



# Ohio Association of Public Treasurers Public Finance Officers Training Institute

- Budgeting and Long Term Planning
- Tuesday, June 11, 2013
  - 3:30 – 5:30 p.m.

# Budgeting and Long Term Planning

Keith H. Dirham, C.P.A.

Finance Director, City of Medina





# Topics

- Forecasting Revenues
- Budgeting
- Long Term Planning



# Forecasting Revenue Topics

- Forecasting Requirements
  - Tax Budget
  - Certificate of Estimated Resources
  - Maintenance of Certificate of Estimated Resources
- Forecasting Methods
- Questions



# Tax Budget

- Used by the County Budget Commission to create the Official Certificate of Estimated Resources
  - Tax Budget Requirement may be waived
  - Permitted under 5705.28, but commission “shall require a taxing authority to provide information to the commission as may be required by the commission to perform its duties
    - Ie, you still have to project revenues



# Certificate of Estimated Resources

- Created by the County Budget Commission
  - County Budget Commission is made up of County Auditor, County Treasurer, and County Prosecutor

# Appropriations shall not exceed Certificate of Estimated Resources

- ORC 5705.39
  - “The total appropriations for each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission...”



# Maintaining the Revenue Estimate

- Responsibility to Maintain the Revenue Estimate
- Optional updates to the Revenue Estimate
- MANDATORY updates to the Revenue Estimate





# Maintaining the Revenue Estimate

- Responsibility of the Fiscal Officer
  - Non-delegable
  - Not subject to Legislative or Administrative control
- If you are a Fiscal Officer, this is
  - YOUR RESPONSIBILITY ONLY

# Maintaining the Revenue Estimate

## Optional Updates

- ORC 5705.36 (A)(2):
  - “...(U)pon a determination by the fiscal officer of a subdivision”
    - That means you
  - “that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate”
    - Your estimate is too high or too low



# Maintaining the Revenue Estimate

- ORC 5705.36 (A)(2) continued
  - “(you) may certify the amount of the deficiency or excess to the commission”
    - (Emphasis added), note that this is optional.
      - “may certify”
      - Not “Shall certify”
  - “and if the commission determines that the fiscal officer’s certification is reasonable”
    - Note that the commission’s only role is to determine if your estimate is reasonable.



# Maintaining the Revenue Estimate

- ORC 5705.36 (A)(2) continued
  - the commission shall certify an amended official certificate reflecting the deficiency or excess.”
    - (Emphasis added), not optional for the commission.
- Note that this entire section is optional, not mandatory

# Maintaining the Revenue Estimate

## MANDATORY Updates

- ORC 5705.36 (A)(3)
  - “Upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate”
    - If your revenue estimate is too low
  - “and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission”
    - and Council/School Board wants to spend the extra money, you are required to get an amended official certificate.

# Maintaining the Revenue Estimate

## MANDATORY Updates

- ORC 5705.36 (A)(4)
  - “Upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate”
    - If your estimate is too high
  - “and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission”
    - and the shortfall is large enough to create a violation of 5705.39, you are required to get an amended certificate.

# Maintaining the Revenue Estimate

## MANDATORY Updates

- Sections 5705.36 (A)(3) and (4)
  - Both then require that the commission certify an amended certificate reflecting the change.
  - However, only 5705.36 (A)(3) (increase) requires the commission to make a determination of reasonableness.
  - ORC 5705.36 (A)(4) (decrease) simply commands the commission to certify an amended certificate reflecting the deficiency.



# Maintaining the Revenue Estimate

- Note that all three sections [5705(A)(2), (3), and (4)] refer only to “the amount included in an official certificate”
  - These requirements apply only to the totals for each fund, not to the individual line items that make up the revenue estimate.



# Maintaining the Revenue Estimate

na City  
 ENDMENT #3  
 age 2

FUND	UNENCUMBERED BALANCE JAN. 1, 2012	TAXES	OTHER SOURCES	TOTAL
001 General Fund	\$7,494,801.77	\$1,504,400.00	\$5,685,175.00	\$14,684,376.77
<b>Special Revenue Funds</b>				
102 Street M&R	\$865,785.43		\$1,292,030.00	\$2,157,815.43
103 State Highway	\$70,138.16		\$80,300.00	\$150,438.16
104 Recreation	\$1,270,272.99		\$1,084,500.00	\$2,354,772.99
105 Local License	\$926,143.55		\$259,000.00	\$1,185,143.55
106 Police Special	\$3,039,044.02		\$4,974,800.00	\$8,013,844.02
107 Fire Special	\$611,864.46		\$899,479.00	\$1,511,343.46
108 Street M&R Special	\$10,562,493.83		\$3,598,857.38	\$14,161,351.21
109 Grants	\$565,949.61		\$1,835,000.00	\$2,400,949.61
115 County Local License	\$43,344.83		\$53,020.00	\$96,364.83
116 State Dare Grant	\$5,100.82		\$0.00	\$5,100.82
123 Fema	(\$950,000.00)		\$950,000.00	\$0.00
124 COPS in Schools	\$0.00		\$0.00	\$0.00
125 CDBG Fund	\$314,762.71		\$720,000.00	\$1,034,762.71
126 Police Pension	\$1,917,109.62	\$296,400.00	\$0.00	\$2,213,509.62



# Quiz

1. A City Finance Director has informed the Mayor and Council that General Fund revenues will be less than anticipated. The Mayor and Council instruct the Finance Director not to make a change in the revenue estimate because the change would cause layoffs. What should the Finance Director do?
2. A School Treasurer has discovered that parking pass revenue will be about \$100,000 less than expected and that school supply revenue will be \$100,000 more than expected. Both are received by the General Fund. What action is required?

# Forecasting Methods - simple

Monthly Water Capital Charge Revenue				
Month	Collections	Cumulative	12 x curr mo	Projection
January, 2012	\$ 55,149.34	\$ 55,149.34	\$ 661,792.08	\$ 661,792.08
February, 2012	\$ 52,991.15	\$ 108,140.49	\$ 635,893.80	\$ 648,842.94
March, 2012	\$ 56,622.76	\$ 164,763.25	\$ 679,473.12	\$ 659,053.00
April, 2012	\$ 53,790.49	\$ 218,553.74	\$ 645,485.88	\$ 655,661.22
May, 2012	\$ 53,762.68	\$ 272,316.42	\$ 645,152.16	\$ 653,559.41
June, 2012	\$ 52,786.04	\$ 325,102.46	\$ 633,432.48	\$ 650,204.92
July, 2012	\$ 55,611.31	\$ 380,713.77	\$ 667,335.72	\$ 652,652.18
min	\$ 52,786.04		\$ 633,432.48	\$ 648,842.94
max	\$ 56,622.76		\$ 679,473.12	\$ 661,792.08
Variance		7.27%		7.27%
My Estimate	\$ 657,500.00			2.00%



# Forecasting Methods - simple

- Consistent revenues are fairly simple to forecast
  - In the previous example, the City of Medina charges a monthly meter charge to each water customer. Monthly Revenues only vary due to early or late payments, new construction, or vacancies.
- The annual forecast can generally be calculated by simply multiplying any given month by 12.
- The 2012 total was \$651,409.36 close to the estimate and within the range.

# Forecasting Methods - complex

Monthly Income Tax Revenue				
Month	Collections	Cumulative	12 x curr mo	Projection
January, 2012	893,382.16	\$ 893,382.16	\$ 10,720,585.92	\$ 10,720,585.92
February, 2012	1,424,556.01	\$ 2,317,938.17	\$ 17,094,672.12	\$ 13,907,629.02
March, 2012	814,051.51	\$ 3,131,989.68	\$ 9,768,618.12	\$ 12,527,958.72
April, 2012	1,051,099.54	\$ 4,183,089.22	\$ 12,613,194.48	\$ 12,549,267.66
May, 2012	2,065,552.49	\$ 6,248,641.71	\$ 24,786,629.88	\$ 14,996,740.10
June, 2012	1,169,399.07	\$ 7,418,040.78	\$ 14,032,788.84	\$ 14,836,081.56
July, 2012	1,053,767.22	\$ 8,471,808.00	\$ 12,645,206.64	\$ 14,523,099.43
August, 2012	1,127,366.83	\$ 9,599,174.83	\$ 13,528,401.96	\$ 14,398,762.25
min	\$ 814,051.51		\$ 9,768,618.12	\$ 10,720,585.92
max	\$ 2,065,552.49		\$ 24,786,629.88	\$ 14,996,740.10
Variance	153.74%		153.74%	39.89%
My Estimate	\$ 13,287,000.00			

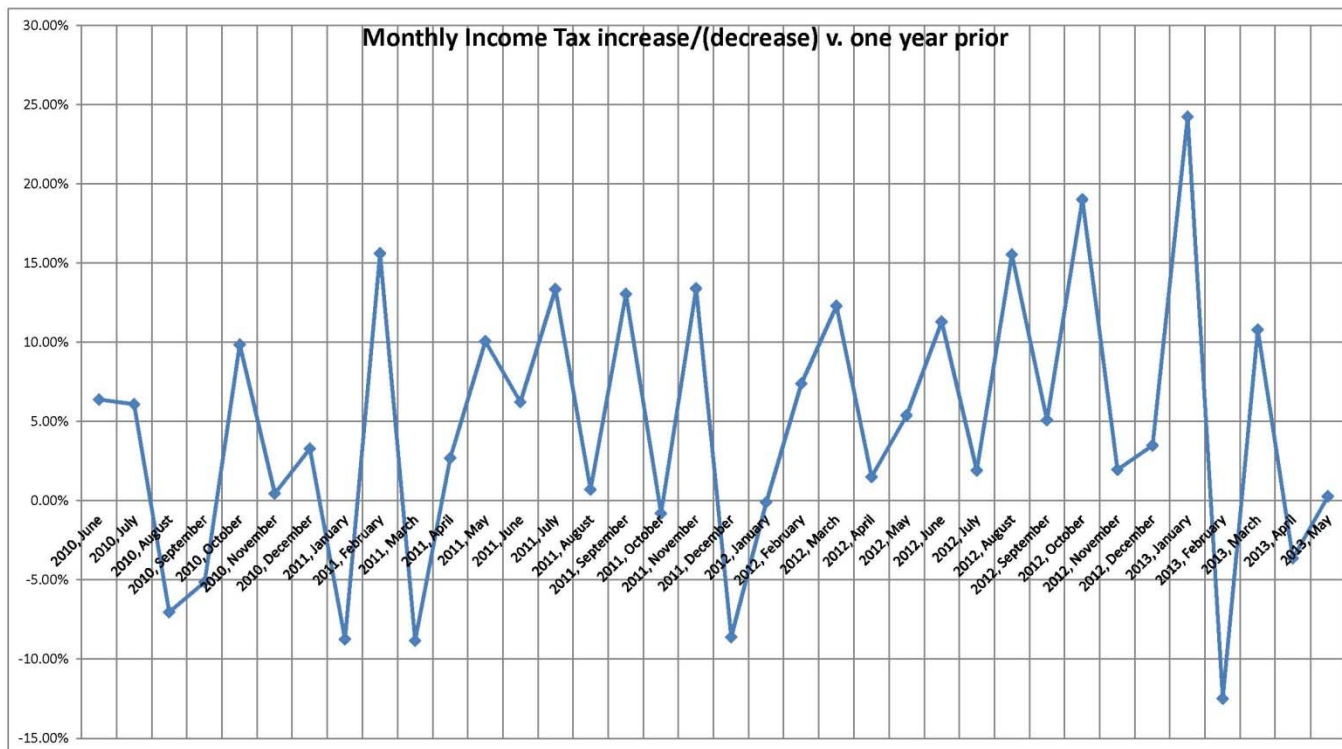
- 2012 Total was \$13,626,154



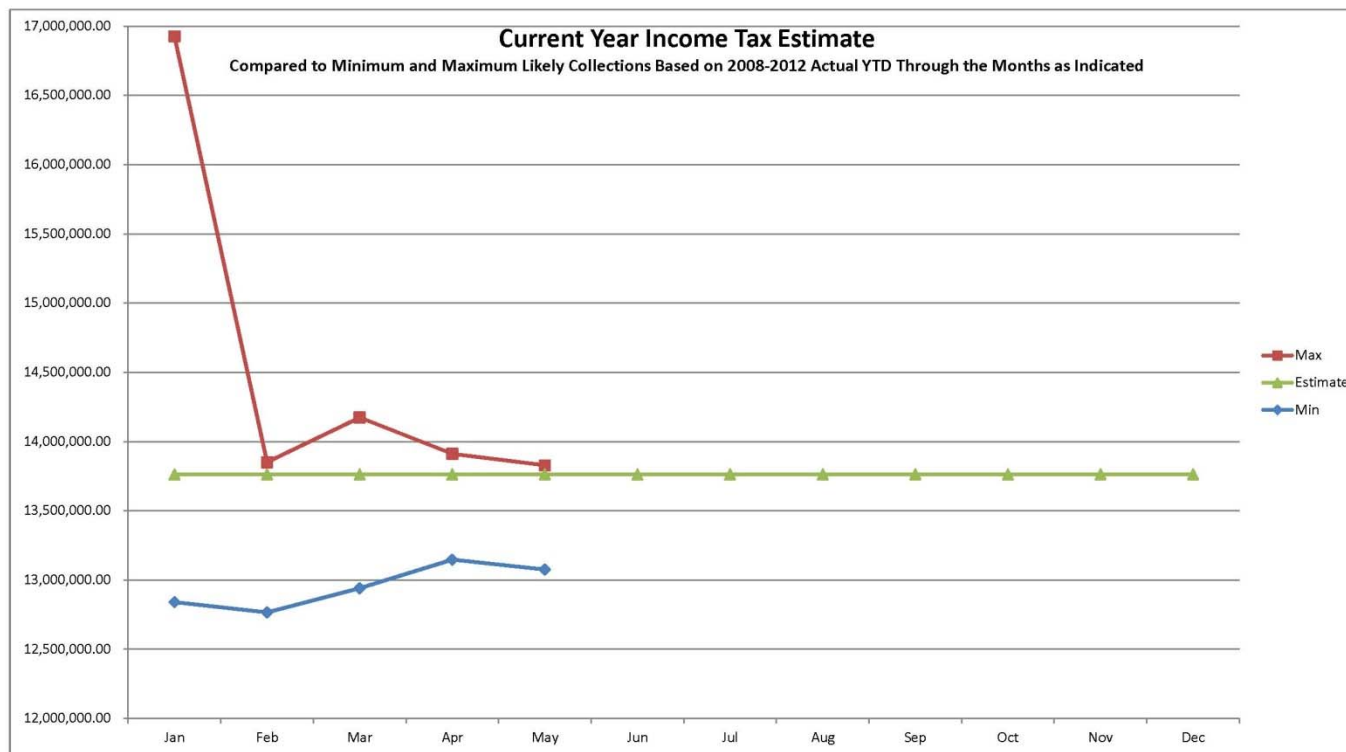
# Forecasting Methods - complex

- Revenues that have little or no monthly consistency are much more complex to forecast.
  - In the previous example, Income Tax Revenues vary widely from month to month based on factors such as:
    - The due dates for Quarterly Estimates
      - Creates peaks in February, May, August, November
    - The number of Fridays in a Month
      - Creates peaks in months with five instead of four Fridays
    - The due date for annual filing
      - Creates a peak in April and May
    - Early or Late payments by major taxpayers
      - Creates random peaks

# Forecasting Methods - complex

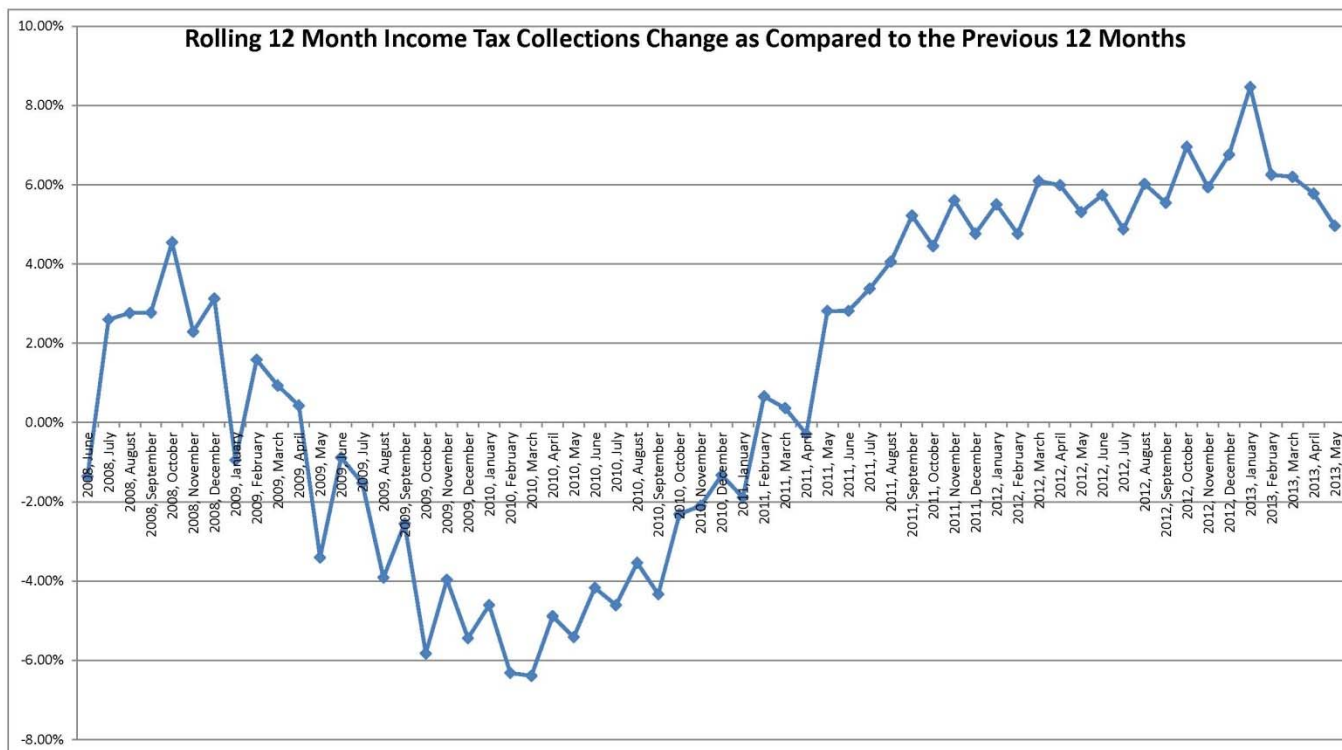


# Forecasting Methods - complex

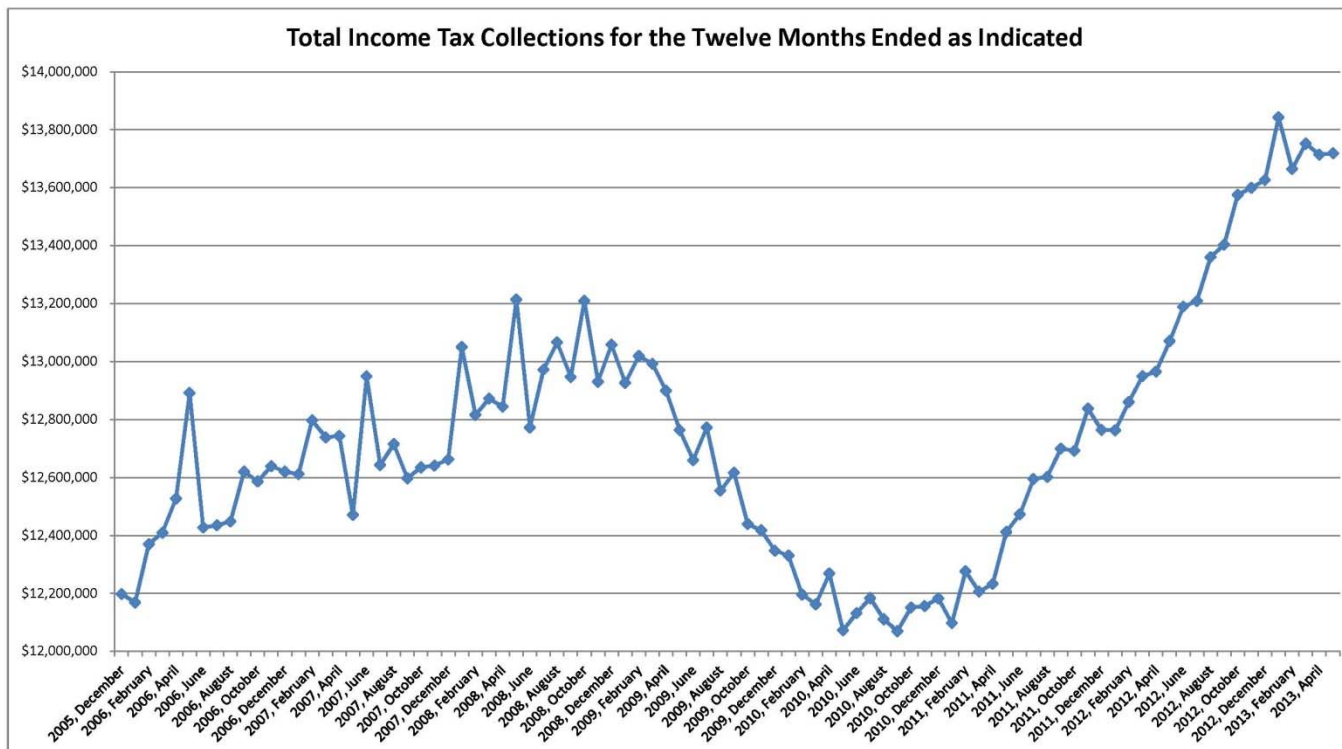




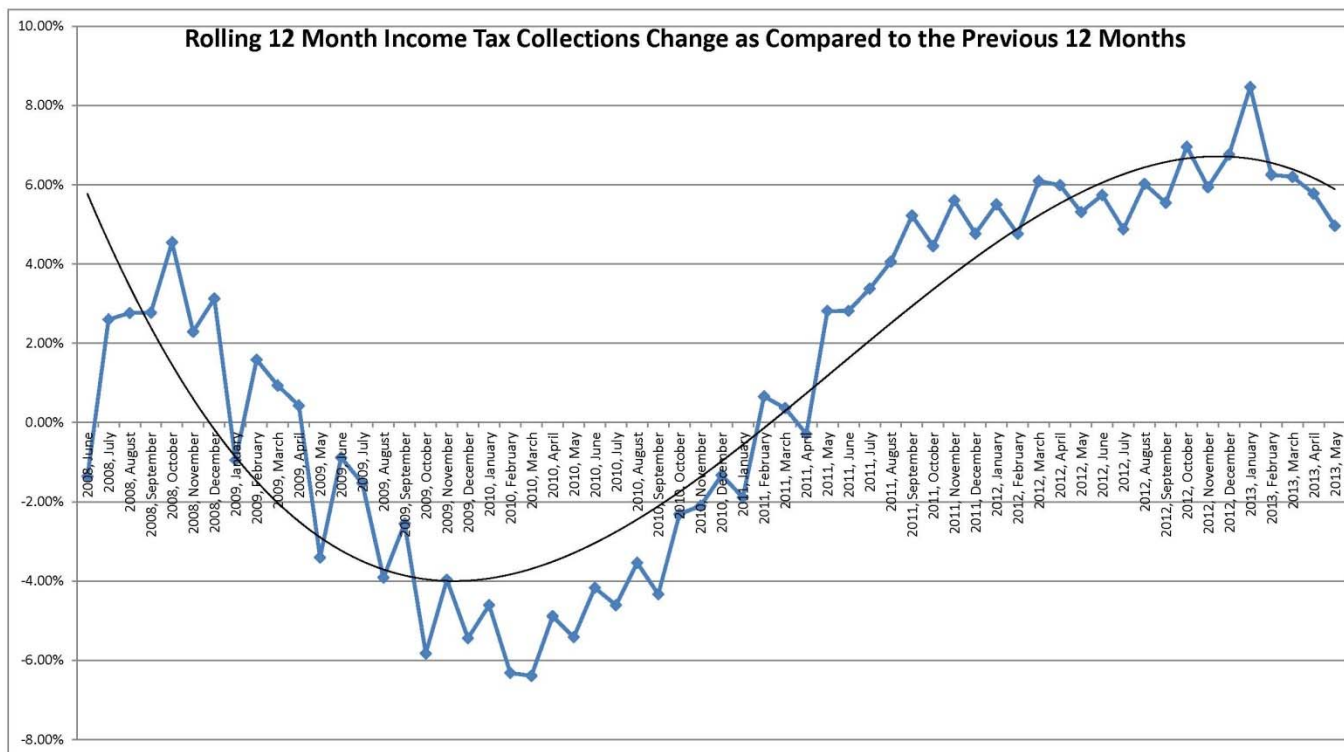
# Forecasting Methods - complex



# Forecasting Methods - complex



# Forecasting Methods - complex





# Forecasting Methods

- Revenue Items are all different
  - Some are consistent, some are variable
- Remember that the official certificate of estimated resources is by fund only
  - Revenue changes that cancel out are not relevant for commission purposes
- Major revenue items require constant monitoring
- Minor revenue items require much less attention

# Questions on Forecasting Revenues





# Budgeting Topics

- Tax Budget
- Annual Appropriation Measure
- Encumbrances
- Summary of Budget Controls
- General Comments on Budgeting



# Tax Budget

- Contents
- Purpose
- Adoption
- Certificate of Estimated Resources



## Tax Budget – Contents (ORC 5705.29)

- (A) Statement of operating expenses
- (B) Estimate of receipts and beginning balances
- (C) Amount required for debt charges
- (D) Estimate of Special Levy tax revenue





# Tax Budget - Purpose

- Allocation of property tax revenues (by County)
- Limitation of Appropriations
  - The tax budget begins the process by which State Law attempts to prevent subdivisions from spending more than they have available.
- The tax budget does not control actual expenditures



# Tax Budget - Adoption

- Must be adopted by July 15 (ORC 5705.28 (A))
  - Requirement may be waived by vote of the County Budget Commission (ORC 5705.281), but the Commission will still require such information as is necessary to perform the Commission's duties.
- Must be submitted to the County Budget Commission by July 20 under penalty of forfeiture of local government fund distribution (ORC 5705.30).



# Tax Budget – Adoption, continued

- Must be on file in the office of the fiscal officer of the subdivision at least ten days before adoption.
  - Two copies
- Public Notice
  - Newspaper of general circulation at least 10 days prior to adoption
  - Public Hearing



# Tax Budget – Adoption, continued

- Budget Commission will certify levies
- Subdivisions then must authorize the necessary levies
  - Before October 1



# Tax Budget

## Official Certificate of Estimated Resources

- Produced by the County Budget Commission in connection with the Tax Budget
  - Budget Commission is made up of the County Auditor, County Treasurer, and County Prosecutor
  - Some Counties may also have two elected members (I don't know of any, but the ORC provides for the possibility)



# Official Certificate of Estimated Resources

- Resources, not revenues
  - Includes beginning balances
- May be amended
  - Upon determination that revenues will be greater or less than the estimate (5705.36 (2))
- Shall be amended
  - If revenues will exceed the estimate and the subdivision intends to appropriate the excess (5705.36 (3))
  - If revenues will be less than the estimate and the deficiency causes appropriations to exceed the estimate (5705.36 (4))



# Limitation on Appropriations

- ORC 5705.36 (5): “The total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund in the official certificate of estimated resources, or any amendment thereof, certified prior to the making of the appropriation or supplemental appropriation.”
- ORC 5705.39:
  - Appropriations not effective unless in compliance with Official Certificate of Estimated Resources



# Annual Appropriation Measure

- Annual Appropriation Measure must be passed by no later than April 1
  - Subdivisions may use temporary appropriation measures until that time.
- Many Cities pass their budget prior to the First of the Year.





# Annual Appropriation Measure

- Appropriations may be amended
  - 5705.40: Amendments must comply with laws governing original appropriation.
  - Amendments may not reduce Appropriations below an amount sufficient to cover all contracts and obligations certified from or against the appropriation.



# Encumbrances

- All purchases must have a purchase order
- 5705.41: All contracts and orders made by a subdivision must have attached, a certificate of the fiscal officer stating that the amount required to meet the obligation has been lawfully appropriated and is in the treasury or in process of collection and free from any prior encumbrance.



# Encumbrances - continued

- Legislature may not refuse to pay on a valid purchase order, example:
  - Suppose that the City Council approved the purchase of a new desk for the Finance Director.
  - This contentious decision passed by a vote of 4-3 immediately before an election.
  - The Finance Director then issued a valid Purchase Order.
  - In the ensuing election 2 of the members in support of the desk purchase were replaced by new members in opposition to the purchase.
  - Council now opposes the purchase 5-2 but the carpenter has a valid purchase order and the new Council lacks the authority to refuse payment. (ORC 5705.40)



# Encumbrances - continued

- Special Types
  - Blanket Purchase Orders (5705.41 (D)(3))
  - Then-and-now Certificates (5705.41 (D)(1))



# Summary of Budgetary Controls

- Expenditures may not be made without a certificate of the Fiscal Officer that the amount has been lawfully appropriated and is in the treasury or in process of collection (5705.41).
- Fiscal Officer may not make such certification unless the amount has been lawfully appropriated (5705.41)
- Appropriations may not exceed the Certificate of Estimated Resources as amended (5705.36 (5) and 5705.39)
- Certificate of Estimated Resources must be kept up to date by the fiscal officer (5705.36) and is produced by the County Budget Commission (5705.35)



# General Comments on Budgeting

- Most Cities require 1 or 2 years of actual history on the budget requests.
  - More is possible and advisable.
  - No “bottom line” so the only thing you have to compare to is past experience.



# General Comments on Budgeting

- State Law (the ORC cited throughout this presentation) requires the subdivision to have a budget.
  - Does not lay out any process or timeline for passage other than the requirement to pass an Annual Appropriation Measure by April 1
  - Many Cities have a budget procedure as part of their ordinances. Medina's is attached (see below).



# Budget Timeline

Codified Ordinances of the City of Medina

## § 115.01 ANNUAL AND 5-YEAR BUDGET TIMELINE.

- (a) No later than July 20th of each year the Finance Director shall provide Council, the Mayor and all elected officials responsible for budget preparation with the estimate of available funds for the preparation of annual budget and a revenue estimate for the preparation of the five year budget.
- (b) No later than September 1st of each year the Mayor and all elected officials responsible for budget preparation shall submit to Clerk of Council all line item budget proposals which shall be immediately forwarded to the Finance Director for compilation and review for accuracy of figures.
- (c) No later than September 20th the Finance Director shall transmit the complete proposed budget to Clerk of Council.
- (d) During the month of October, Council shall hold public meetings on the proposed budgets.
- (e) No later than November 15th, all reviewed budgets shall be returned to the Finance Director for final review and compilation.
- (f) No later than November 30th the Finance Director shall provide the complete reviewed budget to Council for final passage prior to December 31st.





# General Comments on Budgeting

- Preparing a Budget before the beginning of the year allows time to consider items thoroughly.
- Preparing a Budget after the beginning of the year allows a more complete picture of the situation.
- Both have advantages and disadvantages.

# Budget Preparation

The screenshot shows a web browser interface with a navigation menu at the top containing: About Medina, Government, Departments, Residents, Business, and Vi. Below the menu, the page title is "Finance" with a sub-header "Finance". A "Files and Information" section is followed by a list of documents:

- Budget and Five Year Plan Preparation Worksheet 2014-2018 (For City Department Heads) [print icon]
- Budget Cover Sheet (For City Department Heads)
- 2013 Moodys Report
- Certificate for Achievement for Excellence in Financial Reporting, 2011 CAFR
- 2013-2017 Budget and Five Year Plan
- Certificate for Achievement for Excellence in Financial Reporting, 2010 CAFR
- 2013 Tax Budget
- 2012-2016 Budget and Five Year Plan
- 2012 Tax Budget
- 2011-2015 Budget and Five Year Plan
- Certificate for Achievement for Excellence in Financial Reporting, 2009 CAFR
- 2009 Credit Rating Upgrade
- Certificate of Achievement for Excellence in Financial Reporting, 2008 CAFR
- Water Rate Survey
- Unspent 2011 Appropriations Requested for 2012 Appropriation

On the right side of the page, there are several small icons and text fragments: "K", "3:", "kc", "R", "D", "3:", "rp".

- [http://www.medinaoh.org/Finance/Files\\_Information](http://www.medinaoh.org/Finance/Files_Information)

# Budget Preparation

		2013	2014	2015	2016	2017	2018
			Request	Request	Request	Request	Request
50111	Straight Time		-	-	-	-	-
50114	Holiday Time		-	-	-	-	-
50115	Vacation Time		-	-	-	-	-
50116	Sick Time		-	-	-	-	-
50117	Longevity		-	-	-	-	-
		2013	2014	2015	2016	2017	2018
			Request	Request	Request	Request	Request
<b>FULLTIME EMPLOYEES</b>							
Employee							
Pay Step							
HOURLY RATE							
Years of Service as of 12/31							
50111	Straight Time		-	-	-	-	-
50114	Holiday Time		-	-	-	-	-
50115	Vacation Time		-	-	-	-	-
50116	Sick Time		-	-	-	-	-
50117	Longevity		-	-	-	-	-
Employee							
Pay Step							
HOURLY RATE							
Years of Service as of 12/31							
50111	Straight Time		-	-	-	-	-
50114	Holiday Time		-	-	-	-	-
50115	Vacation Time		-	-	-	-	-
50116	Sick Time		-	-	-	-	-
50117	Longevity		-	-	-	-	-

# Questions on Budgeting





# Long Term Planning Topics

- Required v. Optional
  - Required for Schools by ORC §5705.391
  - Not required for Cities
- Gaining “buy-in”
- Preparing the plan
- Throw-away plans v. Continuing plans
- Flexibility
- Questions

# Five Year Budget Forecasting

Long-term forecasting is an essential planning tool for good financial management of local governments. It is most critical during hard economic times.

This session will provide guidance for preparing a five year operating budget and how it can be used to obtain valuable information for making sound financial decisions.



# Required v. Optional

- ORC §5705.391 requires School Districts to create a Board of Education Spending Plan
- ORC §5705.412 requires all “qualifying contracts” to have a Certificate of Revenue

# ORC §5705.391 Board of education spending plan.

(A) No later than July 1, 1998, the department of education and the auditor of state shall jointly adopt rules requiring boards of education to submit five-year projections of operational revenues and expenditures . The rules shall provide for the auditor of state or the department to examine the five-year projections and to determine whether any further fiscal analysis is needed to ascertain whether a district has the potential to incur a deficit during the first three years of the five-year period.

The auditor of state or the department may conduct any further audits or analyses necessary to assess any district's fiscal condition. If further audits or analyses are conducted by the auditor of state, the auditor of state shall notify the department of the district's fiscal condition, and the department shall immediately notify the district of any potential to incur a deficit in the current fiscal year or of any strong indications that a deficit will be incurred in either of the ensuing two years. If such audits or analyses are conducted by the department, the department shall immediately notify the district and the auditor of state of such potential deficit or strong indications thereof.

A district notified under this section shall take immediate steps to eliminate any deficit in the current fiscal year and shall begin to plan to avoid the projected future deficits.

(B) The state board of education, in accordance with sections 3319.31 and 3319.311 of the Revised Code, may limit, suspend, or revoke a license as defined under section 3319.31 of the Revised Code that has been issued to any school employee found to have willfully contributed erroneous, inaccurate, or incomplete data required for the submission of the five-year projection required by this section.

Effective Date: 06-03-2002; 09-29-2005





# ORC §5705.391 (in English)

- School Districts are required to create a five-year plan.



# ORC §5705.412

- Too long to quote in entirety
- ORC §5705.412 (in English)
  - With certain limited exceptions, School Districts may not enter into a contract unless the School District will have sufficient revenues to meet the contract

# Multi-Year Budgeting is not required for Cities

- Why do it?
  - Stability
  - Demonstrate to elected and appointed officials that spending plans are / are not sustainable
  - Solve tomorrow's problems today
  - Can make the budgeting process . . . Easier (really)
  - Potential to improve credibility / Bond Rating



# Stability

- Projecting revenues for one year is, in some ways, more difficult than projecting revenues for five years.
  - When projecting 2014 revenues you have to make assumptions about the overall economy in 2014.
  - When projecting 2014-2018 revenues it is fairly safe to assume that you will have a good year, a bad year, and three average years.
- Instead of spending the “extra” in good years and making cuts in the bad years, you can carry the “extra” from good years forward and use it to offset the shortage in bad years.

# Demonstrate to elected and appointed officials that spending plans are / are not sustainable

- Accountants sometimes have a reputation as dire predictors of doom.
- Warnings often fall on deaf ears.
- How often have you heard “The Finance Director always says we are running out of money.”

# Solving Tomorrow's Problems Today

- If 2014 appropriation requests exceed estimated resources by 10% you are probably looking at layoffs.
- If 2018 spending requests exceed estimated resources by 10% or even 25%, a reduction of 2% - 5% per year from 2014-2018 will solve the problem.

# Can make the budgeting process easier

- Seriously!
- Multi-year budgeting sounds like it will be much more difficult.
- It would take five times as long to prepare a five year budget than a one year budget.
- Not necessarily: When you prepare a one year budget you are already reviewing all of the information necessary to prepare a five-year budget.
- If you carry the previously approved years forward, then you only have to prepare five-years one time. After that you prepare one year at a time, (2018 instead of 2014).

# Potential to improve credibility / Bond Rating

- Just as multi-year budgeting can provide documentation to demonstrate to department heads and elected officials that spending plans are not sustainable,
- Multi-year budgeting can provide documentation to demonstrate to others that spending plans are sustainable.



# Credit Rating

## MOODY'S INVESTORS SERVICE

**New Issue: Moody's assigns Aa1 rating to the City of Medina's (OH) \$9.3 million GOLT Various Purpose Refunding Bonds, Series 2013A (Tax-Exempt) and \$5.1 million GOLT Various Purpose Refunding Bonds, Series 2013B (Taxable)**

Global Credit Research - 30 May 2013

**Aa1 rating applies to \$30.4 million post-sale general obligation limited tax debt**

MEDINA (CITY OF) OH  
Cities (including Towns, Villages and Townships)  
OH

### Moody's Rating

ISSUE		RATING
General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013A		Aa1
<b>Sale Amount</b>	\$9,275,000	
<b>Expected Sale Date</b>	06/05/13	
<b>Rating Description</b>	General Obligation Limited Tax	
General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013B (Federally Taxable)		Aa1
<b>Sale Amount</b>	\$5,125,000	
<b>Expected Sale Date</b>	06/05/13	
<b>Rating Description</b>	General Obligation Limited Tax	



# Moody's Report

- “SUMMARY RATINGS RATIONALE
- Debt service on the bonds is secured by the city's general obligation limited tax pledge, subject to the State of Ohio's (general obligation rated Aa1/stable) 10 mill limitation. Proceeds from the Series 2013A and 2013B bonds will refund the city's outstanding General Obligation Various Purpose Bonds Series 2010B for net present value savings. Assignment and maintenance of the Aa1 rating reflects the city's modestly sized tax base located near Cleveland (general obligation rated A1/stable outlook) and Akron (general obligation rated Aa3); **strong financial operations characterized by conservative budgeting, multi-year financial plans**, and ample reserve levels; some reliance on economically sensitive income tax revenues; and an above average debt burden.”
- **Emphasis added**



## Moody's Report (cont)

- “STRONG FINANCIAL OPERATIONS WITH HEALTHY RESERVES AND CONSERVATIVE BUDGETING; SOME RELIANCE ON ECONOMICALLY SENSITIVE INCOME TAX REVENUES
- The city's financial operations are expected to remain strong due to the presence of ample reserves, internal controls, conservative budgeting and **detailed long range financial planning.**”
- **Emphasis added.**



# Gaining “buy-in”

- The Finance Department can not implement five-year budgeting without support.
  - More precisely, it might be possible, but it would be an exercise in futility.
- Planning ahead can be a politically popular ideal for elected officials.
- I have no copyrights on phrases such as:
  - “Solving tomorrow’s problems today”



# Gaining “buy-in” continued

- To be effective the plan must be:
  - Supported by Council / Administration
  - Prepared in conjunction with a realistic revenue estimate
  - Realistically prepared
  - Understood by Council / Administration



# Supported by Council / Administration

Codified Ordinances of the City of Medina

## § 115.01 ANNUAL AND 5-YEAR BUDGET TIMELINE.

- (a) No later than July 20th of each year the Finance Director shall provide Council, the Mayor and all elected officials responsible for budget preparation with the estimate of available funds for the preparation of annual budget and a revenue estimate for the preparation of the five year budget.
- (b) No later than September 1st of each year the Mayor and all elected officials responsible for budget preparation shall submit to Clerk of Council all line item budget proposals which shall be immediately forwarded to the Finance Director for compilation and review for accuracy of figures.
- (c) No later than September 20th the Finance Director shall transmit the complete proposed budget to Clerk of Council.
- (d) During the month of October, Council shall hold public meetings on the proposed budgets.
- (e) No later than November 15th, all reviewed budgets shall be returned to the Finance Director for final review and compilation.
- (f) No later than November 30th the Finance Director shall provide the complete reviewed budget to Council for final passage prior to December 31st.

# Prepared in conjunction with a realistic revenue estimate

- § 115.01 (a) No later than July 20th of each year the Finance Director shall provide Council, the Mayor and all elected officials responsible for budget preparation with the **estimate of available funds** for the preparation of annual budget and a **revenue estimate** for the preparation of the five year budget.
- The “Estimate of Available Funds” is analogous to the Certificate of Estimated Resources and includes estimated beginning balances.
- The revenue estimate is an estimate of revenue only.



# Realistically Prepared

- The revenue estimate is prepared by the Finance Department
  - Revenue estimate sheets display four years of actual history
    - 10 + years are easily available for review
  - For the current year
    - Original Estimate
    - Updated Estimate
    - YTD through 6/30



# Understood by Council / Administration

- This presentation helps by allowing officials to see many years of revenue/expenditures at once.

City of Medina  
Cash Report for Selected Funds  
Actual for the Years Ended December 31, 2007-2012 and  
Projected for the Years Ending December 31, 2013-2018

Year	Beg Bal	Revenue	Expenditures	End Bal	% of Rev	Surplus/(deficit)
104 Recreation Operating						
2007	918,085.91	1,275,257.88	1,019,187.11	1,174,156.68	92.07%	256,070.77
2008	1,174,156.68	1,096,412.00	1,004,199.97	1,266,368.71	115.50%	92,212.03
2009	1,266,368.71	984,885.41	1,130,634.45	1,120,619.67	113.78%	(145,749.04)
2010	1,120,619.67	1,008,250.90	945,390.85	1,183,479.72	117.38%	62,860.05
2011	1,183,479.72	1,093,605.42	894,479.04	1,382,606.10	126.43%	199,126.38
2012	1,382,606.10	1,121,499.91	1,005,084.03	1,499,021.98	133.66%	116,415.88
2013	1,499,021.98	1,080,000.00	1,935,183.62	643,838.36	59.61%	(855,183.62)
2014	643,838.36	1,121,500.00	1,115,713.00	649,625.36	57.92%	5,787.00
2015	649,625.36	1,143,500.00	1,140,734.00	652,391.36	57.05%	2,766.00
2016	652,391.36	1,165,000.00	1,157,498.00	659,893.36	56.64%	7,502.00
2017	659,893.36	1,186,500.00	1,193,390.00	653,003.36	55.04%	(6,890.00)
2018	653,003.36	1,209,000.00	1,221,421.00	640,582.36	52.98%	(12,421.00)



# Preparing the Plan

## **115.02 ANNUAL AND 5-YEAR BUDGET PROCEDURE.**

- (a) Budgets worksheets shall be presented and reviewed in line item form and shall be accompanied by Vehicle Inventory/Expenditure Request and Personnel worksheets. Budget worksheets shall include at a minimum the next fiscal year request for appropriation as well as the next four year projections, a four year actual history for all accounts that have activity in the prior fiscal year, the current fiscal year or a request for appropriation, and the unspent appropriation from the prior year that is re-appropriated by Council as carry forward.

New or additional line items shall be created by the Finance Director at the request of Council for the purpose of clearly outlining public expenditures.

- (b) The finally approved budget shall be appropriated in the following categories:

Account Nos. 111-119 & 141	Salaries and Wages
Account Nos. 121-131	Other Professional Services
Account Nos. 211-234	Contractual Services
Account Nos. 311-322	Operation/Maintenance
Account Nos. 411-418	Capital Outlay
Account Nos. 511-512	Debt Service
Account Nos. 611-615	Transfers/Reimbursements

Administrative appropriation adjustments between any of the above specified categories shall be permitted upon the written approval of the Elected Official responsible for the department subject to the availability of unencumbered appropriations. Appropriation adjustments between departments or funds have to be approved by Council. A copy of all administrative adjustments shall be filed once a week in the Council office.



# Throw-away plans v. Continuing plans

- Most Finance Directors have worked on 5-year plans.
  - Many of those plans are completed then put in a drawer and never consulted again.
  - How to avoid this?
    1. Get “buy-in” as discussed above.
    2. Include previously approved amounts in the following year’s plan: In Medina when we do the 2014-2018 plan the “previously approved” amounts for 2014-2017 are included. This brings us to . . .

Line Item	Classification	2014 13-17 Plan	2014 Request	2015 13-17 Plan	2015 Request	2016 13-17 Plan	2016 Request	2017 13-17 Plan	2017 Request	2018 Request
	# Married Healthcare	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
	# Single Healthcare	3.00	2.00	3.00	2.00	3.00	2.00	3.00	2.00	2.00
	# Opt-Out	8.00	9.00	8.00	9.00	8.00	9.00	8.00	9.00	9.00
	# Opt-Down									
50111	Straight Time	2,571,389.00	2,473,827.00	2,657,547.00	2,565,091.00	2,727,987.00	2,660,481.00	2,809,826.00	2,760,236.00	2,861,275.00
50112	Overtime	195,000.00	210,000.00	198,000.00	219,000.00	210,000.00	228,000.00	237,000.00	237,000.00	240,000.00
50113	Call Back									
50114	Holiday Time	99,456.00	97,663.00	102,439.00	101,351.00	105,513.00	105,211.00	108,678.00	109,253.00	113,341.00
50115	Vacation Time	149,183.00	146,495.00	159,670.00	152,026.00	158,269.00	157,816.00	163,017.00	163,880.00	170,012.00
50116	Sick Time	99,456.00	97,663.00	129,486.00	101,351.00	105,513.00	105,211.00	108,678.00	109,253.00	113,341.00
50117	Longevity	24,300.00	21,564.00	24,804.00	22,068.00	27,036.00	23,328.00	29,304.00	26,640.00	27,144.00
50118	Shift Premium	5,000.00	5,000.00	6,000.00	6,000.00	5,000.00	5,000.00	6,000.00	6,000.00	5,000.00
50119	Miscellaneous		67,164.00		42,805.00					
50141	Boards & Commissions									
<b>Total Salaries and Wages</b>		<b>3,143,784.00</b>	<b>3,119,376.00</b>	<b>3,277,946.00</b>	<b>3,209,692.00</b>	<b>3,339,318.00</b>	<b>3,285,047.00</b>	<b>3,462,503.00</b>	<b>3,412,262.00</b>	<b>3,530,113.00</b>
51121	Employee Retirement	30,541.00	26,606.00	31,485.00	27,704.00	32,441.00	28,895.00	33,373.00	30,157.00	31,090.00
51122	Employee Hospitalization	627,764.00	624,412.00	674,886.00	670,882.00	725,828.00	721,119.00	780,846.00	775,377.00	833,934.00
51123	Workers' Compensation	94,314.00	93,582.00	98,339.00	96,291.00	100,180.00	98,552.00	103,876.00	102,368.00	105,904.00
51124	Unemployment Compensation									
51125	Insurance Benefits	20,000.00		20,000.00		20,000.00		20,000.00		
51126	Medicare	45,585.00	45,231.00	47,531.00	46,541.00	48,421.00	47,634.00	50,207.00	49,478.00	51,187.00
51129	Misc. Personal Services									
51131	Uniform Allowance	47,526.00	52,000.00	50,290.00	51,000.00	50,290.00	51,000.00	51,000.00	51,000.00	51,000.00
<b>Total Personal Services</b>		<b>865,730.00</b>	<b>841,831.00</b>	<b>922,531.00</b>	<b>892,418.00</b>	<b>977,160.00</b>	<b>947,200.00</b>	<b>1,039,302.00</b>	<b>1,008,380.00</b>	<b>1,073,115.00</b>
52211	Education and Travel	12,000.00	32,000.00	12,000.00	32,000.00	12,000.00	32,000.00	12,000.00	32,000.00	32,000.00
52212	Utilities and Communications	20,000.00	10,000.00	25,000.00	10,000.00	25,000.00	10,000.00	26,000.00	10,000.00	10,000.00
52213	Insurance and Taxes	40,000.00	24,000.00	40,000.00	24,000.00	40,000.00	24,000.00	41,600.00	24,000.00	24,000.00
52214	Advertising Expense	500.00		500.00		500.00		520.00		
52215	Contractual Service	4,000.00	4,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,200.00	5,000.00	5,200.00
52221	State Examiner									
52222	County Auditor / Treasurer									
52223	Election Expense									
52224	Engineering Services									
52225	Legal Services									
52226	Professional Services	8,000.00	11,000.00	8,000.00	11,000.00	8,000.00	11,000.00	8,320.00	11,000.00	11,000.00
52232	Rental of Equipment									
52234	Rental of Facilities									
<b>Total Contractual Services</b>		<b>84,500.00</b>	<b>81,000.00</b>	<b>90,500.00</b>	<b>82,000.00</b>	<b>90,500.00</b>	<b>82,000.00</b>	<b>93,640.00</b>	<b>82,000.00</b>	<b>82,200.00</b>

53311	Office Supplies	12,000.00	9,000.00	14,000.00	9,000.00	14,000.00	9,000.00	15,000.00	9,000.00	9,000.00
53312	Chemicals									
53313	Operating Supplies	25,000.00	12,000.00	26,000.00	12,000.00	26,000.00	12,000.00	27,000.00	12,000.00	12,000.00
53314	Gasoline and Oil	90,000.00	78,000.00	90,000.00	78,000.00	95,000.00	78,000.00	96,000.00	78,000.00	78,000.00
53315	Tools and Minor Equipment	5,000.00	45,000.00	13,000.00	45,000.00	10,000.00	45,000.00	10,000.00	45,000.00	45,000.00
53321	Maintenance of Equipment	57,000.00	62,000.00	60,000.00	62,000.00	70,000.00	62,000.00	70,000.00	62,000.00	62,000.00
53322	Maintenance of Facilities	2,675.00	12,000.00	4,674.00	12,000.00	4,917.00	12,000.00	5,000.00	12,000.00	12,000.00
Total Operations and Maintenance		191,675.00	218,000.00	207,674.00	218,000.00	219,917.00	218,000.00	223,000.00	218,000.00	218,000.00
54411	Land and Improvements									
54412	Building and Structures									
54413	Equipment		12,000.00		12,000.00		12,000.00		12,000.00	12,000.00
54414	Street Resurfacing / Maintenance									
54415	Sidewalks and Curbs									
54416	Traffic Lights and Signs									
54417	Vehicles	70,000.00	100,000.00	70,000.00	60,000.00	70,000.00	60,000.00	70,000.00	60,000.00	60,000.00
54418	Water System Maintenance									
Total Capital Outlay		70,000.00	112,000.00	70,000.00	72,000.00	70,000.00	72,000.00	70,000.00	72,000.00	72,000.00
55511	Payment of Principal									
55512	Payment of Interest									
Total Debt Service		-	-	-	-	-	-	-	-	-
56611	Transfers									
56612	Refunds									
56613	Reimbursements									
56614	Extradition / Rewards									
56615	Advances									
Total Transfers / Reimbursements		-	-	-	-	-	-	-	-	-
Police Department Total		4,355,689.00	4,372,207.00	4,568,651.00	4,474,110.00	4,696,895.00	4,604,247.00	4,888,445.00	4,792,642.00	4,975,428.00



# Flexibility

- The previously approved amounts are included for the first four years of the plan, but there are also columns for “new requests”.
- Flexibility is imperative in multi-year planning because obviously circumstances change.



# Flexibility continued

- A fine line to walk:
  - If the plan is too rigorously adhered to there will be several problems:
    1. Department heads will learn to inflate their requests to protect against price increases.
    2. Price increases outside the control of Department Heads will end up costing Department Heads needed funds
    3. Price decreases outside the control of Department Heads will provide Department Heads with a windfall.



# Flexibility continued

- A fine line to walk
  - If the plan is not adhered to rigorously enough there will be several problems:
    1. Workload
      - Department Heads and the Finance Department will have to create a 5-year plan from scratch every year.
    2. Futility
      - Why bother doing all the work to create a 5-year plan if you are only using the first year of it anyway?





# Long Term Planning Conclusion

- Required for Schools, optional for Cities
- Buy-in from officials is critical
- Preparing the plan
- Throw away plans v. Continuing plans
- Flexibility

# Questions?

