000	32,000	53%	
Other	24,000	10,000	42%	
Total revenue	3,684,000	2,942,000	80%	
Expenditures:				
Legislative	72,000	45,000	63%	Board retreat (\$12,000) one-shot item November election
Clerk	84,000	53,000	63%	
Treasurer	360,000	179,999	50%	Purchased new police cars Expenses higher in winter
Public safety	2,400,000	1,500,000	63%	
Public works	600,000	235,000	39%	
Other	180,000	89,000	49%	
Total expenditures	3,696,000	2,101,999	57%	
Net revenue (expenditures)	(12,000)	840,001		
Fund balance - Beginning	400,000	400,000		
Fund balance - Ending	\$ 388,000	\$1,240,001		



Budget monitoring (continued)

Sample Budget Report - "Incremental Basis"

For the six months ended sometime

	Annual Budget	Incremental Budget	YTD	Variance	Explanation of Variance
Revenue:					
Property taxes	\$2,400,000	\$2,300,000	\$2,295,000	\$ (5,000)	Taxes collected early in the year
State revenue-sharing	1,200,000	600,000	605,000	5,000	
Interest	60,000	30,000	32,000	2,000	
Other	24,000	12,000	10,000	(2,000)	
Total revenue	3,684,000	2,942,000	2,942,000	0	
Expenditures:					
Legislative	72,000	44,000	45,000	(1,000)	Board retreat (\$12,000) one shot-item November election
Clerk	84,000	53,500	53,000	500	
Treasurer	360,000	180,000	179,999	1	Purchased new police cars Expenses higher in winter
Public safety	2,400,000	1,510,000	1,500,000	10,000	
Public works	600,000	240,000	235,000	5,000	
Other	180,000	90,000	89,000	1,000	
Total expenditures	3,696,000	2,117,500	2,101,999	15,501	
Net revenue (expenditures)	(12,000)	824,500	840,001	15,501	
Fund balance - Beginning	400,000	400,000	400,000	400,000	
Fund balance - Ending	\$ 388,000	\$1,224,500	\$1,240,001	\$ 415,501	



Polling question 5

How do you present your budget monitoring on an ongoing basis?

- Excel
- Using a software package/our IT system
- Use of outside consultants
- Combination of the above



Polling question 5 results

How do you present your budget monitoring on an ongoing basis?

- Answer A
- Answer B
- Answer C
- Answer D

DISPLAY LIVE POLLING RESULTS



Budget monitoring (continued)

Adjustments after review

- Are budget adjustments necessary?
- Do you have the statutory ability to transfer dollars between line items?
 - ORC 5705.40: “...Transfers may be made by resolution or ordinance from one appropriation item to another...”
- Do you have the fund balance available to make a budget amendment?
 - If not, cuts are necessary
 - If so, the board/council must pass a resolution amending the budget
- At no point, shall funds be spent if they have not been appropriated by the legislative body



Budget monitoring (continued)

Best practices and considerations

- Consider the use of dashboards and data analytics (charts and graphs are much easier to understand)
 - Are you presenting dozens of spreadsheets?
 - See examples on next slides
- Do you track progress throughout the year? How do you hold departments accountable?
- Best results come from teams that communicate frequently and clearly
- Use the budget as an audit-preparation tool—auditors need to understand your government at the high level but audit at the detail level



Budget monitoring (continued)

General Fund
Expenses - Budget to Actual

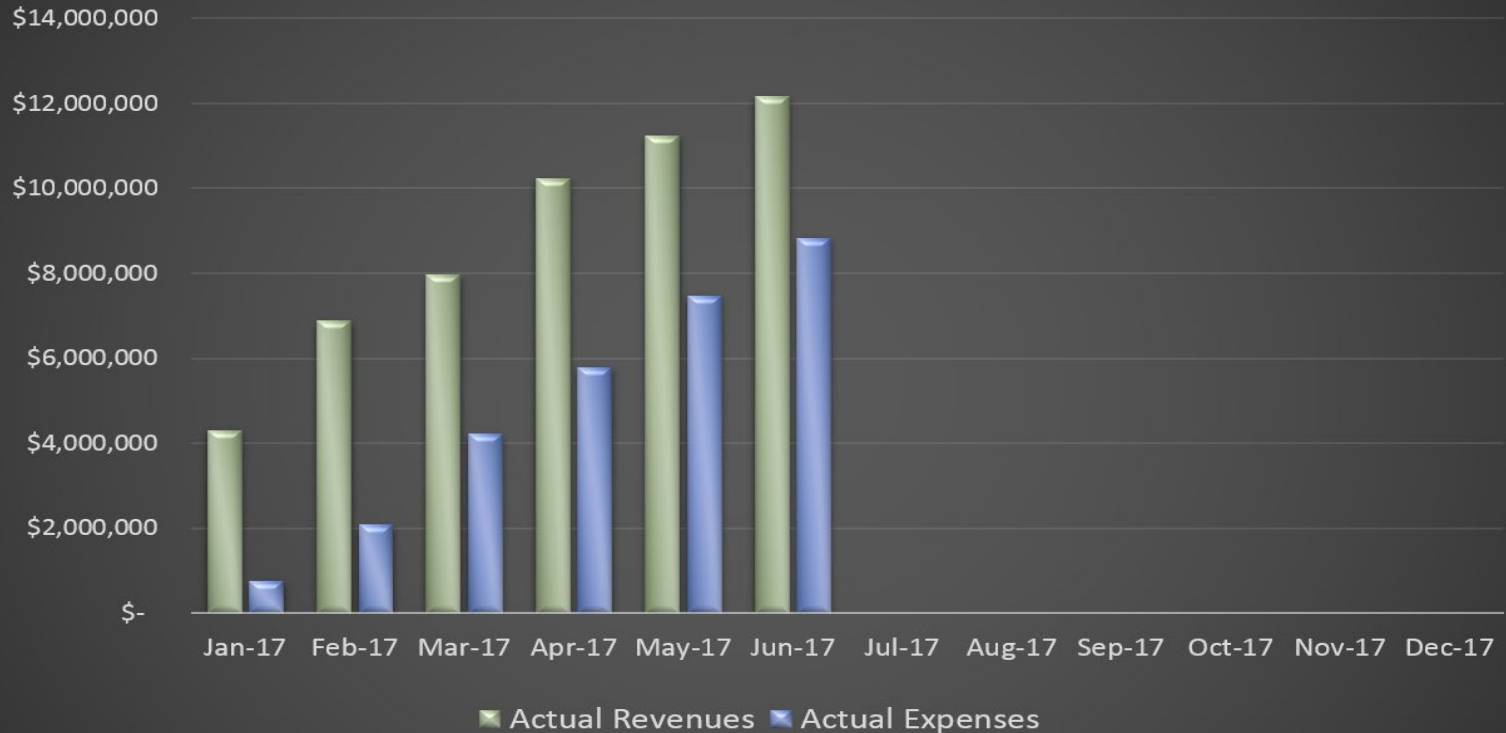


The goal is for actual expenses to be less than budgeted expenses. The expense budgets are prorated across each month evenly



Budget monitoring (continued)

General Fund Revenues vs. Expenses



The goal is that expenses do not exceed revenues by the original budgeted use of fund balance in the amount of \$3,211,617



Wrap-up



Key takeaways

Planning and monitoring are critical

- Prepare
 - Make sure that all stakeholders (internal and external) have input on the process and metrics
 - Budget at the right level
 - Start at the detail level but adapt for the audience (don't present 2,500 lines of budget to city council)
- Adopt
 - Follow all ORC and OAC requirements
 - Build in enough time for revisions and approvals
- Monitoring
 - Use a team approach and hold departments accountable
 - Present data in an easy-to-understand fashion—use charts or graphs, bullet-point summaries
 - Follow amendment procedures if changes are necessary



Resources

<https://www.gfoa.org/best-practices/budgeting>

<https://www.plantemoran.com/explore-our-thinking/insight/2018/01/six-ways-to-improve-your-budget-process-and-increase-transparency>

<https://www.plantemoran.com/explore-our-thinking/insight/2020/05/municipal-budgeting-amid-covid19-tactics-to-prioritize-spending-and-cuts>



Q&A



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