

MUNICIPAL BUDGETING

A WORKBOOK FOR MONTANA MAYORS, COUNCIL MEMBERS, CLERKS, TREASURERS AND FINANCE OFFICERS

By

Kenneth L. Weaver, Ph.D.

Presented by the
Local Government Center
Montana State University Extension
PO Box 170535 Bozeman, MT 59717
www.msulocalgov.org

TABLE OF CONTENTS

I. ROLES AND RESPONSIBILITIES	1
II. WHAT IS A MUNICIPAL BUDGET?	1
<i>Figure 1 Tax Levy Requirements Schedule</i>	3
III. MONTANA BUDGET LAW	4
IV. READING THE BUDGET	4
1. How Much Money Do We Have?	5
2. How Much Revenue Do We Expect?	5
3. How Much Money Do We Plan to Spend?	7
<i>Figure 2 Model of a BARS Budget Expenditure Summary</i>	8
4. How Much Money Do We Expect to Have at the End of the Fiscal Year?	9
<i>Figure 3 Model of a Selected Financial Trend Indicator</i>	10
V. GLOSSARY OF COMMON BUDGETING TERMS	11
VI. SELF TEST OF BUDGET KNOWLEDGE	13

I. ROLES AND RESPONSIBILITIES

- The intended audience for this *Budgeting Guide* includes the **Mayors and Council Members** of Montana's 129 municipal governments, especially those who have been recently elected or appointed to office.
- It is the **City or Town Council** that has the *sole authority by majority vote* to adopt or amend the annual budget to levy property taxes and provide the dollar resources to operate the government enabling it to provide essential services for the community.
- The **Mayor** has the responsibility to *prepare the preliminary budget* for Council consideration; *execute the budget* approved by the Council: and to *oversee the departments* to insure that expenditures are lawful and within the dollar limits detailed by the budget.
- The **City/Town Clerk or Finance Officer** is responsible for *collecting and providing to the Mayor and Council the financial data* that may be required to prepare a balanced budget and to insure that *timely notice of budget hearings* is provided to the public, as required by law.
- The **City/Town Department Heads** are responsible for *preparing, justifying and reporting cost estimates* of Operations and Maintenance (O&M), Personnel, and Capital Requirements of their departments for the fiscal year.

II. WHAT IS A MUNICIPAL BUDGET?

- The municipal budget is a legally required plan of expenditures that is balanced by anticipated revenues during the government's fiscal year which, in Montana, runs from July 1 through June 30. The budget format and fund structure must conform to the requirements of the Montana Budgeting, Accounting and Reporting System (BARS). By law the annual budget resolution must:
 1. Be approved by the city/town council *by the later of the first Thursday after the first Tuesday in September* or within 30 calendar days of receipt of the municipality's taxable value from the Montana Department of Revenue;

2. Include a specific *appropriation of public funds* (the government's annual spending authority);
 3. Set the annual *property tax mill levy* that will be borne by the owners of all taxable property within the municipality.
- An *annual budget is required* for all municipal accounting entities, including those funds supported by property taxes (primarily the General Fund) and those Enterprise Funds supported by *non-tax revenues* (fees for service) such as the water fund, wastewater fund and ambulance fund.
 - *Governmental Fund Accounting* is required by Montana law so that each stream of revenue and the associated expenses can be accounted for and tracked within a specific governmental fund. Montana municipal governments typically have at least five or six such governmental funds, *each of which requires its own annual budget*, including:
 1. **General Fund:** A fund used for the ordinary operations of a municipal government which are financed primarily by local property taxes and other non-tax revenues not accounted for in another governmental fund.
 2. **Enterprise Funds:** A fund used to account for the revenues and expenses of those business-like services provided by the municipality on a “fee for service” basis similar to a private business enterprise. Water, wastewater, solid waste (garbage) and ambulance services are typical examples of the enterprise activities of Montana municipalities.
 3. **Other governmental funds** usually include separate funds for health insurance, retirement programs and bonded debt service funds. The *Tax Levy Requirements Schedule* is a document included in the budget package developed by the Mayor and Clerk/Finance Officer that summarizes: the proposed spending; the financial resources required to support the spending; the property tax mill levies; and the beginning and ending cash positions for each governmental fund. This is a very useful document summarizing critical aspects of the budget for Council review. A model of a Tax Levy Requirements Schedule is provided on the following page.

Figure 1
(For instructional purposes only)

City/Town/County of Model of Municipal Form

**TAX LEVY REQUIREMENTS SCHEDULE
NON-VOTED LEVIES**

Assessed Valuation 650,000,000
Tax Valuation 5,500,000
1 Mill Yields (10) 5,500

Fiscal Year 2012-2013

Page No _____

*Column (3) Total Requirements must equal Column (8) Total Resources

Fund #	Fund Name	(1) Appropriation	(2) Budgeted Cash Reserve	(3)=(1)+(2) Total Requirements	(4) Cash Available (Less Current Liabilities)	(5) Non-Tax Revenues	(6)=(9)x(10) Property Tax Revenues	(7)=(5)+(6) Total Revenues	(8)=(4)+(7) Total Resources	(9)=(6)÷(10) Mill Levy	(11)=(4)-(1)+(7) Estimated Cash Balance
1000	General Fund	1,000,000	300,000	1,300,000	450,000	300,000	550,000	850,000	1,300,000	100.00	300,000
2250	Planning Board	10,000	3,000	13,000	2,000	1,000	10,000	11,000	13,000	1.82	3,000
2370	Insurance	75,000	0	75,000	1,000	4,000	70,000	74,000	75,000	12.73	0
3040	G.O. Bond (Pool)	26,000	5,000	31,000	1,000	0	30,000	30,000	31,000	5.45	5,000
7111	Police Retirement	50,000	500,000	550,000	500,000	25,000	25,000	50,000	550,000	4.55	500,000
	TOTAL	1,161,000	808,000	1,969,000	954,000	330,000	685,000	1,015,000	1,969,000	124.55	808,000

NOTES:

1. An amount equal to 1/2 of the appropriation (column 1) may be budgeted as a Cash Reserve (column 2) to assure liquidity between receipt of first and second half property tax revenues.
2. Non-tax revenues (column 5) include fines, fees, forfeitures, interest earnings and transfer payments from the state and federal governments.
3. Total Requirements (column 3) must equal Total Resources (column 8) to establish the “balanced budget” required by law.

III. MONTANA BUDGET LAW

- The main body of Montana’s local government budget law is included in *Title 7, Chapter 6, Part 40, Montana Code Annotated*, entitled the **Montana Local Government Budget Act**. This group of statutes details the format requirements, processing timeline and prohibitions that municipal *officials must observe* in the budget development and implementation process. Important highlights include:
 1. [7-6-4005, MCA](#). Officials *may not* make an expenditure or incur an obligation in excess of the budgetary appropriation for a fund. An official who violates this provision is *liable for the entire amount of the excess expenditure*.
 2. [7-6-4020 \(4\)\(c\), MCA](#). The preliminary budget must include an estimate of the *beginning and ending cash balances* for each fund.
 3. [7-6-4024, MCA](#). Prior to final adoption, a public hearing on the preliminary budget must be noticed to afford the public an opportunity to question officials on their proposed budget.
 4. [7-6-4024, MCA](#). The final budget must be adopted by resolution approved by the council by the *later of the first Thursday after the first Tuesday in September* or within 30 calendar days of receiving certified taxable values from the Montana Department of Revenue.

IV. READING THE BUDGET

- If you cannot find the answers to the following four questions in your budget documents (usually the Tax Levy Requirements Schedule), you should ask for help. Unless you know the answers, you are not governing – someone else is.
 1. **How much money do we have to start?**
 2. **How much revenue do we expect to receive during the budget year?**
 3. **How much money do we expect to spend during the budget year?**
 4. **How much money will we have left at the end of the fiscal year?**

1. How Much Money Do We Have?

- **Column 4** of the Tax Levy Requirements Schedule (TLRS), *Figure 1* on page 3, indicates the amount of **Cash Available** that the government has on hand (less any outstanding liabilities) to start the new fiscal year. This important number reflects the ending cash amount from the previous fiscal year as reported in the Annual Financial Report (AFR), which is subject to annual audit and reported here on the TLRS by the City/Town Clerk or Finance Officer.
- The city's **Cash Available** must be held in one of the following forms permitted by state law including:
 1. Deposits in the city's checking account, "repurchase agreement," or certificates of deposit of a "solvent bank or banks located in the city or town and subject to national supervision or state examination" ([7-6-201](#) and [7-6-4601, MCA](#)); or
 2. Deposits in the State Short Term Investment Pool-STIP ([17-6-204, MCA](#)).
 3. Funds not required for current business **may not** be invested in the stock market, annuities or any private firm or investment company but may be invested in certain "direct obligations" of the U.S. Government ([7-6-201, MCA](#)).
- For an in-depth discussion of the lawful options for investment of public funds see Section 5.1 "Investing Public Funds," by Miral Gamradt, in the *Montana Municipal Officials Handbook*, published by the Local Government Center.

2. How Much Revenue Do We Expect?

- In Montana about half of all municipal **General Fund** expenditures are funded by locally imposed **property taxes**, the revenue from which is estimated at **Column 6** on the TLRS at *Figure 1* on page 3. The balance of annual General Fund expenditures is typically funded by **non-tax revenues**, estimated at **Column 5** of the TLRS. Each of these two components of city/town annual revenues is described immediately below but **it is important to remember that both of these numbers are revenue estimates** usually provided by the Clerk/Treasurer or Finance Officer.

- **Property tax revenues** are generated by an annual mill levy set by the budget resolution adopted by majority vote of the council. The actual amount of property tax revenue available to the municipal government depends upon two factors:
 1. *The taxable value of property* located within the municipal jurisdiction; and
 2. *The amount of the city/town government's mill levy as reported at **Column 9** of the TLRS on page 3.* (See the Glossary of Terms on page 11 for definitions of these two important budgeting terms.)
- The average *mill levy* for Montana municipal governments in FY 2012 was 145 mills. The average *mill value* varied from \$37 in Ismay (Montana's smallest town) to \$149,188 in Billings (our largest city). However, **municipal governments are not free to impose whatever amount of property tax they may wish.** Montana law [15-10-420, MCA](#) sets strict mill levy limits, which may only be exceeded by a favorable vote of the local electorate, as provided in [15-10-425, MCA](#).
- For municipalities, **non-tax revenue** takes four common forms:
 1. Fees for services, which are especially important for the Enterprise Funds such as the Water Fund, but also include a few General Fund fees such as swimming pool fees;
 2. Fines and forfeitures resulting primarily from traffic tickets;
 3. Interest earned on idle funds from depository banks or from STIP; and
 4. Inter-governmental transfer payments from the state or federal governments, which include a wide variety of payments, especially the twice annual "Guaranteed Share Entitlement Distribution" from the Montana Department of Revenue.
- The **non-tax revenue** stream of resources has become an increasingly important component of the municipal budget, in part due to the limitations imposed by law on property tax revenues.
- Those four Montana municipalities whose voters have approved a Resort Tax on the sale of tourist related goods have an additional and very important stream of revenue supplementing the General Fund.

3. How Much Money Do We Plan to Spend?

- This is your annual **appropriation** recorded in **Column 1** of the TLRS (at *Figure 1* on page 3) and is the Council's authorization for the executive branch departments to make expenditures or incur obligations for specific public purposes.
- The appropriation for each fund is limited to the fiscal year of the approved budget and *may not be exceeded except by lawful amendment of the budget by the Council.*
- The process of amending the budget to increase the appropriation requires a public hearing and a majority vote of the Council, [7-6-4006\(4\)](#) and [7-6-4031, MCA.](#)
- The total appropriation included in the annual budget reflects the aggregate input of projected expenditures from all city/town departments that are assembled early in the budget process by the Mayor and Clerk/Finance Officer. (See a model Expenditure Summary at *Figure 2* on page 8.) In most Montana municipalities the largest component of the annual appropriation is often personnel costs making any needed cutbacks in spending especially painful.
- By law the *final budget must be balanced* so that the *appropriation* does not exceed the projected *cash available* plus the *combined estimated revenue* from property taxes and other non-tax revenues reported as **total resources** in **Column 8** of the TLRS at *Figure 1* on page 3, ([7-6-4030, MCA.](#))
- However, the sharp eyed Mayor or Council Member will recognize that if, in fact, the **appropriation exceeds the combination of property tax revenues and non-tax revenues**, the available cash will have to be invaded to balance the budget **resulting in a reduced year-end cash position**. Needless to say, that budget deficit will be carried over to the following budget year as a reduction in the beginning **available cash position**. Because municipal governments do not have the authority to print their own money when they need a bit more, this so called “structural imbalance” may be the first step on the slippery slope to bankruptcy, recently experienced by a few large municipalities in other states.

**Figure 2
MODEL
BARS BUDGET EXPENDITURE SUMMARY**

FUND Title: <u>General</u> Number: <u>1000</u>		EXPENDITURES BY ACTIVITY AND OBJECT			City/Town/County of _____ (Municipal Model) Fiscal Year: _____				
ACCOUNT NO.	ACCOUNT	Previous Year F.T.E.	Previous Year Budget	Previous Year Actual	Authorized F.T.E	(100) Personnel Services	(200-800) Operating & Maintenance	(900) Capital Outlay	Final Budget
420000	<u>Public Safety</u>								
420100	Law Enforcement	10	300,000	275,000	11	275,000	50,000	25,000	350,000
420200	Detention and Correction								
420300	Probation and Parole								
420400	Fire Protection	.5	75,000	60,000	.5	15,000	50,000	10,000	75,000
420500	Protective Inspections	.5	25,000	20,000	.5	15,000	10,000		25,000
420600	Civil Defense								
420700	Other Emergency Services								
	Other (List)								
SUBTOTAL		11	400,000	355,000	12	305,000	110,000	35,000	450,000

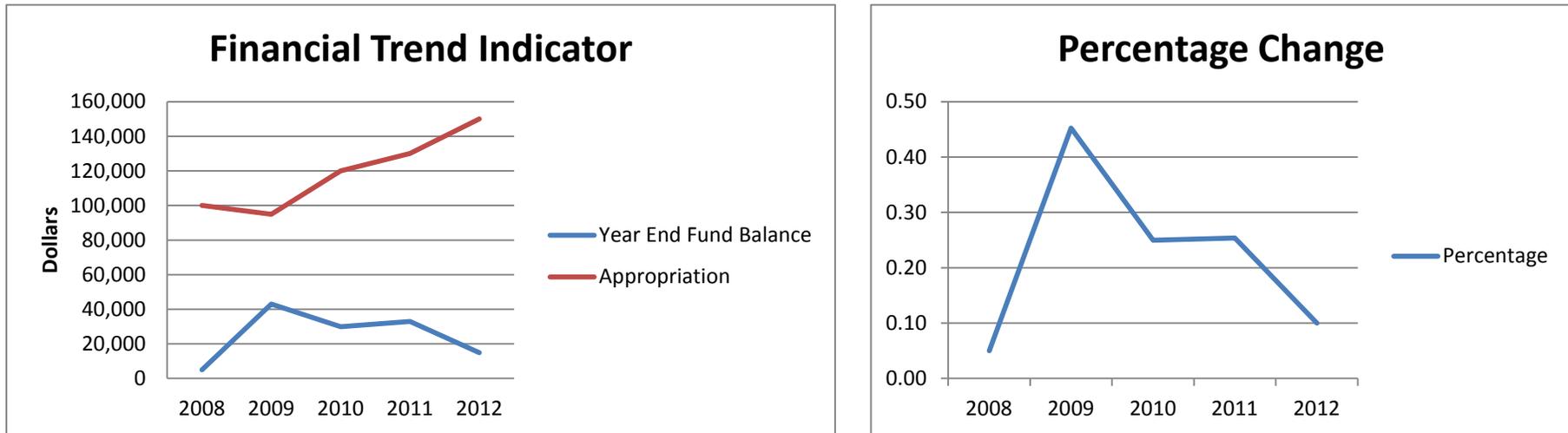
NOTES:

1. Note an increase of one Full Time Equivalent (F.T.E.) was approved for next year’s budget.
2. This is a volunteer fire department in a Class 3 City with only a full-time, paid chief whose duties are split between two budgeted functions.
3. The blank rows are for typical county functions.

4. How Much Money Do We Expect to Have at the End of the Fiscal Year?

- The ***estimated ending cash balance*** reported in **Column 11** of the TLRS (*Figure 1 on page 3*) is an important indicator of the city or town's financial health. If this number is smaller than the opening *available cash* reported in **Column 4** of the TLRS, your budget is in *structural imbalance because you are planning to spend more than the expected revenue*. Efforts to correct this situation will ultimately require an increase in revenue to support the spending levels or (more likely) a reduction in the government's spending, or both.
- Because year ending cash is such an important indicator of financial health, some municipal governments (and most businesses) track this number very carefully over time. A simple graph that can easily be prepared for the Mayor and Council by the Clerk or Finance Officer to indicate changes in year end cash balances over multiple budget years is presented on the following page as *Figure 3*.

Figure 3
MODEL OF A SELECTED FINANCIAL TREND INDICATOR



Fiscal Year	2008	2009	2010	2011	2012
Year End Fund Balance	5,000	43,000	30,000	33,000	15,000
Appropriation	100,000	95,000	120,000	130,000	150,000
Percentage	0.05	0.45	0.25	0.25	0.10

NOTES:

1. A declining Fund Balance means that expenditures have exceeded revenues. Corrective action requires either a reduction in Appropriations or an increase in Revenues, or both.
2. Data to chart the trend in Fund Balance may be derived directly from the BARS annual Tax Levy Requirements Schedule.
3. Fund Balance is but one of a number of significant financial trend indicators. Others might include Total Revenue, Non-Tax Revenue, Debt Burden (expressed in dollars and as a percentage of taxable value) and Total Appropriation. Trends in “working capital balance” would be appropriate for the Enterprise Funds.

V. GLOSSARY OF COMMON BUDGET TERMS

Appropriation

An authorization by the governing body enabling local government departments to make expenditures or to incur financial obligations for a specific public purpose. The expenditure authorization for each fund is limited to the fiscal year of the approved budget *and may not be exceeded except by lawful amendment of the budget by the governing body.*

Budget

The plan of expenditures and revenues approved and authorized by the annual budget resolution of the governing body to meet the essential public safety, public health and public well-being needs of the city/town or county during a specific fiscal year. A “line item budget” is formatted by object code to document the source of revenues as well as the departmental origin and purpose of expenditures. A “program/performance budget” includes the necessary accounting detail but is expanded to provide documentation of the funded program objectives and the associated performance measures that will be used to evaluate the outcomes and public benefits to be derived from the budgeted expenditures.

Capital Improvement Program (CIP)

A method provided by law ([7-6-616, MCA](#)) for funding the replacement, improvement or acquisition of local government property, facilities and equipment that costs in excess of \$5,000 and has a life expectancy of five years or more.

Enterprise Fund

A governmental fund type used to account for the revenues and expenses (including depreciation) of proprietary services provided by a local government on a “fee for service” basis, similar to private business enterprises, rather than on a tax supported basis. Water, wastewater (sewer), solid waste (garbage) and ambulance services are typical examples of municipal enterprise activities.

Fiscal Year

A twelve month governmental accounting period limiting the authorization of expenditures and enabling annual reconciliation of the government’s financial position. The fiscal year for state and local governments in Montana is July 1 to June 30.

F.T.E.

One FTE is equivalent to one employee working full-time, forty hours per week. For example: If you have three employees, one of whom is working 40 hours per week; another working 30 hours per week, and the third working 30 hours per week - totaling 100 hours. The full time equivalent calculation is 100 hours divided by 40 hours per week, or 2.5 FTE.

Unreserved Fund Balance

For governmental funds, the fiscal year end cash, less outstanding liabilities (column 11 Estimated Ending Cash Balance).

For Enterprise Funds, the fund balance is designated the Unreserved Retained Earnings.

This is an important trend indicator of the financial soundness of a governmental fund or unit of government.

G.A.A.P.

“Generally accepted accounting principles” recognized by the accounting profession and by the Government Accounting Standards Board (GASB).

General Fund

A fund used to account for the ordinary operations of a local government, which is financed by property taxes and other non-tax, general revenues and not accounted for in another governmental fund.

Property Tax Mill

One thousandth of the total property tax valuation of a taxing jurisdiction. The mill is used to apportion the costs of providing government services in proportion to the taxable value of property owned by the taxpayer. Thus, if the total *taxable valuation* of a city is \$2,000,000, a one mill levy would yield \$2,000 in property tax revenue ($\$2,000,000 \div 1,000$). By the same token, if a residence has a *taxable* value of \$5,000, a one mill levy on the property would yield \$5.00 in property tax revenue. If the mill levy required to balance the city/town budget is 100 mills, the municipal property tax on that same residence would be $100 \times \$5.00$, or \$500.00, which would be *added* to the county, school and state mill levies.

Taxable Valuation

The portion (percentage) of the “appraised value” of any property that is subject to a property tax mill levy. Both the “appraised value” and the resulting “taxable value” are determined by periodic appraisals conducted by the Montana Department of Revenue applying a “tax rate” enacted by the legislature and furnished to all units of local government as annual, certified “taxable values” lying within the local government’s jurisdiction. The taxable value is the basis for the local government’s mill value which, as noted above, is the taxable value of the jurisdiction divided by 1,000.

VI. SELF TEST OF BUDGET KNOWLEDGE

(Refer to the Tax Levy Requirements Schedule at Figure 1, Page 3)

1. What is the budgeted appropriation for the General Fund?
2. What is the amount of “cash available” to this municipal government to start its fiscal year?
3. Will the estimated year end cash be more than or less than the beginning cash available?
4. Is the total amount of projected *revenue* less than or greater than the planned *expenditures*?

GOOD LUCK WITH YOUR BUDGET!