KNOW YOUR BUDGET

Controlling the numbers rather than letting the numbers control you

Kerri Nakamura
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PLANNING MATTERS
and budget planning matters too
AGENDA

• What is a Budget?
• Transparency in Budgeting
• Fund Budgeting
• Quick Review of Revenues and Expenses
• Property Tax Primer
• Budget Creep and Other Thoughts
• Budgeting for Outcomes
• Questions/Contact Information?
• More than a simple accounting of revenue and expenditures
• The way one demonstrates priorities – “Show Me the Money!”
• The most important responsibility of the Legislative Body
• Not scary or boring!
• Your opportunity to talk to and hear from the public about how you are spending their money
• Taxpayers trust you with their hard earned money. They deserve to know what you’ve accomplished with the money they provide.

• Transparency Tips:
  – Public Budget Meetings
  – De-Mystify the Numbers
  – Narrative Description of Budget
  – Numbers and Narrative Posted on Website
  – Quarterly Budget Updates on Council Agenda
  – Honest Discussions – Cut Rhetoric
  – **FOCUS ON OUTCOMES**
TRANSPARENCY IS NOT A FAD
BUDGETING BASICS

• Fiscal Year for Municipalities July 1 – June 30
• Public Hearings required to adopt and amend budgets
• Monthly budget reports for management
• Quarterly budget reports for legislative body
• File budget with State Auditor 30 days after adoption
• Financial Audit Reporting Package (FILED TOGETHER)
  • Financial Statement Report – 180 days after year end
  • State Compliance Audit – 180 days after year end
  • Single Audit Report – 180 days after year end
  • Report on Findings & Recommendations – 180 days after year end
TRANSPARENCY

- Utah Public Finance Transparency Website
  - Quarterly Revenue and Expenses – 30 days after quarter end
  - Annual Balance Sheet Data – 180 days after year end
  - Annual Payroll Data – 180 days after year end

- Impact Fee Report – 180 days after year end

- Deposit and Investment Information – January 31 and July 31

- Chart of Accounts thoughts...
FUND BUDGETING

ACCOUNTABILITY VS. PROFITABILITY
&
GOVERNMENTAL VS. PROPRIETARY

▲ General Fund and Related
▲ Capital Project Funds
▲ Debt Service Funds
▲ Enterprise Funds
▲ Internal Service Funds
▲ Special Revenue Funds

“Everything was fine until you insisted on accountability.”
• Focus on Revenue
• Keep an Eye on Expenses
  – Hard to control
  – Never fund full-time employees – or for that matter other ongoing budget gifts – for Christmas!
Sample Small Community

Total Revenues

Year | Total Revenues
---|---
2011 | $1,479,308.00
2012 | $1,123,305.00
2013 | $1,009,441.00
2014 | $1,567,320.00
2015 | $1,198,697.00
Sample Small Community

Everything Else Revenues
(Less than 10% of total revenue)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$97,515.00</td>
</tr>
<tr>
<td>2012</td>
<td>$49,639.00</td>
</tr>
<tr>
<td>2013</td>
<td>$53,767.00</td>
</tr>
<tr>
<td>2014</td>
<td>$86,497.00</td>
</tr>
<tr>
<td>2015</td>
<td>$122,649.00</td>
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</table>
Taxable Valuation drives rates that will produce budgeted revenue

- Taxable vs Fair Market Value
- Taxable Value fair market value – residential exemption
- Fair Market Value the amount at which the property would change hands between a willing buyer and seller.
- Taxable Value is used in the calculation.
Property Value Types

- **Real**
  - Locally assessed (County Assessor) real estate (land) and improvements on the land.

- **Personal**
  - Locally assessed (County Assessor) property not classified as real estate or improvements and subject taxation and assessment according to value.

- **Centrally Assessed**
  - Tax Commission assessed real and personal property.
What is Centrally Assessed Property?

• All property which operate as a unit across county lines.
• All public utilities.
• Airlines, air charter service, and air contract services.
• Geothermal fluids and geothermal resources.
• All mines and mining claims.
• All machinery used in mining.
Percentage Breakdown Statewide

- Real 72%
- Personal 6%
- Centrally Assessed 12%
Tax Rate?

• The rate usually changes every year due to the calculation of revenue/value.

• Value go up, rate goes down
• Value goes down, rate goes up

• Right?
Real Property Change

- Reappraisal value change due to market change = tax rate change
- New Growth = New Revenue
New Growth?

Calculation with 4 parts

- Real
- Personal
- Centrally
- Redevelopment projects expiring or decreasing tax increment commitment.
Calculation

- Revenue (prior year budgeted revenue)
  Divided by
- Adjusted Value

= Certified Tax Rate
Adjusted Value = Value Forecast

- Real + Personal + Centrally Assessed
- Redevelopment increment values
- BOE 3 year board of equalization average change
- New Growth
= Adjusted Value
Want more/new Revenue

• New Growth
• Tax Rate Increase Process
• Annex in of new tax areas
Property Tax Demonstration
Year 1

<table>
<thead>
<tr>
<th>House 1</th>
<th>House 2</th>
<th>House 3</th>
<th>House 4</th>
<th>House 5</th>
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<tbody>
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<tr>
<td>181,818</td>
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<tr>
<td>Tax Value</td>
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<tr>
<td>Tax Bill</td>
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</table>

<table>
<thead>
<tr>
<th>House 6</th>
<th>House 7</th>
<th>House 8</th>
<th>House 9</th>
<th>House 10</th>
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</tbody>
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SLVLESA District
- Total Base Mkt Value: 1,818,182
- Total Base Tax Value: 1,000,000
- Tax Revenue Base: 10,000
- Tax Revenue New Grow: -
- Total Tax Revenue: 10,000
- Tax Rate: 1.00%

PROPERTY TAXES 101
PROPERTY TAXES 101

Year 2

House 1
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 2
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 3
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 4
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 5
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 6
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 7
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 8
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 9
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

House 10
Mkt Value 363,636
Tax Value 200,000
Tax Bill 1,000

SLVLESA District
Total Base Mkt Value 3,636,364
Total Base Tax Value 2,000,000

Tax Revenue Base 10,000
Tax Revenue New Grow -
Total Tax Revenue 10,000
Tax Rate 0.50%
PROPERTY TAXES 101

Year 3

<table>
<thead>
<tr>
<th>House</th>
<th>Mkt Value</th>
<th>Tax Value</th>
<th>Tax Bill</th>
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<tbody>
<tr>
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<td>181,818</td>
<td>100,000</td>
<td>816</td>
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<td>House 2</td>
<td>190,909</td>
<td>105,000</td>
<td>857</td>
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<tr>
<td>House 3</td>
<td>200,000</td>
<td>110,000</td>
<td>898</td>
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<tr>
<td>House 4</td>
<td>209,091</td>
<td>115,000</td>
<td>939</td>
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<tr>
<td>House 5</td>
<td>218,182</td>
<td>120,000</td>
<td>980</td>
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<tr>
<td>House 6</td>
<td>227,273</td>
<td>125,000</td>
<td>1,020</td>
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<tr>
<td>House 7</td>
<td>236,364</td>
<td>130,000</td>
<td>1,061</td>
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<tr>
<td>House 8</td>
<td>245,455</td>
<td>135,000</td>
<td>1,102</td>
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<tr>
<td>House 9</td>
<td>254,545</td>
<td>140,000</td>
<td>1,143</td>
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<tr>
<td>House 10</td>
<td>263,636</td>
<td>145,000</td>
<td>1,184</td>
</tr>
</tbody>
</table>

SLVLESA District

- Total Base Mkt Value: 2,227,273
- Total Base Tax Value: 1,225,000
- Tax Revenue Base: 10,000
- Tax Revenue New Grow: -
- Total Tax Revenue: 10,000
- Tax Rate: 0.82%

[Utah League of Cities and Towns logo]
PROPERTY TAXES 101

Year 4

**House 1**
Mkt Value 181,818
Tax Value 100,000
Tax Bill 816

**House 2**
Mkt Value 190,909
Tax Value 105,000
Tax Bill 857

**House 3**
Mkt Value 200,000
Tax Value 110,000
Tax Bill 898

**House 4**
Mkt Value 209,091
Tax Value 115,000
Tax Bill 939

**House 5**
Mkt Value 218,182
Tax Value 120,000
Tax Bill 980

**House 6**
Mkt Value 227,273
Tax Value 125,000
Tax Bill 1,020

**House 7**
Mkt Value 236,364
Tax Value 130,000
Tax Bill 1,061

**House 8**
Mkt Value 245,455
Tax Value 135,000
Tax Bill 1,102

**House 9**
Mkt Value 254,545
Tax Value 140,000
Tax Bill 1,143

**House 10**
Mkt Value 263,636
Tax Value 145,000
Tax Bill 1,184

**House 11**
Mkt Value 272,727
Tax Value 150,000
Tax Bill 1,224

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**SLVLESA District**

- Total Base Mkt Value: 2,227,273
- Total Base Tax Value: 1,225,000
- Total New Growth Tax V: 150,000
- Grand Total Tax Value: 1,375,000
- Tax Revenue Base: 10,000
- Tax Revenue New Grow: 1,224
- Total Tax Revenue: 11,224
- Tax Rate: 0.82%
STRETCH DOLLARS – WATCH FOR NATURAL UNDER EXPEND

- Staff turnover often results in under expend
- Reward departments for creating under expend by sharing the savings with one-time wish lists
- Begin to focus on outcomes rather than outputs – forces systems thinking
BUDGET CREEP AND OTHER THOUGHTS

• BUDGET CREEP:
  – Mid-Year Reclassifications
  – Hiring Above the Entry Level
  – Accrual of Comp Time
  – Grants Awarded
  – Contracts
  – OPEB

• OTHER BUDGET FOCUSED IDEAS:
  – If you don’t understand it, don’t vote on it until you do
  – Become a quality-focused organization – outcome oriented and continuous improvement based top to bottom
  – Be creative and test new ideas
  – Do not be afraid to educate the public about the cost of services
DO IT – DON'T JUST SAY IT

ASK YOURSELF:

- Do we have realistic short, medium and long term goals – or do we just try to get from one budget year to the next?

- Do we talk about who we are serving and how well we are doing?

- Are our dollars spent on the most effective programs? How do we know?
## GOOD AT MEASURING OUTPUTS

<table>
<thead>
<tr>
<th>OUTPUT MEASURE</th>
<th>INDICATOR TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of items checked out per library patron</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Linear feet of sidewalk replaced per year</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Cycle time from police call for service to response</td>
<td>Service Quality</td>
</tr>
<tr>
<td>Cost per jail bed per day</td>
<td>Unit Cost</td>
</tr>
<tr>
<td>Average homeless families/individual/case worker</td>
<td>Service Quality</td>
</tr>
</tbody>
</table>
SHIFT DATA TO FOCUS ON OUTCOMES

ADVANTAGES

- Budget policy discussions focus on what is accomplished rather than how much is spent
- Creates a culture of continuous improvement throughout the organization
- Forces government to think about systems, not just programs
- Provides a higher level of public accountability
<table>
<thead>
<tr>
<th>OUTPUT MEASURE</th>
<th>OUTCOME GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in the proportion of K-12 students actively using the library</td>
<td>Increased graduation rate OR close gap on graduation rates</td>
</tr>
<tr>
<td>Decrease in percentage of inadequate sidewalks</td>
<td>Walkable Community</td>
</tr>
<tr>
<td>Decrease crime rates in key categories of crime</td>
<td>Increased real and perceived safety in community</td>
</tr>
<tr>
<td>Increase rate of diversion from jail for non serious offenders; decrease recidivism rate</td>
<td>Eliminate overcrowding in jail/need for more jail beds</td>
</tr>
<tr>
<td>Decrease rate of readmission to homeless facility within 30, 60 and 180 days</td>
<td>End chronic homelessness</td>
</tr>
</tbody>
</table>
PERFORMANCE BUDGETING:
“Similar to program budgeting, this budgeting approach also uses programs or activities as budget units, and presents information on program goals and performance. This budget system places emphasis on incorporating program performance information into the budget development and appropriations process, and allocating resources to achieve measureable results.”

OUTCOME MEASURE:
This is a measure of the result associated with a program or service. Outcome measures can be short- or long-term results that can be directly linked to a government program or service. Examples include the percentage of students reading at grade level, air quality, or the traffic fatality rate. Outcome measures are often the most desirable measures but the most difficult to use and analyze, as major system outcomes are generally derived from a variety of services, products and activities, and isolating the root cause of change is often challenging.

NASBO, 2015
8 STEPS FOR OUTCOME BASED BUDGET

1. Determine Price of Government
2. Identify High Priority Areas
3. Allocate Revenue to Priorities
4. Develop Requests for Results
5. Request Proposals to Achieve Identified Outcomes
6. Rank Proposals
7. Create Final Budget
8. Implement/Monitor/Evaluate

*See process map for priority driven budget.

GFOA, 2012
GOAL: Shift thought from what we are spending to what we are buying

Presently: 95% of all spending decisions are based on what we did last year

Focus tends to only be on the new money
GOV’T HISTORY OF PERFORMANCE-BASED BUDGETING

- **1870’s**: Performance budgeting introduced in reaction to local government abuses
- **1950**: Budget Accounting and Procedures Act; agency leads to provide budget performance data
- **1950’s**: President’s Bureau of Budget; performance measures used for efficiency and effectiveness
- **1960-2000**: More than fifty countries follow the US lead in performance based budgeting
- **1960’s**: Planning, Programming, Budget System (PPBS)
- **1970’s**: Management by Objectives (MBO) and Zero-Based Budgeting (ZBB)
- **1980’s**: Top Down and Fixed Ceiling Budgeting
- **1990’s**: Performance data goes public; prior to that it was internal data
- **1990’s**: State and Local governments start to experiment with Performance Budgeting and Total Quality Management
- **1993**: Government Performance and Results Act (GPRA); agencies to use performance managing tasks – including goal setting, measuring results, and reporting progress
- **1994**: Government Management and Results Act (GMRA); extends provisions across federal gov’t
- **1994**: OMB Circular A-11 Revision; program funding justified by performance metrics and goals
- **1996-2000**: Federal agencies mandated to use outcomes-based performance metrics in budgeting
- **2002**: Performance Assessment Rating Tool (PART); OMB develops and integrates performance measurement but not performance budgeting per se
- **2010**: OMB issued 128 High Priority Performance Goals (HPPG)
- **2012**: New York City Social Impact Bond issued (first Pay for Success transaction)
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