



The Budget Process

Municipal Government Finances



Questions to consider

- What is the budget process?
- Why is it important to closely monitor the budget process?
- What are the major obstacles to local government budgeting?
- What are the big three taxes in municipal finance?
- What percent of property tax goes to cities?
- How many sales tax rates are there in Utah?

What is a budget?

- Legal document that serves as a government entities' financial operating plan.
 - A reflection of policy priorities
 - A tool for communicating with constituents how tax money is spent.
 - Allow citizens an opportunity to be heard by their elected officials

A major responsibility of local elected officials, especially town or city council members, is to “appropriate funds” -- in other words, to adopt and maintain a budget.
(Utah Code 10-3-1210)

In Utah budgets are “fund” based

- *What does fund based mean?*
 - **General fund:**
 - Every city maintains general fund. All revenue belongs to the general fund unless specifically earmarked for another fund.
 - **Enterprise fund:**
 - Used for services which charge a fee, fund handled like a business organization (utilities, Salt Lake City airport)
 - **Capital project fund:**
 - Temporary funds that should be eliminated once the capital project is completed.
 - **Special revenue fund:**
 - Account for resources legally restricted to specific expenses. Class ‘C’ road revenue, library fund, impact fee fund.

Fund items to note

- Expenses must equal revenue, except in enterprise funds where you can have a profit and/or a loss.

- All unexpended funds, except capital improvement funds, lapse to respective fund balances on June 30.
- One-time money should only be spent on one-time expenditures.

- A town's fund balance cannot exceed 75% of projected revenue
- A city's fund balance cannot exceed 18% of projected revenue

Other budget terms

- Budget officer
- Fiscal year
- Capital project
- Capital outlay
- Revenue
- Expenditures
- Governing body

The budget process

Budget Officer receives requests from departments

Requests are revised to match revenue

Budget is presented to the council by the first Tuesday in May

Budget discussions held by the governing body

Budget adopted by June 22

Budget hearing held after 48 hours advertising

Budget discussions are held by governing body

Public hearing is scheduled

Questions to ask...

Why are expenses and/or revenue increasing and/or decreasing?

Are revenue estimates realistic?

How is one-time money used in the budget?

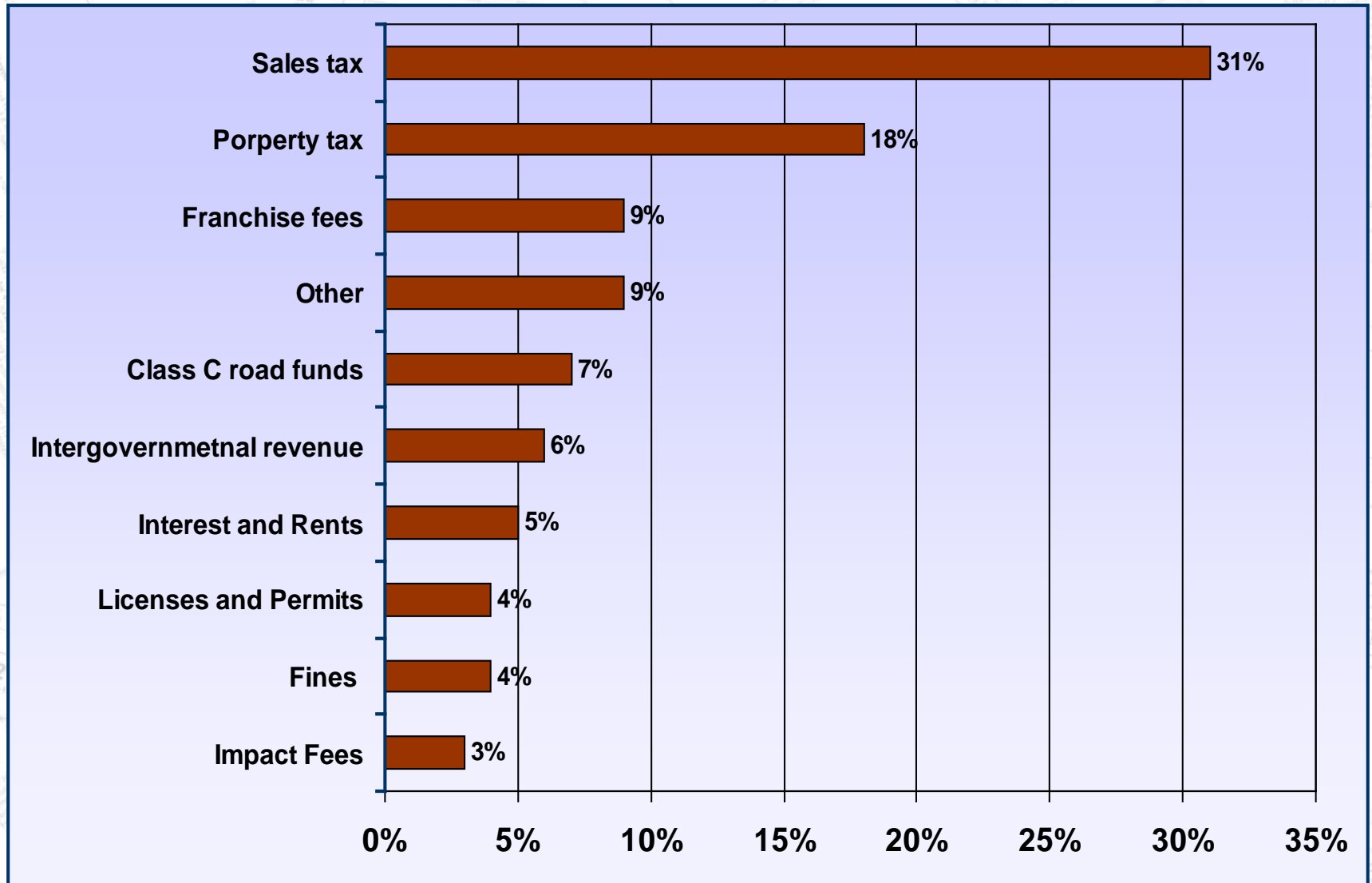
Do fees cover the costs of services?

Have alternative service delivery options been evaluated?

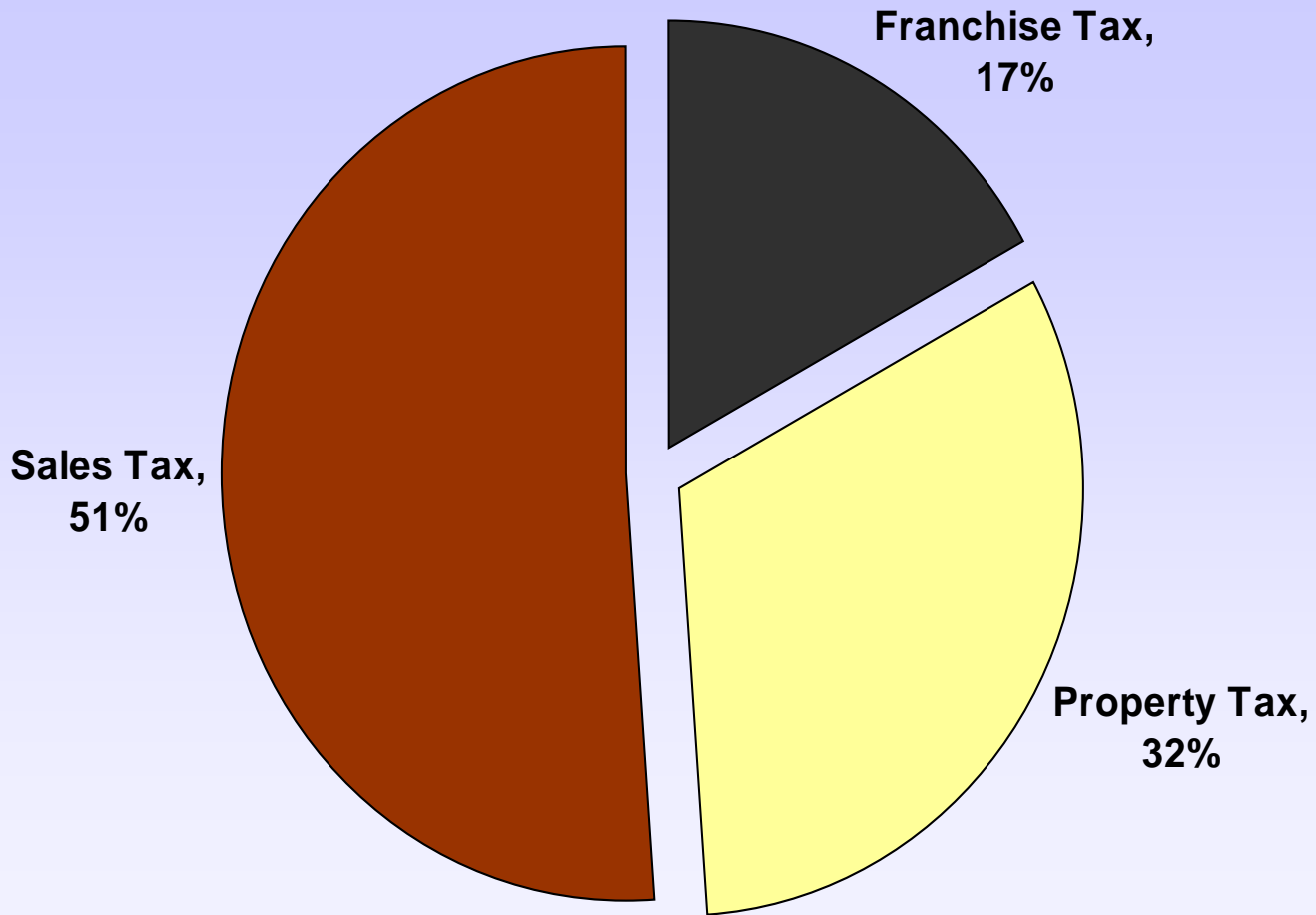
Revenue



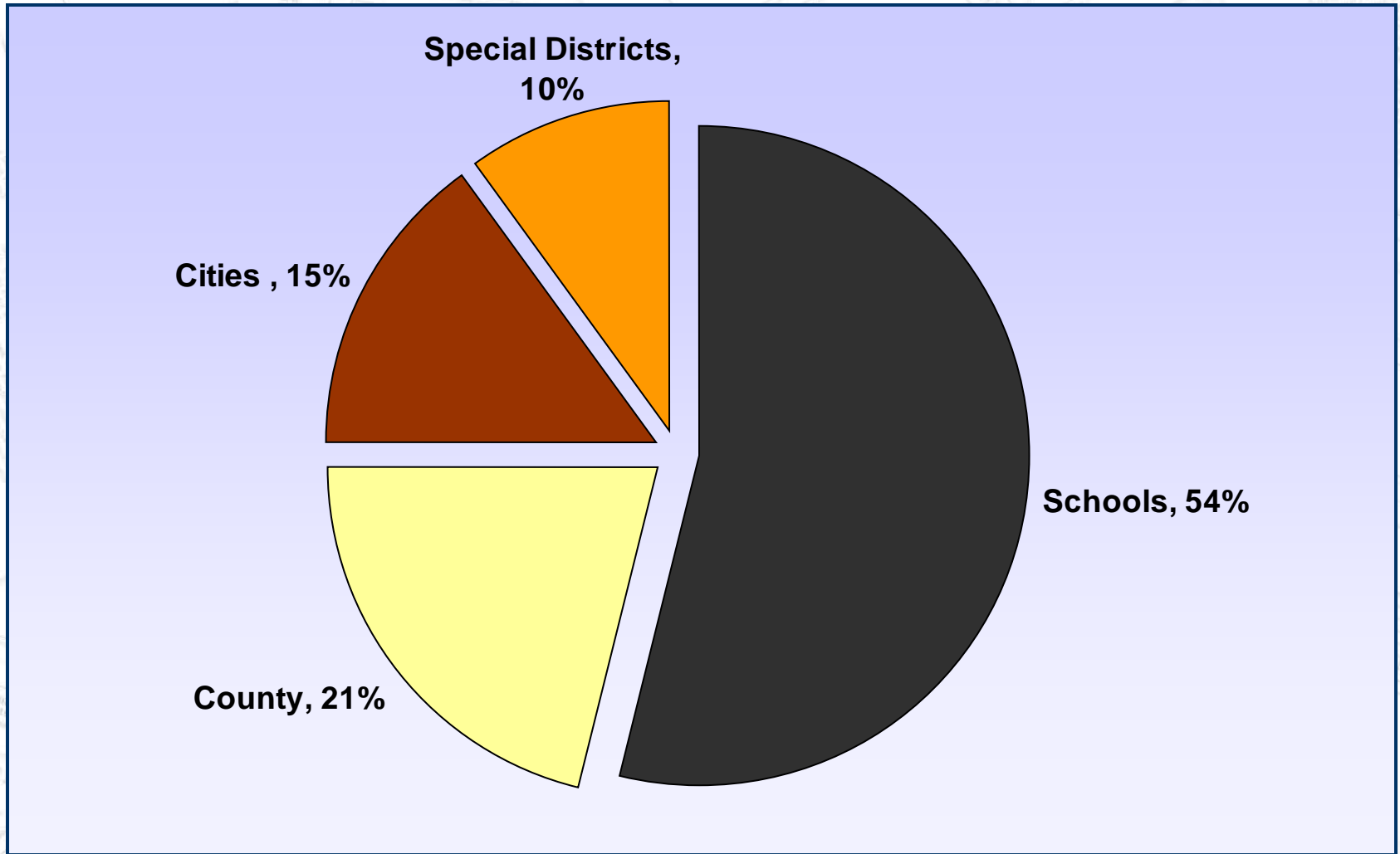
Municipal government revenue



Municipal government *TAX* revenue



On average how much property tax goes to municipal government?



Revenue Projections

- How do you project revenue?
 - Part science
 - Part art
 - Part philosophy
 - Part luck

GOAL: Some revenue sources exceed projections by similar amounts that other revenue sources lag behind projections.

What influences revenue projections?

The economy

The weather

Utility rate changes

County reappraisals

Politics (legislation)

Revenue Policy Questions

PROPERTY TAX

- Will it be a major revenue source? For Whom?
- Residential Property – What should be the tax differential?
- Inflation impact – should property tax be treated differently?
- Truth in Taxation – Information or Inflammation?

SALES TAX

- What should the base be?
- How much rate headroom is there?
- What are the economic development issues and land use issues?
- Is the current allocation between municipalities and the state analytically sound?
- Is the current allocation between municipalities analytically sound?
- How do we balance administrative simplicity with local differences?

User fees

- How does a user fee differ from a tax?
- What services are primarily funded through taxes?
- What services are funded through user fees?

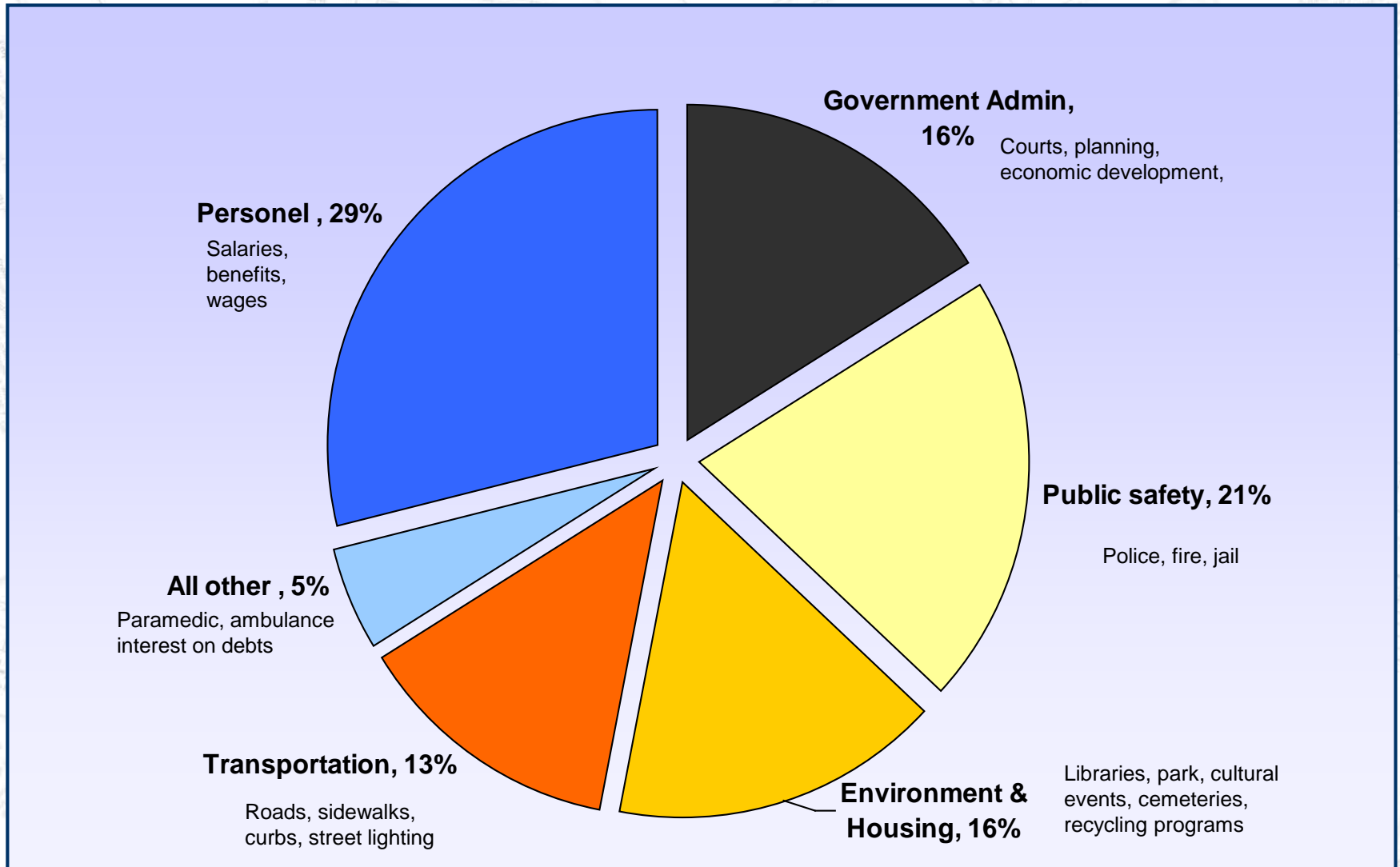
Expenses



Projecting Expenses

- Often much easier than projecting revenue
- What influence projected expenses?
 - Infrastructure failure
 - Legal judgments
 - New/unique opportunities
 - Natural disasters
 - Federal or state mandates

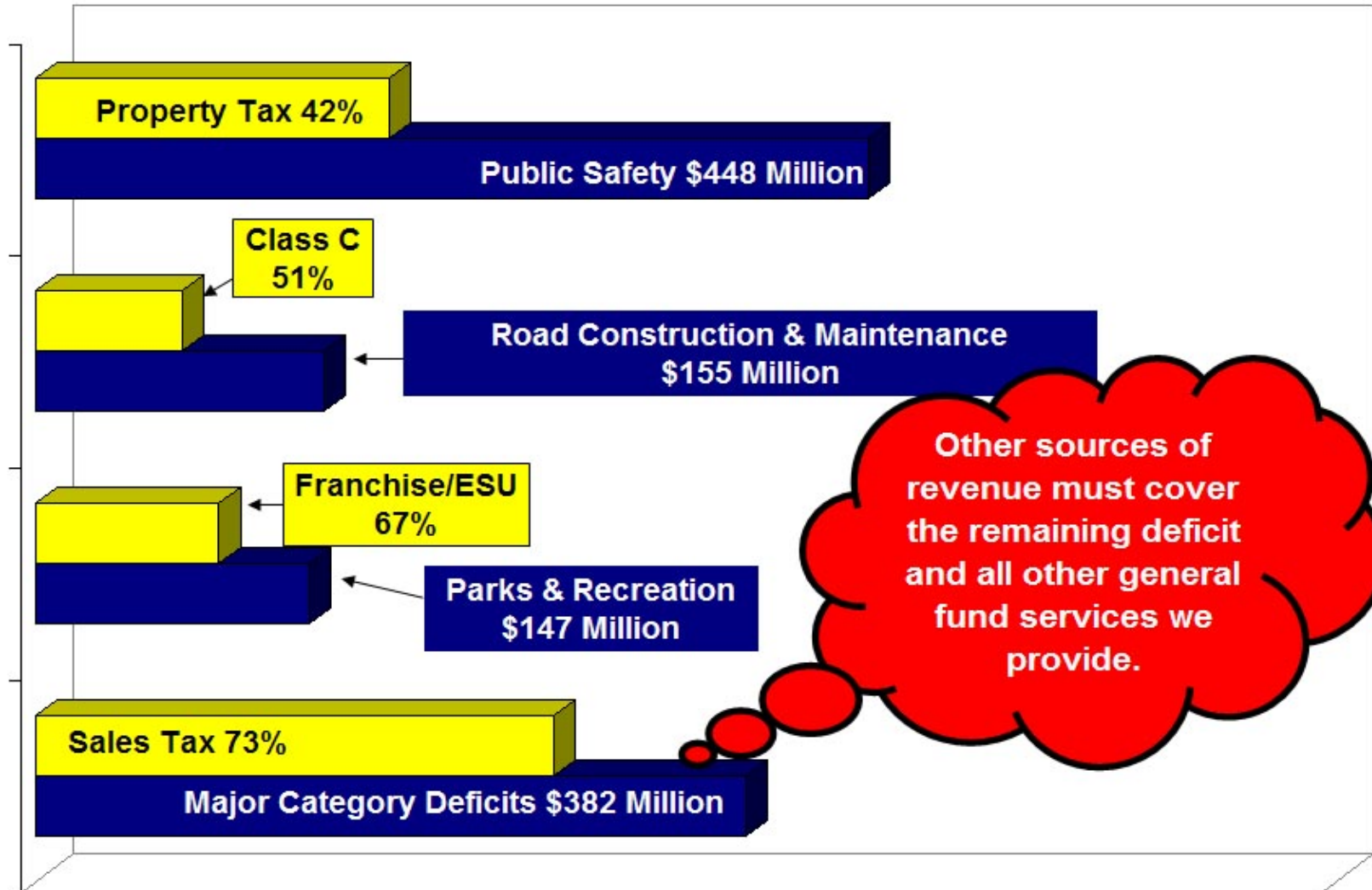
What are the municipal expenses?





CAN YOU FIND AT LEAST 15 SERVICES THAT CITIES AND TOWNS PROVIDE?

Expenditure Challenges



700,000,000

Conclusion

- What is the “best” budget process?
- What are the financial challenges of the 21st Century?
- What are our policy priorities?



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