

MUNICIPAL BUDGETING

**E-WORKSHOP
FOR
MONTANA MAYORS, COUNCIL MEMBERS, CLERKS,
TREASURERS AND FINANCE OFFICERS**

**with
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**Presented by the
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OVERVIEW

- **BUDGETING ROLES AND RESPONSIBILITIES**
- **WHAT IS A MUNICIPAL BUDGET?**
- **MONTANA BUDGET LAW**
- **READING THE BUDGET**

BUDGETING ROLES AND RESPONSIBILITIES

- **City or Town Council** has
 - *sole authority by majority vote to adopt or amend the annual budget.*
- **Mayor** has the responsibility to
 - *prepare and execute the budget.*
- **City/Town Clerk or Finance Officer** is responsible for
 - *collecting and providing financial data to Mayor/Council*
 - *timely notice of budget hearings.*
- **City/Town Department Heads** are responsible for
 - *preparing, justifying and reporting cost estimates of the O&M, Personnel and Capital Requirements for fiscal year.*

WHAT IS A MUNICIPAL BUDGET?

- A *legally required plan* of expenditures **balanced** by revenues for the fiscal year.
- Budget format must conform to the *Montana Budgeting, Accounting and Reporting System (BARS)*.
- The annual budget must:
 - Be approved by city/town council by *the first Thursday after the first Tuesday in September*.
 - Include an *appropriation of public funds*.
 - Set the annual *property tax mill levy*.

WHAT IS A MUNICIPAL BUDGET cont.....

- *An annual budget is required for all municipal accounting entities*
 - including the Enterprise Funds supported by non-tax revenues (fees for service) such as water fund, wastewater fund and ambulance fund
- *Governmental Fund Accounting is required by Montana Law*
 - each stream of revenue and associated expenses can be accounted for and tracked within a specific governmental fund

WHAT IS A MUNICIPAL BUDGET cont.....

Montana municipal governments typically have at least five or six governmental funds, *each of which requires it's own annual budget*

<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Other Governmental Funds</u>
	Water, Wastewater, etc.	Bond funds, Insurance funds, etc

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.***

MONTANA BUDGET LAW cont.....

- 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 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 budget must be conducted to provide the public an opportunity to question municipal officials on their proposed budget.
4. 7-6-4024, MCA. The final budget must be adopted by resolution *by the first Thursday after the first Tuesday in September*.

READING THE BUDGET

Unless you know or can find the answers to the following questions, someone else is governing your municipality.

1. How much money do we have to start the budget year?
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 be left at the end of the budget year?

**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.

1. How Much Money Do We Have?

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



Column 4 of the Tax Levy Requirement Schedule (TLRS) indicates the amount of Cash Available that the government has on hand (less any outstanding liabilities) to start the new fiscal year.

2. How Much Revenue Do We Expect?

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



Column 7 reports total anticipated revenue for the budget year. In Montana about half of all municipal general fund expenditures are funded by locally imposed **property taxes**, the revenue from which is estimated in Column 6.

The balance of annual General Fund expenditures is typically funded by **non-tax revenues**, estimated at **Column 5** of the TLRS.

It is important to remember that both of these numbers are revenue estimates usually provided by the Clerk/Treasurer or Finance Officer.

2. How Much Revenue Do We Expect cont.....

- **1. Property Tax Revenue** (Column 6) is generated by an annual mill levy set by the budget resolution. The actual amount of property tax revenue depends on these two factors:
 1. The **taxable value of property** located within the municipal jurisdiction as determined by MDoR;
 2. The amount of the city/town government's **mill levy** as reported at **Column 9** of the TLRS.

2. How Much Revenue Do We Expect cont.....

- *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.

2. How Much Revenue Do We Expect cont.....

- **2. Non-Tax Revenue** takes four common forms:
 1. **Fees for service** *for the Enterprise Funds and some General Fund fees such as swimming pools;*
 2. **Fines and forfeitures** *from traffic tickets;*
 3. **Interest earned** *on idle funds from banks or STIP;*
 4. **Inter-governmental transfer payments** *from the state or federal governments such as “Guaranteed Share Entitlement” from the MDR.*

- Four municipalities have approved a *Resort Tax* as an additional and important stream of revenue.

3. How Much Money Do We Plan to Spend?

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



- This is your annual ***appropriation*** recorded in **Column 1**. It is the Council's *authorization* for the executive branch departments to make expenditures or incur obligations for public purposes.

3. How Much Money Do We Plan to Spend cont.....

- 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.*
- To amend the budget *requires* a public hearing and a majority vote of the Council.

3. How Much Money Do We Plan to Spend cont.....

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



- By law the *final budget must be balanced* so that the *appropriation plus the budgeted cash reserve* does not exceed the *total resources* in **Column 8**.

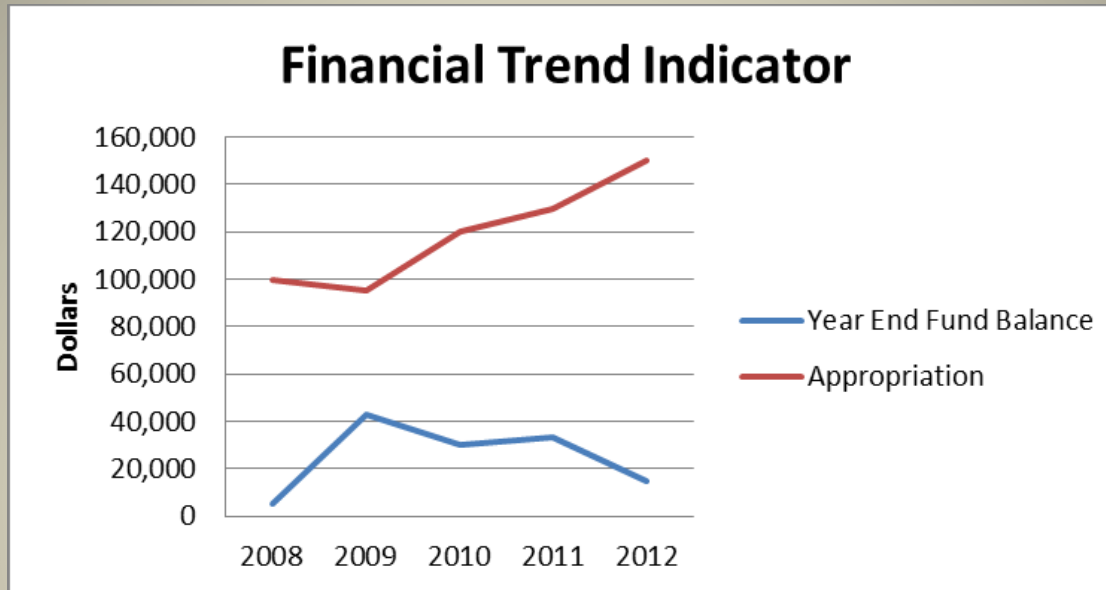
4. How Much Money Do We Expect to Have at the End of the Fiscal Year?

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



- The estimated ending cash balance reported in **Column 11** of the TLRs is an important indicator of the city or town's financial health.

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	0.12	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.

SELF TEST OF BUDGET KNOWLEDGE

Refer to the Tax Levy Requirements Schedule

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!

If you wish to receive IIMC credit through the Local Government Center for watching this presentation, please click on the link below and answer the questions. You will need to download the tax levy requirements schedule to complete your answers.

<https://www.surveymonkey.com/s/B5CJZMM>

If you need assistance, please call the LGC at 406-994-6694.