FINANCIAL UNDERSTANDING = BUDGETING + ACCOUNTING

Controlling the numbers rather than letting the numbers control you

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Audience Scan
PLANNING MATTERS
and budget planning matters too
“Don't tell me what you value, show me your budget, and I'll tell you what you value.”

Joe Biden
WHAT IS A BUDGET?

KERRI'S EXPENSES

- Entertainment
- Transportation
- Groceries
- Department Stores
- Subscriptions
- Restaurant
- Services (yard, pet, lessons)
- Communications
- Travel
WHAT IS A BUDGET?

• More than a simple accounting of revenue and expenditures
• The way one demonstrates priorities – “Show Me the Money!”
• Not scary or boring!
• Your tool to achieve your mandates and the strategic goals set forth by your legislative body – understanding your agency’s budget and how it works is just as important as understanding your equipment.
AGENDA

- Budgeting Basics
- Impact Fees 101
- Revenue & Expenses
- Property Tax 101
- State Auditor Resources
BUDGETING BASICS

ACCOUNTABILITY VS. PROFITABILITY

GOVERNMENTAL VS. PROPRIETARY

- General Fund
- Capital Project Funds
- Debt Service Funds
- Special Revenue Funds
- Proprietary (full accrual)
  - Enterprise
  - Internal Service

“Everything was fine until you insisted on accountability.”
BUDGETING BASICS

• Budget must be balanced – deficit spending not allowed
• All funds lapse to respective fund balances on June 30 – except capital project
• Fund Balance maximums (as percent of budgeted revenue)
  • District = 100%
  • Town = 75%
  • City = 25%
  • County = 50% (unless taxable value exceeds $750M or population exceeds $100K, then 20%)
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
BUDGETING TERMS

Appropriation
Budget Officer
Capital Equipment
Capital Project
Amendment
Fiscal Year/Budget Year

Balanced Budget
CAFR
Expenditure
Revenue
IMPACT FEES 101

*Source: Zions Bank
A **one-time fee** charged to new development to offset the **capital** costs of public infrastructure associated with that new development.

Must be **system** (v. **project**) capital improvements, not replacement or maintenance.

<table>
<thead>
<tr>
<th>System</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Park with Soccer Fields</td>
<td>Pocket Park</td>
</tr>
<tr>
<td>Collector Street</td>
<td>Neighborhood Street</td>
</tr>
</tbody>
</table>
Connection Fees – often confused with Impact Fees

• One-time charge paid by new utility customer to cover the cost of setting up the customer’s services

• Do not deal with system-wide capital improvements
Impact Fees – Eligible Public Infrastructure

- Water (culinary and secondary)
- Sewer
- Storm Water
- Municipal Power
- Roadways
- Parks, Recreation, Open Space and Trails
- Public Safety
- Natural Gas
Where are the Legal Requirements Found?

- **Case Law**
  - Rational nexus between fee charged and benefit received

- **Impact Fees Act** is found in Utah Code §11-36a
  - Specific requirements for Utah
    - Example: Cannot charge impact fees for fire vehicles that cost less than $500,000 and can only charge fire vehicles to nonresidential
    - Example: Cannot charge a school district for park facilities
1. Impact Fee Facilities Plan (IFFP) or General Plan Element

(Communities with a population of less than 5,000 and that collect impact fees of less than $250,000 annually do not need to prepare an IFFP but must have a “reasonable plan” that complies with the Impact Fees Act)

- Existing service levels
  - Park acres or trail miles per capita
  - GPD per household for water
- Proposed service levels
- Excess capacity
- Demand created by new development
- Consumption of excess capacity
- New facilities needed and cost

### Basic Documents Required

<table>
<thead>
<tr>
<th>Current Deficiency</th>
<th>Excess Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart1.png" alt="Graph" /></td>
<td><img src="chart2.png" alt="Graph" /></td>
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</table>

**Park Acres per 1,000 Population**
SCHEDULE TO ENACT IMPACT FEES

- Must provide written notice of intent to prepare IFFP and IFA and geographic area
- Post the notice on the Utah Public Notice Website
- Prepare IFFP and IFA and certify
- Notice and hold a public hearing
  - Make a copy of the IFFP and IFA documents available to the public at least 10 days before the public hearing
- Planning Commission is not involved in the impact fee process
- Enactment ordinance is not effective until 90 days after enactment
Sample Community General Fund
Revenue and Expenditure History

Total Revenue:

Total Expenditures:
Sample Community GF Change in Net Position (Revenues-Expenses)
Focus on **Revenue**
- Part Art
- Part Science
- Part Philosophy
- Part Luck

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

** Keep an Eye on **Expenses**
- Hard to control, especially if you don’t find problems early
- Never fund full-time employees – or for that matter other ongoing budget gifts – for Christmas!
Sample Community Total Expenditure History – Major Category

- Total General government
- Total Public safety
- Total Highways and public improvements
- Total Parks, recreation, and public property
- Total Debt service
Sample Community 5 Year Expenditure History

- **Total General government**: 43.36%
- **Total Public safety**: 17.14%
- **Total Highways and public improvements**: 24.34%
- **Total Parks, recreation, and public property**: 11.40%
- **Total Debt service**: 3.76%
STRETCH DOLLARS – WATCH FOR NATURAL UNDER EXPEND

- Staff turn over often results in under expend
- Reward programs for creating under expend by sharing the savings with one-time wish lists
- Begin to focus on **outcomes** rather than **outputs** – forces systems thinking
OUTCOME BASED BUDGET

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
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:
  – Insist upon written contracts for professional services with clear deliverables
  – If you don’t understand it, ask questions 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
DON’T FORGET TO MONITOR REVENUE
i can’t be broke
i still have
checks left
Sample Community Impact Fee Revenue

FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018
--- | --- | --- | --- | ---
$- | $5,000 | $10,000 | $15,000 | $20,000
Sample Community Tax Revenue

- 3110 General property taxes-current
- 3120 Prior year's taxes-delinquent
- 3130 General sales and use taxes
- 3140 Energy and communication taxes
- 3150 RAP Tax
- 3160 Transient Taxes
- 3170 Fee in lieu of personal property taxes
Sample Community Average Tax Revenue Break Down

- **3110 General property taxes-current**: 35.20%
- **3120 Prior year's taxes-delinquent**: 8.52%
- **3130 General sales and use taxes**: 42.16%
- **3140 Energy and communication taxes**: 7.13%
- **3150 RAP Tax**: 2.69%
- **3160 Transient Taxes**: 0.04%
- **3170 Fee in lieu of personal property taxes**: 4.25%
- **3180 Fuel Tax Refund**: 0.00%

Chart showing:
- **3110 General property taxes-current** 35.20%
- **3120 Prior year's taxes-delinquent** 8.52%
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- **3140 Energy and communication taxes** 7.13%
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- **3180 Fuel Tax Refund** 0.00%
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.
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
Calculation

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

= Certified Tax Rate
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>
</tr>
</thead>
<tbody>
<tr>
<td>Mkt Value 181,818</td>
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<td>Mkt Value 181,818</td>
<td>Mkt Value 181,818</td>
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<tr>
<td>Tax Value 100,000</td>
<td>Tax Value 100,000</td>
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<td>Tax Value 100,000</td>
<td>Tax Value 100,000</td>
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<table>
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<tr>
<th>House 6</th>
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<td>Tax Bill 1,000</td>
<td>Tax Bill 1,000</td>
</tr>
</tbody>
</table>

### Entity

- 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

Year 2

| Entity | Total Base Mkt Value | 3,636,364 |
| Entity | Total Base Tax Value | 2,000,000 |
| Entity | Tax Revenue Base | 10,000 |
| Entity | Tax Revenue New Grow | - |
| Entity | Total Tax Revenue | 10,000 |
| Entity | Tax Rate | 0.50% |
## Year 3

<table>
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<tr>
<th>House 1</th>
<th>Mkt Value</th>
<th>181,818</th>
<th>Tax Value</th>
<th>100,000</th>
<th>Tax Bill</th>
<th>816</th>
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<tbody>
<tr>
<td>House 2</td>
<td>Mkt Value</td>
<td>190,909</td>
<td>Tax Value</td>
<td>105,000</td>
<td>Tax Bill</td>
<td>857</td>
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<tr>
<td>House 3</td>
<td>Mkt Value</td>
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<td>Tax Bill</td>
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<tr>
<td>House 4</td>
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<td>House 5</td>
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<tr>
<td>House 6</td>
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<td>House 7</td>
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<td>House 8</td>
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<td>House 9</td>
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<td>1,184</td>
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</tbody>
</table>

### Entity

- **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%
PROPERTY TAXES 101

Year 4

<table>
<thead>
<tr>
<th>House 1</th>
<th>Mkt Value 181,818</th>
<th>Tax Value 100,000</th>
<th>Tax Bill 816</th>
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<tbody>
<tr>
<td>House 2</td>
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<td>Tax Value 105,000</td>
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<tr>
<td>House 3</td>
<td>Mkt Value 200,000</td>
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<tr>
<td>House 11</td>
<td>Mkt Value 272,727</td>
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</table>

<table>
<thead>
<tr>
<th>Entity</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Total Base Mkt Value</td>
<td>2,227,273</td>
</tr>
<tr>
<td>Total Base Tax Value</td>
<td>1,225,000</td>
</tr>
<tr>
<td>Total New Growth Tax V</td>
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<tr>
<td>Grand Total Tax Value</td>
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<tr>
<td>Total Tax Revenue</td>
<td>11,224</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>0.82%</td>
</tr>
</tbody>
</table>
• Why are Expenses increasing or decreasing?
• Why is Revenue increasing or decreasing?
• Do fees cover the costs of service?
• Are revenue estimates realistic?
• How is one-time money used in the budget?
• Have alternative delivery systems been considered?
• *Does every service offered add value and get us closer to our goal?*
State Auditor Resources


Impact Fee Report:  


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