



Municipal Budget Process

Utah League of Cities and Towns

Questions to consider

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

What is a budget?

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

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

In Utah budgets are “fund” based



General Fund

- Every city maintains general fund. All revenue belongs to the general fund unless specifically earmarked for another fund.



Enterprise Fund

- Used for services which charge a fee, fund handled like a business organization (golf courses, Salt Lake City airport, sewer or water utility).



Capital Project Fund

- Temporary funds that should be eliminated once the capital project is completed.



Special revenue fund

- Funds used to account for special or specific revenue sources, for example grant funds or revenue legally restricted for specific purposes.

Fund Items to Note

- **Expenses must equal revenue, except in enterprise funds where you can have a profit and/or a loss.**
- **All unexpended funds, except capital improvement funds, lapse to respective fund balances on June 30.**
- **One-time money should only be spent on one-time expenditures.**
- **A town's fund balance cannot exceed 75% of projected revenue**
- **A city's fund balance cannot exceed 18% of projected revenue**

Budget terms...

◆ **Appropriation -**

- A specific amount of money authorized by the City for the purchase of goods and services.

◆ **Balanced Budget -**

- A budget in which planned funds available equal planned expenditures.

◆ **Budget Officer -**

- Every city has a budget officer. For cities of the first and second class the budget officer is the city auditor. The mayor is the budget officer in a city of the 3rd, 4th, and 5th class.

◆ **CAFR (Comprehensive Annual Financial Report) -**

- The City's annual financial statement prepared in accordance with generally accepted accounting practices.

◆ **Capital Equipment -**

- Equipment with an expected life of more than 1 year and with a value greater than \$500.

...more budget terms

◆ Capital Improvement –

- Physical assets, constructed or purchased, that have a minimum useful life of ten years and a minimum cost of \$10,000 or a minimum cost of \$25,000 and a minimum life of three years.

◆ Expenditures –

- The spending of money for programs or projects approved in the budget.

◆ Fiscal Year–

- Utah municipal FY runs from July 1st to June 30th

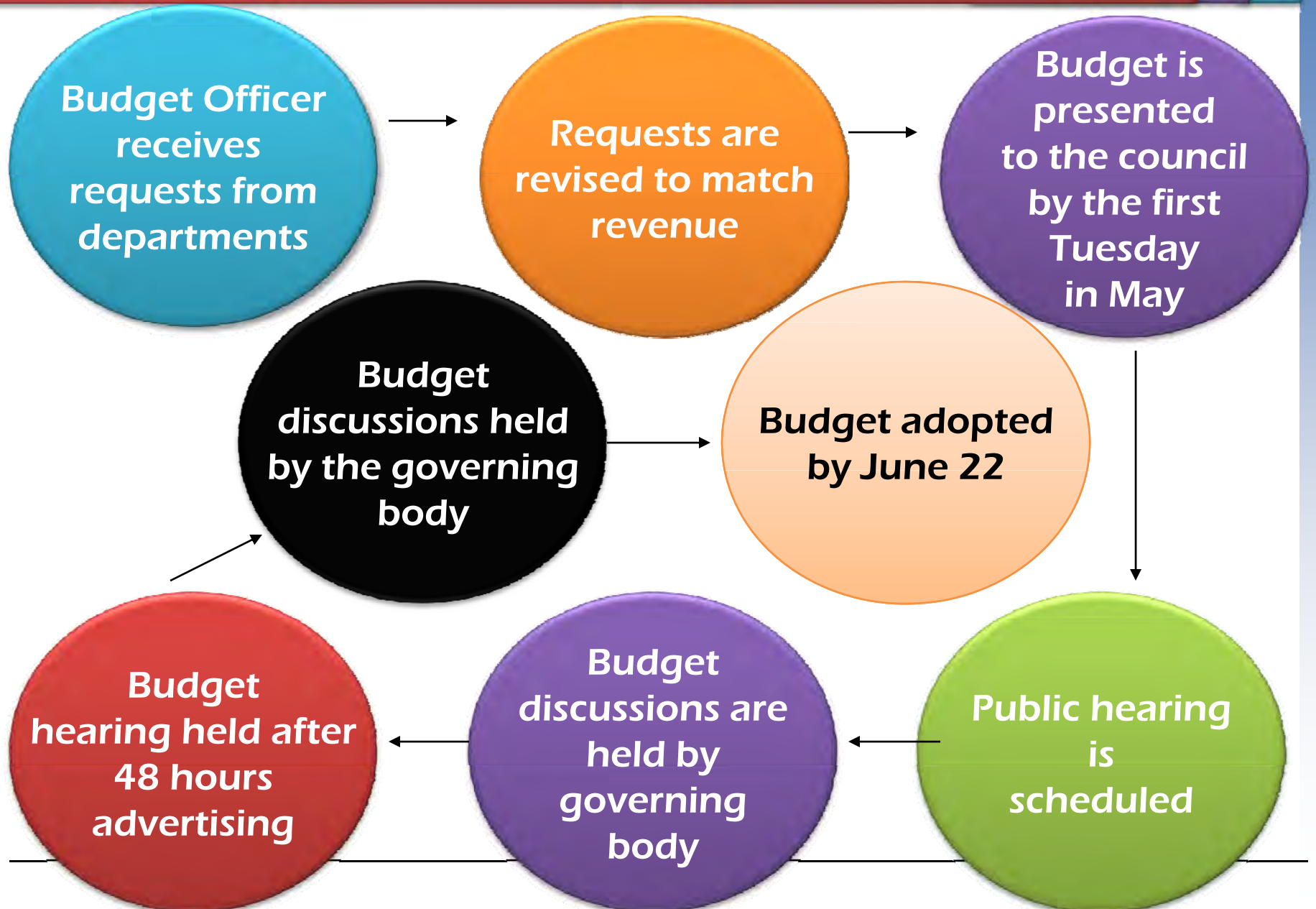
◆ Franchise Tax –

- Energy tax imposed on all sales of public utility services, including electricity, gas, water, sewer, telephone, cable.

◆ Revenue –

- Monies received or anticipated by the city from either tax (sales, property, franchise) or non-tax sources (fees, licenses, grants).

The Budget Process



Questions to ask...

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

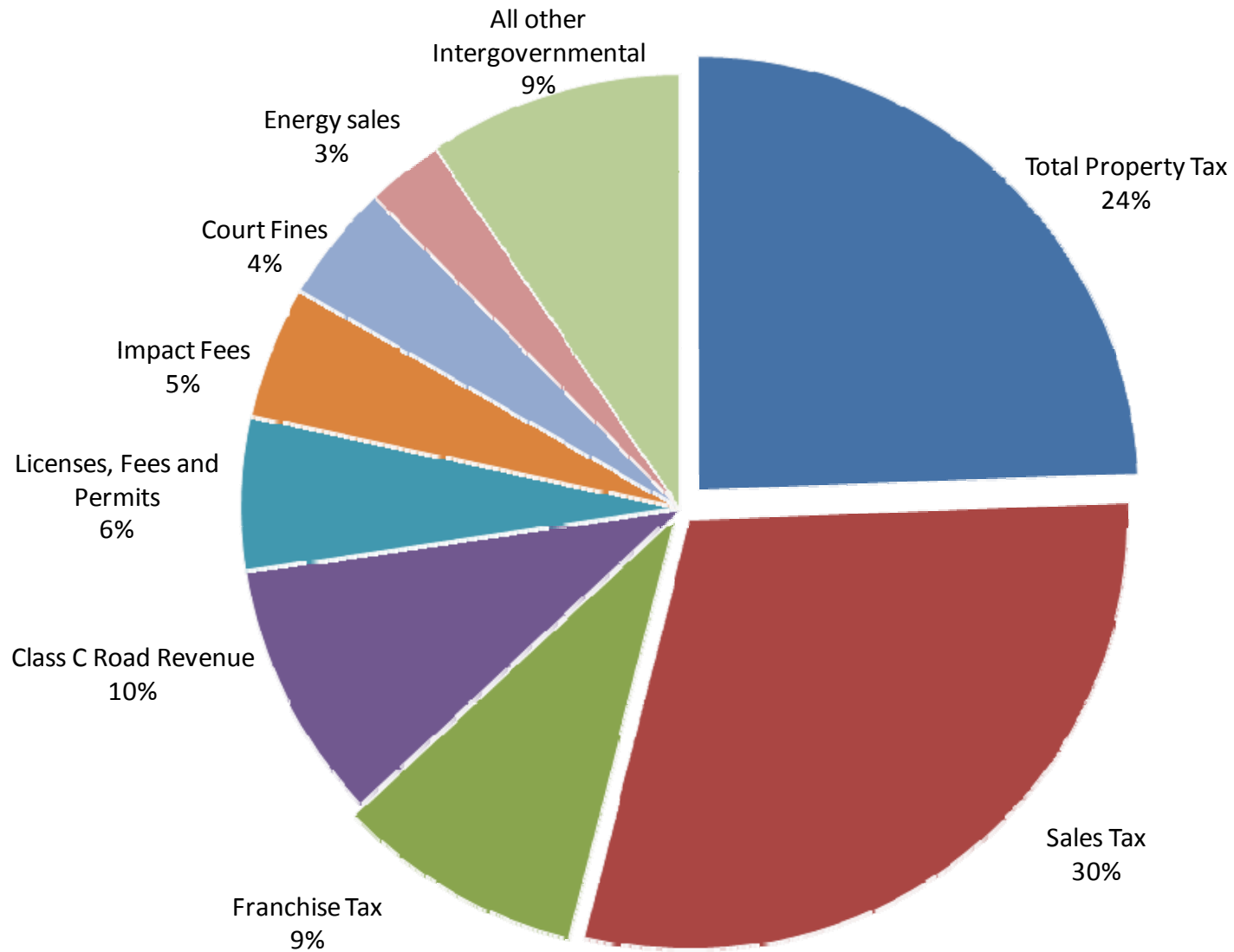
Have alternative service delivery options been evaluated?

Do fees cover the costs of services?

Are revenue estimates realistic?

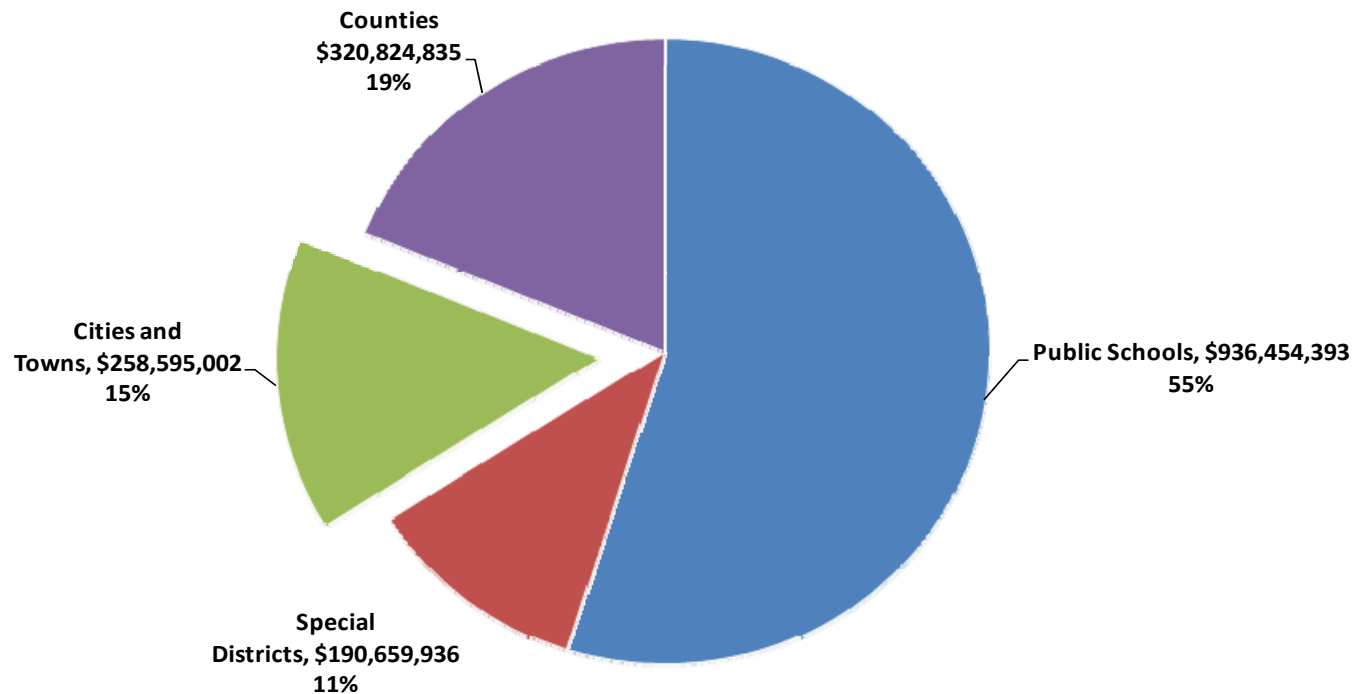
How is one-time money used in the budget?

Utah Municipal Revenue Picture



Property Tax Overview

2005 Property Tax Revenue



Property Tax:

- Politically Very Unpopular (Why?)
- Amount based on tax value – discounted for residential (45%)
- Revenue neutral in the aggregate – can vary individually
- Must go through “Truth-in-Taxation” to increase revenue

Revenue Projections...

◆ How do you project revenue?

- Part science
- Part art
- Part philosophy
- Part luck

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

What influences revenue? The economy, weather, utility rate changes, county reappraisals, politics (legislation)

Revenue Policy Questions

PROPERTY TAX

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

SALES TAX

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

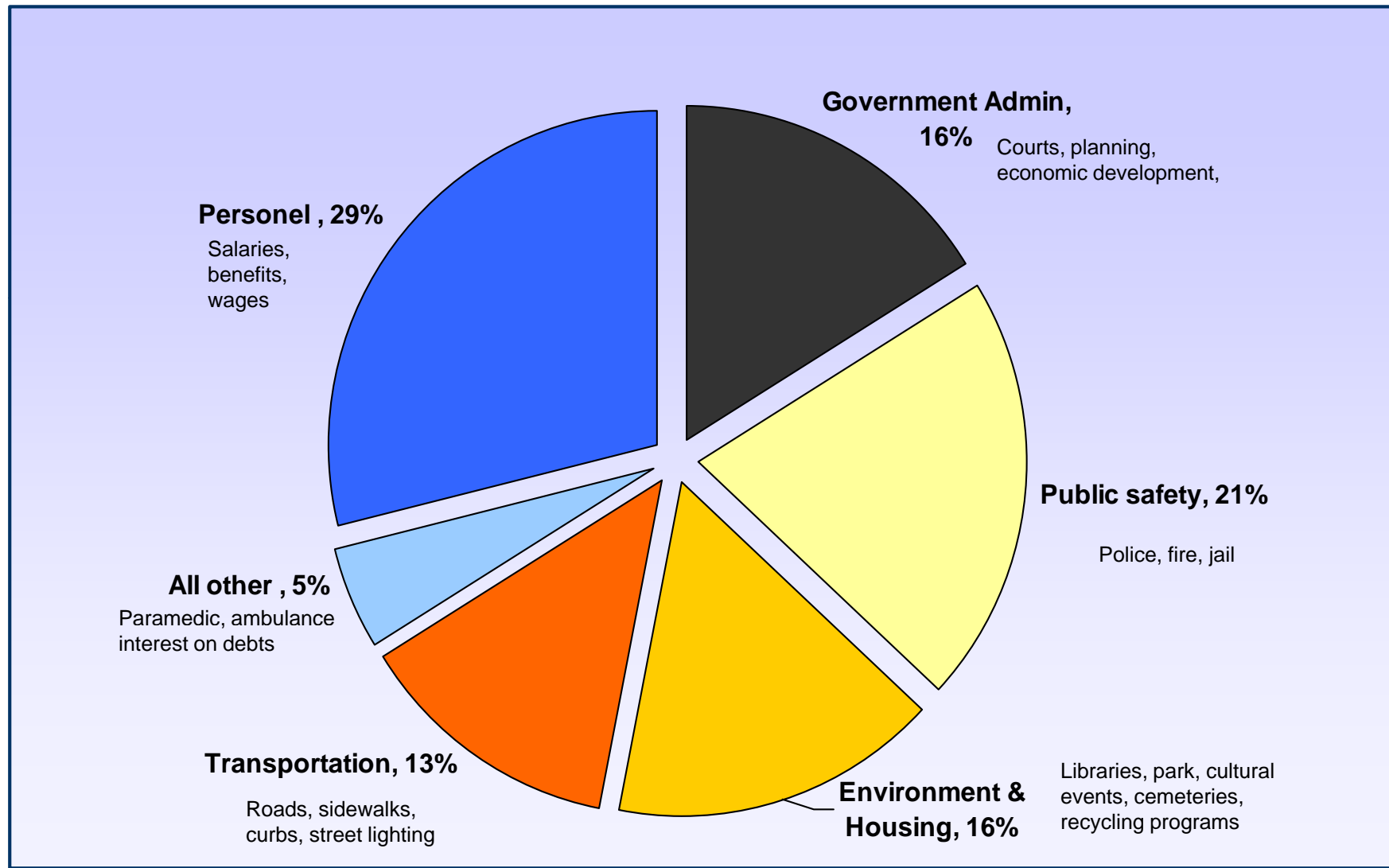
User Fees

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

Projecting expenses

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

What are the municipal expenses?





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

Conclusion

- ◆ What is the “best” budget process?
- ◆ What are the financial challenges of the 21st Century?
- ◆ What are our policy priorities?
- ◆ How does the legislature impact this process?



Thank You !

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