

IACT Newly Elected Officials Training

Ann Cottongim, Deputy Director & CFO, IACT
Mayor Joe Stahura, City of Whiting
Todd Samuelson, Executive Partner, Umbaugh
John Murphy, Controller, City of South Bend



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Municipal Finance



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Fund Accounting

- Fund accounting system. Funds are a self-balancing set of accounts set aside for the purpose of accounting for monies of general functions or specific activities.
- Fund types vary according to revenue sources and expenditures.
- Commingling of funds is prohibited unless otherwise provide by law.
- Rules for fund accounting are prescribed by the Governmental Accounting Standards Board (GASB), Indiana State Law and local ordinances.
- The Indiana State Board of Accounts (SBOA) conducts audits of most local governments and ensures compliance with Indiana statutes, prescribes and approves forms and creates a uniform system of accounting and financial reporting.

Fund Types

- General Fund – the principal fund for a local unit. All local governments should have a general fund.
- Special Revenue Fund – accounts for revenue that is legally restricted for a specific purpose (i.e. Motor Vehicle Highway Fund).
- Capital Project Fund – accounts for revenue that is used for capital improvements (i.e. Cumulative Capital Improvement Fund).
- Debt Service Fund – accounts for the payment of principal and interest on outstanding bonds (i.e. Wastewater Debt Service Fund).
- Internal Service Fund – accounts for goods and services provided primarily to other departments in the local government (i.e. Health Insurance Fund).
- Trust & Agency Funds – accounts for assets held on behalf of others (i.e. Police & Fire Pension Funds).
- Enterprise Funds – accounts for operations that are financed by user fees and are operated like a private business (i.e. Water & Wastewater Utility).

Cash Reserves

- Cash reserves are monies maintained in a fund that are available for cash flow purposes and emergencies. Cash reserves are similar, but not identical, to the term fund balance.
- The Government Finance Officers Association (GFOA) recommends a minimum fund balance equal to two months of revenue or expenditures (17%) in the General Fund.
- Higher cash reserves may be needed if there are delays in receiving revenue (i.e. Indiana property tax distributions are received primarily in June and December).
- A written cash reserves policy is recommended for each fund.
- Adequate cash reserves are one factor used by bond rating agencies in evaluating local government debt.

Budgeting

- Indiana Department of Local Government Finance (DLGF) sets policy on budgeting for local units in Indiana and determines final property tax rates through its “1782” budget review process.
- Appropriation – authorization to spend money granted by the fiscal body of the local unit (city council) and Mayor. For certain funds, approval from the DLGF is also required (i.e. property tax funds, MVH Fund, LRSA Fund, Rainy Day Fund).
- The deadline for adoption of the annual budget, property tax rates and property tax levies is November 1st of the preceding year.
- The budgets for local units must be entered into the State’s Gateway budgeting program (<https://gateway.ifionline.org>)
- Additional appropriations are permitted during the year if approved by the fiscal body, Mayor and DLGF (if required).

Example Budget Calendar

- July 1 – Budget Kickoff meeting with municipal officials
- July 1-15 - Clerk/Treasurer prepares revenue estimates.
- July 16-31 – Departments submit expenditure requests
- August 1-31 – Expenditure requests are reviewed by the Mayor and Clerk/Treasurer
- Sept. 1 – submit budget to county for non-binding review
- Sept. 1-30 – budget meetings with the City Council & citizens
- Sept. 14 – submit budget Form 3 in Gateway to DLGF
- October 22 – last day to hold budget public hearing (10 days before adoption)
- November 1 – last day to adopt budget

Cash Summary by Fund Report

Cash Summary by Fund Report
City of XXXX

January 1, 2015 through November 30, 2015

Fund Name	Fund Number	Beginning Balance	Total Receipts	Total Payments	Ending Balance
General Fund	101	3,000,000.00	10,000,000.00	9,000,000.00	4,000,000.00
Motor Vehicle Highway Fund	201	2,000,000.00	3,000,000.00	4,000,000.00	1,000,000.00
Local Road and Street Fund	202	1,000,000.00	2,000,000.00	1,750,000.00	1,250,000.00
Park & Recreation	204	500,000.00	3,000,000.00	3,600,000.00	(100,000.00)
General Bond Debt Service	307	30,000.00	800,000.00	800,000.00	30,000.00
Cumulative Capital Development	402	400,000.00	350,000.00	400,000.00	350,000.00
Water Utility Operating	601	1,500,000.00	4,000,000.00	3,900,000.00	1,600,000.00
Self-Insurance Fund	704	2,000,000.00	3,000,000.00	3,500,000.00	1,500,000.00
Fire Pension Fund	801	500,000.00	1,800,000.00	2,000,000.00	300,000.00
Total - All Funds		10,930,000.00	27,950,000.00	28,950,000.00	9,930,000.00



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Revenue Summary Report

Revenue Summary Report
 City of XXXX
 January 1, 2015 through November 30, 2015

Name	Account No.	2015 Amended Budget	Monthly Amount	YTD Amount	Encumbrance Amount	Budget Balance	% Budget
General Fund 101							
General Property Taxes	xxxxxxxx	10,000,000.00	100,000.00	6,000,000.00	0.00	4,000,000.00	60.00%
Commercial Vehicle Excise Tax	xxxxxxxx	1,000,000.00	0.00	500,000.00	0.00	500,000.00	50.00%
ABC Gallonage Revenue	xxxxxxxx	300,000.00	50,000.00	250,000.00	0.00	50,000.00	83.33%
Cable TV Franchise Revenue	xxxxxxxx	200,000.00	50,000.00	175,000.00	0.00	25,000.00	87.50%
Interest on Investments	xxxxxxxx	30,000.00	2,000.00	31,000.00	0.00	(1,000.00)	103.33%
Miscellaneous Revenue	xxxxxxxx	500,000.00	40,000.00	490,000.00	0.00	10,000.00	98.00%
Total - General Fund		12,030,000.00	242,000.00	7,446,000.00	0.00	4,584,000.00	61.90%



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Expenditure Summary Report

Expenditure Summary Report

City of XXXX

January 1, 2015 through November 30, 2015

Name	Account No.	2015 Amended Budget	Monthly Amount	YTD Amount	Encumbrance Amount	Budget Balance	% Budget
General Fund 101 - Police Department							
Salaries & Wages	xxxxxxxx	500,000.00	40,000.00	450,000.00	0.00	50,000.00	90.00%
Fringe Benefits	xxxxxxxx	200,000.00	10,000.00	180,000.00	0.00	20,000.00	90.00%
Supplies	xxxxxxxx	10,000.00	1,000.00	9,000.00	900.00	100.00	99.00%
Professional Services	xxxxxxxx	100,000.00	20,000.00	70,000.00	30,000.00	0.00	100.00%
Capital	xxxxxxxx	30,000.00	2,000.00	20,000.00	0.00	10,000.00	66.67%
Other	xxxxxxxx	10,000.00	1,000.00	9,000.00	500.00	500.00	95.00%
Total - General Fund - Police Department		850,000.00	74,000.00	738,000.00	31,400.00	80,600.00	90.52%

Other Key Reports

- Form 100R – Employee Salary & Wages – due January 31st
- Annual Financial Report – due March 1st
- Annual Operational Report of Local Road & Streets – due June 1st
- Debt Management Report – due March 1st
 - Best to update this report with each new debt issuance or retirement
 - Consider having your financial advisor update this report

Municipal Budgeting for Policy Makers



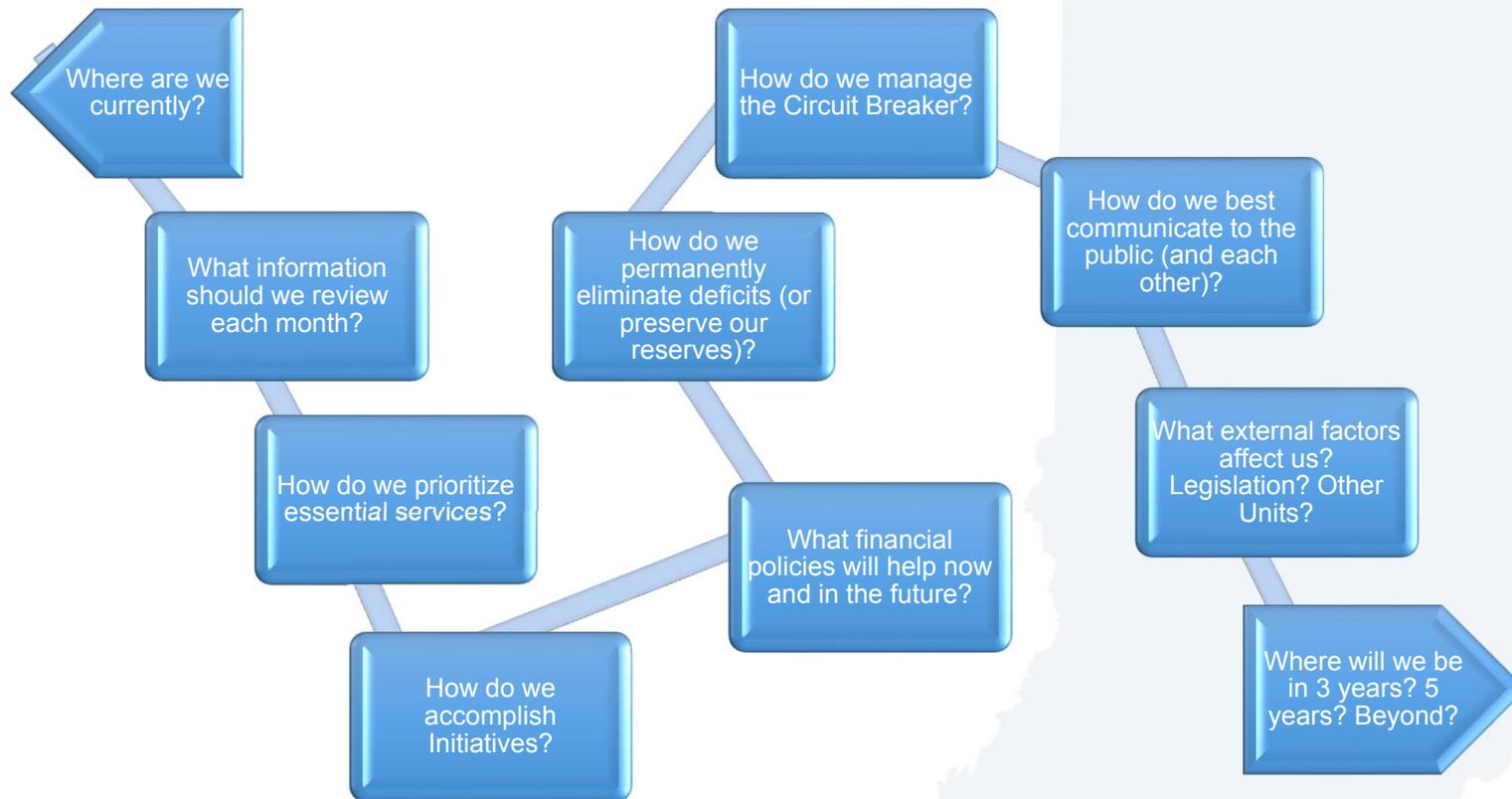
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What Questions do Policy Makers Consider?



Definition of Budget

- **Budget**

- **budg-et** [bújjət]
- plan for allocating resources: a plan specifying how resources, especially time or money, will be allocated or spent during a particular period
- money for particular purpose: the total amount of money allocated or needed for a particular purpose or period of time
- quantity or supply: a quantity, stock, or supply of something
- synonyms: [cheap](#) · [economical](#) · [inexpensive](#) · [reasonable](#) · low-priced · [modest](#)

- For those of us in this room, it is a:

- Revenue Plan
- Spending Plan
- Tax Levy Plan
- Tax Rate Plan

and let's face it, it is also.....

A Political, Management,
Planning, Communication and
Financial Instrument



Why Budget?

- Required by law
- Duty to taxpayers
- Fiscal accountability
- Operational accountability
- Transparency
- Planning tool to make the most efficient and effective use of government resources
- Communicate the goals and priorities of the elected leadership to the taxpayers

Policy Context

- National Advisory Council on State and Local Budgeting suggests the following guiding principles for public budgeting ⁽¹⁾
 - Establish Broad Goals to Guide Government Decision Making
 - Develop Approaches to Achieve Goals
 - Develop a Budget Consistent with Approaches to Achieve Goals
 - Evaluate Performance and Make Adjustments
 - *Note there is no discussion of budget forms, Gateway or due dates.*

(1) "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting"



More Policy Context

- The broad goals of your local government should provide an overall direction and serve as a basis for decision making.
- A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.
- A financial plan and annual budget should help achieve stated goals, within the constraints of available resources.
- Program and financial performance should be continually evaluated, and adjusted, to encourage continual improvement and progress.

Budget Elements

- **Establish Broad Goals to Guide Government Decision Making**
 - 1. Assess community needs, priorities, challenges and opportunities
 - 2. Identify opportunities and challenges for government services, capital assets, and management
 - 3. Develop and communicate broad goals
- **Sample Considerations:**
 - What services are priority (public safety, culture/recreation, highways, economic development, etc)?
 - What has to be accomplished (employment levels and benefits, maintenance, capital, debt)?
 - What is the appropriate level of property taxes to apply toward services (trash, hydrant rental, public safety, highways, culture and recreation)?
 - What services will be cost based?
 - What is the appropriate level of cost sharing (with utilities, across funds, with employees, with users)?
 - What are the cash reserve targets for various fund types (Operating, Special Revenue, Debt Service, Capital)?
 - What are the strategies for various fund types (Operating, Special Revenue, Capital Project, Debt Service)?

Budget Elements

- **Develop Approaches to Achieve Goals**
 - 4. Adopt financial policies
 - 5. Develop programmatic, operating, and capital policies and plans
 - 6. Develop programs and services that are consistent with policies and plans
 - 7. Develop management strategies
- **Sample Considerations:**
 - 15% operating balance in all funds that support core operations (General, Park, MVH, LRS, etc).
 - Capital assets must have a unit cost \geq \$5,000 and a useful life \geq one year.
 - Trash services will be cost based.
 - Culture and recreation will recover ___% of its costs through direct fees.
 - Employees will share in ___% of insurance costs.
 - Staffing levels will be based upon an industry standard.
 - Vehicles will be replaced based on the following conditions.
 - We will establish a budget management practice with organized quarterly meetings.
 - The Rainy Day Fund will be used as follows.
 - Budget surplus will be handled as follows.

Budget Elements

- **Develop a Budget Consistent with Approaches to Achieve Goals**
 - 8. Develop a process for Preparing and Adopting a Budget
 - 9. Develop and Evaluate Financial Options
 - 10. Make Choices Necessary to Adopt Budget
- **Sample Considerations:**
 - Develop a budget calendar
 - Identify opportunities for stakeholder input
 - Prepare revenue projections
 - Prepare expenditure projections
 - Evaluate revenue and expenditure options
 - Develop a capital improvement plan
 - Present the budget
 - Adopt the budget

Budget Elements

- **Evaluate Performance and Make Adjustments**
 - 11. Monitor, measure, and evaluate performance
 - 12. Make adjustments as needed
- **Sample Considerations:**
 - Budget reports will be reviewed monthly by _____.
 - Additional appropriations and budget reductions will be done quarterly.
 - Initiatives and “wish-list” items will be prioritized by service goals.
 - Benchmarks will be established and performance will be measured against these benchmarks

How to Accomplish

- Communication
- Cooperation
- Stakeholder involvement
- Commitment

Budget Development: *A Policymaker Perspective*



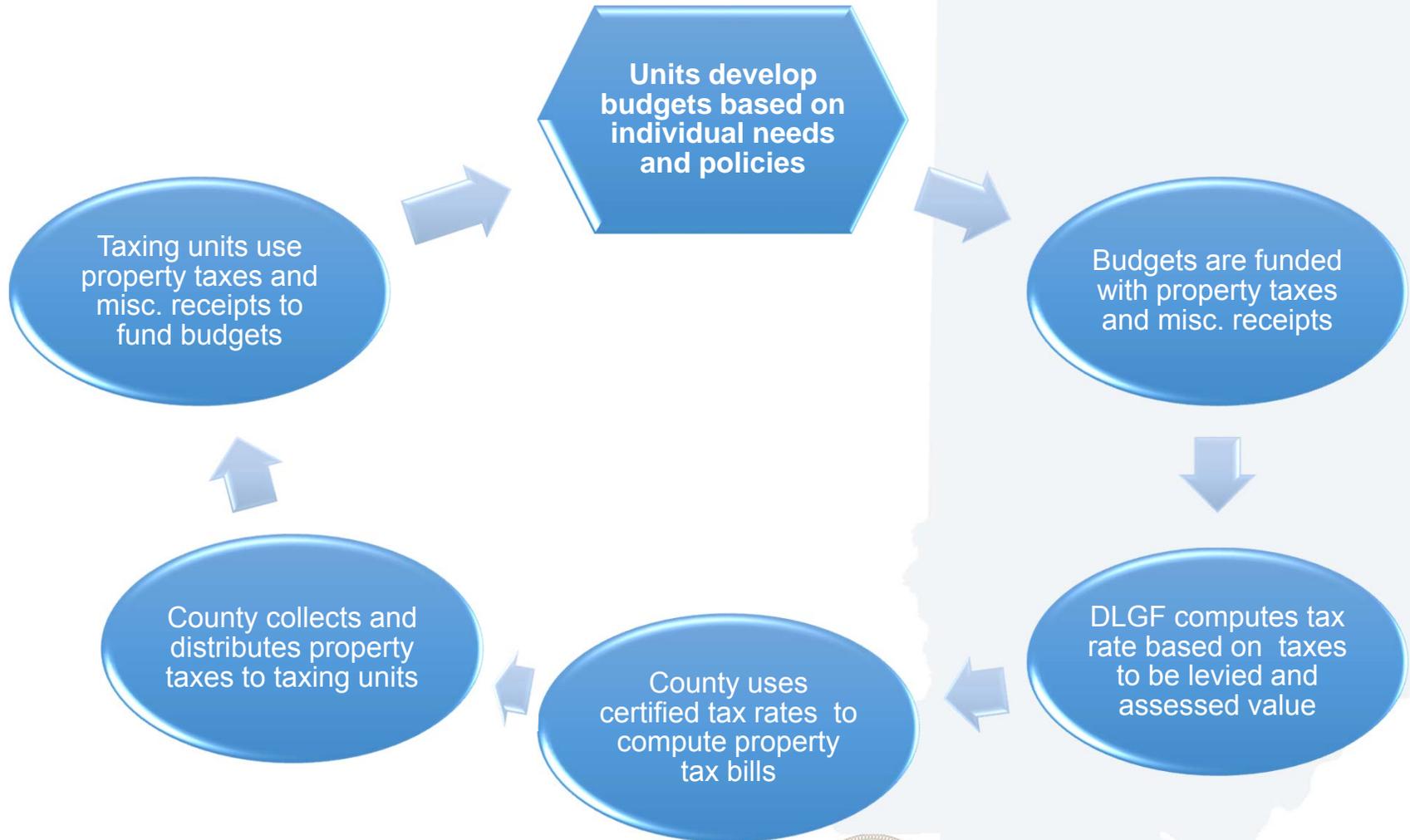
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Summary of Process



2017 Suggested Budget Process

Suggested Steps:

1. Understand the rest of 2016
2. Develop revenue estimates for 2017
3. Deduct circuit breaker and collection rate estimates from 2017 revenues
4. Assemble initial spending plan
5. Determine targeted 2017 ending cash balances (reserves)
6. Compute 1-4 above and compare to 5, rework as necessary
Communicate
7. Adopt budget **Communicate**
8. Wait for DLGF budget order
9. Wait for actual Circuit Breaker Numbers
10. Adjust Budget Accordingly (and Frequently?)

Other Considerations

- Maximize property tax levy during the budget process
 - Use conservative AV when advertising (80% of current)
 - If your community does not need your entire levy, you can make reductions as part of the 1782 notice response
- Advertise and adopt carefully
 - Gateway (DLGF) budget – inflate tax levies and rates
 - Working budget – include estimated circuit breaker losses and realistic estimates of levies and other receipts
 - Council adopts BUDGETS, RATES and LEVIES
 - Verify all three are correct and in line with your financial plan

Other Considerations (Cont'd)

- The DLGF makes no determinations between a funded budget, a deficit budget, a surplus budget or a balanced budget.
- The DLGF does not include circuit breaker credits anywhere in the budget order or the prescribed budget forms.
 - Local governments have the responsibility to plan for these losses.



Contact Information

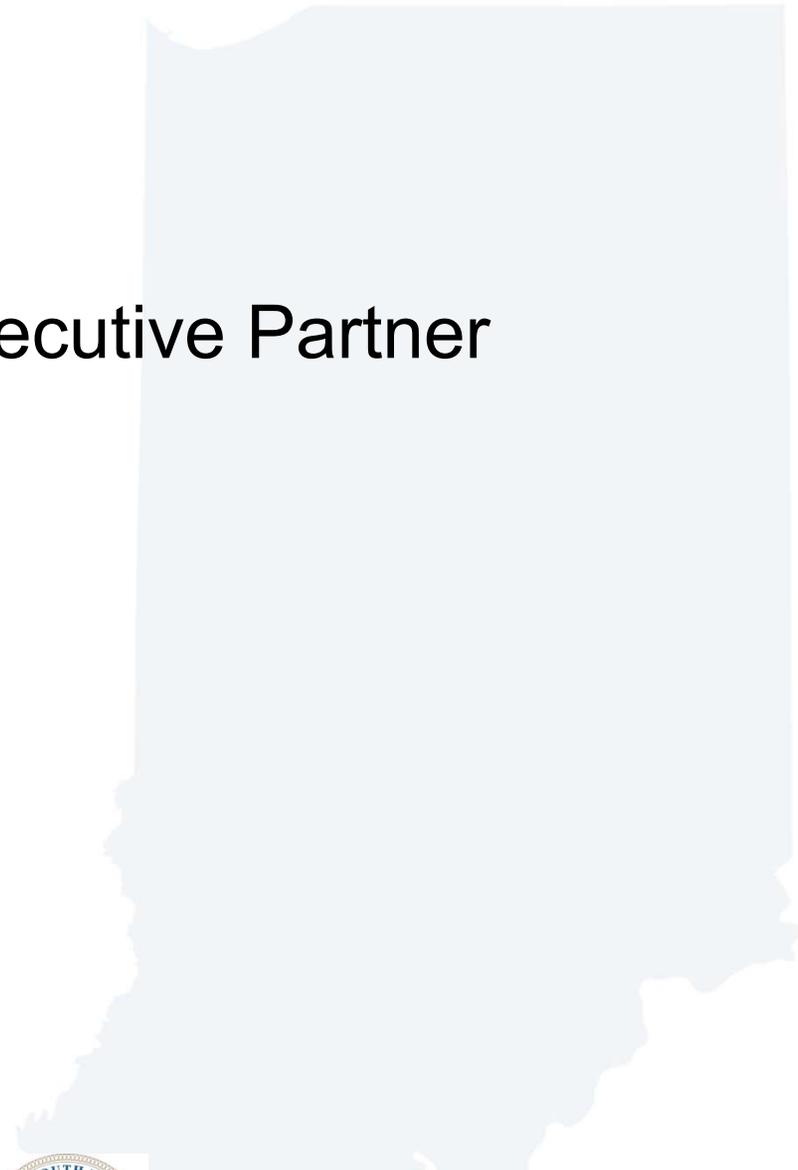
Todd A. Samuelson, CPA, Executive Partner

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samuelson@umbaugh.com

(574) 935-5178

www.umbaugh.com



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