

FINANCIAL UNDERSTANDING = BUDGETING + ACCOUNTING



Controlling the numbers rather than letting the numbers control you

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SOREN SON I M P A C T



David Eccles
School of Business
THE UNIVERSITY OF UTAH

Audience Scan



PLANNING MATTERS and budget planning matters too



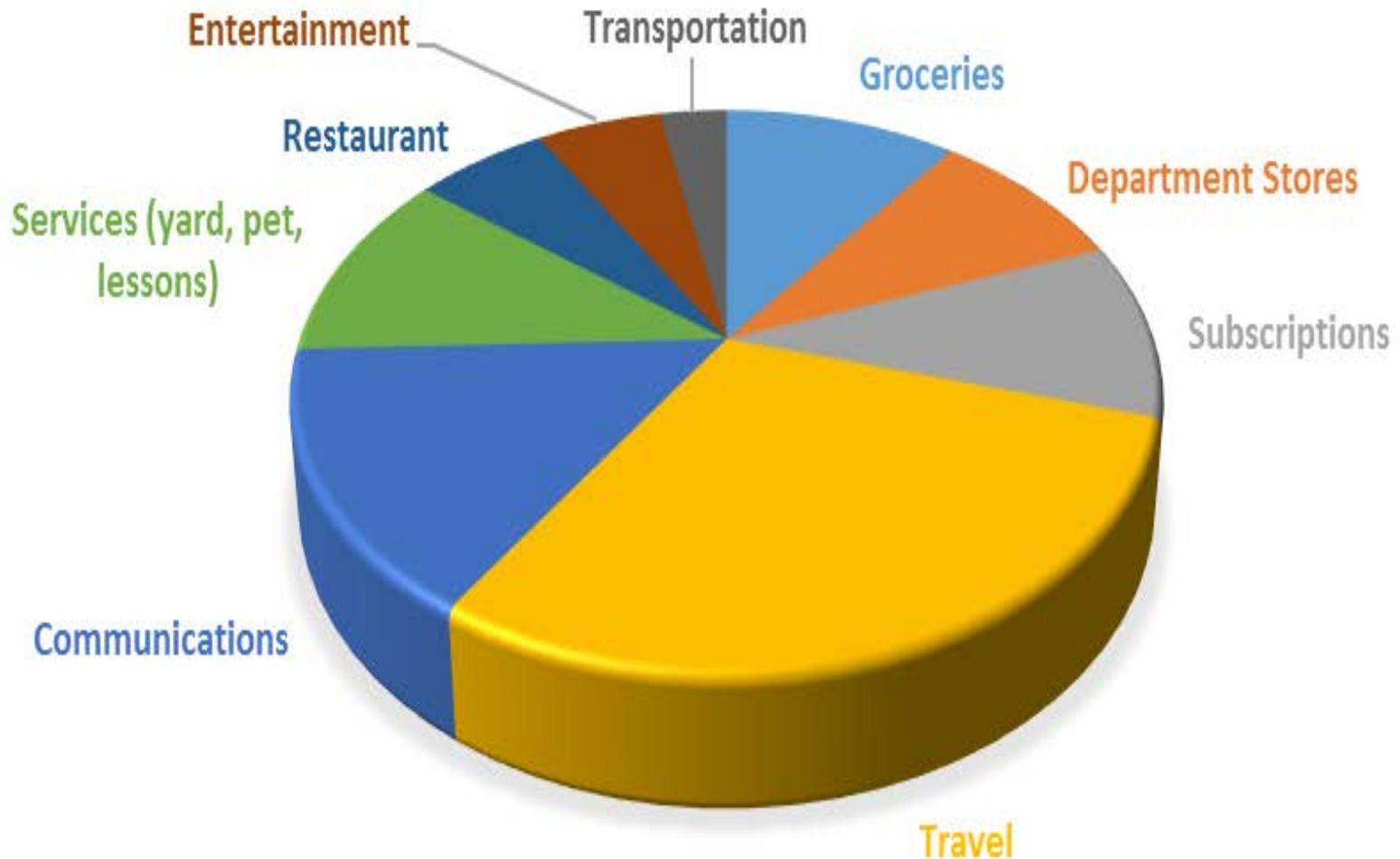


“Don't tell me what you value, show me your budget, and I'll tell you what you value.”

Joe Biden

WHAT IS A BUDGET?

KERRI'S EXPENSES



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

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



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

WHAT IS AN IMPACT FEE

Impact Fees



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

System	Project
Community Park with Soccer Fields	Pocket Park
Collector Street	Neighborhood Street

IMPACT FEE VS. CONNECTION FEE

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 FEE – ELIGIBLE PUBLIC PURPOSE



- Water (culinary and secondary)
- Sewer
- Storm Water
- Municipal Power
- Roadways
- Parks, Recreation, Open Space and Trails
- Public Safety
- Natural Gas

IMPACT FEES: THE LAWS - TAKINGS

- **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

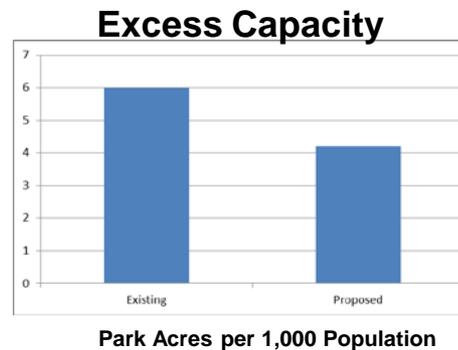
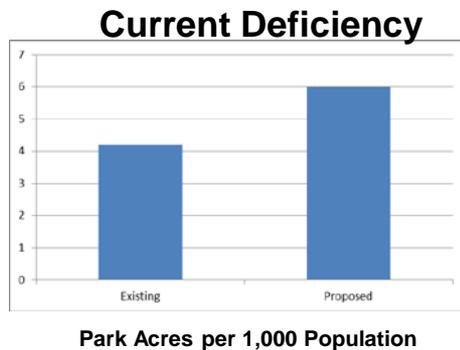


BASIC DOCUMENTS REQUIRED

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



SCHEDULE TO ENACT IMPACT FEES

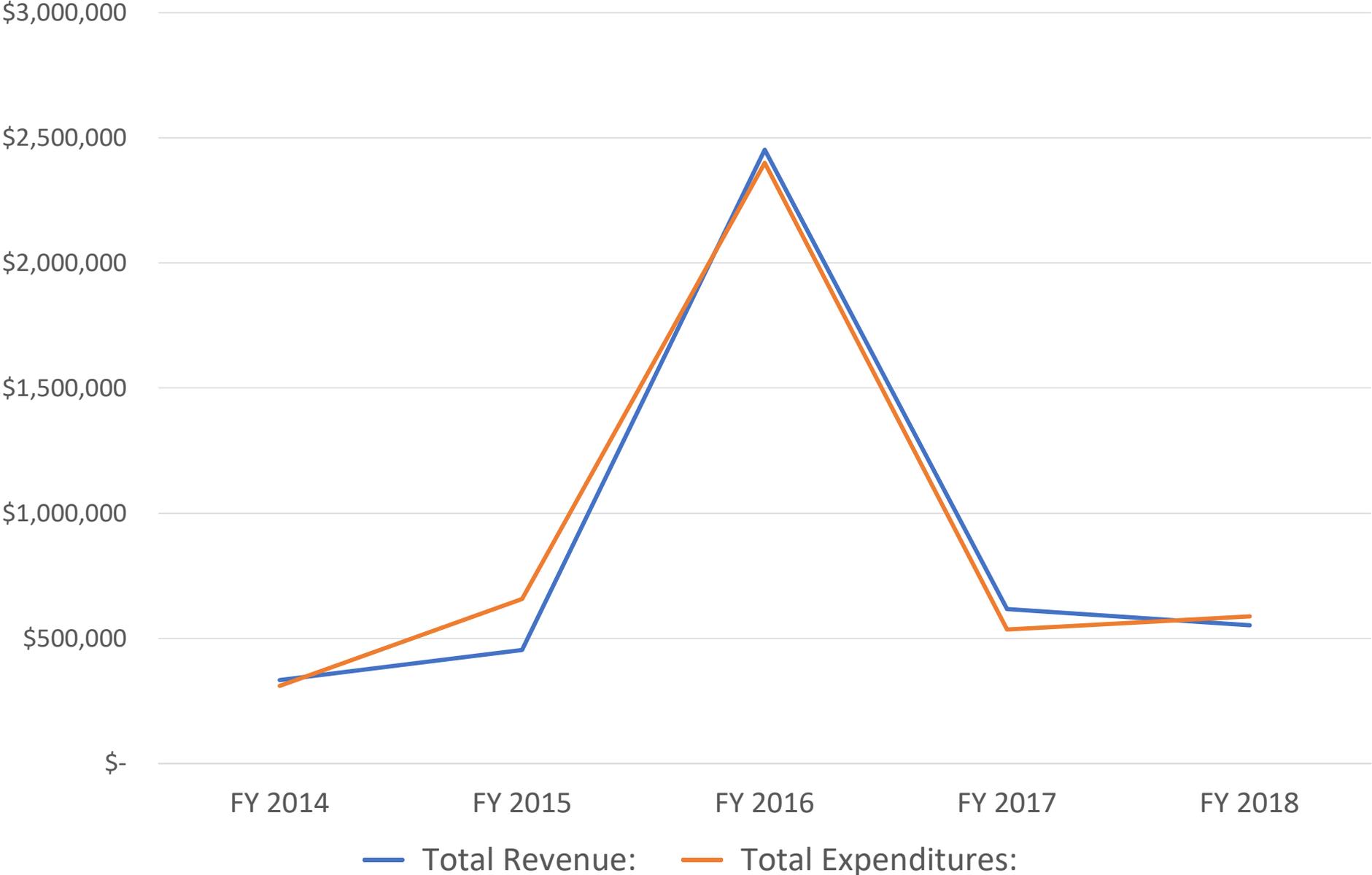
- Must provide written notice of intent to prepare IFFP and IFA and geographic area
- Post the notice on the Utah Public Notice Website
- Prepare IFFP and IFA and certify
- Notice and hold a public hearing
 - Make a copy of the IFFP and IFA documents available to the public at least 10 days before the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



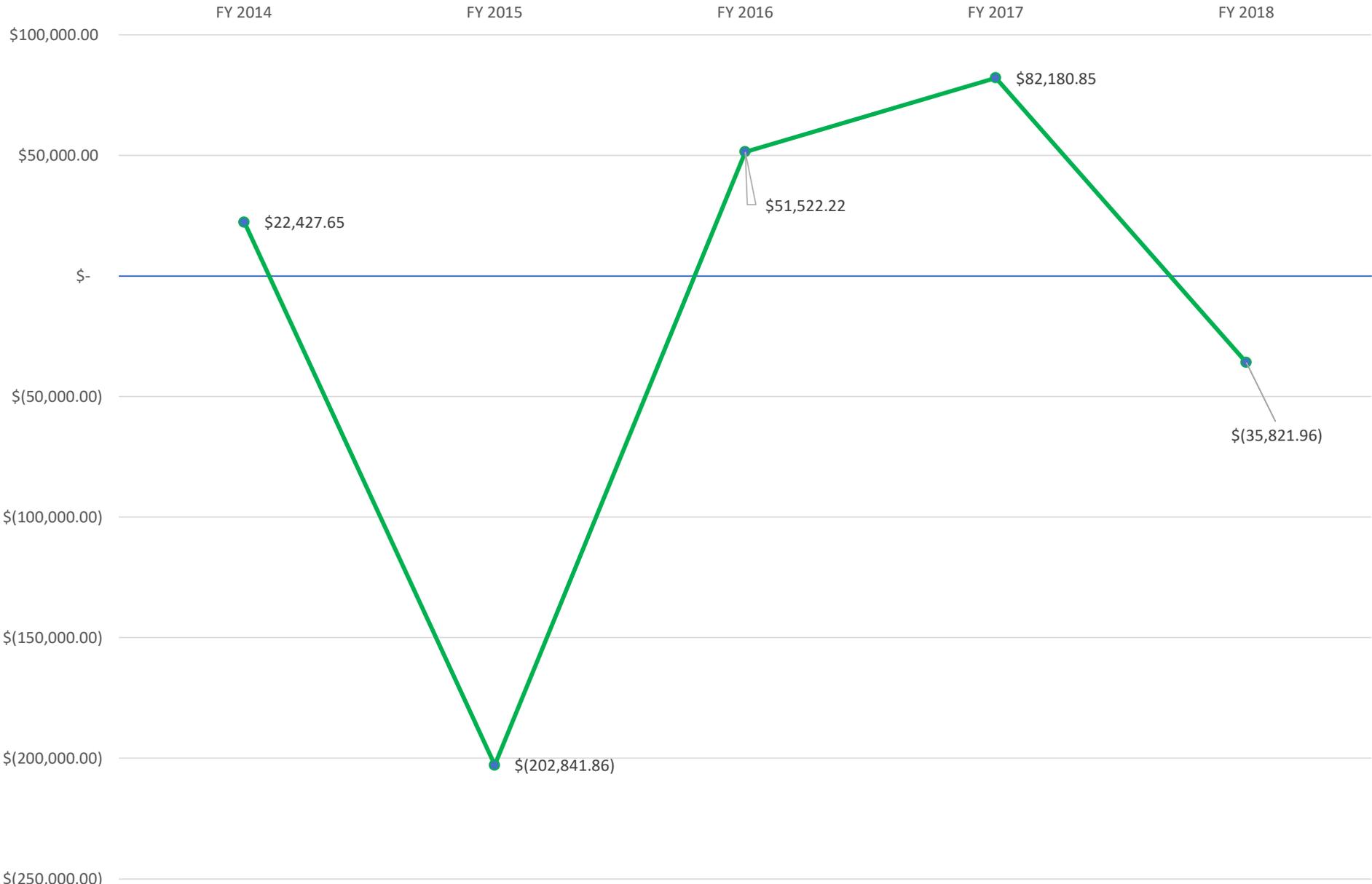


EXPENSES & REVENUES

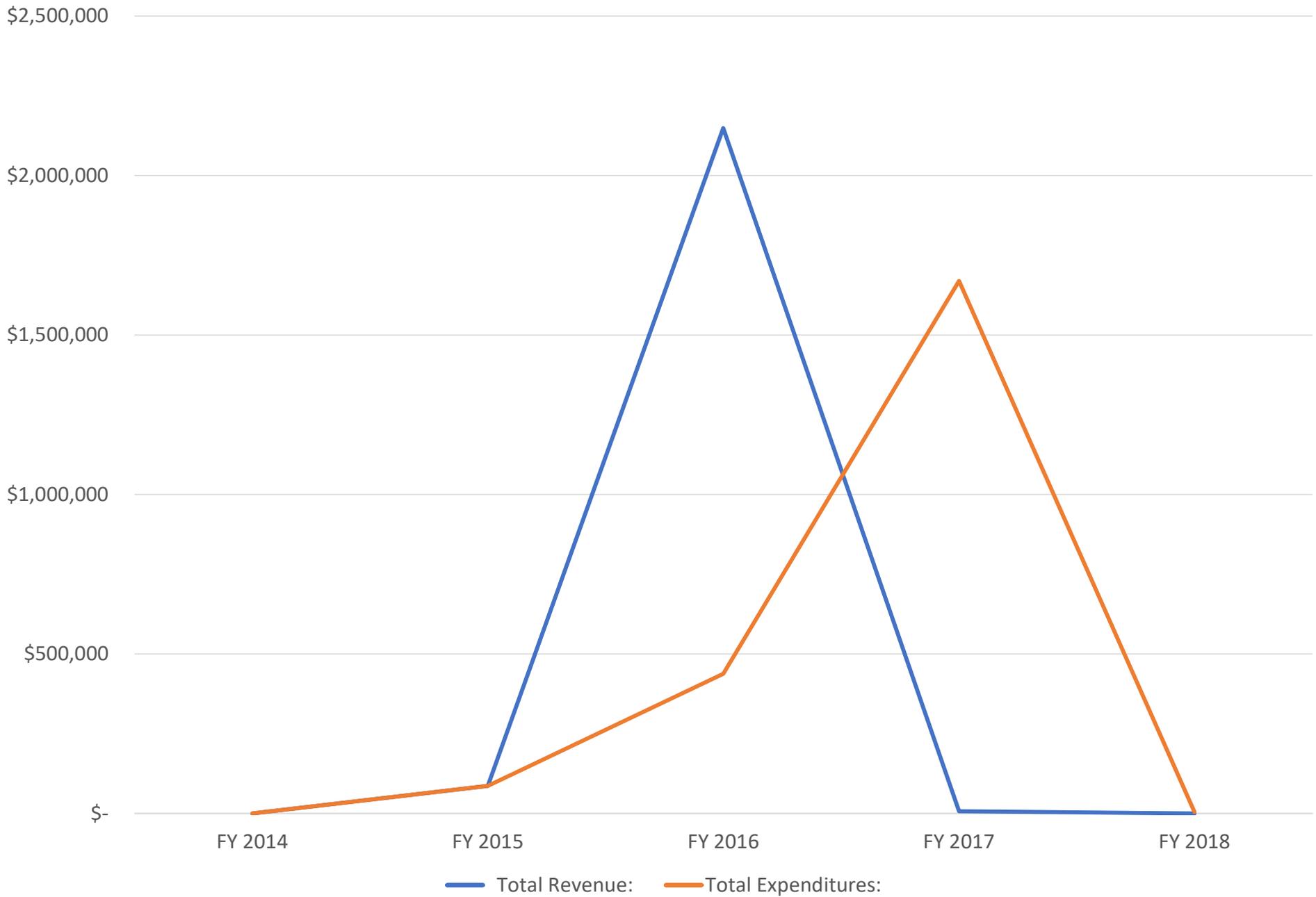
Sample Community General Fund Revenue and Expenditure History



Sample Community GF Change in Net Position (Revenues-Expenses)



Sample Community Capital Projects Fund

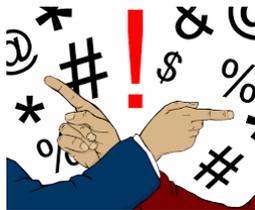


REVENUES AND EXPENSES

- Focus on **Revenue**

- Part Art
- Part Science
- Part Philosophy
- Part Luck

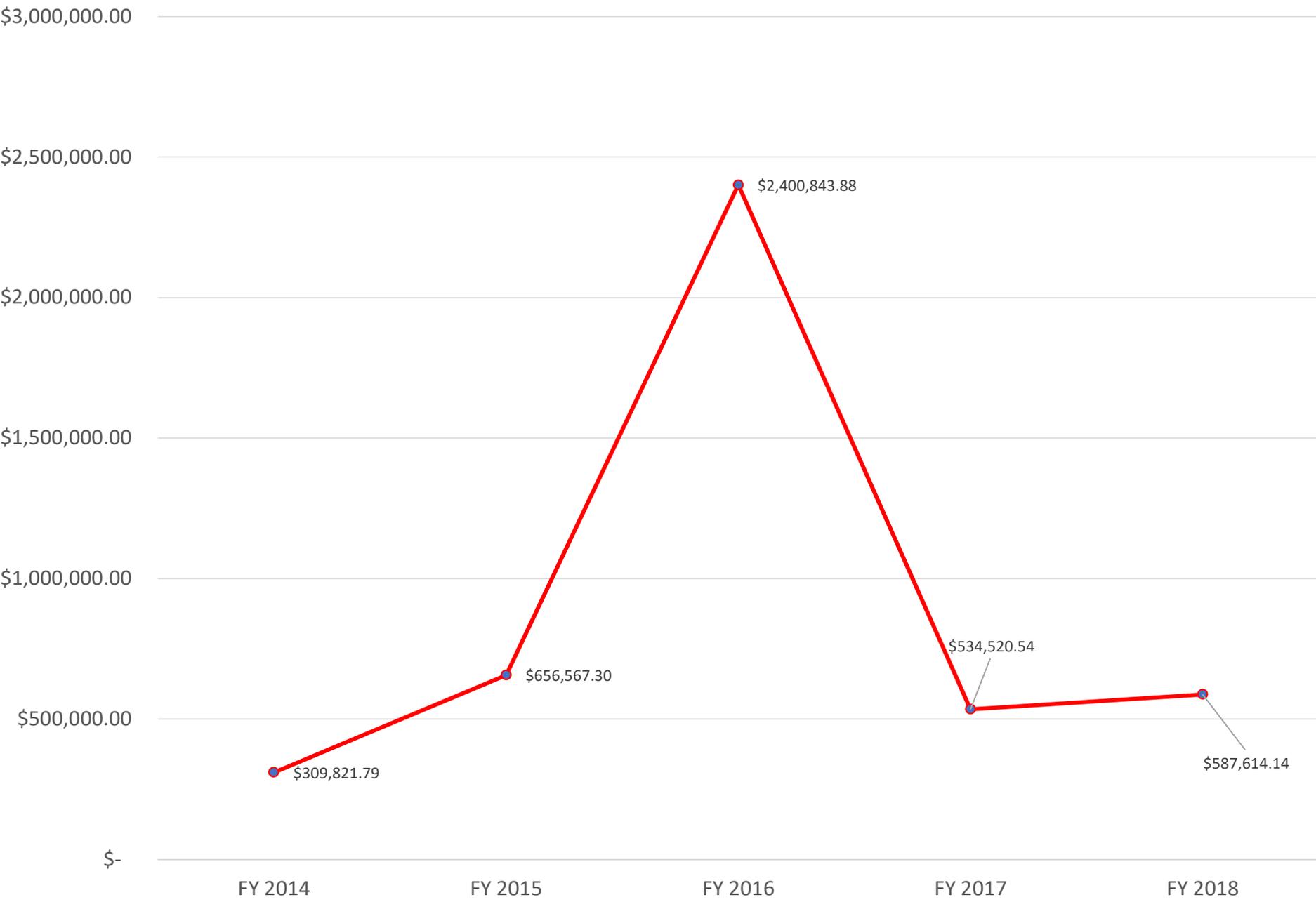
GOAL: Some revenue sources exceed projections by similar amounts that other revenue sources lag behind



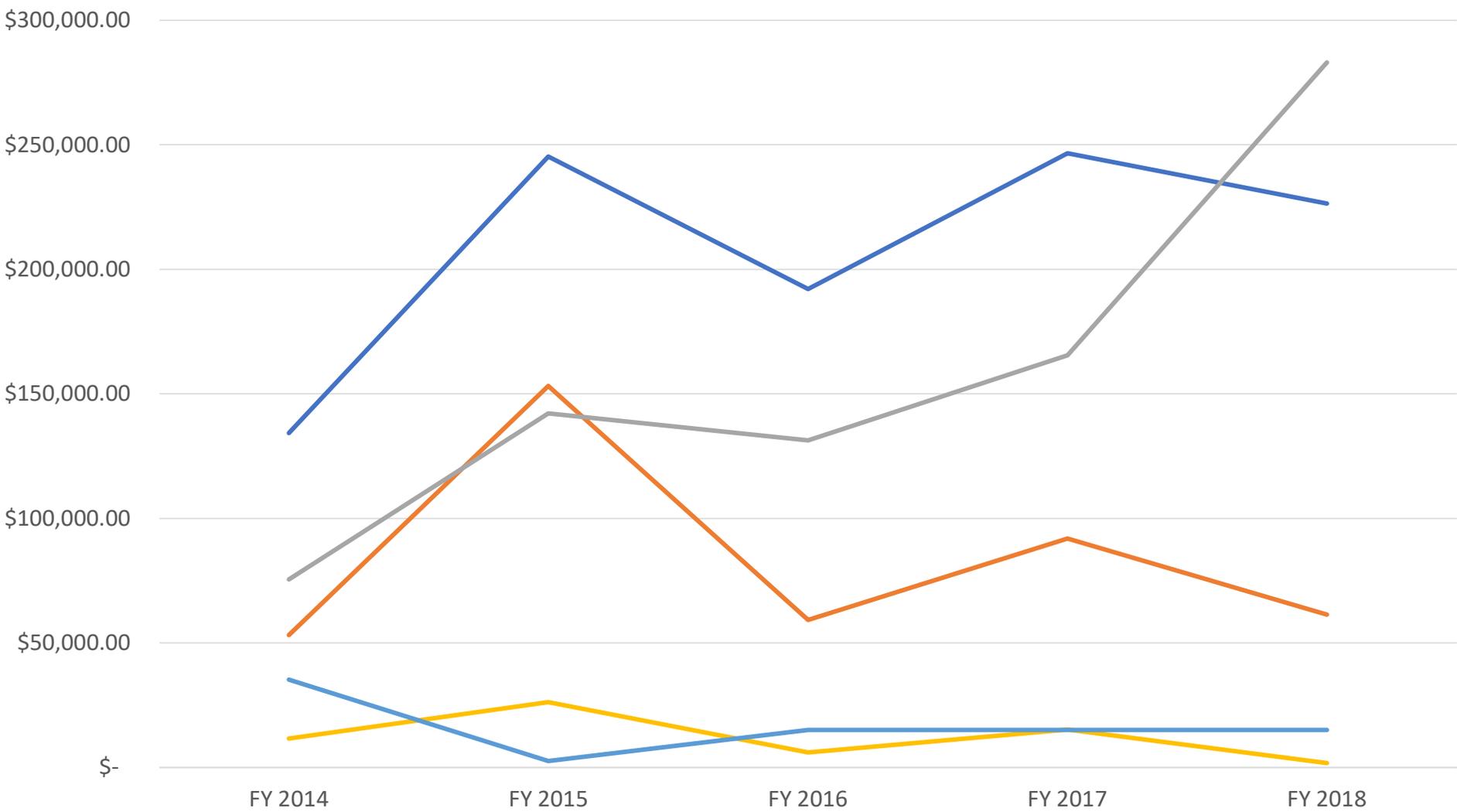
- Keep an Eye on **Expenses**

- 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 Change in Expenses Year-to-Year

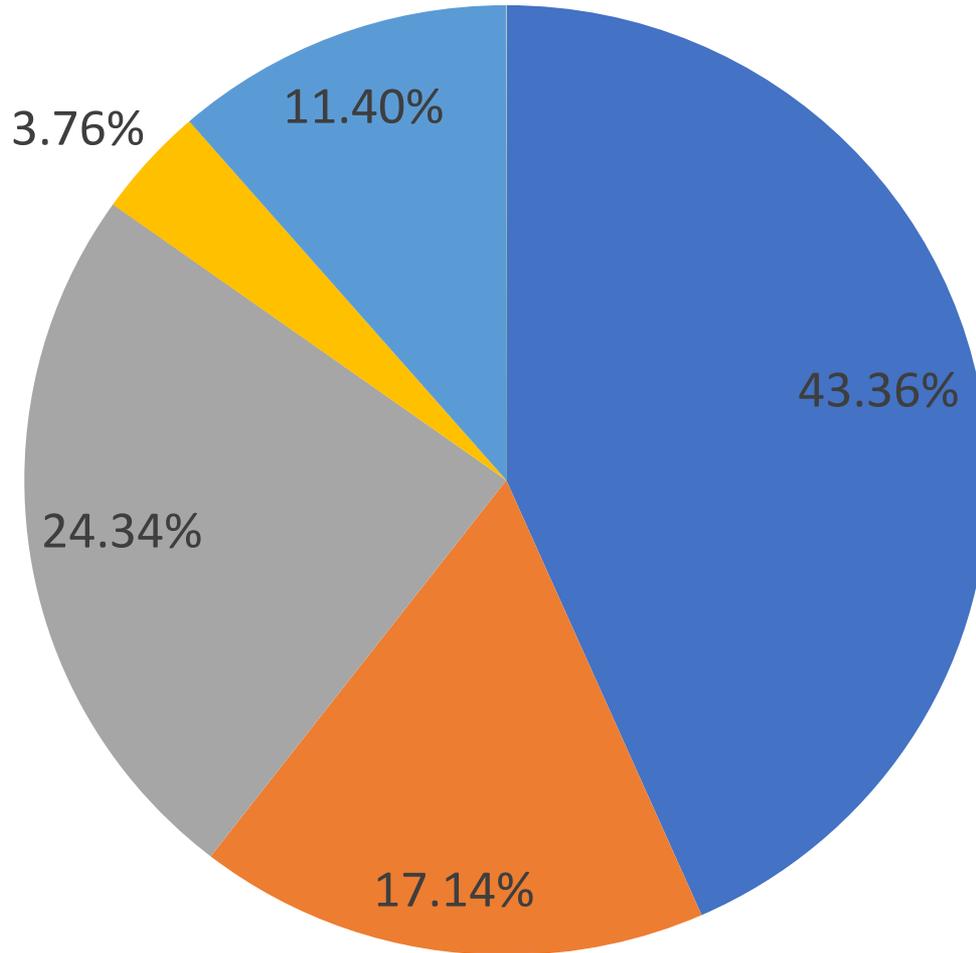


Sample Community Total Expenditure History – Major Category



- 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

■ Total Public safety

■ Total Highways and public improvements

■ Total Parks, recreation, and public property

■ Total Debt service

STRETCH DOLLARS

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

FUNDING



FOCUS



BUDGET CREEP AND OTHER THOUGHTS

- **BUDGET CREEP:**

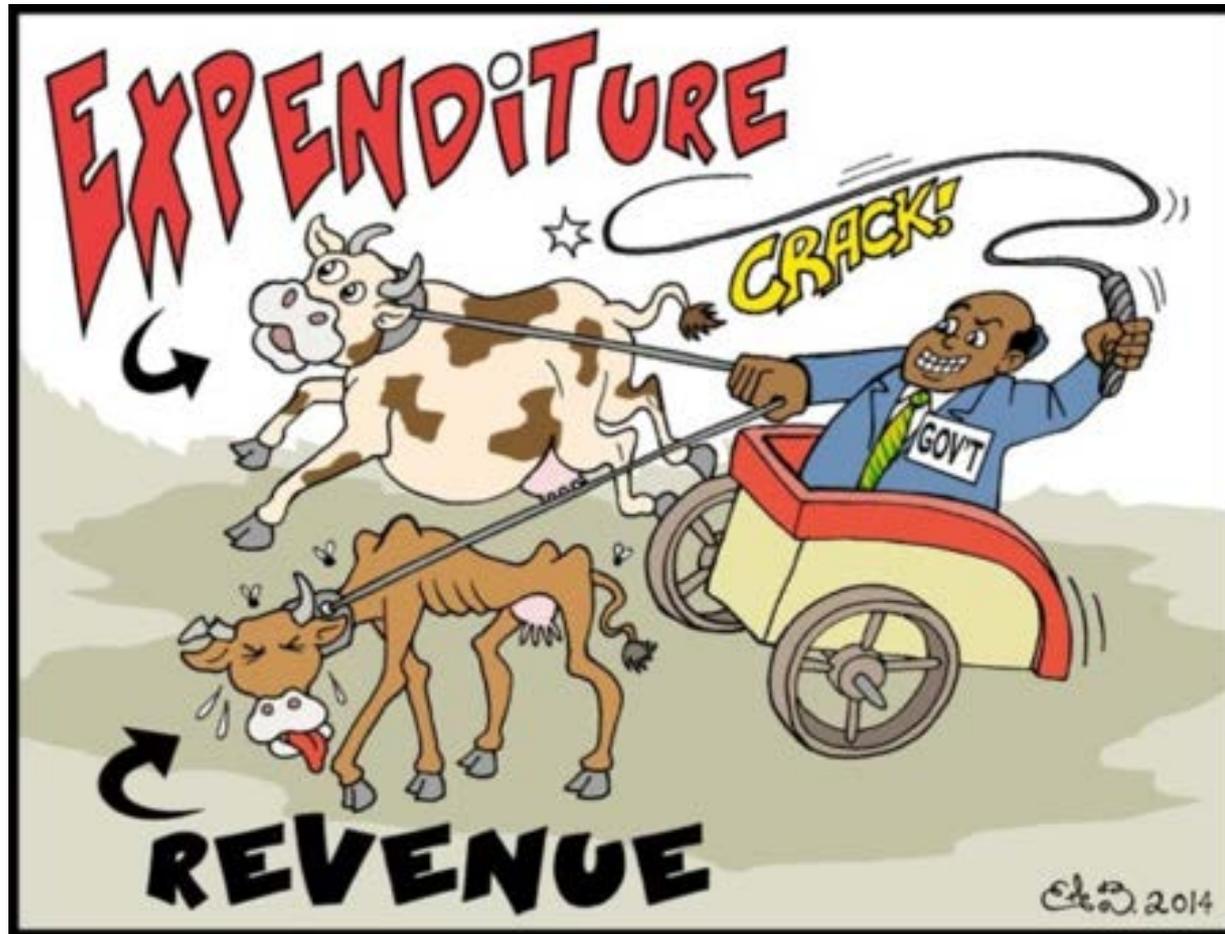
- Mid-Year Reclassifications
- Hiring Above the Entry Level
- Accrual of Comp Time
- Grants Awarded
- Contracts
- OPEB



- **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

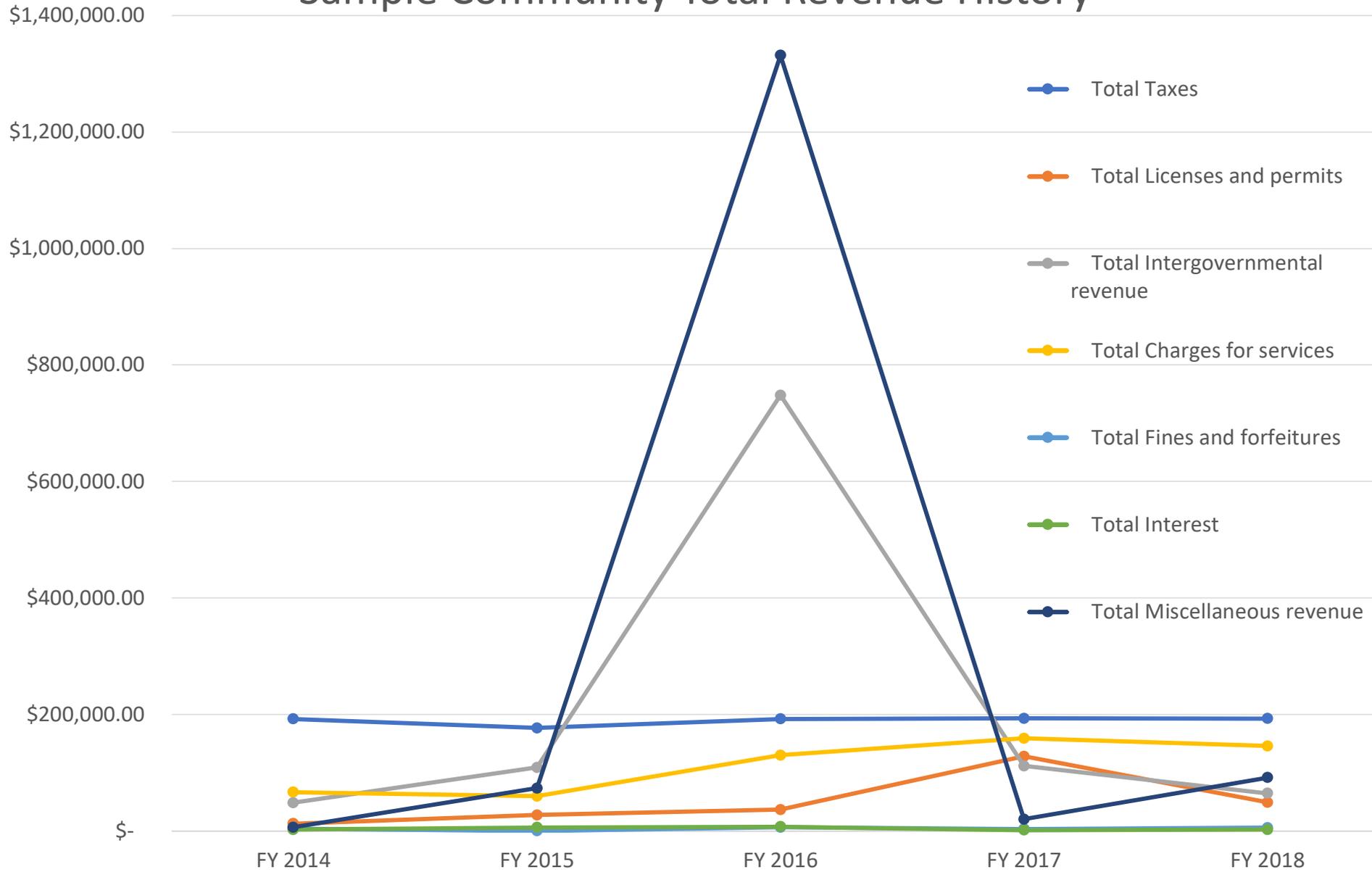
DON'T FORGET TO MONITOR REVENUE



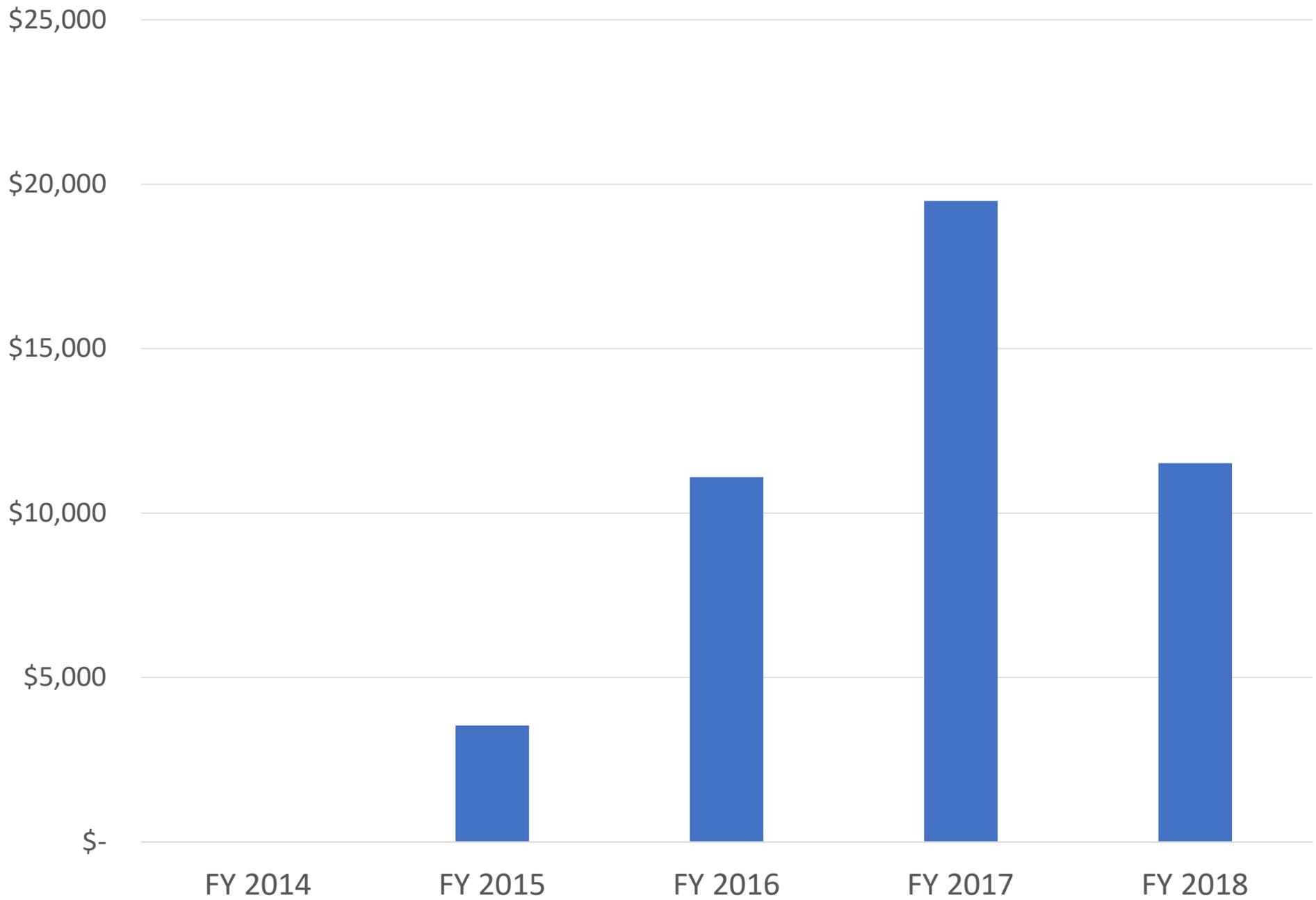
UNDERSTANDING HOW REVENUE WORKS



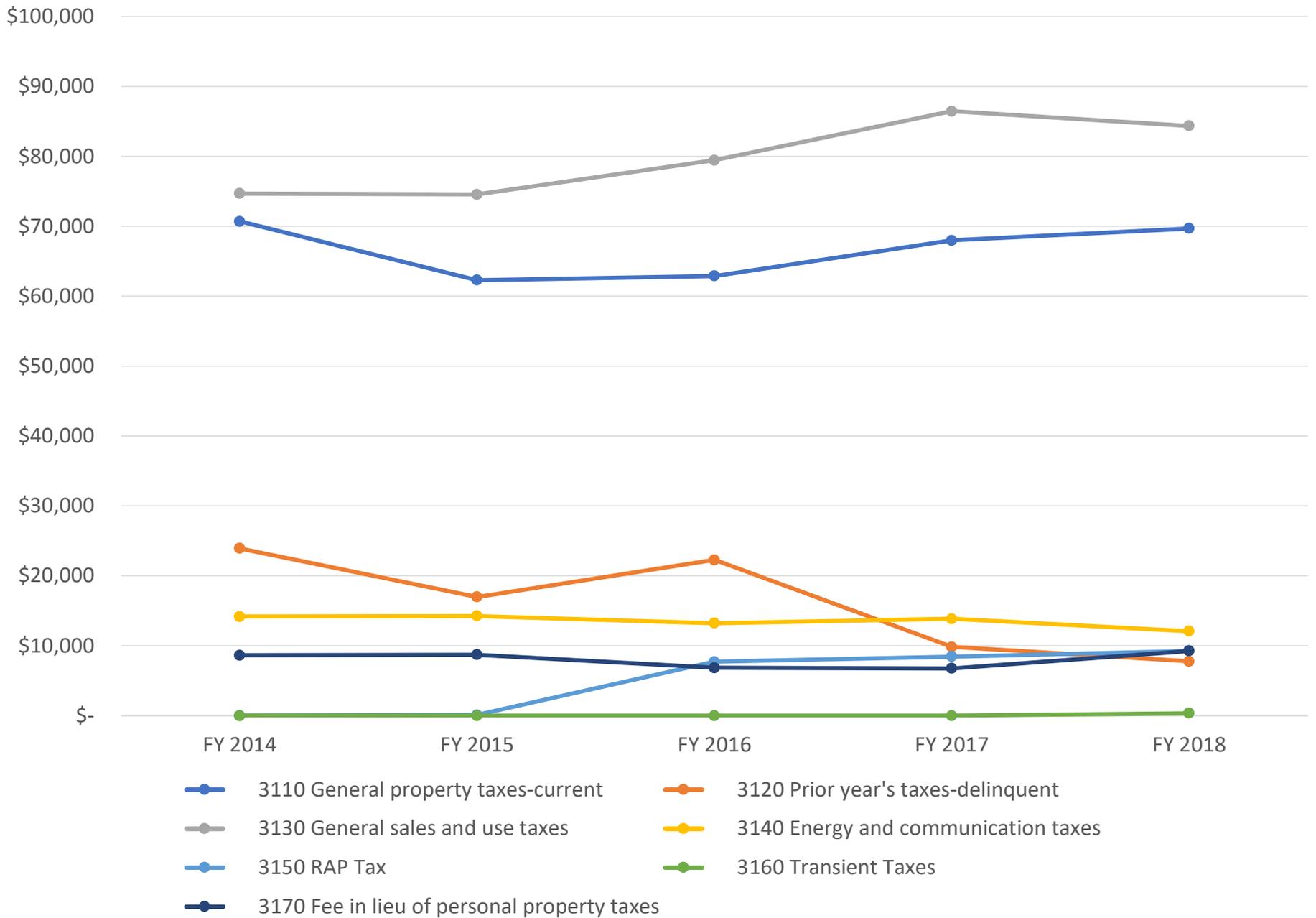
Sample Community Total Revenue History



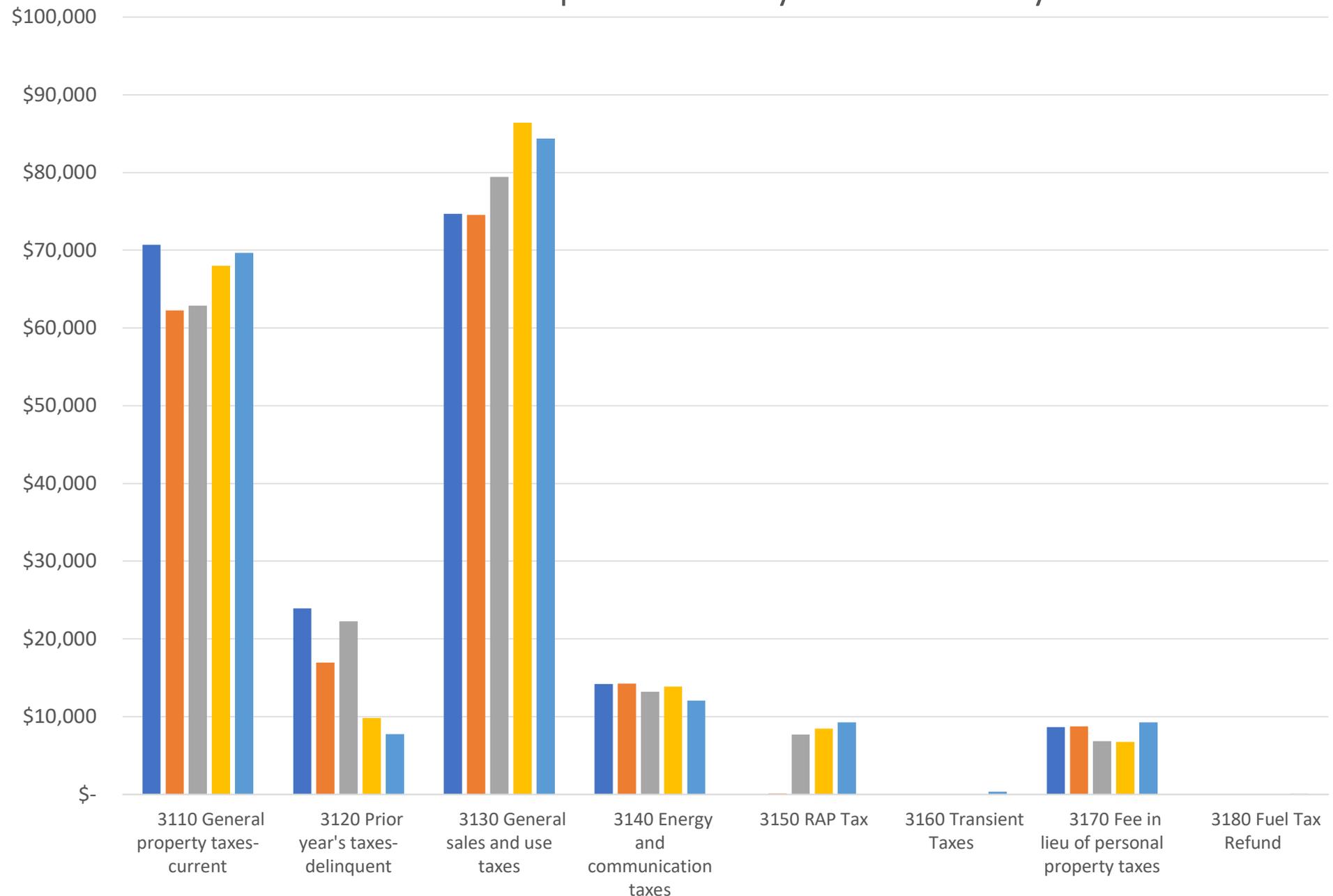
Sample Community Impact Fee Revenue



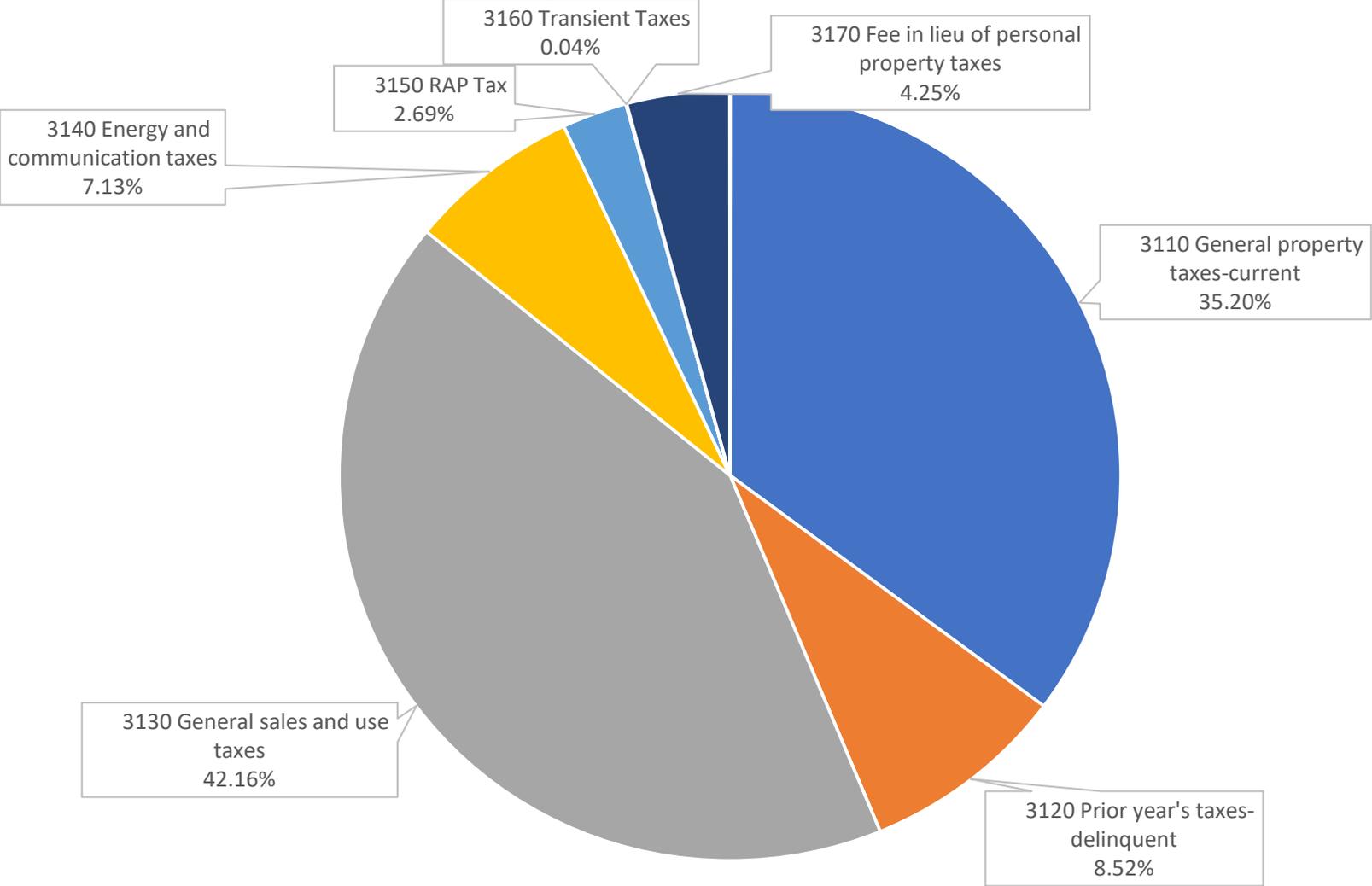
Sample Community Tax Revenue



2014 – 2018 Sample Community Revenue History



Sample Community Average Tax Revenue Break Down



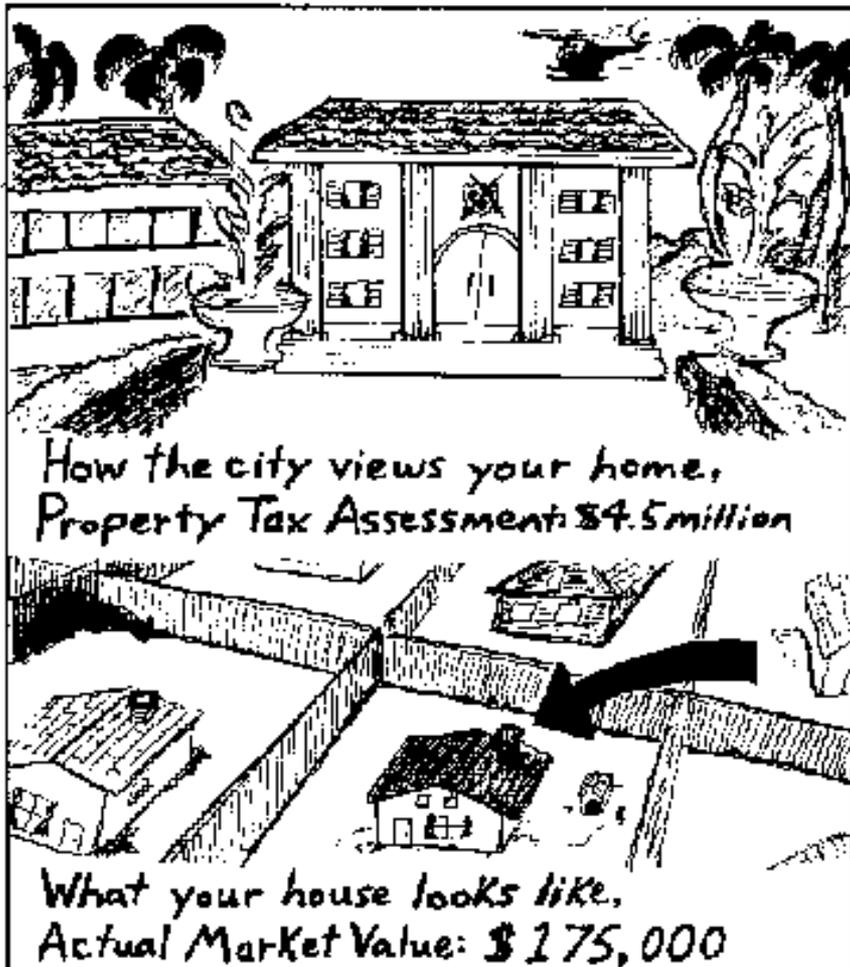
- 3110 General property taxes-current
- 3130 General sales and use taxes
- 3150 RAP Tax
- 3170 Fee in lieu of personal property taxes
- 3120 Prior year's taxes-delinquent
- 3140 Energy and communication taxes
- 3160 Transient Taxes
- 3180 Fuel Tax Refund



PROPERTY TAX 101

PROPERTY TAXES 101

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 TAXES 101

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?



PROPERTY TAXES 101

Real Property Change

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



PROPERTY TAXES 101

Calculation

- Revenue (prior year budgeted revenue)
Divided by
 - Adjusted Value
- = Certified Tax Rate



PROPERTY TAXES 101

Want more/new Revenue

- New Growth
- Tax Rate Increase Process
- Annex in of new tax areas



PROPERTY TAXES 101

Property Tax Demonstration
Year 1

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

House 2	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 3	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 4	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 5	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 6	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 7	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 8	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 9	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

House 10	
Mkt Value	181,818
Tax Value	100,000
Tax Bill	1,000

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

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

Entity	
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

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

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

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

Entity	
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%



FINAL BUDGET THOUGHTS

- 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 is closer to our goal?***



State Auditor Resources

<https://auditor.utah.gov/wp-content/uploads/sites/6/2017/05/2017-Guide-for-AUP-for-Local-Govs.pdf>

<https://auditor.utah.gov/wp-content/uploads/sites/6/2018/04/LG-Rptng-Req-2018-Between-350-and-1-million.pdf>

Impact Fee Report:

<https://reporting.auditor.utah.gov/servlet/servlet.FileDownload?file=01541000001zIFYAAY>

Local Government Financial Reports - <https://reporting.auditor.utah.gov/searchreport>

Uniform Accounting Manual <https://auditor.utah.gov/wp-content/uploads/sites/6/2013/05/Uniform-Accounting-Manual-2013.pdf>



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