

BUDGETING AND FORECASTING

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SMALL CITY CHALLENGES



LIMITED STAFF



LIMITED
RESOURCES



“BIG CITY”
PROBLEMS



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FUNDS AND FUND TYPE

City finances are organized by fund based upon function and purpose

Each fund is a separate, self-contained set of accounts, assets, liabilities, revenues and expenditures

Smaller cities can operate with only one fund while larger entities may have hundreds

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NO COMMINGLING A/K/A DIFFERENT COLORED MONEY

General
Fund

Debt
Service

Special
Revenue

Enterprise

Capital
Projects

Internal
Service





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WHY PREPARE A BUDGET?

-  **It's the Law!**
-  **It Controls Spending**
-  **It Determines Tax Rate**
-  **It Provides Accountability**

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BUDGET TYPE

- Several exist
 - Incremental budget
 - Zero-based budget
 - Program or service-specific budget
- There is no wrong way
- Size doesn't matter
- Pick the appropriate one for your organization

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WHAT IS A BALANCED BUDGET?

**Structurally
Balanced
Budget**


- Recurring Revenues \geq Recurring Expenditures

**Mathematically
Balanced
Budget**

- Beginning Reserves Plus Revenues \geq Expenditures

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BUDGET ACCURACY


- Budgets do not have to be 100% accurate
- The tolerance for inaccuracy depends upon a variety of things
 - Reserve levels within each fund
 - Governing body's acceptance of "errors"
 - Amendment process

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STEPS TOWARD BUDGET ADOPTION


Proposed Budget

- Filed with city secretary at least 30 days before adoption
- Posted on website



Budget Hearing

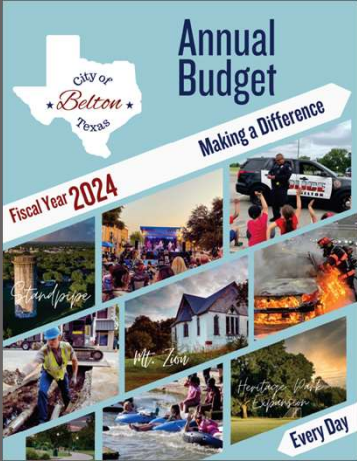
- At least 15 days after filed and before the date of tax levy
- Hearing notice in paper between 10 and 30 days before hearing
- Action taken at end of hearing



Budget Adoption

- Adopt after budget hearing but before tax rate adoption
- Separate ratification vote if more property tax revenue
- Early adoption if tax rate will exceed the voter-approval rate

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BUDGET DOCUMENT

- Texas LGC sets only minimum requirements
- Budget can be one page to several hundred pages
- Numbers are boring
- Budget document should tell your story

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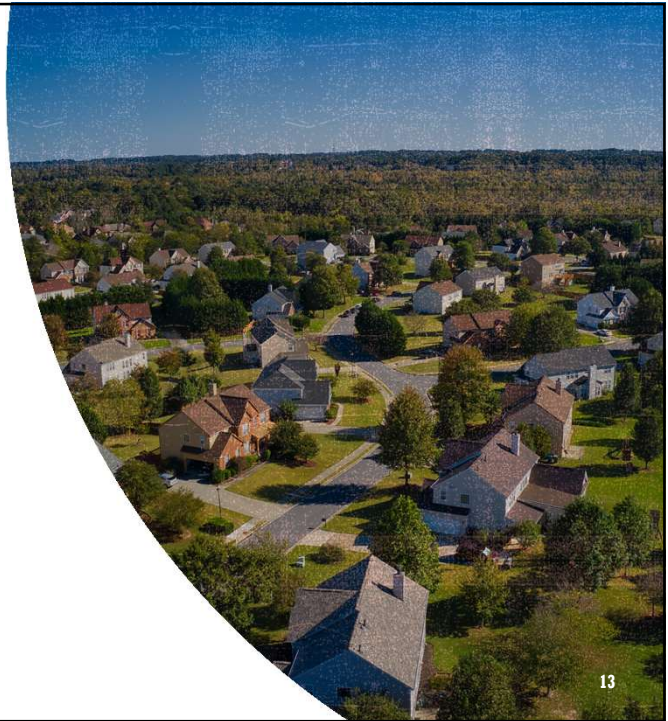
PREPARING A REVENUE BUDGET

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PROPERTY TAX

- Reliable and relatively stable source of revenue
- Residential component can constrain revenue growth
 - Increase to residential property value is limited by law
 - Tax exemptions can reduce value considerably
 - Residential taxpayers are also voters!
- Commercial and industrial property values are less predictable



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WHERE TO FIND INFORMATION ABOUT PROPERTY VALUES

Appraisal District preliminary estimates

Texas A&M Real Estate Center

Local real estate associations

General economic news about community

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TAX RATE ADOPTION PROCESS

Appraisal District provides preliminary values

Governing body drafts budgets

Property values are certified and designated officer calculates NNR and VAR tax rates

Governing body proposes rate to adopt and holds hearings

Governing body adopts tax rate in August or September

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SALES TAX

- Sales tax can contribute a large amount of revenue, but it is much more volatile than other sources
- It is susceptible to changes in the economy, even at national and international levels
- Higher reserve levels are required in funds that rely upon sales tax revenue

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WHERE TO FIND INFORMATION ABOUT SALES TAX AND BUSINESS ENVIRONMENT

Sales tax permits

Press releases

Comptroller's confidential report

Federal Reserve

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ESTIMATING SALES TAX REVENUE

Month	2024	Estimate	Cum Avg	Avg Pct.	2023	2023	2022	2022
October	688,639.80	9,619,301	7.2%	7.2%	684,536.64	7.5%	553,944.76	6.5%
November	754,243.75	10,140,102	14.2%	7.1%	675,198.31	7.4%	565,590.79	6.6%
December	879,463.18	9,607,638	24.2%	9.9%	922,100.43	10.1%	829,628.46	9.7%
January	674,030.94	9,527,481	31.4%	7.3%	632,575.31	6.9%	622,801.53	7.3%
February	-	7,825,794	38.3%	6.8%	648,472.87	7.1%	542,430.23	6.3%
March	-	6,246,764	48.0%	9.7%	857,003.15	9.4%	831,794.49	9.7%
April	-	5,380,638	55.7%	7.7%	676,979.05	7.4%	698,533.44	8.2%
May	-	4,713,804	63.6%	7.9%	759,605.02	8.3%	738,454.55	8.6%
June	-	4,063,910	73.7%	10.2%	899,736.73	9.8%	866,605.24	10.1%
July	-	3,674,873	81.5%	7.8%	735,507.47	8.0%	717,646.09	8.4%
August	-	3,321,283	90.2%	8.7%	834,441.09	9.1%	755,043.71	8.8%
September	-	2,996,378	100.0%	9.8%	837,575.01	9.1%	833,210.15	9.7%
Total	2,996,377.67		100.0%		9,163,731.08	100.0%	8,555,683.44	100.0%

Budget	9,690,170
Estimate	9,527,481
Adjustments	(29,124)
Adjusted Estimate	9,498,356
Estimate of Surplus/(Deficit)	(191,814)



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GRANTS

- Federal grant funding is becoming a significant part of some budgets
- Don't forget your city-match
- Avoid supplanting of expenditures and debarred vendors
- A compliance or "single audit" is required if expenditures exceed \$750,000
- Be aware of burdensome grant terms and conditions



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TRANSFERS

- A city may transfer money between funds
- The transfer is typically based upon the value of services provided by the receiving fund
- There should be a written document describing the purpose and amount of each transfer

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USE OF RESERVES

- Planned use of accumulated reserves is an acceptable source of revenue
- Best if used for one-time or capital expenditures
- Drawing down reserves for recurring expenditures can be a sign of distress

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PREPARING AN EXPENDITURE BUDGET

How much is too much?

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PERSONNEL COSTS

Personnel costs comprise 65% - 75% of most budgets

Easy to predict with reasonable accuracy

Create a personnel calculator



PERSONNEL CALCULATOR

Position by Divisor	1010 Salary/ Wages	1070 Overtime	1210 Retirement/ TMRs	1220 F.I.C.A.	1230 Group Ins. Health/Dntl	Life AD&D EAP/Dent	1240 Workers Comp.	1250 T.W.C.	TOTAL
POLICE OPERATIONS (052)									
Police Officer	59,963	2,890	6,524	4,587	9,775	315	1,252	135	85,441
Police Officer	59,963	2,890	6,524	4,587	7,129	315	1,252	135	82,795
Police Officer	59,963	2,890	6,524	4,587	7,129	315	1,252	135	82,795
Police Officer	71,277	2,890	8,231	5,845	7,129	315	1,488	135	102,443
Police Officer	73,058	2,890	8,639	6,146	7,129	315	1,525	135	107,118
Police Officer	73,058	2,890	8,399	5,969	7,129	315	1,525	135	104,390
Police Officer	62,998	2,890	6,916	4,876	7,129	315	1,315	135	87,320
Police Officer	64,573	2,890	7,287	5,150	7,129	315	1,348	135	91,572
Police Officer	59,963	2,890	6,524	4,587	7,129	315	1,252	135	82,795
Police Officer	64,573	2,890	7,343	5,191	-	315	1,348	135	85,074
Police Officer	59,963	2,890	6,524	4,587	7,129	315	1,252	135	82,795
Police Officer	62,998	2,890	6,854	4,830	9,551	315	1,315	135	89,033
Police Officer	64,573	2,890	7,574	5,361	-	315	1,348	135	87,698
Police Officer	64,573	2,890	7,654	5,420	-	315	1,348	135	88,615
Police Officer	59,963	2,890	6,524	4,587	7,129	315	1,252	135	82,795
Police Officer	64,573	2,890	7,535	5,332	-	315	1,348	135	87,255
DIVISION TOTAL	1,814,636	72,250	203,901	144,747	154,209	7,875	37,890	3,375	2,516,365
Division FTE Total =	1,892,120	72,250	203,910	144,750	162,090		37,890	3,380	2,516,390



MUNICIPAL DEBT

- Cities often issue bonds to pay for capital expenditures
- Debt is not a bad thing nor is it a good thing
 - It levels payments over time
 - Constituents who benefit are paying for it
 - It increases the overall cost of a project
- Once the project is approved, debt is simply one means for financing it

DEBT SERVICE SCHEDULES

	Payment	Principal	Interest	Principal Balance
9/30/2023				\$ 8,526,338
FY 2024	1,197,049	914,100	282,949	7,612,238
FY 2025	1,198,571	947,812	250,759	6,664,426
FY 2026	1,198,555	981,525	217,030	5,682,901
FY 2027	1,199,424	1,015,238	184,186	4,667,663
FY 2028	1,152,674	1,002,663	150,011	3,665,000
FY 2029	1,044,400	930,000	114,400	2,735,000
FY 2030	1,037,050	955,000	82,050	1,780,000
FY 2031	588,400	535,000	53,400	1,245,000
FY 2032	587,350	550,000	37,350	695,000
FY 2033	585,850	565,000	20,850	130,000
FY 2034	68,900	65,000	3,900	65,000
FY 2035	66,950	65,000	1,950	-
Grand Total	\$ 9,925,173	\$ 8,526,338	\$ 1,398,835	\$ -

CAPITAL OUTLAY



✓ Plan ahead

👤 Create a CIP

🔧 Include maintenance

📅 Update annually

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CAPITAL IMPROVEMENTS PROGRAM

Project Type/ Project Summary	Estimated Project Expenditures by Fiscal Year Ending					Total
	2025	2026	2027	2028	2029	
Parks and Recreation Projects						
Heritage Park Amenities	\$ -	\$ -	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Total Parks and Recreation Projects	-	-	2,000,000	-	-	2,000,000
Streets and Sidewalks Projects						
W Avenue D Extension	4,500,000	-	-	-	-	4,500,000
E Central Avenue Bridge Replacement	6,200,000	-	-	-	-	6,200,000
Connell Street Reconstruction	2,382,000	-	9,298,000	-	-	11,680,000
Brenda Lane Reconstruction	-	-	1,250,000	-	-	1,250,000
Penelope Sidewalks Central to Water Street	400,000	-	-	-	-	400,000
E 24th Avenue Widening at Main Street	-	-	-	1,300,000	-	1,300,000
Toll Bridge Road Reconstruction	-	4,000,000	-	2,500,000	-	6,500,000
Capitol Way Extension	-	-	-	-	3,800,000	3,800,000
Wheat Road Design	-	1,007,000	-	-	-	1,007,000
Mesquite Road Design	-	-	1,161,000	-	-	1,161,000
Main St Sidewalk Turtle Creek Apts to Rabern	700,000	-	-	-	-	700,000
Rocking M Lane Rehabilitation	-	-	-	1,000,000	2,800,000	3,800,000
E. 6th Avenue Reconstruction	-	-	-	-	8,850,000	8,850,000
Total Streets and Sidewalks Projects	14,182,000	5,007,000	11,709,000	4,800,000	15,450,000	51,148,000

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CAPITAL IMPROVEMENTS PROGRAM

Sources of Funding	Estimated Funding Amount by Fiscal Year					Total
	2025	2026	2027	2028	2029	
Bond Issuances	\$ -	\$ -	\$ 10,548,000	\$ -	\$ 12,650,000	\$ 23,198,000
Grants	5,000,000	-	-	-	-	5,000,000
Operating Fund Revenues	-	-	-	-	-	-
BEDC Funding	4,500,000	-	-	-	-	4,500,000
TIRZ Funding	4,682,000	1,007,000	3,161,000	5,981,000	2,800,000	17,631,000
Other Funding	-	4,000,000	-	-	-	4,000,000
Total Funding For All Projects	\$14,182,000	\$ 5,007,000	\$13,709,000	\$ 5,981,000	\$15,450,000	\$54,329,000

Departments with O&M	Operations & Maintenance (O&M) Expenditures by Fiscal Year					Total
	2025	2026	2027	2028	2029	
Public Works - Streets	\$ (2,000)	\$ (2,000)	\$ (8,000)	\$ (3,000)	\$ (8,000)	\$ (23,000)
Parks and Recreation	-	-	5,000	5,000	5,000	15,000
Total Change to O&M Expenditures	\$ (2,000)	\$ (2,000)	\$ (3,000)	\$ 2,000	\$ (3,000)	\$ (8,000)



CAPITAL REPLACEMENT PLANS

- GFOA recommends a written policy for the renewal and replacement of assets
- Ensures funding is available when asset must be replaced
- Smooths the budgetary effect of acquisitions
- Evaluate contributions regularly

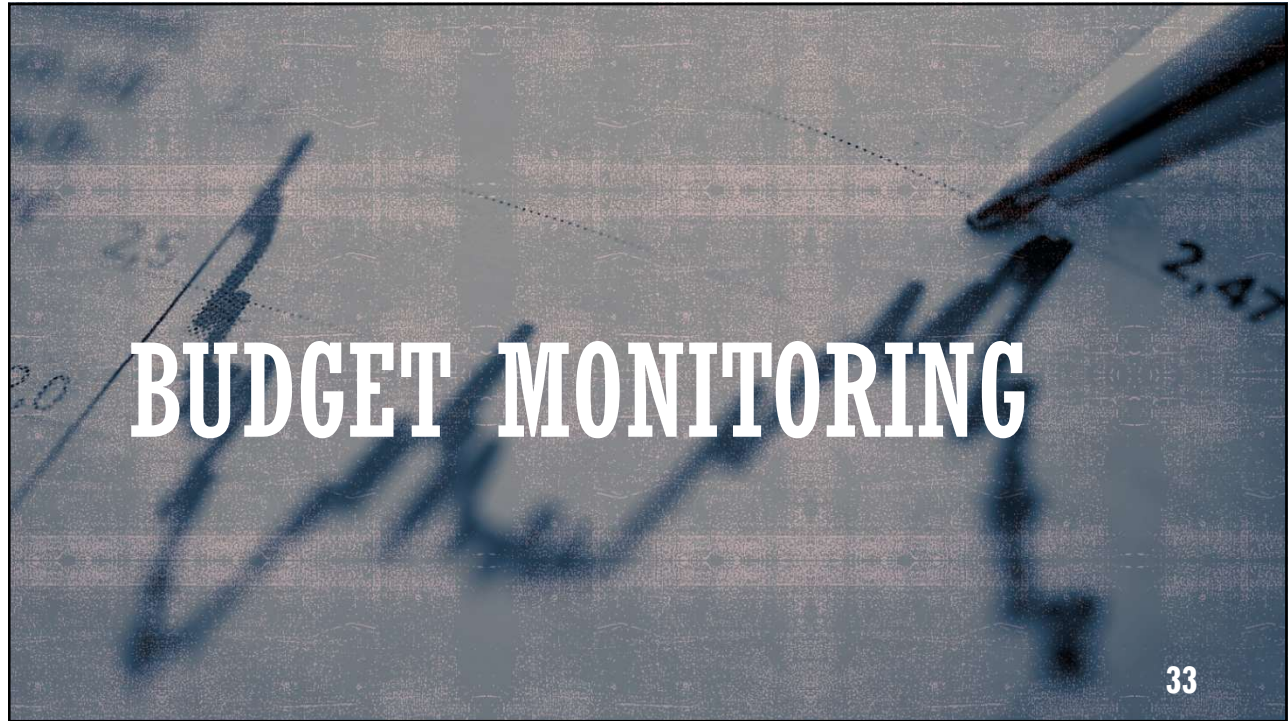
TIPS FOR BUDGETING OTHER EXPENDITURES



- Use your general ledger to predict trends
 - Use averages to determine typical expenditure levels
 - Remove any one-time items
 - Adjust for seasonality if necessary
 - Determine historical growth rates
- Identify any large variances between years
 - What are the causes?
 - Will it continue or was it one-time?
- Avoid the “what-if” factor

SAMPLE OF BUDGET WORKSHEET

091 - Parks Facilities			
Account:	3430		Description:
			Park Maintenance
2022 Actual	59,314		2023 Actual 58,282
Current Budget	78,500		Current Estimate
Proposed Basic Budget	\$59,500	Proposed Supplemental	\$19,000
			Proposed Final Budget \$78,500
FY 2025	DESCRIPTION		
ROUND TO THE NEAREST \$10	BASIC BUDGET		
15,000	Park Maintenance and Repair		
11,000	Athletic Repairs and Supplies		
10,000	Park Maint Fund		
4,000	Park Equipment Repair and Replacement		
3,000	Water Fountain Repair		
2,500	Pressure Washing/ Sanitizing Playground Equipment		
3,000	Backflow Testing, Install, and Irrigation Supplies		
3,000	Flood Repairs		
1,000	Bee Removal		
1,000	Vandalism Repairs		
6,000	Beautify Belton		
	Expenditure History:		
	2020	\$	48,832
	2021	\$	52,641
	2022	\$	59,314
	2023	\$	58,282
	4 Year Average	\$	54,767
	2024 SPENT TO DATE	\$	12,068
			1/8/2024
	SUPPLEMENTAL		
6,500	Replace Lamp Shades on Hike & Bike Trail (22)		
10,000	Replacement of Soccer Goals & Backstops		
2,500	NEW Disc Golf Baskets		



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FINANCIAL REPORTS

A vital responsibility of elected officials is monitoring performance against the adopted annual budget

The governing body should receive budget-to-actual comparisons at least quarterly throughout the year

An annual financial report should be completed timely and audited

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QUARTERLY FINANCIAL REPORTS

	Budget		Current Year Actual		Current Year Actual (Year-to-Date) as a % of Annual Budget	Prior Year Actual Year-to-Date
	Annual	Year-to-Date	Year-to-Date ¹	Current Quarter		
Revenues						
Ad valorem taxes	\$ 8,560,760	\$ 6,326,402	\$ 7,602,435	\$ 7,602,435	89%	\$ 6,806,415
Sales taxes ²	6,440,000	1,561,609	1,533,519	1,533,519	24%	1,525,737
Franchise and other taxes	1,327,940	331,985	230,413	230,413	17%	176,826
Permits and license Fees	514,770	128,693	116,183	116,183	23%	104,110
Court fines and fees	306,330	76,583	71,486	71,486	23%	66,597
Charges for service	3,601,460	900,365	784,933	784,933	22%	737,811
Miscellaneous income	772,150	193,038	189,301	189,301	25%	133,252
Other financing sources	1,744,410	436,103	630,870	630,870	36%	560,757
Total Revenues	23,267,820	9,954,775	11,159,140	11,159,140	48%	10,111,505
Expenditures						
Personnel	13,873,920	3,468,480	2,862,353	2,862,353	21%	2,635,453
Supplies	738,680	184,670	209,560	209,560	28%	178,412
Maintenance	1,499,090	374,773	84,726	84,726	6%	99,793
Services	5,411,900	1,352,975	1,222,635	1,222,635	23%	1,113,978
Other expenses	282,740	70,685	163,403	163,403	58%	31,884
Capital outlay	182,500	45,625	62,416	62,416	34%	120,740
Transfers	1,563,680	390,920	390,920	390,920	25%	1,131,880
Total Expenditures	23,552,510	5,888,128	4,996,013	4,996,013	21%	5,312,140
Net Change in Fund Balance	\$ (284,690)	\$ 4,066,648	\$ 6,163,127	\$ 6,163,127		\$ 4,799,365

ANNUAL FINANCIAL REPORTING

Prepare an Annual Comprehensive Financial Report (ACFR)

It provides accountability and stewardship

It allows some comparability to other communities

It is required to meet continuing disclosure requirements

ANNUAL REPORTING TO OTHER AGENCIES

Compliance
report to
MSRB/EMMA

Debt report

Hotel occupancy
tax report

Tax increment
financing report

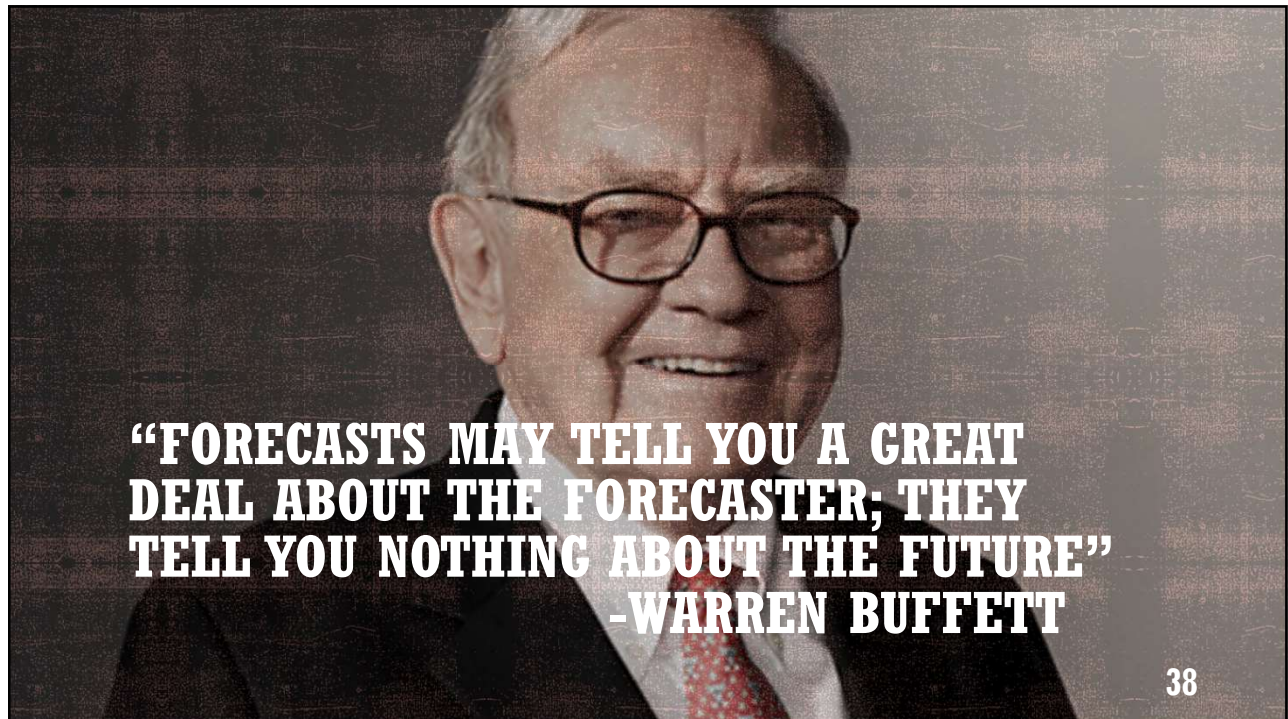
Economic
development
corporation
report

Chapter 380/381
report

Eminent domain
report

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BEWARE OF FORECASTER BIAS

An optimist may use overly aggressive revenue assumptions over time

- Can result in budget shortfalls if results don't appear
- An optimist may rarely hit assumption targets

A pessimist may budget too conservatively

- Can result in unnecessary budget cuts
- Often exceeding assumption targets is indicative of a pessimist

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LONG-TERM FORECASTING

Rule #1: The numbers are wrong!

Rule #2: Inaccuracy grows as the term extends

Forecast only what is known rather than what might occur

Agree on assumptions and math does the rest

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