Local Government Training

Introductory Budget
Foreword and Acknowledgements

The Financial Management Training Program for Local Governments in Georgia originated to aid city and county officials in developing a sound program of financial management. Since the early 1970’s, local government personnel responsible for financial management operations have sought the training as a valuable resource for learning to do their jobs more effectively.

The current edition has been revised by the Carl Vinson Institute of Government. Much of the material in the original manual continues to be relevant today and was left intact. The intent of reviewing the manual was not to rewrite it, but to update examples and verify citations.

We wish to thank the faculty and staff of the Carl Vinson Institute of Government for their invaluable expertise and information.

University of Georgia
Carl Vinson Institute of Government
Financial Management Programs
Governmental Training, Education and Development
Material Revision Date October 2018

The Carl Vinson Institute of Government
University of Georgia
© 2018 by the Carl Vinson Institute of Government
All rights reserved.
LOCAL GOVERNMENT TRAINING

INTRODUCTORY BUDGET

COURSE OBJECTIVES

Upon completion of this course, the participant should be able to:

1. Recall the definition of a budget
2. Recognize Georgia laws that govern the budget process
3. Summarize an overview of the budget process
4. Recall the different types and components of budgets
5. Recall the elements of a successful budget process
6. Define budget policy
7. Analyze different techniques in preparing revenue estimates

COURSE REQUIREMENTS

In order to earn credit toward the Local Financial Management Program, the following activities are required

1. Attendance at all classes
2. Class participation
3. Completion of class exercises and examination
Table of Contents

Chapter 1   The Budget - An Overview
Chapter 2   The Local Government’s Budget System
Chapter 3   The Budget Preparation Process
Chapter 4   Departmental Requests
Chapter 5   Financial Forecasting/Estimating Revenues
Chapter 6   Local Government Action on the Budget
Chapter 7   Operating With the Budget
Glossary
# Agenda

**Day 1**

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00 – 9.15</td>
<td>Introduction and Course Overview</td>
</tr>
<tr>
<td>9:15 – 10:30</td>
<td>The Budget – An Overview</td>
</tr>
<tr>
<td>10:30 – 10:45</td>
<td>Break</td>
</tr>
<tr>
<td>10:45 – Noon</td>
<td>Local Government’s Budget System</td>
</tr>
<tr>
<td>Noon – 1:00</td>
<td>Lunch</td>
</tr>
<tr>
<td>1:00 – 2:15</td>
<td>Budget Preparation Process</td>
</tr>
<tr>
<td>2:15 – 2:30</td>
<td>Break</td>
</tr>
<tr>
<td>2:30 – 4:00</td>
<td>Departmental Requests</td>
</tr>
</tbody>
</table>

**Day 2**

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00 – 10:30 am</td>
<td>Financial Forecasting/Estimating Revenues</td>
</tr>
<tr>
<td>10:30 – 10:45</td>
<td>Break</td>
</tr>
<tr>
<td>10:45 – 11:15</td>
<td>Financial Forecasting/Estimating Revenues</td>
</tr>
<tr>
<td>11:15 – 12:00</td>
<td>Local Action on the Budget</td>
</tr>
<tr>
<td>12:00 – 1:00</td>
<td>Lunch</td>
</tr>
<tr>
<td>1:00 – 1:45</td>
<td>Local Action on the Budget</td>
</tr>
<tr>
<td>1:45 – 2:30</td>
<td>Operating with the Budget</td>
</tr>
<tr>
<td>2:30 – 2:45</td>
<td>Break</td>
</tr>
</tbody>
</table>
2:45 - 3:30  7  Operating with the Budget
3:30 – 4:00  Review
CHAPTER 1
THE BUDGET – AN OVERVIEW

OBJECTIVES
Upon completion of this chapter, the participant should be able to:

- Recall the definition of a budget
- Recognize Georgia laws that govern the budget process
- Summarize an overview of the budget process

INTRODUCTION
What is a budget? Arthur A. Mendonsa defines it as “...a plan for spending money during a fiscal year.”¹ Aaron Wildavsky offers several definitions of a budget. Among them are, “a document containing words and figures,” “a document which translates financial resources into human services,” and “a series of goals with the price tags attached.”

Public officials may view the budget as a political process where trade-offs and deals are made. Budget and financial staffers may view it in strictly technical terms. Edward Lehan views it as “…a craft-like activity involving analyses and judgements about the worth of things.”²

THE BUDGET
No matter how one views budgeting, most agree that it involves the allocation of scarce resources among various competing alternatives. Almost always, there are more requests for funding than resources available to fill the requests. Accordingly, budgeting becomes one of the most important financial management tasks undertaken by a local government during the year. Tough, often unpopular, decisions are sometimes made by local government leaders in order to ensure that services are provided for their constituents in a timely and affordable manner. In a very real sense, the budget drives the other financial management systems and becomes the most important tool by which local government’s goals are accomplished and objectives met.

Many practitioners in local government finance think of financial systems such as accounting and reporting, capital programming, purchasing, debt management, and treasury management as mechanisms, or systems, that serve to control the budget.

A budget is a financial operating plan for a given period which displays the estimated expenditures to provide services or to accomplish a purpose during that period together with the

estimated sources of revenue to pay for those expenditures. Once the fund totals shown in the budget are appropriated by the legislative body, they become maximum spending limits.

At the very least, budgeting is at the heart of the financial management process and provides the basis for the implementation of the plan for the government. It is in the budget preparation process that the close relationship between the plan for the local government and the budget is most apparent. Indeed, the budget becomes a tool for implementing the plan.

With changes in the economy, cities and counties are forced to either increase taxes or fees, cut costs and services or deplete fund balance. Long gone are the days of unprecedented periods of growth. While local governments were once the beneficiary of hundreds of federal and state programs, grant funding is now scarce and is simply no longer a reliable revenue source. Now more than ever, local governments find themselves in the positions of having to make some very difficult choices concerning many of these programs and services. Do they continue offering services at the same levels as always, but with locally-generated funds? Do they offer lower levels of services than before? Do they eliminate certain services altogether?

For years, the underlying assumption has been that local government would grow. Nearly every decision in city halls and courthouses across the country was made with that implicit assumption in mind. Now, it appears that the basic assumption concerning growth of local government is changing to an assumption that local government can and will hold the line, or even shrink in size. Indeed, the watchword for the future may be the downsizing of local government, or a “hold the line” mentality.

All of this “hold the line” and downsizing pressure places an even greater burden on local governments to budget wisely and well. In today’s budgeting environment, local governments have less room for error than ever before. Also, a shrinking or hold the line budget reveals more clearly the winners and the losers in the budget process. Consequently, the pressure is greater than ever on local governments to budget and spend public funds wisely and well.

THE LAW

The state establishes the minimum budget, accounting, and auditing requirements for local governments. These requirements are established in the Official Code of Georgia Annotated Title 36 Chapter 81. Unlike the federal government, each unit of local government (city, county or consolidated city-county government) is required to adopt and operate under an annual balanced budget and to provide for a regular audit.
The law contains the following specific requirements:

- To establish the legal level of control as expenditures for each department for each fund for which a budget is required. It is the lowest level of budgetary detail at which a local government’s management or budget officer may not reassign resources without approval of the governing authority.

- To establish a fiscal year for the operations of the local government. Fiscal year means the period for which a budget is proposed or adopted for the local government's general fund, each special revenue fund and each debt service fund. There is no prescribed fiscal year; the most common start in Georgia is either January 1, or July 1. (O.C.G.A. 36-81-3)

- To appoint a budget officer or someone to be responsible for preparation, administration, and fiscal control of the budget. (O.C.G.A. 36-81-4)

- To prepare a proposed budget which, at a minimum, provides for the appropriate budget period a statement of the amount budgeted for anticipated revenues by source and the amount budgeted for expenditures by department. (O.C.G.A. 36-81-5)

- To adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund; and a project-length balanced budget for each capital project fund. The budget shall be adopted by ordinance or resolution. A budget ordinance or resolution is balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations. (O.C.G.A. 36-81-3)

- To notify the public that the proposed budget is available for the public to review, to announce the public hearing at least one week prior to the hearing and to conduct a public hearing at which any persons wishing to be heard on the budget may appear and speak. (O.C.G.A. 36-81-5)

- To adopt the budget ordinance or resolution at a public meeting, which is advertised at least one week prior to the meeting, the governing authority shall adopt a budget ordinance or resolution making appropriations in such sums as the governing authority deems sufficient, whether greater or less than the sums presented in the proposed budget. (O.C.G.A. 36-81-6)

- To provide an electronic copy of the adopted budget ordinance or resolution to the Vinson Institute within 30 days of adoption. Vinson will publish all local governmental budgets on their maintained website. (O.C.G.A. § 36-80-21)

- To adopt and use the Uniform Chart of Accounts created in 1997 by an act of the Georgia General Assembly. The Uniform Chart of Accounts must be used in the local government’s accounting reports, audited financial statements and reports to state agencies. Local governments are required to classify their transactions in conformity with the fund, balance sheet, revenue, and expenditure classification descriptions contained in
To prepare financial statements in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) sets GAAP for governments. (O.C.G.A. 36-81-7)

To amend the budgets so as to adapt to changing governmental needs during the budget period. There are NO limits as to how many times the budget may be amended. Any increase in appropriation at the departmental level requires the approval of the governing authority. (O.C.G.A. 36-81-3)

The budget end product is a result of complex decisions about the use of scarce resources available to the local government. The budget serves several purposes: it authorizes the governing authority to collect revenues and spend them, provides information to the community, promotes accountability, facilitates administrative and performance control and generally serves as an important managerial tool. At the same time the budget plays an important role as a policy, planning, and goal setting instrument.

The preparation phase begins with those responsible for the budget giving instructions to departments, which then prepare requests and return them to the budget office. Following this stage, the review phase begins. The budget office, or whoever is responsible for the budget, will
prepare a summary of the anticipated revenues by fund. If there is an executive budget process, the chief executive and the budget office review the requests, cut them back, and ask for modifications or clarification to do what is necessary to prepare a budget proposal that balances available revenues with expenditures. The executive proposal is then presented to the governing body.

Once the budget has been approved, the implementation phase begins. Implementation in larger governments will likely consist of the appropriation and revenue information being loaded into the central accounting system by fund and department as necessary. This information is then made available to user departments who begin to access budgetary funding.

The monitoring and summary phase continues throughout the fiscal year. Periodic reports should be produced and distributed to user departments reflecting budget balances and expenditures. Budget amendments should also be reflected. At the close of the fiscal year, the annual financial statements will be produced.
it is each department head’s responsibility to estimate what funds will actually be needed in the upcoming fiscal year to provide services, taking into account staffing needs, service levels, state and federal mandates, and the priorities of city officials. The budget officer often requires departments to provide written justification for all budget requests, especially for significant increases or new personnel. Many cities also require departments to meet pre-established performance measures to qualify for an increase in funds. The department heads complete budget request forms and return them to the budget officer with a cover memo outlining generally what the department is seeking.

**Executive Role**

After the budget officer has completed a first draft of the upcoming fiscal year’s revenues and expenditures, it is customary for the budget officer and chief executive to meet and review the preliminary budget printouts. The chief executive may be the mayor or city manager. During this process, questions about department requests are answered and initial adjustments to departmental budgets are made. The chief executive applies his or her knowledge of the political and service goals of the governing body to make decisions about what items to cut, amend, or keep in the budget at this stage. The city manager or administrator is responsible for presenting the mayor and council with a balanced budget that will only need “tweaking” before it is finalized and adopted.

**Legislative Role: Mayor and Council**

The mayor and city council guide the entire budget process by setting priorities for the upcoming fiscal year. After the budget officer has compiled budget requests from departments and has prepared proposed expenditure and revenue reports, the role of the governing authority is to review the proposed budget. The review process allows elected officials to examine departmental budget recommendations including anticipated revenues by source and expenditures by fund category and type. Normally, one does not introduce completely new issues, services, or goals at this time. The review process is an opportunity for the mayor and council to clarify any increases (or decreases) in the budget and to ask questions about recommended allocations.

**Public Input**

Once the council has completed its review process for the recommended budget, the public must be afforded an opportunity to review the document at a public hearing, which must be scheduled at least one week before the council meeting to adopt the budget. A copy of the budget document must be available for public review at the meeting and citizens must have the opportunity to ask questions about budget recommendations or to make comments. A city may hold more than one public hearing during the budget process, but a minimum of one hearing is required.

After the budget hearing, the budget officer will make any remaining minor revisions to the budget document and will then advertise the meeting to adopt the budget. This advertisement must be published at least one week before the council meeting to adopt the budget. Because each city’s charter is different, your city’s charter requirements may specify that a second reading of the budget must take place prior to adoption of the budget. Please refer to your city charter or contact your city attorney if you are unsure about the requirements for your city.

*Source: Georgia Municipal Association’s A Budget Guide for Georgia’s Municipalities*
CHAPTER 1 SUMMARY

1. A budget involves the allocation of scarce resources among various competing alternatives. A budget is a financial operating plan for a given period which displays the estimated expenditures to provide services or to accomplish a purpose during that period together with the estimated sources of revenue to pay for those expenditures.

2. The Official Code of Georgia Annotated (O.C.G.A.) § 36-81 includes requirements related to budget, accounting, and auditing local governments.

3. To establish the legal level of control as expenditures for each department for each fund for which a budget is required. It is the lowest level of budgetary detail at which a local government’s management or budget officer may not reassign resources without approval of the governing authority.

4. Each unit of local government (city, county or consolidated city-county government) is required to adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund; and a project-length balanced budget for each capital project fund.

5. Budgets shall be adopted by ordinance or resolution. The budget is said to be “balanced” when the sum of estimated revenues and appropriated fund balances is equal to appropriations.

6. A unit of local government may hold more than one public hearing during the budget process, but a minimum of one hearing is required.

7. Once the unit of local government has completed its review process for the recommended budget, the public must be afforded an opportunity to review the document at a public hearing, which must be scheduled at least one week before the council/commission meeting to adopt the budget.

8. O.C.G.A. § 36-80-21, requires all local governments to submit their respective budgets to the Carl Vinson Institute of Government within 30 days of adoption for publishing to a website that is maintained by the Vinson Institute.

9. All local governments are required to adopt and use the Uniform Chart of Accounts in accounting reports, audited financial statements and reports to state agencies.

10. Georgia Law requires governments to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) sets GAAP for governments.

11. A government’s budget is not a static document; therefore, amendments are sometimes
necessary to adapt to changing governmental needs during the budget period. Any increase in appropriation at the department level requires the approval of the governing authority. However, transfers within departments require only the approval of the budget officer.

12. There are no limits as to how many times the budget may be amended.

13. All units of local government with a population in excess of 1,500 persons or expenditures of $300,000 or greater are required to undergo an audit of their financial statements. Smaller units of local government can undergo a biennial audit or may elect for an annual report of agreed upon procedures for each fiscal year in a format prescribed by the State Auditor.

14. The budget serves several purposes: authorizes governing authority to collect revenues and spend them, provides information to the community, promotes accountability, facilitates administrative and performance control and serves as a managerial tool.
CHAPTER 1 EXERCISES

Working in groups of 2-3, answer the following questions.

1. Using the article, “The Budget Process: Who Does What” on pages 1-5 and 1-6, prepare a graphic showing the different steps of the budget process.
2. Select one of the budget laws discussed in this chapter and discuss how you think it may benefit or hinder the budget process.
3. Review the Judicial function and activity classifications below from the Uniform Chart of Accounts. What would be considered the legal level of control?

2000 **JUDICIAL**

2100 **Judicial administration**
2150 **Superior court**
2160 **Drug court division**
2180 **Clerk of Superior Court (constitutional officer)**
2200 **District attorney**
2300 **State court**
2400 **Magistrate court**
2450 **Probate court**
2500 **Recorder’s court**
2600 **Juvenile court**
2650 **Municipal court**
2700 **Grand jury**
2750 **Law library**
2800 **Public defender**

4. Review the General Government function and activity classifications in the Uniform Chart of Accounts. List the activities included in General Government.

**FUNCTION AND ACTIVITY CLASSIFICATIONS**

1000 **GENERAL GOVERNMENT**

1100 **Legislative**
1110 **Governing body**
1120 **Legislative committees and special bodies**
1130 **Clerk of council/commission**

1300 **Executive**
1310 **Mayor/commission chairperson**
1320 **Chief executive (manager or administrator)**
1330 **Clerk–administration**

1400 **Elections**

1500 **General administration**
1510 **Financial administration**
1511 **General supervision**
1512 **Accounting**
1513 **Budget**
1514 **Tax administration**
5. Using Handout 5, Hall County Budget Resolution, match Appropriations for the General Fund Budget to the activities in the Chart of Accounts shown in questions 4 and 5 above.
CHAPTER 2
THE LOCAL GOVERNMENT’S BUDGET SYSTEM

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

- Recall the importance of a budget policy
- Recall different types of budgets
- Recite the funds used in the budgeting process
- Outline the components of a budget
- Describe how to present a budget summary

BUDGET POLICY STATEMENT

Budget policies are a set of guidelines or statements which set the parameters, or boundaries, within which the budget process takes place. Entering a budget process without a guiding set of budget policies is like attempting to sail the ocean in a ship with no rudder. Like the ship, the local government will go wherever the wind and currents take them. Guiding budget policies help give direction to the process and provide the framework within which the process takes place.

Why Set Budget Policies?

Establishing budget policies has many benefits. One of the most important is that it can help local officials view their present approach to budgeting from an overall, long-range vantage point. In some communities, policies already exist in budgets, in capital improvement plans, in the general or comprehensive plan, in a charter, in grant applications, in council or commission resolutions, and in administrative practices. When budget policies are scattered among these kinds of documents, are unwritten, or are developed on a case-by-case basis, it is likely that decisions will be made without consideration of other current policy alternatives. This kind of policy making can lead to:

- **Conflicting policies** – The governing body may be making decisions that are in conflict with each other.
• **Inconsistent policies** – The governing body may be making certain decisions and following certain policies on one issue, then reversing themselves on a similar decision.

• **Incomplete policies** – The governing body may not be making any policy or reaching any decision on some aspect of budgeting.

Having a formal set of policies can help the government’s administrator and the governing body, see where these conflicts, inconsistencies and gaps are in the present approach to budget policy. It also can help them develop similar expectations regarding both managerial and legislative budget decision making.

**What are the Benefits of Budget Policy?**

There are several benefits to establishing budget policy. Some of them are:

• Having publicly adopted policy statements contributes greatly to the credibility of and public confidence in the governmental organization. To the credit rating industry and prospective investors, such statements show a government’s commitment to sound financial management and fiscal integrity.

• Having an established policy can save time and energy for both the government’s administrator and the governing body. Once certain decisions are made at the policy level, the issues do not need to be discussed each time a decision has to be made.

• The process of developing overall policy directs the attention of management and the governing body to the government’s total financial condition rather than single issue areas. Moreover, this process requires management and governing body to think about linking long-run financial planning with day-to-day operations.

• As budget policies are developed, the process of trying to tie issues together can bring new information to the surface and reveal further issues that need to be addressed.

• Discussing the budget policy can be an educational process for the governing body. It can help make the governing body more aware of the importance of their policy making role in maintaining good financial condition.

• Discussing budget issues and adopting a formal position will help prepare for a financial emergency and thereby avoid relying on short-run solutions that may be creating worse problems in the long run.

• Setting policy can improve the government’s fiscal stability. It can help government officials look down the road, set tax rates and plan expenditures for a two-to three-year period, and create a consistent planning approach.
Finally, having explicit budget policy contributes to the continuity in handling the government’s financial affairs. The government’s administrator and membership of the governing body may change over time, but policies can still guide whoever holds these positions.

In summary, establishing explicit budget policy can help both management and elected officials make financial decisions. The extent to which these benefits can be enjoyed by a community will depend on how the policy is formulated, who participates in that process, what substantive issues the policies deal with, and what policies are actually adopted.

**TYPES OF BUDGETS**

There are several types, or approaches, to governmental budgeting used in local government today. These approaches differ primarily in terms of the thought process underlying the approach. They reflect the evolution of budgetary thought and theory over the years. These approaches include line-item budgets, activity budgets, program budgets, performance budgets, and zero-base budgets provided under state law.

**Line-Item Budgets**

Often called traditional budgeting, line-item budgeting is the approach that has been used the longest and is still the one used most frequently by local governments today. The long-term popularity of the line-item budget is due in large measure to its inherent simplicity. Line-item budgets are organized on a departmental basis within each fund. Further, the format of a line-item budget parallels the accounts in the accounting system. Because of the paralleling of the accounting system, it is easier to bring about the primary emphasis of the line-item budgeting approach—CONTROL.

Line-item budgets are oriented almost entirely toward control. As far as control alone is concerned, the line-item approach succeeds very well in controlling expenditures. Line-item budgets are oriented primarily toward the question of “What are we going to buy?” The approach is based upon budgeting inputs, or dollars spent, rather than on outputs, or results.

Advantages of line-item budgeting center around its simplicity and its ability to aid in the control of local government expenditures. Also, the fact that line-item budgeting is the most prevalent approach used by local governments makes budgetary expertise and experience more easily transferable between units of local government.

A major disadvantage of line-item budgeting is the fact that the approach does not concern itself with results; rather, it concerns itself with what is to be spent.
Many budget practitioners have criticized this characteristic of line-item budgeting over the years. As long ago as 1917, the Bureau of Municipal Research recommended that New York City’s budgeting process focus more on policy planning and decision-making, rather than simply on financial control. In 1940, V.O. Key wrote a watershed article, “The Lack of a Budgeting Theory,” in which he criticized traditional line-item budgeting for its failure to focus on the allocation function of budgeting or determining relative priorities between competing alternatives for the same budget dollar.¹

Another often-heard criticism of line-item budgeting is that the approach tends to encourage a phenomenon known as incrementalism. Incrementalism in the line-item budgeting approach can come from two sources: internal and external.

Internal incrementalism comes from the tendency of budget preparers to base their initial budget requests on the amount of budgeted resources in last year’s budget. This is where they begin their budget process. To the prior year’s budget amount, they add amounts, or increments, for such things as normal price level increases due to inflation, expanded programs, new programs, growth, etc. That is, the budget request for year two often begins with the amount of the budget from year one; year three begins with the budget from year two, and so on. The basic assumption is that this year’s budget level is the correct place to begin building next year’s budget request. Obviously, this assumption is not always a valid one.

Added to the impact of internal incrementalism is external incrementalism, or the tendency of budget analysts, elected officials, etc. to focus on the amount of incremental change in the budget request from last year’s budget. As with internal incrementalism, the beginning point for budget development often is last year’s budget level. Again, this is not always a valid assumption.

When internal and external incremental tendencies are combined, the likelihood that the size of the budget will be increased can double by the sheer force of the process alone. That is, the very way that budget preparation and budget review are carried out and thought about may contribute to increases in the budget size which are almost “institutionalized” by the very process that is used.

In spite of much criticism by budget thinkers over the years and the rise (and mainly the fall) of numerous other budgetary approaches designed to offer alternatives, the line-item approach remains the most frequently used today.
As there are different fund types in budgeting, there are also different types of budgets. Local governments in Georgia use line-item budgeting most often, but not always in the purest sense. Oftentimes local governments will blend elements of program budgeting and performance budgeting into our traditional line-item budgets to develop a type of budgeting that works best for the respective government.

Line item budgeting, sometimes called traditional budgeting, emphasizes the control over expenditures. The expenditures are authorized in detailed line items (objects of expenditure: personnel, operating and operating capital outlay). Line item budgeting is very popular because it can be used by a wide range of governments and activities. It requires little or no analysis by the operating manager, because the preparation of this year’s budget is predominantly a modification of the budget from the previous year by incremental changes. At the same time incremental decision making reduces conflict among various budget process participants. Line item budgeting answers the question of how the money has been spent and, unlike the other budgeting methods, is input oriented.

This guide focuses on the traditional line-item approach to the budget. All the procedures and forms included in this guide can be modified to best suit an individual local government’s needs. Local governments have considerable independence in deciding about the form of their budget as long as they comply with the minimum standards provided within the state law.

**Activity Budget**

Activity budgets often are looked upon by local government budget practitioners as the next step up from line-item budgeting. Activity budgets are similar to line-item budgets and retain the same fund/department/character classification. Various activities within the same department are recognized in the activity budget. These activities should not be confused with programs as in “program budgeting” (to be discussed later in this chapter).

The focus of an activity budget, similar to a line-item budget, is on the unit of the organization and not on activity results.
This division would recognize that within the overall finance department, there would be several activities. Likewise, there could be several activities within other departments, such as Police, Fire, Public Works, etc.

Activity budgets often mention goals and objectives for each of the activities in the budget. Sometimes measurements are included along with some activity level statistics. Each of the activities is applicable to only one larger department, unlike many programs in program budgeting.

Often the untrained observer must look twice to distinguish an activity budget from a line-item budget.

Program Budget

Program budgets are the most basic of the output budgets. That is, they seek to focus on choices at the output level, or program results. Policy planning and resource allocation are integral parts of the program budgeting process. Goals are defined and expenses are allocated based on defined goals. A Records Management department might have the following goal and objective for a specific program:

Goal

- Enhance accessibility of official records for public use by expanding services available via the Internet.
Objective

- Provide on-line access of recorded court and real estate documents by September 2010.

Exhibit 2-4: Sample Program Budget

<table>
<thead>
<tr>
<th>Superior Court Clerk</th>
<th>Program: Record accessibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditure Classification</strong></td>
<td><strong>Previous Fiscal Year Actual</strong></td>
</tr>
<tr>
<td>Salaries</td>
<td>$</td>
</tr>
<tr>
<td>Supplies</td>
<td>$</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>$</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$</td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
</tr>
</tbody>
</table>

From an organizational standpoint, program budgets often cut across departmental lines. This can become complicated for many smaller, less sophisticated local governments because cost allocation becomes necessary. This is becoming less of a problem with the wider use of computer-based accounting in local government. Still, the programmatic approach is often conceptually difficult to define and administratively difficult to monitor.

One of the primary strengths of program budgeting is the fact that its primary focus is on the delivery of services. It encourages legislators to make judgments on the levels of services offered. The implicit assumption is that more or less of a certain service may be warranted. The legislators are encouraged to choose more or less of a certain service, or program, as circumstances and financial constraints warrant.

Program budgets evolved in an era of rapid public sector growth. There is some concern on the part of local government budgeters that program budgeting may not work as well in a cutback environment. They are concerned that cuts tend to be made along organizational and departmental lines and not along program lines, thus making it more difficult to cut a program budget.
Program budgets are oriented on planning. Unlike performance budgeting, it enables the government to decide whether a program is necessary at all. Government activities are organized into programs defined as activities or services with a common goal, which compete among dissimilar programs. Decision-making is based on formal economic analysis. The program budgets are concerned with the output, i.e., program result and delivery of services. Program budgets stress the effectiveness, i.e., the relationship between the products and services to be provided to the public and the costs of providing them.

**Performance Budget**

Performance budgeting provides a mechanism for integrating productivity measures into the budget. It is a budgeting technique with a specific purpose and usually does not replace the need for a complete budgeting system.

As with other techniques, performance budgeting has a focus of its own. The focus of performance budgeting is the relationship between the inputs, or dollars, and the outputs, or results. This focus seeks to emphasize economy and efficiency. It focuses on things like how many miles of street can we sweep for X dollars or how many fire calls can we make for Y dollars.

A true performance budgeting system gives responsibility for the various programs to certain officials and holds them accountable for the success of the program and rewards them accordingly. For example, if we allocate X dollars to sweep 1,000 miles of streets within the jurisdiction, then the Director of Transportation is expected to keep 1,000 miles of streets clean. As citizens drive these streets, the efficiency, or output, is measured by how clean the streets really are. The economy of this output is measured by what X dollars really are. If the clean streets budget is $10 million, then perhaps the citizens would think that it is too expensive. If this budget is just $10,000, then certainly the program would be considered extremely economical.

A disadvantage of a performance budgeting system is that it requires extensive data gathering at fairly low levels in the organization. This not only diverts attention away from the task at hand, but many individuals called upon to supply the data are not educationally prepared to do so. Care must be taken to ensure that the data is gathered and reported correctly.

Also, a serious question raised about the performance budget technique is that it seeks to optimize efficiency rather than effectiveness. In other words, it speaks to how well a local government performs a function and ignores questions about whether it should be performing
that function at all! In our clean streets example, we can measure how clean (efficiency) the streets are and the associated cost designed for an acceptable level of cleanliness (economy). However, performance budgeting does not answer whether your jurisdiction should even be in the business of cleaning streets (effectiveness).

Performance budgeting was designed in order to improve internal management, and it assumes that the output is desired. It is an input-output oriented budget, based on the concept of efficiency, i.e., to produce a given volume of outputs with a minimum number of inputs or to maximize the quantity of outputs for a given quantity of inputs. The resources are allocated to specific activities that produce immediate outputs. This system involves extensive use of work load and unit data. Recent innovations of performance budgeting are management by objective, total quality management and entrepreneurial budgeting.

**Zero-Base Budgeting**

Logan Cheek defines Zero-Base Budgeting (ZBB) as “an operating, planning and budgeting process that requires each manager to justify his/her entire budget request in detail from scratch (hence zero-base) and shifts the burden of proof to each manager to justify why he/she should spend any money at all.”

Zero-Base Budgeting was begun in the private sector as a means of attempting to avoid incremental decision making. It was initially viewed by many governmental budgeters as a means of eliminating the incrementalism inherent in the line-item budget approach.

In its pure form, ZBB breaks each budgetary entity, or decision unit, down into a series of budgetary options, or decision packages. A decision package is, in effect, a budget unto itself which contemplates a different level of service for that decision unit. There may be several decision packages for a single decision unit, each with a cost associated with it.

The decision packages are priority-ranked for each decision unit. The members of the governing body are expected to make rational choices from among the decision packages within each decision unit. They can choose a decision package in the Police decision unit that results in a higher level of that service and may choose a decision package in the Fire decision unit that results in a lower level of that service, or vice versa. Some have called ZBB “multiple choice” budgeting, since the governing body literally chooses from among different levels of services for all services.

Although simple in concept, the ZBB approach requires an enormous amount of staff time, commitment, effort and paperwork if implemented in its pure form. Pure ZBB can produce literally hundreds of “mini-line item” budgets, or decision packages, in a medium-to-large
government. Most local governments do not have the staff or resources to implement ZBB in its pure form. This is one of the weaknesses of the ZBB approach.

Another major weakness of the ZBB approach is its lack of relationship to most local government accounting systems. Typically, the entire budget must be converted after adoption in order to fit the accounting system and bring about the necessary reporting and controls.

Of the budget approaches discussed here, perhaps the only one found in its pure form is the line-item budget. One rarely sees a program, performance or zero-base budget in its pure form in practice in local government. This is true despite the fact that the history of the evolution of budgeting since the early 1940’s has been a series of approaches conceived to improve upon the traditional line-item approach.

Savvy local government budgeters in the 1990s recognized that there is no one single way to budget successfully. There is no one right way. The wisdom of the 1990s was that the best budget approach is whatever works best in one’s own jurisdiction. What is often seen in actual practice in local governments today is a blend of two or more approaches molded into a budgeting approach that works in a particular jurisdiction.

It is not uncommon to see unit costs, service levels, pure line-item and elements of program budgeting all in the same budget document. The local governments that seem to succeed best are those that absorb some of the new concepts and procedures which fit their situation and graft them onto their system and onto their local environment, while leaving alone those approaches that do not seem to fit their particular situation.

Capital Improvement Plan

A capital improvement plan is a three to five year plan to renew and replace capital assets. Capital assets have a useful life of a least one year and should cost above a pre-determined threshold. The Capital Improvement Program class in the Carl Vinson Institute of Government Level I Local Finance Officer Certification Program provides an in depth discussion of capital planning.

BUDGETING BASICS

In Georgia, as in most states, governments are required to use fund accounting, which breaks the budget into separate funds (like piggy banks), each with separate rules about what money goes in and how it can be spent. Unlike businesses, which have a single bottom line, governments must manage multiple bottom lines, one for each fund. The various funds must be kept separate. Use of the Uniform Chart of Accounts
allows budget officers to separate and organize funds and to easily compare financial information.

COMPONENTS OF A BUDGET

Budgets are structured around four components: funds, organizational structure, revenue, and expenditures.

Funds

The local government budget process and product is organized and operated on a fund basis with a fund being a self-balancing set of accounts. Generally Accepted Accounting Principles (GAAP) for governments also recognize three broad categories of funds: governmental, proprietary, and fiduciary. The Uniform Chart of Accounts is patterned after GAAP in the fund layout.

This manual deals with the General Fund budget. The general fund is the major operating fund of all local governments and is within the governmental category as it relates to fund accounting. It exists to finance the functions of general administration and the provision of general public services. It receives revenue from a number of sources and makes expenditures for a variety of activities.

A local government’s budget is prepared at the fund level. A fund is an independent fiscal and accounting entity with self-balancing set of accounts. It is established for the purpose of carrying on specific activities or attaining certain objectives. It records cash and/or other resources together with related liabilities and equities. This means that the functional activities of local government, such as leisure services or solid waste collection, are divided into relatively independent fiscal entities called funds.

Number of Funds

Generally accepted accounting principles (GAAP) require that governments establish and maintain those funds consistent with legal requirements and sound financial administration. In other words, the government should maintain as few funds as necessary consistent with the above criteria. Usually the sophistication of the government’s accounting system determines the latter requirement. If the accounting system can segregate revenues, expenditures and
fund equity for particular activities within a single fund, a government should use a single fund (e.g., the general fund).

However, there may also be political considerations that could impact the number of funds a government chooses to create and maintain. For example, if the government were to impose a new tax of a controversial nature, where there is a high level of expectation for separate accountability, the creation of a separate fund for that one tax and its program expenditures could be warranted.

**Fund Categories**

For reporting purposes, states must classify their individual funds within one of three categories. These categories are important since the accounting rules differ for each of the fund categories.

A brief explanation of these three categories follows:

A. **Governmental Funds** account for general operations such as government administration, education, social services, natural resources, and transportation programs. The primary income source for these programs is taxes.

B. **Proprietary Funds** account for activities that are similar to the commercial sector (e.g., the Georgia World Congress Center or sanitation services). In essence these are business-type activities that are owned and operated by the government. They are generally seen as being self-supporting and derive most, if not all of their revenues from customer fees.

C. **Fiduciary Funds** account for assets held by the government in a trustee or agent capacity such as taxes collected and held on behalf of local governments, pension plans, and trusts which received external donations for the benefit of parties external to the government.

**Generic Fund Types**

The Governmental Accounting Standards Board (GASB) subdivides the fund categories into generic fund types. The exhibit on the previous page presents a fund organizational chart illustrating the three categories and the explanations which follow depict their relationship with the generic fund types.

Knowledge of the generic fund type classifications is important for a thorough understanding of financial statements produced by a governmental entity.
**Governmental fund** category includes the following generic fund types:

1. **The General Fund** accounts for all resources that are not required to be accounted for in another fund. Most financial transactions are reported in this fund. Only one general fund is permitted for reporting purposes.

2. **Special Revenue Funds** account for resources that are legally restricted for specific purposes. Examples of revenues that might be accounted for in a Special Revenue Fund are federal grants or a special purpose tax.

3. **Capital Projects Funds** account for resources restricted for major capital outlays. The proceeds from a bond issue used to construct a new prison that will be repaid from general sales or income taxes would be accounted for here.

4. **Debt Service Funds** account for resources used to repay the principal and interest on general long-term debt, such as general obligation bonds.

5. **Permanent Funds** should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs—that is, *for the benefit of the government or its citizenry*.

The following generic fund types are included in the **proprietary fund** category.

1. **Enterprise Funds** account for activities financed and operated like those of business enterprises. The state farmer’s markets, the state lottery and the Georgia Ports Authority are examples of this fund type. Local government examples are water and sewer services, sanitation funds.

2. **Internal Service Funds** account for operations similar to those accounted for in enterprise funds, but provides goods or services to other departments within the same government. Activities such as centralized data processing, a motor pool or a print shop could be accounted for as internal service funds. However, if the fees an activity collects are not sufficient for the activity to break even over time, the activity should be accounted for elsewhere, preferably the general fund.

The last fund category, **fiduciary funds**, includes the trust and agency generic fund types. GAAP subdivides fiduciary fund types into four generic fund types (also called sub-funds).
1. **Agency Funds** are holding accounts for assets belonging to someone other than the state. For example, the state accounts for the sales taxes that it collects for a local government in an agency fund. A local government example is the sheriff’s fund, where fees the sheriff’s office collects are transmitted to the general fund.

2. **Pension Trust Funds** account for those assets maintained for single and/or multiple employer pension plans. In other words, the state or local government would report the assets that it holds for retirement payments to its employees (i.e., those who have or will retire) here. An expenditure for active employees is not recorded here, but in the fund where the applicable employee works.

3. **Investment Trust Fund** is a fund that a government uses to maintain the portion of its cash and investment pool held for other governments. The Georgia Fund I is an example of this fund type.

4. **Private-purpose Trust Funds** should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.

Each individual fund maintained in a government is classified into one of the three fund categories and within one of the eleven generic fund types.

**Organizational Structure**

The organizational structure of a government must be mapped out before the budget preparation process can begin. The major accounting classifications of expenditures are by fund character, function (or program), activity, department (or organizational unit), and object class. Information on the overall purpose of expenditures is provided in the function classification.

The character classification refers to the nature of the expenditure based on the fiscal period they benefit. There are four classifications: current, capital outlay, debt service and intergovernmental. The current classification refers to the ongoing operating costs for operating the government; i.e. the cost associated with each fiscal year. The capital outlay and debt service classification refers to expenditures that benefit more than one period. Intergovernmental refers to grants made to another unit of government.

Functions are defined as group-related activities with the goal of accomplishing a major service or regulatory responsibility. An activity classification refers to a specific service performed by a component of government, such as police work being an activity within the
public safety function. Departmental expenditure classification corresponds with the government unit’s organizational structure. A unit may have the responsibility of carrying out several activities or programs, which in turn may also be taken care of by other organizational units. Object classification groups expenditures according to the types of services obtained or supplies purchased.

The Georgia Department of Community Affairs is responsible for establishing the uniform chart of accounts used by local governments. Local governments must be able to report in compliance with the chart of accounts. The chart may be viewed at https://dca.ga.gov/local-government-assistance/research-surveys/uniform-chart-accounts-ucoa.

Revenue

The elected officials are ultimately responsible for the budget and therefore should receive periodic information concerning the government’s progress toward budget compliance. Normally, timely financial and budget reports are received monthly. If such reports are not received on a timely basis, they are not valuable. These reports should include both revenue and expenditure information.

Data on a revenue report could include the following for revenues by source:

- Most current amended budget
- Current month’s revenue recognized
- Year-to-date revenues recognized
- Difference between budget and actual

Expenditures

Data on the expenditure report could include the following for expenditures at the legal level of control:

- Most current amended budget
- Current month’s expenditures
- Year-to-date expenditures
- Outstanding encumbrances
- Unencumbered balance
Elected officials and management need to examine those reports closely and pay particular attention to uncollected revenue and unexpected unencumbered balances.

A sample financial reporting policy follows:

“The government will maintain a budgetary control system to ensure adherence to the budget and will prepare timely, monthly financial reports comparing actual revenues, expenditures, and encumbrances with budgeted amounts. These reports will be distributed to the elected officials and department directors.”

**THE BUDGET SUMMARY**

After the revenue estimates are completed, information on current and projected expenditures is collected from all departments and the property tax rate is determined. The budget review process, formal or informal, is then undertaken. During the budget review process the budget requests are brought into balance with available resources. It is considered most financially responsible to allow current year revenues to equal current year expenditures without using accumulated carry over or fund balances. Then the budget officer or chief executive prepares an integrated budget document.

The budget document includes a budget message, budget summary and detailed budget requests. A budget message describes the major assumptions underlying the budget, major issues the legislative body must address and changes in the proposed budget from the current year budget. A budget summary shows the total revenues by source and total expenditures by departments and activity or program including significant changes. O.C.G.A. § 36-81-5 (e) states: “A statement advising the residents of the local unit of government of the availability of the proposed budget shall be published in a newspaper of general circulation within the jurisdiction of the governing authority. The notice shall be published during the week in which the proposed budget is submitted to the governing authority. In addition, the statement shall also advise the residents that a public hearing will be held at which time any persons wishing to be heard on the budget may appear. The statement shall be a prominently displayed advertisement or news article and shall not be placed in that section of the newspaper where legal notices appear.”

Exhibit 2-5 on the following page presents an example of the sources of the totals for the budget summary. Detailed budget requests provide detailed expenditure data by major expenditure items for each department and contain revenue estimates by major and minor revenue sources.
Exhibit 2-5: Example of Totals for the Budget Summary

**BUDGET SUMMARY**
- Appropriations
- General
- Public Safety
- Public Works
- Debt Service
- TOTAL

**PUBLIC SAFETY**
- Volunteer Fire Force
- Jail
- Sheriff's Department
- TOTAL

**SHERIFF’S DEPARTMENT**
- 51 personal services and employee benefits
  - 51.1000 personal services—salaries and wages
  - 51.1100 regular employees
  - 51.1200 temporary employees
  - 51.2000 personal services—employee benefits
- 52 purchased/contracted services
  - 52.1000 purchased professional and technical services
  - 52.1100 official/administrative
  - 52.1200 professional
  - 52.1300 technical
  - 52.2000 purchased—property services
  - 52.2100 cleaning services
  - 52.3000 other purchased services
  - 52.3100 insurance, other than employee benefits
  - 52.3200 communications
  - 52.3600 dues and fees
  - 52.3700 education and training
  - 52.3800 licenses
  - 52.3850 contract labor
- 53 supplies
  - 53.1000 supplies
  - 53.1100 general supplies and materials
  - 53.1200 energy
- 54 capital outlays
  - 54.2000 machinery and equipment
  - 54.2200 vehicles
  - 54.2400 computers
- TOTAL
## Exhibit 2-6: Sample Line-item Budget Summary

<table>
<thead>
<tr>
<th></th>
<th>20X2 Actual</th>
<th>20X3 Actual</th>
<th>20X4 Adopted</th>
<th>20X5 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$1,518,340</td>
<td>$1,601,508</td>
<td>$1,620,000</td>
<td>$1,750,000</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>$161,984</td>
<td>$154,304</td>
<td>$166,000</td>
<td>$167,000</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$84,841</td>
<td>$58,200</td>
<td>$59,000</td>
<td>$62,000</td>
</tr>
<tr>
<td>Charges for services</td>
<td>$1,668,323</td>
<td>$1,406,815</td>
<td>$1,560,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Fines and forfeitures</td>
<td>$124,201</td>
<td>$134,455</td>
<td>$130,000</td>
<td>$135,000</td>
</tr>
<tr>
<td>Investment Income</td>
<td>$10,050</td>
<td>$11,029</td>
<td>$11,500</td>
<td>$11,600</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES:</strong></td>
<td>$3,567,739</td>
<td>$3,366,311</td>
<td>$3,546,500</td>
<td>$3,625,600</td>
</tr>
<tr>
<td><strong>EXPENDITURES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$1,783,870</td>
<td>$1,683,156</td>
<td>$1,773,250</td>
<td>$1,812,800</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$713,548</td>
<td>$673,262</td>
<td>$709,300</td>
<td>$725,120</td>
</tr>
<tr>
<td>Public Works</td>
<td>$356,774</td>
<td>$336,631</td>
<td>$709,300</td>
<td>$725,120</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$178,387</td>
<td>$168,316</td>
<td>$354,650</td>
<td>$362,560</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES:</strong></td>
<td>$3,032,579</td>
<td>$2,861,365</td>
<td>$3,546,500</td>
<td>$3,625,600</td>
</tr>
</tbody>
</table>
CHAPTER 2 SUMMARY

1. Budget policies are a set of guidelines or statements which set the parameters, or boundaries, within which the budget process takes place.

2. Establishing budget policies can help local officials view their present approach to budgeting from an overall, long-range vantage point.

3. Benefits of establishing a budget policy:
   - Contributes greatly to the credibility of and public confidence in the government organization
   - Can save time and energy
   - Directs attention to total financial condition
   - Can bring new information to the surface to reveal further issues
   - Educational process
   - Prepare for a financial emergency
   - Improve fiscal stability
   - Contributes to the continuity in financial affairs

4. Approaches to budget preparation include – line item budgets, activity budgets, program budgets, performance budgets, and zero-base budgets.

5. The most frequently used and simplistic budget approach is the line-item budget.

6. The format of a line-item budget parallels the accounts in a government's accounting system; and therefore, emphasizes control.

7. The line-item budget is based upon budgeting inputs, or dollars spent, rather than on outputs, or results.

8. Inherent in the line-item budget approach is incrementalism, the tendency of budget preparers to base their initial budget requests on the amount of budgeted resources in last year’s budget.

9. Activity budgets are often looked upon as the next step up from line-item budgets. Activity budgets focus on various activities within the same department. For example, accounting, treasury, and budget.

10. Program budgets, the most basic of the output budgets, are oriented on planning and are concerned with the output, i.e., the relationship between the products and services to be provided to the public and the costs of providing them. A concern of this
approach is that cuts tend to be made along organizational and departmental lines and not along program lines, thus making it more difficult to cut a program budget.

11. Performance budgeting provides a mechanism for integrating productivity measures into the budget and is focused on the relationship between the inputs, or dollars, and the outputs, or results.

12. A disadvantage of performance based budgeting is that it requires extensive data gathering at fairly low levels in the organization and that it seeks to optimize efficiency rather than effectiveness.

13. Zero-Base Budgeting is a process that requires departments to prepare decision packages representing various service levels and rank order them. In essence, each manager has to justify his/her entire budget request in detail from scratch (hence zero-base).

14. Budgets are structured around four components: funds, organizational structure, revenue, and expenditures.

15. For reporting purposes, governments must classify their individual funds within one of three categories: governmental, proprietary, and fiduciary.

16. The Governmental Accounting Standards Board (GASB) subdivides the fund categories into generic fund types. For example, the governmental category of funds includes the following generic fund types: general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. The proprietary category includes enterprise and internal service funds. The fiduciary category includes pension trust funds, agency funds, private purpose trust funds, and investment trust funds.

17. The budget document includes a budget message, budget summary and detailed budget requests.
Chapter Exercises

1. Review Handout 1, City of Gainesville, Georgia Budget Policy. Find one of the policy requirements and describe how it would benefit the budget process.

2. Review Handout 2, Uniform Chart of Accounts for Local Governments in Georgia, Special Revenue Funds.
   a. Select three special revenue funds, document the fund number, fund description and explain why you think the fund is required to be accounted for as a special revenue fund.
3. Select one of the benefits of a budget policy (see page 2-2) and describe how it would impact your local government. Give a specific example.

4. Review Handout 3, program budget for Georgia Department of Agriculture. Document the programs and their purposes.
CHAPTER 3
THE BUDGET PREPARATION PROCESS

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

- Recall the elements of a successful budget process
- Identify the segments of the budget
- Recognize the purpose of a budget calendar

Many local government budget practitioners believe that budgeting is as much a process as a product. That is, they believe that the process a local government goes through during the preparation of the budget is just as important as the product, or the budget document itself. In the design of an efficient budget preparation process, it is important to ensure that:

- All the participants know what is expected of them
- That the public is informed and has ample opportunity to provide input
- All items which make up an efficient budget process are present

A good, sound budget process almost automatically leads to a good, sound budget document, or product.

Many local government budget scholars and much of the budgeting literature suggest that the budget process is as important as the budget product, or the budget document. As with any art (or craft, as Lehan puts it) the process can vary with the individual local government.

For a budget process to be successful, it must provide those elements necessary and desirable to the individual local government. Although the budget process employed by local governments does vary, there are certain recurring elements found in most successful budget processes. In other words, successful budget preparers tend to do the same or similar kinds of things. Some of these elements of a successful budget process are discussed below.
GOALS AND OBJECTIVES (SENSE OF DIRECTION)

Perhaps the single most important element of a successful budget process is that the local government have a sense of where it is going, i.e., a sense of direction. A local government with a sense of direction wastes less of its time, money and other resources on matters that do not take it in the direction it wants to go.

Governments often prepare strategic plans. It is through this process that local governments set goals and objectives and review and revise them annually as a part of their normal budget process. Other local governments write elaborate vision and mission statements that speak to where that government wants to go and what it wants to accomplish.

Budgets for these local governments spring from the vision, mission, goals, and objectives statements. Normally, each department making a budget request relates its request to the goals and objectives statement. It presents and defends its request in terms of how it will aid in meeting departmental goals and objectives. Departmental goals and objectives “roll up” into overall government-wide goals. In a government with well defined goals and objectives, a budget request that is not consistent with those goals and objectives would have little chance of being funded.

Much of the literature on the subject suggests that a goal and an objective are not the same thing. Many people use these terms interchangeably; however, a goal can be defined as “a desired outcome, or state.” An objective can be defined as a “sub-goal,” or an intermediate step towards a goal. Goals are more general and somewhat less quantifiable than objectives but should be written and expressed in terms so that they can be measured.

For example, a goal for a Recreation department could be “to provide recreation programs and facilities that are used by all segments of the community, are maintained in an attractive manner, are safe, are affordable and meet the recreational needs of the community.” Words such as “used,” “attractive,” “safe,” and “affordable” help make the goal measurable by surveys and other techniques. The same goal should not be written in such general terms as “to provide recreational opportunities for our citizens.” Such general wording defies measurement.

An objective should be written in more specific, measurable terms and should be stated in terms of results—not activities. For example, an objective for the Recreation department could be “to increase the number of participants in the summer softball program by 20 percent,” and not be written as “to increase the number of softball fields.” Another example, “to reduce burglaries in downtown by 10 percent over the next six months” instead of “to reduce crime,” would be preferable.

An objective should be relevant to the goal and help to achieve the goal. With well-written goals and objectives, it should be apparent that meeting the objectives is leading toward achieving the goal.

When reviewing departmental budget requests, budget reviewers should measure the request against the goals and objectives of that department to determine whether the request should be
funded. Budget requests that are not consistent with departmental and government-wide goals and objectives should not be funded.

In summary, well-written goals and objectives can help a local government ensure that the limited funds they have are spent on programs and items that help them accomplish what they have decided they want to accomplish. In this present “cost-revenue squeeze” environment, this is a particularly good budget control element as it works to reduce frivolous, wasteful, and unproductive spending by local government on programs and projects that will not take them in the desired direction.

ASSESSING COMMUNITY NEEDS (SENSE OF PRIORITY)

Along with a sense of direction, a sense of priority is an element found in most successful budget processes. Since most local governments cannot afford to fund every request made in the budget process, some basis for cutting the requests needs to be developed. One excellent way to do this is to develop a list of priorities for the local government. Budget cuts can then be made based upon where that particular budget request stands in terms of priority with other budget requests.

In concept, it is simple and easy to say that budget cuts should be made with a highly developed sense of priorities. However, the difficult part is getting the local government to agree on what the priorities are. For example, is public safety more or less important than public works? Are recreation and leisure services more or less important than planning? These kinds of “apple vs. orange” choices are made many times during the budget process.

Often, these “apple vs. orange” priority choices are very difficult to make. Consequently, many local government elected officials don’t make the choices at all; preferring to let staff “slug it out,” hoping the problem will go away. When priority choices are made, usually there is a perceived winner and loser. This is unfortunate, but realistic. Since a local government cannot fund every request, tough choices must be made. Choices made based on priorities are more logical and rational, if not popular.
One important question is “How are priority choices made?” At best, priority choices are subjective, difficult, and are often arrived at after much debate and discussion. Sometimes, the “squeaky wheel” gets the nod in terms of priorities. Sometimes, local governments avoid making priority decisions altogether. At best, consensus rules. Often, obtaining consensus is an ordeal that many local governments try to avoid.

However, there are several prioritization processes and models in use throughout the country that can aid local governments greatly in arriving at consensus priorities for their government. These models, though helpful, do not substitute for human thinking and decision-making. They are best used as a tool for arriving at a broad, “first cut” priority choice.

Some of the models are very simple and easy to use. Others are more complex. Many models in use today seek to quantify numerically the various priority choices. They require the rater to assign a numerical value to each priority alternative. Still other priority models recognize that all priority criteria are not equally important to the overall priority choice. These models assign a different weight to the criteria. The weight assigned to the priority criteria is multiplied by the score given by the rater to obtain the priority score. In most prioritization models, the higher the numerical score, the higher the priority.

The governing authority of the local government should approve the model and the priority criteria used in the model, as well as whatever weights are applied to the priority criteria. By
approving the model, the priority criteria and the weights, the governing body is retaining control over how the priority choices are made and what criteria are used to arrive at the priority choice.

It should be emphasized that although the prioritization models can be very helpful in determining priorities, they are by no means a substitute for analysis, debate and decision making by the governing body and staff. Priorities models are designed to aid decision-makers in arriving at a “first cut” prioritization. Those items and projects that emerge as the “winners” from the prioritization model process should then be analyzed and examined to determine the top priority winners from that group.

Developing a sense of priority not only aids in determining where to appropriate the local government’s limited funds, but it also gives valuable help and insight into where the local government can cut its budget with minimum impact on its highest priority programs. Although the process of prioritization can be difficult, the rewards can be great.

**THE ADMINISTRATIVE PLAN**

The administrative plan describes the various steps involved in the budget process and the persons to whom these responsibilities are assigned. It is a policy statement that documents the actions that must be completed in the course of the budget preparation process and the sequence of these actions.

<table>
<thead>
<tr>
<th>Exhibit 3-1: Components of an Administrative Plan</th>
</tr>
</thead>
</table>

This budget process begins in early October and concludes in early September. The Budget Office served as liaison and facilitator for the Chairman and Local Government Manager, working with all elected officials and government departments.

The budget process is organized into these four segments:

1. Management Plan
2. Financial Plan
3. Capital Plan
4. Consolidation

**THE BUDGET SEGMENTS**

**Management Plan**

Each department is required to prepare and submit their management plan. Once the management plans have been submitted, The Budget Office distributes the Financial and Capital plans to the department. The Financial and Capital plans are not distributed to the departments until the management plans are received.
Exhibit 3-1: Components of an Administrative Plan - Continued

The Management Plan provides both narrative and performance statistic information, which lends support to the department’s operations. This is helpful when considering staffing and funding levels. Additionally, this information provides an overview of how taxpayer dollars are being spent. The Management Plan includes the following components: mission statement, department description, goals and objectives, and performance indicators. Management plans are reviewed and edited by the Budget Office for incorporation into both the Proposed Budget and final budget document.

In an effort to assist the departments with the development of an effective and useful Management Plan, the Budget Office has created a new comprehensive instruction booklet that includes a budget calendar, key points to remember, and specific related examples. Instruction booklets are distributed to department managers at the Department Managers’ Meeting in November. The last two weeks in January, Management Plan training classes are offered, in conjunction with the “Budget 101” classes. In addition to the training classes, departments requiring additional assistance with their Management Plans can schedule individual meetings with their budget analyst.

Financial Plan

The Financial Plan outlines the funding levels required to carry out planned activities during the upcoming fiscal year. State law mandates a balanced financial plan, which means budgeted expenditures must equal budgeted revenues plus fund balances. Although departments within funds are not required to have balanced budgets, each fund as a whole must be balanced.

The local government of Vinson employs the traditional ‘Line-Item’ (object of expenditure & source of revenue) method of budgeting at the departmental level. Some departments have sub-activities or programs with budgets, however each division or program eventually accounts for its financial resources within the framework of a line-item budget. Although the government tracks program and department performance, it is not directly tied to dollars in the financial system. A future financial system upgrade will allow some linkage between dollars and performance.

Funding required to support current levels of service is analyzed, discussed, and then mutually agreed upon by the key staff of each department and the Budget Office. Any line item lacking this agreement between the Budget Office and the department is flagged as an outstanding issue that needs Chairman or Local Government Manager consideration.

The resulting financial plans are completed and submitted by departments five weeks after the management plans are turned in. These financial plans are then presented to the Chairman and Local Government Manager. Requests that are above and beyond continuation levels require management direction.
Exhibit 3-1: Components of an Administrative Plan - Continued

In February, departmental continuation budgets (Financial Plan) and justification/explanation forms are due to the Budget Office. All the financial plan information, management plans, and five-year history of spending patterns are used to formulate the Budget Office recommendations.

Departments and elected officials, with potential personnel-related improvement needs, must submit concise justification and estimated costs for each improvement by the end of February. In March and April, these requests are reviewed by the Chairman and Local Government Manager for inclusion in the proposed operating budgets.

By the middle of March, the Budget Office will review the departmental budget requests and finalize the budget recommendations.

In March and April, the Chairman and Local Government Manager meet to review the Budget Office recommendations and outstanding issues. The Budget Office will receive concurrence on the recommended figures and receive further guidance on outstanding issues. Also, departments are given the opportunity to meet with the Chairman or Local Government Manager to discuss outstanding issues. At the direction of the Chairman or Local Government Manager, approved outstanding items are incorporated into, and other disapproved items are deleted, from the Budget Office recommendations. The Chairman and Local Government Manager review the increases in the department’s discretionary budgets. The initial review meetings with the Chairman and Local Government Manager are completed in April. The initial recommendations are entered into the financial system by the middle of April. Final review meetings are held in May and all management recommendations are finalized and entered by the end of May.

Also during the month of April, revenue is analyzed and projections are prepared by the Budget Officer. Georgia law O.C.G.A. § 36-81-2 (2) states that the term “budget officer” means “the local government official charged with budget preparation and administration for the local government. The official title of the local government budget officer shall be as provided by local law, charter, ordinance, or appropriate resolution of the governing authority.”

Grant funding is a component of the Financial Plan. The local government’s Grant Application Process determines the level of General Fund support provided to non-profit organizations. Grant Application forms and instructions are distributed to various non-profit organizations in January. Completed applications are due the beginning of March. These applications are reviewed by a local alliance of non-profit agencies. This organization then makes funding recommendations. The Chairman reviews the grant requests, and the collaborative recommendations the first week in May. The Chairman’s recommendations are incorporated in the proposed operating budget.
Capital Plan

The Capital Plan is comprised of two parallel components, the Capital Replacement Schedule (CRS), and the Capital Improvements Program (CIP), which eventually integrate into the Operating and Capital Budgets. The departmental capital plans are due five weeks after the management plans. The CRS is a management tool used to anticipate and plan for the local government’s comprehensive capital replacement needs over a 20 year horizon. The CRS focuses on replacement of existing facilities and equipment costing over $25,000. This component of the capital plan allows the local government to proactively plan for long range infrastructure projects to avoid straining current or future financial resources.

At the end of February, CRS forms are due to the Budget Office along with justifications. These documents are reviewed and consolidated in March, and presented in April, to the Chairman and Local Government Manager for guidance and approval. During March the Budget Office examines these projects or items for accuracy, potential cost allocation between funds, and actual need. Requesting departments meet with the Local Government Manager during April and May to explain and justify the projects requested. The government-wide proposed CRS is finalized by the end of May.

The other component of the Capital Plan is the CIP. The CIP is used to identify needs for new capital items or projects over $25,000.

Departments with potential capital improvement requests should submit concise justifications and accurate cost estimates for each of their improvements. The capital improvement proposals are due to the Budget Office at the end of February. The review process for CIP items is similar to that of the CRS. During April, the Budget Office will examine these projects or items for accuracy, potential cost allocation between funds, and actual need. Requesting departments will meet with the Local Government Manager in April and May to explain and justify the projects requested. By the end of May, the government-wide proposed CIP is finalized.

A final Proposed Operating and Capital Budget will be presented to the Chairman and Local Government Manager by the end of May.

Consolidation

After the first three budget segments are complete, the Budget Office compiles the information and completes the Proposed Budget book. This document includes all elements contained in the Management, Financial, and Capital Plans used to formulate the Operating and Capital Budgets.

The Chairman presents the Proposed Budget to the Board of Commissioners (BOC) for review during the second week of June.
Exhibit 3-1: Components of an Administrative Plan - Continued

The proposed Operating and Capital Budgets are advertised in the local paper the second week of June. A public hearing is held in August. At this hearing, citizens are invited to comment on the Proposed Budget.

Consistent with Georgia law, the Operating and Capital Budgets are scheduled to be adopted and approved at the BOC’s first regular meeting in September. The adoption is advertised at least seven days prior to adoption.

Source: Cobb County Government

THE BUDGET CALENDAR

A budget calendar can be defined as “a roadmap for the budget preparation process.” A good budget calendar contains three essential pieces of information:

- The task to be done
- When it is to be done
- Who is responsible for getting it done

There are many formats and layouts for a good budget calendar, ranging from the very simple to the very sophisticated. However simple or sophisticated, they all contain basically the same information.

A well-prepared and well-thought-out budget calendar can help the budget administrator keep the budget preparation process on schedule. The budget administrator can tell at a glance whether the process is ahead, behind or on schedule. Most budget professionals cannot imagine beginning a budget preparation process without first sitting down and planning the process and planning the important elements on a schedule, or budget calendar, and identifying the person(s) responsible for completing each element. In this way, a smooth, trouble-free budget preparation process is more assured.

The preparation of the budget is composed of a series of steps. It is important to identify each of these steps, to establish a time schedule for completing them and to designate persons responsible for their performance. The budget preparation plan should be formalized into a budget calendar. The budget calendar is a schedule of key dates that the local government follows in the preparation and adoption of the budget. Simply stated a budget calendar displays who is going to do the task, what the task is and when the task is to be completed.

A sample budget calendar is shown in Exhibit 3-2: Sample Budget Calendar. The calendar needs to balance the time to prepare the budget and availability of data on the current budget.
development. The sample calendar allots four months to prepare and adopt the budget. This is an estimate of time needed; however, local governments should dedicate sufficient time to complete the preparation of the budget so that it is adopted before the start of the fiscal year. At the same time, some steps can be included or omitted, according to the needs of the particular local government.

At a minimum, the budget calendar should indicate when:

- The budget request forms, instructions and guidelines will be distributed to the departments
- Revenue estimates will be prepared
- Budget requests will be compiled into a single budget document
- The budget will be presented to the legislative body
- Budget hearings will be held
- Budget will be adopted
- The new fiscal year will begin

In the case of small local governments that do not have a dedicated budget officer on staff, the responsibility of establishing a calendar resides with a clerk or manager.
### Exhibit 3-2: Sample Budget Calendar

<table>
<thead>
<tr>
<th>When</th>
<th>What</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1</td>
<td>Budget preparation forms are printed and ready for distribution.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>September 15</td>
<td>Budget information for current year and for prior years is posted to forms for each department.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>October 1</td>
<td>Budget request forms, instructions, and guidelines are distributed to the departments.</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>October 1</td>
<td>Revenue estimates are completed.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>October 15</td>
<td>Budget request forms are returned.</td>
<td>Management Team or Department Directors</td>
</tr>
<tr>
<td>October 16–November 4</td>
<td>Analyze department requests and hold conferences.</td>
<td>Finance Officer, Budget Officer, Chief Executive</td>
</tr>
<tr>
<td>November 5–19</td>
<td>Assemble budget requests, compare with revenue estimates, and compile the budget document.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>November 20</td>
<td>Proposed budget is submitted to governing body for review.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>November 21</td>
<td>Governing body review is complete.</td>
<td>Governing Body</td>
</tr>
<tr>
<td>December 1</td>
<td>Advertise budget information and date of public hearing.</td>
<td>Chief Executive or Clerk</td>
</tr>
<tr>
<td>December 15</td>
<td>Conduct public hearing.</td>
<td>Finance Officer, Budget Officer, Chief Executive</td>
</tr>
<tr>
<td>December 16</td>
<td>Further review and revision. Final adoption.</td>
<td>Governing Body, Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>December 21</td>
<td>Send copies to management team, governing body, and media.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
<tr>
<td>January 1</td>
<td>Budget becomes effective.</td>
<td>Finance Officer or Budget Officer</td>
</tr>
</tbody>
</table>
CHAPTER 3 SUMMARY

1. Elements of a successful budget process include - clearly defined goals and objectives, a community needs assessment, and an administrative plan.

2. Many local government budget practitioners believe that budgeting is as much a process as a product.

3. The single most important element of a successful budget process is that the local government have a sense of where it is going, i.e., a sense of direction.

4. An efficient budget preparation process ensures that all participants know what is expected of them, that the public is informed and has input, and that all items which make up an efficient budget process are present.

5. Many people use the terms “goal” and “objective” interchangeably; however, a goal can be defined as “a desired outcome, or state” and an objective can be defined as a “sub-goal,” or an intermediate step towards a goal.

6. Budget requests that are not consistent with departmental and government-wide goals and objectives should not be funded.

7. A sense of priority is an element found in most successful budget processes. A sense of priority not only aids in determining where to appropriate the local government's limited funds, but it also gives valuable help and insight into where the local government can cut its budget with minimum impact on its highest priority programs.

8. The administrative plan is a policy statement that documents the actions that must be completed in the course of the budget preparation process and the sequence of these actions.

9. Segments of the budget include the management plan, financial plan, capital plan, and consolidation of the budget book.

10. The management plan provides both narrative and performance statistic information, which lends support to the department’s operations.

11. The financial plan outlines the funding levels required to carry out planned activities during the upcoming fiscal year.

12. The capital plan focuses on replacement of existing facilities and equipment and allows the local government to proactively plan for long range infrastructure projects to avoid straining current or future financial resources.
13. A good budget calendar contains three essential pieces of information – the task to be done, when it is to be done, and who is responsible for getting it done.

14. The amount of time needed to prepare and adopt a budget is sufficient time to complete the preparation of the budget so that it is adopted before the start of the fiscal year.
CHAPTER 3 EXERCISE

Read Cobb County’s Administrative Plan, Exhibit 3-1 beginning on page 3-5 and answer the following questions:

1. What information does the management plan provide to the budget process?

2. What components are included in the management plan?

3. Who edits the management plan?

4. What kind of support does Cobb County offer to departments in creating their management plan?

5. What is included in the Financial Plan?

6. What kind of budget presentation does the plan require (line item, program, activity)?

7. How does the budget link to performance?

8. How is funding the budget handled?
9. What is the timing of when the financial plans are completed and submitted?

10. How are personnel-related improvement needs submitted?

11. Who meets to review Budget Office recommendations and outstanding issues?

12. How is grant funding considered?

13. What are the two components of the capital plan?

14. How is the Capital Replacement Schedule used?

15. How is the Capital Improvement Program used?

16. What is involved in the consolidation phase of the budget?
CHAPTER 4
DEPARTMENTAL REQUESTS

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

• Summarize how to use budget forms in the review process

INTRODUCTION

Department heads and others who are not actively involved in the preparation of the budget are not committed to it and do not feel as bound by it as those who were involved in the process and feel a sense of ownership of their budget. Good budget processes make a concerted effort to involve as many of the participants as possible in the budget process. They consciously seek to develop and foster a sense of ownership of the budget.

In order to encourage a sense of ownership, many budget processes solicit input from as far down in the organization as possible. They also seek help in cutting the budget from as far down in the organization as possible. Often, these are the people who know the “nuts and bolts” of the operation and they are the very ones who will make it work. Giving them a sense of pride in their budget (a sense of ownership) will pay enormous dividends to the local government who will make the effort.

BUDGET INFORMATION PACKET

Before the upcoming budget process begins, the budget officer should prepare a packet of information for each department. This packet will be used to prepare the departmental budget requests and should include the following:

• Cover memo with detailed instructions
• Forms for developing performance measures and goals and objectives
• Forms for budget requests
• Spreadsheets showing prior year budget, current year budget and year-to-date expenditures
• Budget calendar
• Forms for forecasting revenues
• Capital improvement packages
DEPARTMENTAL REQUEST FORMS

Included in the budget information packet are the following forms. The naming convention may change from organization to organization, but the content for each should be present.

1. **Departmental Performance Indicators** – Performance information should relate directly to the department’s mission and its key results. Allocating resources based on performance improves the linkage between goals and objectives established through program implementation. Performance measures are covered in detail in our Intermediate Budgeting class.

2. **Departmental Budget Request Form** – The departmental budget request form contains columns showing the prior year expended, the current budget, the year-to-date expended and a requested and approved column. Also, some governments require justifications on the departmental budget request form.

3. **Departmental Personnel Request Form** – This form is used to describe salary and related fringe costs of existing personnel. Percentages are provided to calculate fringe amounts. Normally, requests for overtime and part-time are requested separately on their own request forms.

4. **Departmental Change-In-Service Form** – The departmental change-in-service form shows proposed service changes, the cost of these changes and the number and type of additional personnel required to perform the service.

5. **Departmental Capital Equipment Outlay Form** – This form is used to request new capital outlay items of significant value, such as vehicles and equipment. Included on this form is a description of the requested piece of capital, the estimated cost and justification. It is important that departments rank their requests with the most critical item beginning with number 1.

6. **Departmental Capital Replacement Schedule Form** – This form is used to schedule when capital items will need replacement and identifies the amount of funding required to accomplish the replacements. Replacements represent existing capital items or capital projects with a per unit or aggregate cost of $X or more (dollar threshold determined by government). Replacements are scheduled based on the mechanical or structural condition and/or the anticipated useful service life of the item.
### Exhibit 4-1: Departmental Budget Request Form

**FY 20X8 Continuation Request**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>FYX6 Expended</th>
<th>FYX7 Adopted</th>
<th>FYX8 Requested</th>
<th>FYX8 Recommended by Budget</th>
<th>% Inc/Dec X8 vs X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>53.100</td>
<td>General supplies and materials</td>
<td>$1,200</td>
<td>$2,450</td>
<td>$3,000</td>
<td>$3,000</td>
<td>22.45%</td>
</tr>
<tr>
<td>53.1220</td>
<td>Natural gas</td>
<td>$600</td>
<td>$1,500</td>
<td>$1,600</td>
<td>$1,600</td>
<td>6.67%</td>
</tr>
<tr>
<td>53.1230</td>
<td>Electricity</td>
<td>$168,000</td>
<td>$199,999</td>
<td>$185,000</td>
<td>$185,000</td>
<td>-7.50%</td>
</tr>
<tr>
<td>53.1400</td>
<td>Books and periodicals</td>
<td>$98</td>
<td>$138</td>
<td>$150</td>
<td>$150</td>
<td>8.70%</td>
</tr>
<tr>
<td>53.1600</td>
<td>Small equipment</td>
<td>$1,644</td>
<td>$450</td>
<td>$1,000</td>
<td>$1,000</td>
<td>122.22%</td>
</tr>
</tbody>
</table>
**Exhibit 4-2: Summary Departmental Budget Request Form**

<table>
<thead>
<tr>
<th>Department Name:</th>
<th>20X1 Prior Year</th>
<th>20X2 Current Year Estimated to . . . mos.</th>
<th>20X3 Proposed</th>
<th>20X3 Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Actual</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>20X1 Prior Year Actual</th>
<th>20X2 Current Year Approved</th>
<th>20X2 Current Year Estimated</th>
<th>20X3 Proposed Budget</th>
<th>20X3 Approved Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>51 Personal Services and Employee Benefits</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>51.1000 Personal services—salaries and wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.1100 Regular employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.1200 Temporary employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.1300 Overtime</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2000 Personal services—employee benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2100 Group insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2200 Social Security (FICA) contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2300 Medicare</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2400 Retirement contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2500 Tuition reimbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2600 Unemployment insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51.2700 ‘Workers’ compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>52 Purchased/Contracted Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.1000 Purchased professional and technical services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.1100 Official/administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.1200 Professional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.1300 Technical</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.2000 Purchased-property services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.2100 Cleaning services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.2200 Repairs and maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.2300 Rentals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3000 Other purchased services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3100 Insurance, other than employee benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3200 Communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3300 Advertising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3400 Printing and binding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3500 Travel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3600 Dues and fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3700 Education and training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3800 Licenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52.3850 Contract labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 4-3: Summary Departmental Budget Request Form continued

<table>
<thead>
<tr>
<th>Description</th>
<th>20X1 Prior Year - Actual</th>
<th>20X2 Current Year - Approved</th>
<th>20X2 Current Year - Estimated</th>
<th>20X3 Proposed Budget</th>
<th>20X3 Approved Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>53 Supplies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1000 Supplies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1100 General supplies and materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1200 Energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1300 Food</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1400 Books and periodicals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1500 Supplies/inventory purchased for resale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53.1600 Small equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54 Capital Outlay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.1000 Property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.1100 Sites</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.1200 Site improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.1300 Buildings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.1400 Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.2000 Machinery and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.2100 Machinery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.2200 Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.2300 Furniture and fixtures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54.2400 Computers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Totals                                      | $                         | $                         | $                         | $                     | $                     |
Remarks:                                    |                           |                           |                           |                      |                      |
Exhibit 4-4: Departmental Personnel Request Form

<table>
<thead>
<tr>
<th>51.1100 Personal Services — Salaries and Wages (Regular Employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1 Prior Year</td>
</tr>
<tr>
<td>Budget</td>
</tr>
<tr>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee</th>
<th>Job Title</th>
<th>20X2 Current Year</th>
<th>Grade Step, if applicable</th>
<th>20X3 Proposed Salary</th>
<th>Grade Step, if applicable</th>
<th>20X3 Approved Salary</th>
<th>Grade Step, if applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Remarks:
**Exhibit 4-5: Departmental Personnel Request Form – Overtime Budget Request**

**FY 20X3**

**OVERTIME BUDGET REQUEST**

*Source: Cobb County Government*

<table>
<thead>
<tr>
<th>PLANNED ACTIVITY</th>
<th>TOTAL HOURS</th>
<th>AVG. HRLY RATE</th>
<th>$ REQUESTED</th>
<th>JUSTIFICATION</th>
<th>OMB USE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 4-6: Departmental Personnel Request Form – Part-time Budget Request

**FY 20X3**

**PART-TIME HOURLY BUDGET REQUEST**

*Source: Cobb County Government*

<table>
<thead>
<tr>
<th>POSITION #</th>
<th>POSITION TITLE</th>
<th>HRLY. RATE</th>
<th>HRS. PER WK</th>
<th># OF WEEKS</th>
<th>$ REQUESTED</th>
<th>JUSTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 4-7: Departmental Capital Outlay Forms

### 54.2200 Vehicles

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated Cost</th>
<th>Trade-in Vehicle No.</th>
<th>Estimated Allowance</th>
<th>Proposed Net Cost</th>
<th>Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Totals

Other Information (Age, Conditions, etc.):

### 54.2300 Furniture and Fixtures

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Totals

Explanation:
## FY 20X3
### CAPITAL OUTLAY BUDGET REQUEST
*Source: Cobb County Government*

<table>
<thead>
<tr>
<th>PRIORITY</th>
<th>ITEM</th>
<th>OBJECT #</th>
<th>QTY</th>
<th>UNIT PRICE</th>
<th>TOTAL REQUESTED</th>
<th>JUSTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42&quot; Round Conference Table</td>
<td>1</td>
<td>$600.00</td>
<td>$600.00</td>
<td>Replacement for Division Manager Office</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credenzas</td>
<td>1</td>
<td>$1,000.00</td>
<td>$1,000.00</td>
<td>Replacement for Division Manager Office</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** $1,600
### Exhibit 4-8: Departmental Capital Replacement Schedule Form

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity</th>
<th>Cost</th>
<th>Reason</th>
<th>20X1</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paratransit Van</td>
<td>26</td>
<td>$65,000</td>
<td>End of useful life</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Fixed Route Bus</td>
<td>33</td>
<td>$325,000</td>
<td>End of useful life</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Cost</th>
<th>20X1</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>59</td>
<td>$390,000</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>
REVIEW OF DEPARTMENTAL REQUESTS

After all of the departmental requests have been submitted, the budget officer handles the task of reviewing each request. The budget officer must keep in mind the needs of the many departments as well as the policies set by the governing body. After the review, the information on expenditures and revenues is compiled into a departmental expenditure summary. The information included in the summary enables readers to determine which departmental expenses have increased or decreased. The summary also serves as a comparison between budgeted and actual expenditures for the current year.

While reviewing departmental budget requests, the budget officer should keep the following questions in mind:

- Does the budget request support the government’s strategic plan goals and objectives?
- Is the level of financing adequate for each service? Have inflation and changes in the cost of various items been taken into account?
- Will the estimated revenue that will be available to the government during the next fiscal year be sufficient to fund key services at an acceptable level? Should the government consider increasing revenue?
- Is the amount of the reserve fund (the amount of uncommitted money to be left over at the end of the next fiscal year) adequate? Should additional funds be set aside for emergencies such as litigation, environmental fines, natural disasters, floods or droughts? (According to the Government Finance Officers Association’s Best Practices on Budget Policy, it is a good practice to maintain a minimum of two months’ operating expenditures or revenues in a government’s unrestricted fund balance.)

Selected Questions for a Capital Improvement Request

- Are the proposed capital outlays consistent with the government’s capital improvement plan priorities?
- Are all costs included in the capital request: fees, equipment, insurance, personnel?
- What are the annual operating costs for the newly acquired capital asset project? What is the recommended financing based on the capital improvement plan.
CHAPTER 4 SUMMARY

1. Department request forms provide detailed information regarding a department’s budget request. The budget officer handles the task of reviewing each request.
CHAPTER 4 EXERCISE

1. Consider the forms presented in this chapter.
   
   A. Which ones might you incorporate into your budget process?
   
   B. If you already have forms for the different budget categories, how do yours compare to the ones presented?
   
   C. How do you think forms assist in streamlining the budget process?

2. You are tasked with identifying equipment to request for replacement for the next budget year.
   
   A. Which form presented in this chapter would you use?
   
   B. Complete the form with an example of information required.

3. Review the forms for salaried employees and hourly employees.
   
   A. How is the information on the forms similar? How is it different?
   
   B. How do you think the information on the forms is obtained?
C. What factors do you think might be considered in the budget for overtime?

4. Review Exhibit 4-1. What information do you think is necessary in order to complete the form?
CHAPTER 5
FINANCIAL FORECASTING/ESTIMATING REVENUES

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

- Recall how to estimate ending fund balance
- Identify different techniques in preparing revenue estimates

THE LOCAL ECONOMY

At the heart of any budget process is someone’s estimate, or projection, of what future revenue and expenditure levels will be. A budget appropriation, despite its appearance of absoluteness when made, is merely someone’s estimate given the force of law. The accuracy of these estimates is a long-standing concern to budgeters and is the source of much concern and possible manipulation. Discussions over the accuracy of estimates and projections are part of a successful budget process.

One of the first things budget officers must accept is the fact that almost all estimates and projections made in the budget process are not completely accurate. The question then becomes how close we came to actuals in our projections. Reducing the total net effect of the estimating errors to a tolerable level becomes the task.

Achieving accuracy in the budget taken as a whole is a result of achieving accuracy in the detail that makes up the budget. The tendency to sum the total budget from dozens of smaller departments and divisions is important because the inevitable plus and minus errors of a large number of estimates tend to cancel each other out. This causes the entire budget estimate to tend toward zero variation. So one of the secrets then of good projections in a budget process is having a large number of smaller, subsidiary estimates, each based on the best data or information available, all rolling up into one overall, larger projection.
DETERMINING THE ENDING FUND BALANCE FOR THE CURRENT FISCAL YEAR

The equation for computing the ending fund balance for the current fiscal year is as follows:

Fund balance at the beginning of the year $__________
Plus (+) projected revenues during the year $__________
Minus (-) projected expenditures during the year $__________
Equals (=) projected year end fund balance $__________

In making these calculations, emphasis should be placed on a conservative approach. Projections made on the basis of guesswork or wishful thinking may produce an unreliable forecast and cause problems.

Estimating Known Expenditures for the Next Fiscal Year

The budget officer in projecting the government’s continuation budget for the upcoming fiscal year should take the following factors into consideration:

- The amount needed to pay interest and principal on the government’s outstanding debt.
- The operating impact of new facilities including all operating and personnel costs.
- Changes in state or federal legislation, which may impose new financial requirements.
- Projected increases in fringe benefits such as medical coverage.
- Possible increases in local shares for grants.
- Prior year expenditures.
- Projected increases in maintenance costs.
- Possible merit or cost of living increases.

Estimating Revenue and Revenue Sources for the Next Fiscal Year

Estimation of revenues is an important part of the budget preparation process. The estimated amount of revenues represents the upper limit for budgeted expenditures, as the budget must be balanced under Georgia state law. The local government budget process is therefore revenue driven. Staff prepares the revenue section of the budget as it has access to the records of prior years.

The estimates should be reasonably close to actual cash revenue collections as overestimation of revenues is likely to lead to a budget deficit. The revenue estimate reflects collection trends over several past years, however, it must take into account the community’s fiscal posture and climate and be sensible to changes in economic conditions and population. A good understanding of local
government revenues and the factors that affected past revenues is essential for revenue forecasting. Adequate and timely information is needed and good judgment must be exercised.

Several analytical methods can be used to compile revenue estimates. For small cities and counties the most feasible method is trend analysis and extrapolation. This method is straightforward, uncomplicated and the necessary data are easily obtained on a timely basis. Much greater detail about qualitative and quantitative analysis for revenue projections is spent in the Intermediate Budget and Revenue Administration courses offered by the Carl Vinson Institute of Government’s, Level Two Local Government Financial Certificate Program.

For our purposes here in this course, these fundamental and simpler forecast methods will be highlighted.

Local governments have a variety of revenue sources: tax revenue, intergovernmental revenue, grants, fees, and proceeds of debt.

Below is an overview of revenues sources as provided in the Uniform Chart of Accounts1 –

31 Taxes
32 Licenses and Permits
33 Intergovernmental Revenues
34 Charges for Services
35 Fines and Forfeitures
36 Investment Income
37 Contributions and Donations from Private Sources
38 Miscellaneous Revenue
39 Other Financing Sources

Preparation of Revenue Estimates

Preparation of revenue estimates using the trend extrapolation method includes following steps:

- Collection of historical data for a five-year period for each individual revenue source
- Separation of revenues by source to determine the major components and sources of revenues
- Calculation of the property tax rates
- Estimation of individual revenue sources other than property taxes

---

• Compilation of the budget revenue side

HISTORICAL REVENUE TRENDS

This record should include amounts collected (preferably month-by-month records), the initial tax rate and its changes and notations of all events that may have influenced revenue collections. For some revenue sources, e.g., the property tax and sales tax, it is useful to collect information on the tax base changes (assessed property values and taxable sales) as the total revenues are equal to the tax base multiplied by the tax rate.

The revenue estimate form (see Exhibit 5-1) is a useful tool for summarizing historic records and for revenue estimates. It should be compiled for each revenue source separately. Reliable forecasts require employment of different techniques for different revenue sources respecting their nature.

Exhibit 5-1: Revenue Estimate Form

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>32.XXXX Licenses and Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Precent Change</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Amount Collected</strong></td>
</tr>
<tr>
<td></td>
<td><strong>from Previous Fiscal Year</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Reasons for Change in Amount Collected</strong></td>
</tr>
<tr>
<td>20X3</td>
<td>$</td>
</tr>
<tr>
<td>20X4</td>
<td>$</td>
</tr>
<tr>
<td>20X5</td>
<td>$</td>
</tr>
<tr>
<td>20X6</td>
<td>$</td>
</tr>
<tr>
<td>Current Fiscal Year - FY 20X7 Next Fiscal Year - FY 20X8 (Projected)</td>
<td>$</td>
</tr>
</tbody>
</table>

REVENUE SOURCES

Individual revenue sources are influenced by different factors, therefore the estimations must be done separately for each revenue source. At the same time, performing lots of small estimates reduces the impact of errors. Over- and under-estimates may cancel each other out. The most attention should be devoted to the biggest revenue sources, as it does not pay to spend much time on minor sources.
Property Tax

The revenue from property taxes enables the local government to balance its budget. The tax rate is calculated based on the amount of funds required. Property tax revenues cover the difference between planned expenditures and forecasted revenues from other sources.

Let’s look at some fundamentals. Greater details and examples are provided in the Carl Vinson Institute of Government’s, Level Two Local Government Financial Certificate Program, Revenue Administration course.

The tax rate is determined by following the formula:

\[
\text{Tax Rate} = \frac{\text{Amount required}}{\text{Assessed value}}
\]

For example: If the estimated expenditures amount to $1,560,000, estimated revenues are $1,420,000, and the total assessed value is $10,000,000, the tax rate is computed as follows:

\[
\text{Tax rate} = \frac{1,560,000 - 1,420,000}{10,000,000} = 0.014
\]

- Assessed value is the value of the property that was owned on January 1 for the current tax year. Property tax returns are due between January 1 and April 1 (March 1 in some counties) and the property taxes are due December 20 (earlier in some counties).

- The tax (millage) rate is set by the county governing authority. The Georgia Department of Revenue approves the county tax digest, i.e., a report that has the actual millage rates for each taxing jurisdiction.

In compiling the revenue side of the budget the delinquent property taxes, penalties and interest must be taken in account.

Delinquent property taxes have two components: (1) taxes that were due in prior years that are collected in the year for which the budget is being prepared and (2) taxes that will be due in the budgeted year, but that will not be collected until the end of that year. Amounts of delinquent and uncollectible property taxes can be estimated based on the past experience. Penalties and interest are a relatively constant percentage of the outstanding total delinquent taxes. This percentage should be computed from records for at least the last five years.
Exhibit 5-3: Estimating Property Tax Revenue

Below is a brief, simplified summary of the collection process.

- January 1 of each year is the assessment date in Georgia. Accordingly, all property must be valued for ad valorem taxes based on its condition and use as of January 1.
- Georgia law and Department of Revenue regulations require the local county Board of Tax Assessors to maintain taxable values at a minimum of 90 percent (on average) of actual market value. Therefore, one-third of all real property values are updated every year.
- Property is assessed at 40% of the fair market value based upon Georgia State law, unless grandfathered in at a different rate – like the cities of Decatur, Gainesville and Dalton.
- Assessment notices are mailed the first week in April.
- The deadline to appeal the valuations contained in the notices is the first week in May.
- Property tax bills are mailed in July.
- The Board of Commissioners sets the millage rate in August.
- Property taxes are due December 20. The Tax Commissioner’s Office is responsible for billing, collecting and disbursing property taxes.

**Equation for calculating property taxes:**

\[
\text{Net digest (Gross digest less exemptions) } \times \text{ millage rate } \times \text{ collection rate}
\]

**Sales and Use Taxes**

The sales tax is a volatile tax and is subject to economic shifts. A five-year record of sales tax collections should be sufficient for good estimates. It is important to monitor and evaluate the impact of the business conditions and their changes in the community.

**Interest Income**

Counties can earn interest from investment of idle funds. Monies can be invested in bank savings accounts, certificates of deposit, a variety of U.S. government securities, and the state-managed local government investment pool, Georgia Fund 1. Georgia Fund 1, created by O.C.G.A. § 36-83-8, is a stable net asset value investment pool, which follows Standard and Poor's criteria for AAA rated money market funds and is operated by the State of Georgia Office of Treasury.
Here, governments are permitted to pool their idle funds with those of the state and other local governments to earn higher interest rates.

**Other Revenue Sources**

Non-tax revenue - fees, fines and service charges:

Regarding non-tax revenue, it is best to prepare estimates for each department that collects revenues. The most useful information for estimates are the past experiences, examination of current trends, and knowledge of factors that affect the more significant fees. To assure that the proper amounts are charged for the services it is useful to analyze regularly the cost of services that have been provided.

Intergovernmental revenue, contract revenue and bond proceeds:

Intergovernmental revenue includes funds received from other governments. Their amounts are not always known at the time of budget preparation and adoption, especially when the granting agency has a different fiscal year. Projected amounts should be determined based on communication with granting and other agencies. A separate contingency budget should be prepared for each grant, contract or bond proposal that has not been approved by the time the government’s budget is adopted.

**ESTIMATING REVENUES BY TREND ANALYSIS**

One technique commonly used to make budget estimates and projections is trend analysis. Trend analysis uses historical patterns and the average amount of change in those patterns over the historical period to predict the future. However, it is based on the assumption that no changes in the revenue regulation were made during the period covered by the analysis, and that no changes are planned for the next fiscal year.

The basic method for computing trend estimates is to multiply current year revenue by the average rate of change over the past five years. Use of computers offers more sophisticated methods i.e. estimation of equations that best describe the development of the revenues.

Mechanically, the process of performing trend analysis is fairly simple. Budgeters should use the techniques of trend analysis to project things like activity levels (i.e., EMS runs, number of building permits issued, etc.) rather than to project the number of dollars to be spent in a certain activity. The steps are as follows:

1. Organize the historical data by fiscal year. One frequently asked question is “How much historical data should one use when doing trend analysis?” Under normal circumstances, five or six year’s historical data is sufficient. The recession of 2009/10 is a recent example where using five or six years of data may not make sense.

2. Calculate the difference in activity level between each fiscal year and compute the percentage change between each fiscal year.
3. Add up all the rates of change between each fiscal year and compute the average rate of change over the entire historical period.

4. Take the average rate of change over the entire historical period and apply it to the last year’s activity level to arrive at the estimated activity level for the next year.

5. Use the projected activity level as the basis for next year’s budget request for that budgeting entity.

Exhibit 5-4 illustrates the mechanics of trend analysis.

**Exhibit 5-4: Projected Revenue Sample**

<table>
<thead>
<tr>
<th>FY</th>
<th>Number of EMS RUNS</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>130</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>150</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>190</td>
<td>27</td>
</tr>
<tr>
<td>6</td>
<td>210</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>244*</td>
<td></td>
</tr>
</tbody>
</table>

*210 x 1.16 = 243.6

The average rate of change from the information given above is 16 percent. When this average rate of change is applied to the last year’s actual, 210, the projection for the number of EMS runs for next year is calculated to be 243.6. For budgeting purposes, we round the projection up to the nearest whole number, or 244.

Although trend analysis is a simple and helpful tool to use in making budget projections and estimates, there are some caveats, or cautions, that should be kept in mind while using this tool.

One caveat is that the closer to the present the historical data, the better those data are as predictors. As a practical matter, using four to six year’s historical data should be adequate. Using historical data from fifteen or more years back is probably not a good idea.

Another caveat is that the closer to the present the predictions, the better the predictions. A prediction for two or three years into the future using trend analysis techniques may be adequate, but to use this tool to make projections ten to twenty years into the future would probably be a mistake.
Another caution to keep in mind while using trend analysis techniques is that if the answer one gets looks strange, it probably is. In other words, since this technique uses past data to project the future, any change in the environment (rate changes, population, etc) may not be reflected in the answer one gets from trend analysis. Consequently, one must sometimes adjust the answer from trend analysis to adjust for significant changes in the environment.

In summary, trend analysis is a simple and helpful tool to use in some instances. It uses the recent past to predict the near future. If the limitations of trend analysis are known and understood, it can become a helpful tool to use in making budget projections and estimates.

Many budget professionals believe that trend analysis is a tool that can be most effectively used in projecting activity level, such as EMS runs in the above example, instead of projecting the number of dollars to be received or spent. It is recommended that trend analysis be used to project things like activity levels (i.e. EMS runs) and combine it with an approach like the requirements approach discussed later in the chapter to arrive at the total budget request.

ESTIMATING REVENUES BY OTHER METHODS

Successful budget officers use several estimating and projection techniques to aid them in making accurate estimates:

The Requirements Approach: When using this approach, the budget officer assembles a list of requirements for each budgetary entity. The budget officer asks, “What does it take to accomplish the tasks of this budgetary entity?” The requirements would include staff salaries, benefits, materials, supplies, capital items, etc.

This approach is very common in local government budgeting and yields budgets that appear to be well-conceived and well thought out. Critics of the approach point out that it seems to be an exercise about the price/cost of things rather than about the worth of things. Also, if serious thought is not given to questions like service and activity levels, this approach could encourage incrementalism.

Correlation: Budgeters who use correlation seek to identify variables, called “independent variables,” that impact upon and help determine expenditure and revenue levels. Correlations express the relationship between two or more variables in a quantitative way. Correlations can be useful in a budget context because these relationships are common in governmental programs. For example, the amount of crime in a local government is related to the amount of police expenditures, the number of students influences the size of the school budget and number, size, and age of structures determines the building maintenance budget.

Despite these obvious relationships and their obvious usefulness in a budgeting context, local governments do not commonly use correlation in making their budget projections. This is probably due to the fact that to successfully use correlation, budget officers and budget reviewers must be fairly competent in analytical mathematics and statistical techniques. Most local government budgeters have neither the training nor the inclination to learn such skills for use in budget preparation.
The preceding discussion of three projection techniques is intended to offer alternatives to the old “last year plus five percent” incremental approaches so ingrained in the practice of budgeting in local government. To begin to use these or other projection techniques not mentioned here will help the local government budget to break out of the old incremental mind set and explore new areas in local government budgeting.

**Revenue Estimate Worksheet**

When estimates of individual revenue sources are complete, the revenue side of the budget can be compiled. Exhibit 5-5 presents a suggested form to use in preparing a revenue estimate. It lists all the revenue sources and estimated amounts for the next year including formulas used.
### Exhibit 5-5: Revenue Estimate Form

**FY 20X3**  
**REVENUE BUDGET**  
*Source: Cobb County Government*

<table>
<thead>
<tr>
<th>OBJ#</th>
<th>DESCRIPTION</th>
<th>TOTAL AMOUNT</th>
<th>FORMULA USED TO DETERMINE AMOUNT</th>
<th>OMB USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>4533</td>
<td>Passenger Fares</td>
<td>$2,882,070</td>
<td>$2,553,336 FY 20X2 adopted budget X 7% projected annual increase = $2,732,070 + $150,000 I-75 projected fares</td>
<td></td>
</tr>
<tr>
<td>4564</td>
<td>Advertising Fees</td>
<td>$114,000</td>
<td>190 Bus Shelters @ $600/year each</td>
<td></td>
</tr>
<tr>
<td>4439</td>
<td>Federal Transportation Admin Capital</td>
<td>$2,261,332</td>
<td>FY 20X3 TIP = $2,561,665 PM + $200,000 PM + $50,000 Leasing + $15,000 Training X 80%</td>
<td></td>
</tr>
<tr>
<td>4441</td>
<td>Federal Transportation Admin Planning</td>
<td>$80,000</td>
<td>FY 20X3 TIP = $100,000 Transit Planning Program X 80%</td>
<td></td>
</tr>
<tr>
<td>4442</td>
<td>Federal Transportation Admin Operating</td>
<td>$892,000</td>
<td>FY 20X3 TIP = $665,000 Paratransit + $450,000 FY 20X2 remaining I-75 Service X 80%</td>
<td></td>
</tr>
<tr>
<td>4466</td>
<td>Georgia Dept. of Transportation</td>
<td>$291,167</td>
<td>($2,561,665 PM + $200,000 PM + $50,000 Leasing + $100,000 Planning) X 10%</td>
<td></td>
</tr>
<tr>
<td>4854</td>
<td>Interest Earnings</td>
<td>$20,000</td>
<td>Per John Bergey</td>
<td></td>
</tr>
<tr>
<td>4960</td>
<td>Interfund Transfer</td>
<td>$4,825,646</td>
<td>$11,366,214 Total Operating less $6,540,568 Projected Revenues</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$11,366,215</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please attach an explanation if revenues are significantly different from the prior year actual revenues.
CHAPTER 5 SUMMARY

1. Estimation of revenues is an important part of the budget preparation process.

2. Achieving accuracy in the budget taken as a whole is a result of achieving accuracy in the detail that makes up the budget.

3. The equation for computing ending fund balance for the current fiscal year is as follows:

   Beginning of Year Fund Balance + Projected Revenues – Projected Expenditures = Projected End of Year Fund Balance

4. Individual revenue sources are influenced by different factors; therefore, the estimations must be done separately for each revenue source.

5. The revenue from property taxes enables the local government to balance its budget.

6. The tax rate (millage) is determined by dividing the property tax revenue needed to balance the budget by the taxable assessed value of property.

7. Property is assessed at 40% of the fair market value based upon Georgia State law, unless grandfathered in at a different rate.

8. The equation for calculating property taxes is

   Net digest x millage rate x collection rate

9. Several analytical methods may be used to compile revenue estimates. Small cities and counties use trend analysis and extrapolation.

10. Trend analysis uses historical patterns and the average amount of change in those patterns over the historical period to predict the future.

11. Other methods of estimating revenues:

   a. Requirements approach
   b. Correlation

12. The requirements approach to budgeting requires the budget officer to assemble a list of requirements for each budgetary entity.

13. The correlation approach to budgeting seeks to identify independent variables that impact upon and help determine expenditure and revenue levels.
CHAPTER 5 EXERCISE

Exercise 1: Projecting with Trend Analysis

Using the following data, apply trend analysis techniques. Project the number of EMS Runs expected in year six.

Do you have any problems and/or concerns using the historical data below? If so, what and how would you go about addressing them?

<table>
<thead>
<tr>
<th>Year</th>
<th># of EMS Runs</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>364</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>419</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>507</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>466</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>513</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exercise 2: Projecting Revenues Using Trend Analysis

You have just been promoted to the Local Government Budget Officer. The prior budget officer is not there for you to question on any items related to history. Sales tax collections for the government have been fluctuating over the last few years and limited information is available from the Department of Revenue on specifics of the matter. Year 5 is currently in process.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3,022,190</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>3,407,198</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3,803,397</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>3,896,072</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>4,000,000</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assignment:

1. Estimate the revenue for year 6 – next fiscal year.

2. What sources, other than the Department of Revenue, would you contact for trend information?
Exercise 3

Review Exhibit 5-5 and answer the following questions

1. Which department is the revenue estimate prepared for?

2. Select three revenue items and document how the estimated revenue was calculated.
CHAPTER 6
LOCAL GOVERNMENT ACTION ON THE BUDGET

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

• Recite the definition of a balanced budget

• Identify definition for the legal level control

• Recall importance of fund balance level

The complete budget document is presented by the chief executive to the legislative body for adoption. Adoption of the proposed budget establishes the legal authority for administrative officials to incur expenditures in the next year. There are several steps leading to the budget adoption: informal briefings, formal presentations of budget recommendations by chief executive and adoption of the revenue resolution or ordinance to establish the tax levy and of the appropriation resolution or ordinance to appropriate funds to departments. The governing authority is required to conduct a public hearing, where the citizens and various community interest groups have an opportunity to present their views on various aspects of the proposed budget.

After the budget is adopted it is entered into the accounting system so that monitoring of the budget begins immediately upon adoption. The budget officer should be responsible for monitoring the implementation of the budget. It includes the following tasks:

• Establishing monthly or quarterly spending plans and monitoring progress against them

• Reporting actual expenditures against detailed budgets

• Reviewing and making recommendations to the legislative body on departmental requests to transfer funds among appropriation items

• Control over payroll expenditures

• Monitoring progress toward the achievement of service objectives

• Instituting procedures necessary to adjust budgets to reflect changes in revenue availability
The budget is a dynamic and changing plan for spending money. Like any tool it is only as good as it is used. Governments must blend strategic planning with regulatory compliance to develop a spending plan this is both politically and financially acceptable. At the same time, governments must develop a document that is user friendly for the citizenry and public they serve.

**THE BUDGET MESSAGE**

The first part of the budget usually is a budget message or a letter of transmittal. These documents outline the main aspects of the proposed budget: the size of the budget and the taxes necessary to pay for it. It usually includes an explanation of the major accomplishments achieved during the last year and summarizes the policies reflected in the current budget together with main changes from the previous year.

Exhibit 6-1 is a sample budget message.
Exhibit 6-1: Sample Budget Message

Dear Citizens:

I am pleased to present to you the Annual Operating and Capital Budget for the 20X3 Fiscal Year. In accordance with Georgia Law and the Charter of the Unified Government, this budget was adopted by the Mayor and Commission on . . . for Fiscal Year 20X3 beginning . . . and ending . . .

Citizen input for this budget was received at public hearings on . . .

Budget goals established by the Mayor and Commission on . . . guided the development of the budget. These goals along with additional summary information have been provided in the “Budget Summary” section of this document.

Key points in the budget:

- The property tax millage rate will . . .
- This budget includes . . . full-time authorized positions, a decrease of . . . positions compared to the current authorized level. The number of employees per thousand population will remain at . . .
- Monthly residential solid waste fees will . . .
- There are no changes in service fees planned for water and sewer, landfill or building inspection.
- The General Fund includes $ . . . million and the Enterprise and Other Funds include $ . . . for pay adjustments for employees based on the individual performance pay program adopted by the Mayor and Commission.

Budget issues for future years:

There will be a number of difficult budget issues that we will face in the development of next year's budget.

- Funding for additional operating expenditures related to new facilities being built through the Special Purpose Local Option Sales Tax program.
- Federal funding for . . . has not increased and is not projected to increase in the future, adding to the pressure on project-generated revenues and general tax support.
- Expenditures for health coverage continue to rise.

A number of persons contributed many hours of effort in the development of the budget. My thanks and those of the Commissioners go to the Deputy Manager, the Managers’ Office, the Finance Director, and the Finance and Personnel Departments for their supportive efforts during the budget process. My thanks go to each member of the Commission for their hard work, thoroughness and thoughtful contributions during the development and adoption of the FY . . . Budget. In addition, I wish to recognize the Mayor for leading the Commission review of this budget.

Very truly yours, . . .

BUDGET AND SUPPORTING DATA

The O.C.G.A. § 36-81-5 states in part, that at the minimum the budget document “shall provide, for the appropriate budget period, a statement of the amount budgeted for anticipated revenues by source and the amount budgeted for expenditures at the legal level of control. In accordance with the minimum required legal level of control, the budget document shall, at a minimum, provide a statement for the amount budgeted for expenditures by department for each fund for
which a budget is required.” In order to fulfill these requirements the budget manual may need to incorporate several elements including the following:

- An organization chart for the entire government
- Personnel Summary highlighting new positions and changes/enhancements to the personnel budget
- Statistical information about the county/city
- Economic trends and population history
- Millage rate comparisons

BUDGET ADVERTISEMENT, HEARING, AND ADOPTION

The purpose of the budget hearing is to give citizens an opportunity to review the budget and ask questions. A notice must be published in order to inform the community about the budget hearing and present a summary of the budget. After the hearing is held, the governing authority is responsible for the final adoption of the budget. Every budget should be adopted by a majority vote of the full membership of the governing authority at a public meeting.
A sample budget hearing notice might read like Exhibit 6-2:

### Exhibit 6-2: Sample Budget Hearing Notice

**CITY OF __________________, GEORGIA**  
**FISCAL YEAR 20__ (FY__) BUDGET REVIEW & ADOPTION**  
**(JULY 1, 20___ - June 30, 20___)**

**PUBLIC HEARING ON FY__ BUDGET:** A Public Hearing on the FY__ Budget is scheduled for (day) ______________, (date) ______________ at ________ p.m. in the City Hall Chambers located at __________________________. At this meeting, the Mayor and Council will receive both written and oral comments about the Annual Operating and Capital Budget for the City of _______________, Georgia. A qualified interpreter for the hearing impaired will be available upon request made at least ten (10) days in advance of this meeting. Please call (__) _____-_____. [TDD (__) _____-_____] to request an interpreter or for more information.

**MAYOR’S RECOMMENDED BUDGET AVAILABLE FOR REVIEW:** The FY__ Mayor’s Recommended Budget will be available for public inspection during normal office hours on (day) ______________, (date) ______________, at the following locations: Office of the Manager, (street address and room number); Regional Library, (street address); and the City Clerk’s Office, Room ______, City Hall. Copies will also be available at (list other locations where citizens can make copies of the budget, if desired). Summary information on FY__ Recommended Budget can also be found at the city’s web site www.yourcity.com.

**BUDGET REVIEW:** The Mayor and Council of the City of ______________ are scheduled to review the FY__ Recommended Budget on the following dates:  
Month, day, year (day of week) (list time and location)  
Month, day, year (day of week) (list time and location)  
Month, day, year (day of week) (list time and location) (if needed)

(Public Comment will also be taken at the regularly scheduled meeting of the Mayor and Council on (list day, month, year, time, and location).

**BUDGET ADOPTION:** The Mayor and Council of the City of ______________ are scheduled to adopt the FY__ Budget at their regular monthly meeting on ________________. The meeting will be held at ___:00 p.m. in the City Hall Chambers located at __________________________.
The Financial Management Standards Act (O.C.G.A. § 36-81-5) states in part, the following regulation for local governments regarding the budget announcement and public hearing:

(d) “On the day that the proposed budget is submitted to the governing authority for consideration, a copy of the budget shall be placed in a public location which is convenient to the residents of the unit of local government. The governing authority shall make every effort to provide convenient access to the residents during reasonable business hours so as to accord every opportunity to the public to review the budget prior to adoption by the governing authority. A copy of the budget shall also be made available, upon request, to the news media.

(e) A statement advising the residents of the local unit of government of the availability of the proposed budget shall be published in a newspaper of general circulation within the jurisdiction of the governing authority. The notice shall be published during the week in which the proposed budget is submitted to the governing authority. In addition, the statement shall also advise the residents that a public hearing will be held at which time any persons wishing to be heard on the budget may appear. The statement shall be a prominently displayed advertisement or news article and shall not be placed in that section of the newspaper where legal notices appear.

(f) At least one week prior to the meeting of the governing authority at which adoption of the budget ordinance or resolution will be considered, the governing authority shall conduct a public hearing, at which time any persons wishing to be heard on the budget may appear.

(g)(1) The governing authority shall give notice of the time and place of the budget hearing required by subsection (f) of this Code section at least one week before the budget hearing is held. The notice shall be published in a newspaper of general circulation within the jurisdiction of the governing authority. The statement shall be a prominently displayed advertisement or news article and shall not be placed in that section of the newspaper where legal notices appear.”
The Financial Management Standards Act requires local governments to adopt the budget by ordinance or resolution. A sample budget resolution is illustrated in Exhibit 6-3.

**Exhibit 6-3: Sample Budget Resolution**

---

City of _______________
State of Georgia

A RESOLUTION
TO ADOPT THE FISCAL YEAR 20XX BUDGET FOR EACH FUND OF THE CITY OF XXXX, GEORGIA, APPROPRIATING THE AMOUNTS SHOWN IN EACH BUDGET AS EXPENDITURES/EXPENSES, ADOPTING THE SEVERAL ITEMS OF REVENUE ANTICIPATIONS, AND PROHIBITING EXPENDITURES OR EXPENSES FROM EXCEEDING THE ACTUAL FUNDING AVAILABLE

WHEREAS, sound governmental operations require a budget in order to plan the financing of services for the residents of the City of ________________; and

WHEREAS, Title 36, Chapter 81, Article 3 of the Official Code of Georgia Annotated (OCGA) requires a balanced budget for the City’s fiscal year, which runs from _______________ to _______________ of each year; and

WHEREAS, the Mayor and City Council of the City of ________________ have reviewed the proposed FY ________ budget as presented by the City Manager; and

WHEREAS, advertised public hearing has been held on the ________ proposed budget, as required by State and Local Laws and regulations; and

WHEREAS, each of these funds has a balanced budget, such that anticipated funding sources equal proposed expenditures or expenses; and

WHEREAS, the Mayor and City Council wishes to adopt this proposal as the Fiscal Year ________ Annual Budget, effective from ________________ through ________________.

NOW THEREFORE BE IT RESOLVED by the Mayor and City Council of the City of ______________, Georgia, as follows:

Section 1. That the proposed Fiscal Year ________ Budget, attached hereto and incorporated herein as a part of this Resolution is hereby adopted as the Budget for the City of ________________, Georgia for Fiscal Year ________, which begins ________ and ends on ________________.

Section 2. That the several items of revenues, other financial resources, and sources of cash shown in the budget for each fund in the amounts shown anticipated are hereby adopted, and that the several amounts shown in the budget for each fund as proposed expenditures or expenses, and uses of cash are hereby appropriated to the departments named in each fund.

Section 3. That the “legal level of control” as defined in OCGA § 36-81-2 is set at the departmental level, meaning that the City Manager in his capacity as Budget Officer is authorized to move appropriations from one line item to another within a department, but under no circumstances may expenditures or expenses exceed the amount appropriated for a department without a further budget amendment approved by the Mayor and City Council.

Section 4. That all appropriations shall lapse at the end of the fiscal year.
Section 5. That this Resolution shall be and remain in full force and effect from and after its date of adoption.

Adopted this _____ day of ______________, 2____.
CITY OF ________________ , GEORGIA

By: ______________________
(typed name), Mayor

This is to certify that I am City Clerk of the City of ______________. As such, I keep its official records, including its minutes. In that capacity, my signature below certifies this resolution was adopted as stated and will be recorded in the official minutes.

______________________________
(AFFIX SEAL)

Attest: ______________________
(typed name), City Clerk

Effective January 1, 2011, Georgia law was amended to require local governments to publish their budget information, past and current, to a website maintained by the Carl Vinson Institute of Government. In part, O.C.G.A. § 36-80-21 states:

(c) “As soon as a local government has adopted, by ordinance or resolution, a final budget for an upcoming fiscal year, a copy of the budget shall be electronically transmitted in a Portable Document Format (PDF) file to the Vinson Institute and posted on the website by the Vinson Institute as soon as practicable. In no event shall the PDF copy of the budget be transmitted to the Vinson Institute more than 30 calendar days following the adoption of the budget ordinance or resolution.

(d) After the close of a fiscal year, a copy of the audit of each local government shall be electronically transmitted in a Portable Document Format (PDF) file to the Vinson Institute and posted on the website by the Vinson Institute as soon as practicable. The PDF copy of the audit of a county, municipality, or consolidated government shall be transmitted to the Vinson Institute concurrent with submission of the audit to the state auditor as required by subsection (d) of Code Section 36-81-7. The audit of a school district shall be transmitted to the Vinson Institute concurrent with submission of the audit to the State Board of Education as required by rule and regulation of the State Board of Education.

(e) Concurrent with the submission of the annual report by local law enforcement agencies required by subsection (g) of Code Section 9-16-19, a copy of such report shall be electronically transmitted in a Portable Document Format (PDF) file to the Vinson Institute and posted on the website by the Vinson Institute as soon as practicable.”

https://ted.cviog.uga.edu/financial-documents/
FINAL BUDGET RECOMMENDATIONS

Per state law, governments must do the following before and after the budget is adopted:

- The proposed budget must be submitted to the governing authority.
- The proposed budget must be placed on file for public inspection.
- The same week the budget is submitted to the governing authority, the government must advertise the availability of the budget.
- A public hearing must be held at least one week prior to the adoption of the budget.
- The adopted budget document must reflect appropriations at least at the department level within each budgeted fund.
- The government must advertise the adoption at least one week before the actual meeting to adopt the budget.
- The government must adopt an annual balanced budget for the general fund, each special revenue fund and each debt service fund.
- For each capital projects fund, the government must adopt and operate under a project-length balanced budget.
- Submit a copy of the annual budget to the Vinson Institute for publishing.

MUST THE BUDGET BE BALANCED?

Georgia law requires local governments to adopt a balanced budget. A balanced budget is when revenues equal expenditures. An example of a simple balanced budget is as follows:

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$0</td>
</tr>
</tbody>
</table>

There are two instances where revenues and expenditures may not be equal. For example, the following may be the case:

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$1,100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$100,000</td>
</tr>
</tbody>
</table>
A local government’s budget policies would allow the above budget to be adopted when:

1. The government is trying to accumulate resources for capital items or for unforeseen emergencies.

2. The government has incurred a deficit fund balance (actual expenditures have exceeded revenues) in prior years and is trying to eliminate this problem.

Another example of an unbalanced budget would be as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$(100,000)</td>
</tr>
</tbody>
</table>

Under Georgia law, this last option is not allowable unless the government has sufficient unassigned fund balance from the year just ended to eliminate the proposed deficit. In this case, the budget would show the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance</td>
<td>$ 100,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Sub-total</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$      0</td>
</tr>
</tbody>
</table>

The local government’s policy should allow for all three options. However, the third option should be qualified to provide that only fund balance in excess of any required reserves be used in this manner. A sample budget policy addressing balanced budgets may be worded as follows:

“The budget must be balanced for all budgeted funds. Total anticipated revenues plus that portion of beginning of the year fund balance, in excess of required reserves must equal total estimated expenditures.”

**HOW MUCH FUND BALANCE SHOULD BE MAINTAINED?**

This is one of the most frequently asked questions from local government elected officials. It is a question that has no one “correct” answer.

In order to address this question, the term, “fund balance” should be defined. The accounting definition is that fund balance is the difference between current assets and current liabilities on the balance sheet. Another way to think of fund balance is that it is the difference between total revenues and total expenditures since the fund was created.
Accounting rules require governments to classify the fund balance according to new definitions included in Governmental Accounting Standards Board, Statement No. 54, Fund Balance Reporting and Governmental Fund Types Definitions. The new classifications are as follows –

- **Non-spendable** - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. Examples include prepaids and inventories as well as the principal portion of a permanent fund.

- **Restricted** – constraints are placed on the amounts based on limits externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

- **Committed** - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance.

- **Assigned** - amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

- **Unassigned** - residual classification for the general fund (Note – The General Fund is the only fund that should report an Unassigned classification).

There really is not an easy answer to the question regarding the proper size of fund balance. In some respects local governments are similar to businesses: both must have adequate resources to meet their payrolls and pay their bills. In local governments, fund balances (usually called equity or retained earnings in a business) are used to meet these cash flow needs.

Since businesses operate to make a profit, they never can have too much equity. Since local governments operate to provide social and essential services, they are not in business to accumulate resources (fund balance). Therefore, if fund balance becomes too large—whatever “too large” means—the local government could be criticized for taxing more than necessary for current operations. If a taxpayer chose to sue the local government for levying excess property taxes, the local government’s position would be much stronger if it has an official financial policy that explains why it is maintaining a certain fund balance.

Another question which could be asked is, “Why should local governments maintain any fund balance?”

In Georgia we find convincing arguments for local governments to maintain adequate fund balances. The primary argument relates to cash flow. If a local government relies heavily on property tax as opposed to sales tax to finance its operations, cash flow problems can result.

For example, some local governments operate on a calendar fiscal year, January through December. Since they don’t receive their property tax revenue until late in the fiscal year, often in November or December, they have to operate for more than ten months before their property tax revenue is available to spend.
Generally, local governments have two choices in this situation: one is to maintain an adequate fund balance to cover cash flow requirements until property tax revenue comes in. The second is to borrow money early in the year, normally through the issuance of tax anticipation notes (TAN’s) to take care of cash flow needs prior to tax collection time.

Any time a local government borrows money, interest costs result. The more conservative approach, therefore, would be to accumulate adequate fund balance to cover cash flow problems and eliminate any interest costs.

Some local governments accumulate fund balances to cover contingencies. Contingencies occur when unforeseen, unexpected emergency type expenditures are required and these expenditures are not provided for in the budget. This doesn’t mean that contingency funds should be used when a department director fails to include an item in the departmental budget. Contingency funds could be needed as a result of unusual weather – a flood, for instance, that damages roads and drainage structures, or a bridge that caves in. Some local governments, budget separate contingency accounts, but others use fund balance for this purpose.

Many local governments across the United States maintain fund balances the equivalent of one to three months of operations. For example, if the expenditure budget is $12 million, its policy might be to maintain a fund balance of $1 million, 1/12th of $12 million. Only in extreme cases where large cash flow problems are anticipated do you find fund balances in excess of three months of operations. Remember, there is no common “right answer” as to how much a fund balance should be.

The only way to increase fund balance is to realize more revenues than expenditures in a given fiscal year. If a local government wants to reduce fund balance, it might include a portion of fund balance as a resource in the subsequent year’s budget.

A financial policy might address fund balance this way:

The local government will attempt to establish a fund balance reserve for the general fund to pay expenditures caused by unforeseen emergencies, for shortfalls caused by revenue declines and to eliminate any short term borrowing for cash flow purposes. This reserve will be maintained at an amount, which represents approximately $300,000 or three months of operating expenditures, whichever is more.

**WHAT IS THE LEGAL LEVEL OF BUDGETARY CONTROL?**

Another way to phrase this question is, “At what level does a local government overspend its budget, causing a legal violation?” Georgia law addresses this question by providing that a local government may not overspend its budget at the departmental level. This means that the budget resolution adopted by the local government must be detailed at least to the department level. A simple example is given below for the Judicial function of a county:
<table>
<thead>
<tr>
<th>Function/Activity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Judicial/Solicitor</td>
<td>$1,250,000</td>
</tr>
<tr>
<td>Judicial/Superior Court</td>
<td>$3,100,000</td>
</tr>
<tr>
<td>Judicial/Clerk of Courts</td>
<td>$1,513,000</td>
</tr>
<tr>
<td>Judicial/Probate Courts</td>
<td>$692,000</td>
</tr>
<tr>
<td>Judicial/Juvenile Courts</td>
<td>$1,750,000</td>
</tr>
<tr>
<td>Judicial/Law Library</td>
<td>$60,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,365,000</strong></td>
</tr>
</tbody>
</table>

If, after the above budget was adopted, it was determined that the local government needed to spend more than $1,250,000 for the Solicitor’s office (the department/activity level) the budget would have to be amended by the governing authority or Georgia law would be violated.

Legal level of control at the department level does not mean that in the budget development process the governing authority shouldn’t review the budget at a more detailed line-item level. It simply means that the legal level – the level the governing body adopts in the budget – need not be any more detailed than the department level.

O.C.G.A. § 36-81-3(d)(2) states in part: “Transfer between line items of legal level of control can be approved by budget officer.”

To summarize, the legal level of budgetary control for local government in Georgia is the department level. Using the Uniform Chart of Accounts for Local Governments in Georgia, this is translated into function/activity within a fund.

In addition, local governments need a financial policy regarding who is authorized to transfer budget amounts between line items within a department. Georgia law suggests that the budget officer should have this authority. Sometimes department directors are given this authority, but usually it is given either to the government’s finance director, the manager or administrator or the chief elected official.

A sample “legal level of budgetary control” policy follows:

The budget shall be adopted at the legal level of budgetary control, which is the department level. That is, expenditures may not exceed the total for any department within a fund without the board of commissioners’ approval. The chairman, however, shall have the authority to transfer appropriations within a department within a fund from one line item (to another object classification within the same department) to other line items.
CHAPTER 6 SUMMARY:

1. The first part of the budget usually is a budget message or a letter of transmittal.

2. The budget document shall provide a statement for the amount budgeted for expenditures by department for each fund for which a budget is required.

3. The government should advertise the availability of the budget the week the budget is submitted to the governing authority.

4. A notice must be published in order to inform the community about the budget hearing and present a summary of the budget.

5. Advertisement for the budget adoption must take place at least one week prior to the meeting to adopt the budget.

6. A PDF copy of the budget be transmitted to the Vinson Institute no more than 30 calendar days following the adoption of the budget ordinance or resolution.

7. Georgia law requires local governments to adopt a balanced budget for the general fund, each special revenue fund, and each debt service fund. For each capital projects fund, the government must adopt and operate under a project-length balanced budget.

8. A government shall adopt the budget by ordinance or resolution.

9. The adopted budget document must reflect appropriations at least at the department level within each budgeted fund.

10. Fund balance is defined as the difference between current assets and current liabilities. However, fund balance may also be viewed as the difference between revenues and expenditures since the fund was created.

11. Many local governments across the United States maintain fund balances equivalent of one to three months.

12. A local government may not overspend its budget at the department level, the legal level of control.
CHAPTER 6 EXERCISE


2. Review Exhibit 6-2, Sample Budget Hearing Notice. Document the information communicated to the public.

3. Review Handout 5, the Hall County Georgia 2019 Budget Resolution and answer the following questions –

   A. What does the resolution state is regarding expenditure limits? (Page 1)

   B. When will an amendment be required? (Page 1)
C. List one authorization given to the Director of Financial Services. (Page 2)

D. List one authorization given to the County Administrator. (Page 2)

E. How many authorized positions does the budget contain? (Page 3)

F. How much unreserved/undesignated fund balance does the resolution indicate the County will maintain.

G. Review the Revenues on page 5 of the resolution. What is the most significant source of revenues for the General Fund? What is the total of this revenue line item?

H. What is the most significant General Fund departmental expenditure? What is the amount?
CHAPTER 7
OPERATING WITH THE BUDGET

OBJECTIVES

Upon completion of this chapter, the participant should be able to:

- Recall methods of budgetary controls
- Recognize when budget amendments are required
- List methods of budgeting for contingencies
- Recall budget balancing techniques

BUDGETARY CONTROL

The final element of the budget cycle is budget control. It makes little sense to go through an extensive and exhaustive budget process and then make no effort to ensure that the document is used to serve the local government. Budget control usually is considered in two segments: budget administration and budget execution.

A distinction is usually made between budget administration and budget execution. Budget administration is concerned with monitoring the actual performance of the local government against the budget. Budget administration includes financial and accounting controls, management review and control and program analysis and evaluation. In other words, how well and whether the local government operates within its budget is the focus of budget administration.

Budget execution is the process of managing the budgetary inputs and outputs in order to ensure that the goals and objectives of the local government are met. It is the process of managing the resources in the budget in order to meet certain local government objectives. Budget execution includes the development and implementation of budgetary controls.

One of the most important aspects of budget administration is financial and accounting controls. These controls provide for strict control over budget appropriations and ensure that management is aware of the status of actual expenditures compared with budgeted expenditures. A budgetary accounting system provides for strict control over appropriations. The budgetary accounting system is used to record the adopted budget, compare revenues and expenditures to the adopted budget and report the variances to management.
ENCUMBRANCE ACCOUNTING/REPORTING CONTROL

Another component of budget administration is the recording of encumbrances. The recording of encumbrances allows the local government to “earmark,” or commit, budget appropriations to allow for the payment of obligations that have been incurred but for which the local government has not issued a check. This aids greatly in preventing overspending of the budget. Encumbrances can be initiated by a purchase order, a contract or other commitment of funds. Under an encumbrances system, all proposed commitments of budget appropriations are viewed in terms of adequacy of funds. The amount of the encumbrance is posted, or subtracted from the unencumbered balance, and a new unencumbered balance, or “available balance” is produced. The unencumbered balance represents the amount of the appropriation available to be spent.

Another component of budget administration could be an allotment system. An allotment system controls the amount of the annual budget appropriation that may be spent within a specific time frame (i.e., monthly, quarterly, etc). An allotment system can work in conjunction with an encumbrance system and aid in budgetary control by requiring operating personnel to plan their work and schedule their expenditures more carefully.

Another important aspect of financial control is a financial/budgetary reporting system, which provides management with periodic reports on revenues, expenditures, and encumbrances compared with the adopted budget. These reports allow management to track actual performance of the local government compared with the plan, or budget. The reports should be issued frequently enough to provide ample opportunity for management to identify problems and implement solutions in a timely way. Such reports are most often issued monthly, although they may be issued more or less frequently.

These reports should compare estimated and actual expenditures and revenues and should provide comparative data for previous periods. They should be designed so that they are easily understood by the user, with simplicity and ease of understanding being the watchwords.

Budget control may be enhanced by management review and control. Legislative actions such as prescribing how and under what circumstances the budget may be amended, how to deal with emergency appropriations, how budget transfers are to be made, and how to deal with unexpected budget appropriations are all ways the budget may be controlled through legislative controls. Such controls may be mandated by state law, local charter, or by local ordinances.

Management review and control may also include regulation and control over such things as the authorized position control, the filling of vacant positions, purchasing controls, controlling travel by employees, payroll systems, and procedures relating to budget amendments and transfers.

An integral part of budget administration and control is the annual financial audit. The audit is conducted by an outside CPA firm and should determine if the budget and appropriations ordinances comply
with legal provisions, if expenditures were properly authorized and charged and if expenditures and encumbrances are within the appropriations.

When giving thought to the design of an effective budget administration system, care should be exercised to reduce the incidence of a number of practices that impair efficient and effective budgetary control. Some of these practices include the following:

- Use of contingent funds for items which are not emergencies
- Excessive use of emergency purchases for which purchase orders have not been issued. There is a danger that purchases will be made for which adequate funds are not available
- Abuse of emergency appropriations, particularly where appropriations are underestimated in order to reduce the tax rate with the thought that emergency appropriations will be approved during the year
- Abuse of budget transfers
- Use of capital funds for operating purposes
- Cleaning out of accounts by departments prior to the end of the year
- The use of budget amendments to circumvent budget levels

AMENDING THE BUDGET

In the course of the fiscal year local governments can adapt to changing governmental needs and amend their budget. O.C.G.A. § 36-81-3(d) includes the following regulation for local governments regarding budget revision:

Nothing contained in this Code section shall preclude a local government from amending its budget so as to adapt to changing governmental needs during the budget period. Amendments shall be made as follows, unless otherwise provided by charter or local law:

(1) Any increase in appropriation at the legal level of control of the local government, whether accomplished through a change in anticipated revenues in any fund or through a transfer of appropriations among departments, shall require the approval of the governing authority. Such amendment shall be adopted by ordinance or resolution;

(2) Transfers of appropriations within any fund below the local government’s legal level of control shall require only the approval of the budget officer; and

(3) The governing authority of a local government may amend the legal level of control to establish a more detailed level of budgetary control at any time during the budget period. Said amendment shall be adopted by ordinance or resolution.
Exhibit 7-1 below displays a sample budget amendment resolution.

**Exhibit 7-1: Sample Budget Amendment**

<table>
<thead>
<tr>
<th>Box 4. Sample Form of a Budget Amendment Ordinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>AN ORDINANCE TO PROVIDE FOR ADOPTION OF A BUDGET AMENDMENT CONTAINING ESTIMATES OF EXPENDITURE CHANGES FOR . . . THE FISCAL YEAR BEGINNING . . . AND ENDING . . .</td>
</tr>
<tr>
<td>BE IT ORDAINED BY THE . . .</td>
</tr>
<tr>
<td>SECTION 1. That for the expenditures of the government and its activities for the fiscal year, beginning . . . and ending . . . the amounts in the following sections are hereby amended.</td>
</tr>
<tr>
<td>SECTION 2. That for the said fiscal year the General Fund is hereby amended as follows:</td>
</tr>
<tr>
<td>General Government from $__________ to $__________</td>
</tr>
<tr>
<td>Public Safety from $__________ to $__________</td>
</tr>
<tr>
<td>Public Works from $__________ to $__________</td>
</tr>
<tr>
<td>Parks and Recreation from $__________ to $__________</td>
</tr>
<tr>
<td>Contingency from $__________ to $__________</td>
</tr>
<tr>
<td>SECTION 3. All ordinances or parts of ordinances in conflict with this ordinance are hereby repealed.</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
</tr>
</tbody>
</table>

**BUDGETING FOR SURPLUSES AND CONTINGENCIES**

A contingency could be defined as a line-item included in a local government’s budget to be used for unforeseen, emergency type expenditures.

Generally, there are three alternatives available to governments. First, a contingency may be budgeted as part of the governing authority’s budget and cannot be used unless the entity authorizes its use. Then when a need arises, the governing authority, through a resolution, should amend the budget by moving the needed portion of the contingency budget to the appropriate department’s budget (thereby increasing that department’s budget appropriation). The applicable expenditure is not charged to the contingency line item, rather to the line item where the appropriation is transferred.

One potential drawback to this alternative is that the contingency line item must be funded with budgeted revenue. Some governments therefore, will use any available fund balance to cover any resulting contingency funds. Any beginning balance not budgeted for use in the current year can be used for emergency type contingency items not included in the original budget. When these
resources are needed, a budget amendment would be required increasing the appropriation line item and adding beginning fund balance to balance the budget. This alternative does not require any revenues to fund contingencies.

The final alternative falls between the first two. A line-item is budgeted for contingencies as discussed in the above alternative; however, fund balance is used to finance contingencies. In reality, this alternative is the same as the second alternative, except the budget need not be formally amended. Just the approval of a transfer is necessary since the line item for contingencies already is budgeted.

The amount of a government’s contingency budget will vary widely. As a general rule, line-item contingencies are rarely in excess of 5 percent of the appropriated budgets. Many unanticipated expenditures may be required during the fiscal year, and 5 percent may not be enough. **Three to five percent of the appropriated budget is most common.**

A financial policy to cover contingencies is as follows:

> "The government will include an amount in the general fund (that is, a line item for contingencies) for unforeseen, emergency type operating expenditures. The amount of the contingency will be no more than 5 percent of the operating budget or $150,000, whichever is less. An equal amount of fund balance will be budgeted to fund the contingency."

**DISPOSITION OF BUDGET BALANCES**

At the end of the year when a portion of a local government’s adopted budget remains unspent the government can choose to carry forward encumbrances, lapse appropriations, or carry forward all unspent appropriations.

The most common policy adopted is “appropriations lapse at year end.” This means that once the fiscal year ends, any unspent appropriations lapse and they do not carry forward to the subsequent year. For example, at the end of the fiscal year, the budget status for a single department’s appropriation is as shown in the chart below:

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Year-to-Date Expenditures</th>
<th>Encumbrance Outstanding</th>
<th>Available Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept. A</td>
<td>$100,000</td>
<td>$84,000</td>
<td>$12,000</td>
<td>$4,000</td>
</tr>
</tbody>
</table>

Therefore, any encumbrances outstanding at year end (in our example $12,000) must be reappropriated in the subsequent year, thus increasing that year’s budget, normally through a budget amendment. Since the governing body will have to reappropriate the amount of encumbrances, they will have detailed information about the orders (encumbrances) carried forward.
The second alternative policy might state: “only unencumbered appropriations lapse at year end.” This means that if any of the appropriation is encumbered, that portion is automatically added to (carried forward) the subsequent year’s budget.

Using the example on the previous page, the $4,000 available balance (the unencumbered portion of the budget) lapses and the encumbered appropriation of $12,000 carries forward as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsequent year’s adopted budget</td>
<td>$105,000</td>
</tr>
<tr>
<td>Prior year encumbrances carried forward</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Total subsequent year’s appropriation</strong></td>
<td><strong>$117,000</strong></td>
</tr>
</tbody>
</table>

When using this method, the governing body need not take any legal action regarding the encumbered appropriations carried forward. Since these items were budgeted in the prior year, some boards see no need to formally approve the carryover.

The third policy allows all unexpended appropriations (any portion of the appropriation that has not been charged with expenditures) to be carried forward. Not many governments use this policy. Using our example above, the carry forward would be as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsequent year’s adopted budget</td>
<td>$105,000</td>
</tr>
<tr>
<td>Prior year encumbrances carried forward</td>
<td>12,000</td>
</tr>
<tr>
<td>Unexpected, unencumbered balance carried forward</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Total subsequent year’s appropriation</strong></td>
<td><strong>$121,000</strong></td>
</tr>
</tbody>
</table>

The most common use of this policy is for capital budgets. When using the policy, department directors are able to accumulate appropriations from year to year. However, keeping track of the budget can be complicated. Generally, this policy is not recommended for use other than with capital projects.

**BUDGET BALANCING TECHNIQUES: HOW TO DO MORE WITH LESS**

Invariably, at some point during the budget preparation process, cuts must be made to bring the budget into balance. Almost always, the total of the requests for funding exceeds the total anticipated revenue for the next budget period. When this occurs, there are only a couple of things that can be done. One option is to raise sufficient revenues to balance the budget. This is probably an impractical and unlikely option. Local governments don’t have an unlimited supply of money from which to draw and the political constraints would prevent them from raising taxes and charges by too great a margin.

The most realistic option in most cases is to cut the expenditure side of the budget to bring it into balance. This is the option most local governments choose. The question is, how should budget cuts be made and what kind of thought process should budget officers go through when making budget cuts?
Most budget officers agree that the best way to approach making budget cuts is with a clear sense of priority in mind. As discussed earlier in this chapter, a sense of the relative importance of things gives budgeters a good sense of where cuts should and should not be made. Obviously, the least important function in local government would be cut before the most important function.

Perhaps the least effective method of cutting a budget is by cutting it across-the-board. Across-the-board budget cuts are less effective than other methods because they penalize the most important function in the government to the same extent as the least important. All areas of the budget are cut the same (i.e., 10%, 5%). Across-the-board budget cuts are easy and simple to make, however, and often are the option chosen by budget officers who wish to arrive at a balanced budget with a minimum of thought and effort.

Not every department or activity makes an equal contribution to the goals and objectives of a local government. Therefore, to cut the functions and activities that contribute most to its stated goals and objectives on the same basis as those functions and activities that make a lesser contribution cannot be termed responsible management.

In a typical government, total personal services costs amount to approximately 70% of total budget expenditures. When seeking to cut a budget, many elected officials are reluctant to cut personnel for political reasons. In addition, they are sensitive to the effect of personnel cuts on their employees. If personnel costs are “off limits” for potential budget cuts, this places an enormous burden on the remaining 30% of the budget to pick up the slack. Often, if the amount to be cut is large, it becomes unrealistic to expect 30% of the budget to absorb 100% of the cuts.

It is recommended that local governments not exclude personnel costs from consideration when it comes to finding places to cut the budget. That is not to say that firing, or laying-off personnel, is advocated. Some jobs may be targets for elimination when they become vacant. Some jobs may be combined with others when the incumbent leaves the employ of the government. A study of the government’s staffing could identify significant opportunities for savings in the personal services area which could be realized as attrition runs its normal course. This could be done in an orderly way over a period of time and with a minimum of disruption if an overall plan for staffing in the future was devised. The potential for savings is great in the personal services area.

In summary, most would agree that to leave personnel “off limits” places an enormous burden on the small remainder of the budget to absorb all of the budget cuts. Thoughtful budget officers recognize this and take steps to periodically examine personnel costs.
Below is a list of “budget cutting” alternatives.

- Freeze increases in personnel
- Reduce all equipment items
- Recommend repair and renovation rather than replacement of facilities
- Recommend a study as a means of deferring major costs
CHAPTER 7 SUMMARY

1. Budget control usually is considered in two segments: budget administration and budget execution.

2. Budget administration is concerned with monitoring the actual performance of the local government against the budget. Budget administration includes financial and accounting controls, management review and control, and program analysis and evaluation.

3. Budget execution is the process of managing the budgetary inputs and outputs in order to ensure that the goals and objectives of the local government are met.

4. Tools for budgetary control include the use of encumbrances, allotments, and budget to actual reports.

5. In the course of the fiscal year local governments can adapt to changing governmental needs and amend their budget.

6. A contingency could be defined as a line-item included in a local government’s budget to be used for unforeseen, emergency type expenditures.

7. At the end of the year when a portion of a local government’s adopted budget remains unspent the government can choose to carry forward encumbrances, lapse appropriations, carry forward all unspent appropriations.
CHAPTER 7 EXERCISE

Case Study

Balancing the Budget Exercise:

The Vinson Local Government Commission has just completed review of their next year’s budget and is set to adopt the budget at the next meeting. The budget set for adoption is:

Revenue:
- Property Taxes: $10,000,000
- Sales Taxes: $6,000,000
- Other Taxes: $3,500,000
- Other Revenues: $2,000,000

Total Revenue: $21,500,000

Expenditures:
- Salaries and Benefits: $13,425,000
- Operating Expenditures: $5,300,000
- Debt Service: $1,075,000
- Capital Outlay: $1,700,000

Total Expenditures: $21,500,000

Other Information

In addition, fund balance available for appropriation is $1.5 million. Vinson Local Government has no formal financial policies or designated reserves. The estimate for property taxes is based on a net digest of $887 million and a millage rate of 11.50. Last year’s millage rate was also 11.50 mills.

The budget is based on a total of 447 positions with six added positions for the upcoming year. The personal services budget includes $300,000 for employee raises.

The new positions for the coming year are as follows (estimated costs include salaries and benefits):

- $150,000 for 3 additional Police Officers
- $90,000 for 2 additional Building Inspectors
- $42,000 for 1 additional administrative staff in Finance

Benefits are 27% of salaries. The employer’s share of benefits include 7% for retirement, 13% for health insurance, and 7% for other benefits.
The budget also includes $250,000 for the operating expenditures needed to open a new park in a low/moderate income neighborhood. The capital cost of this project was funded by the SPLOST program.

FY20X8 capital outlay includes: $500,000 for court mandated improvements to the jail, the purchase of 20 replacement police cars ($500,000), and other important projects.

**Challenge** – Your group should consider how to balance the proposed budget using the following information which was not available when the above budget was originally developed. A balanced budget results when revenues are equal to expenditures or revenues plus the fund balance are equal to expenditures.

- A number of influential citizens are demanding a reduction in property taxes. The newspaper has written an editorial in favor of the tax reduction. Based on these events, the Board of Commissioners has agreed to discuss whether to reduce the millage by 1.5 mills which equals a reduction in revenue of $1,330,500. You need to provide a recommendation.

- The employees’ health insurance carrier has notified the government of a $400,000 increase in the cost of coverage for the next fiscal year. This has not been included in the currently balanced budget.

- Sales tax revenue is expected to decrease by $500,000 in the next fiscal year based on a recent decision of a major retail center to cease operations. This amount has not been reduced from budgeted revenues.

**Questions**
1. What changes would you recommend implementing based on the information provided?
2. What are the advantages and disadvantages of each of your responses?
Glossary

Accrual Basis of Accounting
The method of accounting under which revenues are recorded when they are earned (whether or not cash is received at that time) and expenses are recorded when goods and services are received and used (whether cash disbursements are recorded for those goods and services at that time).

Ad Valorem Tax
A tax based on the value of property.

Adopted (Approved) Budget
The funds appropriated by the legislative body at the beginning of the year.

Amended Budget
It is the adopted budget plus additional expenditure appropriations resulting from legislative body decisions made throughout the year and any re-organizations.

Appropriation
A legal authorization granted by the legislative body to make expenditures and to incur obligations for specific purposes. (For operating fund budgets, these appropriations lapse at the end of each fiscal year.)

Assessed Value
The value at which property is taxed. The assessed value in the state of Georgia is forty percent (40%) of the fair market value.

Assessment
The process of making the official valuation of property for taxation.

Asset
Resources owned or held by a government that have monetary value.

Beginning Fund Balance
Resources available for expenditure in one fiscal year because of revenues collected in excess of expenditures in prior fiscal years.
**Bond**
A written promise to pay a specified sum of money (called the face value or principal (face) value), at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. Bonds are typically used for long-term debt.

**Budget**
A financial operating plan for a given period which displays the estimated expenditures to provide services or to accomplish a purpose during that period together with the estimated sources of revenue to pay for those expenditures. Once the fund totals shown in the budget are appropriated by the legislative body, they become maximum spending limits.

**Budget Amendment**
The transfer of funds from one appropriation account to another, requiring approval of either the legislative body, manager, or the budget officer, depending on the nature of the transfer.

**Budget Calendar**
The schedule of key dates that the local government follows in the preparation, adoption, and administration of the budget.

**Budget Document**
The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating governing body.

**Budget Resolution**
The official enactment by the legislative body legally authorizing local government officials to obligate and expend resources.

**Budgetary Control**
The control or management of a local government in accordance with the approved budget for the purpose of keeping expenditures within the limitations of available appropriations and resources.

**Capital Assets**
Assets with a life of at least one year and exceeding a dollar amount determined by governing body that are intended to continue to be held or used, such as land, buildings, machinery, furniture and other equipment.

**Capital Budget**
The first year of the Capital Improvements Plan as approved by the Commission.
**Capital Improvements Plan (CIP)**
A plan for capital expenditures to be incurred each year over a three to six year period. This plan will meet the capital needs as defined in the long-term work program of Departments and other agencies of the local government. It sets forth each project, and it specifies the resources estimated to be available to finance the projected expenditures.

**Capital Outlay**
An expenditure for the acquisition of, or addition to, a capital asset. Items acquired for less than an agreed amount are not considered capital outlay.

**Capital Project**
An item for which the purchase, construction, or other acquisition will represent a public betterment to the community and adds to the total assets of the local government. Such assets include land, buildings and related improvements, streets and highways, bridges, sewers and parks. The project should have an anticipated life of three years or more and a total project cost exceeding an agreed amount.

**Contingency**
Funds set aside for unforeseen future needs and budgeted in a “non-departmental” account. Can be transferred to a departmental budget only by action of the legislative body.

**Contractual Services**
Services rendered to a government by private firms, individuals, or other governmental agencies. Examples include utilities, rent, maintenance agreements, and professional consulting services.

**Debt**
An obligation resulting from the borrowing of money or from the purchase of goods and services.

**Debt Service**
The cost of paying principal and interest on borrowed money according to a predetermined payment schedule.

**Debt Service Fund**
A fund established to account for the accumulation of resources for, and payment of, general long-term debt principal and interest.

**Deficit**
The excess of an entity’s liabilities over its assets or the excess of expenditures or expenditures over revenues during a single accounting period.
Department
A major administrative division of the local government with indicated overall management responsibility for an operation or a group of related operations within a functional area.

Disbursement
The expenditure of monies from an account.

Effectiveness Measure
A measure used to determine if a program or department is achieving its desired outcome. The degree to which a performance objective is being achieved.

Efficiency Measure
This measure reflects the relationship between work performed and the resources required to perform it. It demonstrates how well the available resources are being used.

Encumbrance
The commitment of appropriated funds to purchase an item or service. To encumber funds means to set aside or commit funds for a specified future expenditure. It may be in the form of a purchase order, purchase requisition, or a contract for goods and services.

Enterprise Fund
A fund in which the activities are supported wholly or primarily by charges and fees paid by the users of the services. Examples are public utilities and airports.

Expenditure/Expense
This term refers to the outflow of funds paid or to be paid for an asset obtained or goods and services obtained regardless of when payment is made. “Expenditure” applies to Governmental Funds, and “Expense” to Proprietary Funds.

Financial Policy
A government’s conscious decision on the financial direction it wants to take regarding revenue, spending, and debt management in relation to government services, programs, and capital investment. Financial policy provides an agreed-upon set of principles for the planning and programming of government budgets and their funding.

Fiscal Year
A twelve-month period designated as the operating year for accounting and budgeting purposes in an organization.
Fringe Benefits
Employer expenditures related to employee benefits such as insurance and retirement.

Fund
An independent fiscal and accounting entity with a self-balancing set of accounts. These accounts record cash and other assets together with all related liabilities-, and equities. Funds are segregated so that revenues will be used only for the purpose of carrying out specific activities in accordance with special regulations, restrictions or limitations.

Fund Balance
The difference between resources and expenditures over the period of time government has been in operation.

General Fund
The fund used to account for all financial resources, except those required to be accounted for in another fund.

General Obligation Bonds
Bonds whose principal and interest are paid from property tax for debt service and are backed by the local government’s full faith and credit. Approval by referendum vote is required for general obligation bonds to be issued.

Generally Accepted Accounting Principles (GAAP)
Uniform standards for financial accounting and reporting, encompassing the conventions, rules, and procedures that define accounting principles.

Goals
General statements of performance intentions. They may be somewhat vague and difficult to measure.

Governmental Funds
This category of funds includes typical governmental activities and includes funds such as the General Fund, Special Revenue Funds, Capital Projects Funds, and the Debt Service Fund, and Permanent Fund. These funds are used to measure current expendable financial resources (only current assets and current liabilities) and uses the modified accrual basis of accounting.

Grant
A contribution of assets (usually cash) from one governmental unit or organization to another. Typically, these contributions are made to local governments from the state or federal governments to be used for specific purposes and require distinctive reporting.
**Homestead Exemption**
A tax relief measure whereby state law permits local governments to exempt a fixed dollar amount of appraised value of qualifying residential property.

**Intergovernmental Revenue**
Funds received from federal, state, and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes.

**Internal Service Fund**
Funds used to account for the financing of goods or services provided by one department or agency to another department or agency of a government on a cost reimbursement basis.

**Levy**
To impose taxes, special assessments or service charges for the support of government activities.

**Liabilities**
Probable future sacrifices of economic benefits, arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

**Line-Item Budget**
A budget prepared along departmental lines that focuses on what is to be bought. It lists each category of expenditures and revenues by fund, agency, department, division and or cost center.

**Long-Term Debt**
Debt with a maturity of more than one year after the date of issuance.

**Millage Rate**
The ad valorem tax rate expressed in the amount levied per thousand dollars of the taxable assessed value of property. One mill is equal to one dollar per thousand.

**Modified Accrual Basis**
The accrual basis of accounting adapted to the governmental fund-type measurement focus. Under it, revenues and other financial resource increments are recognized when they become susceptible to accrual, which is when they become both "measurable" and "available to finance expenditures of the current period."

**Object of Expenditure**
An expenditure classification, referring to the lowest and most detailed level of classification, such as electricity, office supplies, land, or furniture.
Objectives
Unambiguous statements of performance intentions expressed in measurable terms.

Obligations
Amounts a government may be legally required to pay out of its resources. They include not only actual liabilities, but also encumbrances not yet paid.

Operating Budget
The portion of the budget pertaining to daily operations that provide basic governmental services. The operating budget contains appropriations for such expenditures as personal services, commodities, services and capital outlay.

Ordinance
A local government law.

Pay-As-You-Go Basis
A term used to describe a financial policy by which capital outlays are financed from current revenues rather than through borrowing.

Performance Budget
A budget wherein expenditures are based primarily upon measurable performance of activities and work programs.

Performance Indicators
Specific quantitative and qualitative measures of work performed as an indicator of specific department or program activity or accomplishment.

Performance Measure
An indicator that measures the degree of accomplishment of an activity. The three types used in the local government are:
Effectiveness - the degree to which performance objectives are being achieved.
Efficiency - the relationship between work performed and the resources required to perform it. Typically presented as unit costs.
Workload - a quantity of work performed.

Personal Property
Property that can be moved with relative ease, such as motor vehicles, boats, machinery, and inventoried goods.
Policy
A guiding principle which defines the underlying rules which will direct subsequent decision-making processes.

Program
A group of related activities and projects which seek to accomplish a common objective.

Program Budget
A method of budgeting whereby the services provided to the stakeholders are broken down in identifiable service programs or performance units. A unit can be a department, a division, or a workgroup. Each program has an identifiable service or output and objectives to effectively provide the service. The effectiveness and efficiency of providing the service by the program is measured by performance indicators.

Property Tax
Tax based on assessed value of a property, either real or personal. Tax liability falls on the owner of record as of the appraisal date.

Proprietary Funds
This category of funds often emulates the private sector and includes Enterprise Funds and Internal Service Funds. These funds are set up to measure the flow of economic resources (all assets and liabilities) and uses the accrual basis of accounting. They are used to account for government’s ongoing organizations and activities that are funded primarily by user fees.

Public Hearing
A public hearing is a specifically designated time, place, and opportunity for citizens, community groups, businesses, and other stakeholders to address the Legislative body on a particular issue. It allows interested parties to express their opinions and the Legislative body and/or staff to hear their concerns and advice.

Real Property
Land, buildings, permanent fixtures, and improvements.

Reserve
An account used to indicate that a portion of funds has been legally restricted for a specific purpose, or not available for appropriation and subsequent spending. A reserve for working capital is a budgetary reserve set aside for cash flow needs, emergencies, or unforeseen expenditures/revenue shortfalls.
Resolution
A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance or statute.

Resources
Total dollars available for appropriation, including estimated revenues, inter-fund transfers, other financing sources such as the sale of fixed assets, and beginning fund balances.

Revenue
Inflow of resources during the year. For governments, revenues include taxes, intergovernmental, fines, fees during a fiscal year, operating transfers from other funds, and other financing sources such as the proceeds derived from the sale of capital assets.

Revenue Bonds
Bonds whose principal and interest are payable exclusively from revenues generated from specific activities or special assessments, rather than from general revenues. These bonds do not require approval by referendum.

Service Level
Services or products which comprise actual or expected output of a given program. Focus is on results, not measures of workload.

Sinking Fund
A reserve fund accumulated over a period of time for retirement of a debt.

Source of Revenue
Revenues are classified according to their source or point of origin.

Special Revenue Fund
A fund used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Tax Digest
Official list of all property owners, their assessed value (100% of fair market value), and the tax due on their property.
**Taxes**
Compulsory charges levied by a government for the purpose of financing services performed for the common benefit of the people. This term does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

**Trust Funds**
Funds used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments, and/or other funds.

**User Charges**
The payment of a fee for direct receipt of a public service by the party who benefits from the service.

**Utility Services**
A term used to describe services provided by local government's three self-supporting utility funds: Sewer, Storm & Surface Water, and Water.

**Variable Cost**
A cost that increases/decreases with increases/decreases in the amount of service provided such as the payment of a salary.

**Working Capital**
A dollar amount reserved in (General Fund) fund balance that is available for unforeseen emergencies, to handle shortfalls caused by revenue declines, and to provide cash liquidity during periods of low cash flow.

**Workload Measure**
A unit of work accomplished (e.g., Number of permit applications reviewed, the number of households receiving refuse collection service, or the number of burglaries investigated).