

**New to the Finance Committee:
Budgeting 101—Part 1**

ASSOCIATION OF TOWN FINANCE COMMITTEES
OCTOBER 20, 2012

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NORTHBOROUGH, MA

Overview

- **GFOA Distinguished Budget Award**
 - Best Practices in Public Budgeting
- **What information to look for and where to find it**
 - The anatomy of a good budget
- **Questions you should be asking**

Overview

- **There is no mandated format for budget documents**
- **Every town is different in terms of its formal structure, culture and informal practices**
- **There are no right or wrong approaches, but there are best practices that can provide common ground for those involved in the budget process**

GFOA BEST PRACTICES

- **Government Finance Officers Association (GFOA) Distinguished Budget Award**
 - Only national awards program in governmental budgeting
 - Promotes best practices in public budgeting
 - Focus on transparency and accountability
 - Provides independent review and critique of a municipality's budget documents
 - Only good for one year so there is a focus on continuous improvement

GFOA BEST PRACTICES

- **Evaluation criteria is based upon the four essential purposes a budget must serve as:**
 - Policy Document—identifying the Town's financial goals, objectives and guiding policies;
 - Financial Plan—presenting the Town's current financial condition, stating assumptions and projecting where things are headed based upon those assumptions;
 - Operations Guide—describing the municipal services and operations, measuring their efficiency and effectiveness;
 - Communications Device—articulating the Town's challenges and priorities, goals and objectives.

GFOA DISTINGUISHED BUDGET AWARD

- Three reviewers somewhere across the country review your budget based upon twenty-seven different evaluation criteria
- Reviewers must rate your budget as "Proficient" in the various categories to qualify
- Failure to be rated as proficient in any one of the fourteen mandatory criteria results in disqualification. These fourteen requirements represent the minimum standards of a quality budget document and process.

GFOA BEST PRACTICES

- **Mandatory Criteria #1:** The document shall include a **table of contents** that makes it easier to locate information in the document.
 - Detailed indices preceding individual sections can be helpful, but they are not a substitute for a single comprehensive table of contents. Care should be taken in developing budget or electronic page number references in the table of contents, so they agree with the related page numbers in the budget document or electronic submission.

GFOA BEST PRACTICES

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GFOA BEST PRACTICES

- **Mandatory Criteria #2:** The document shall include a **budget message** that articulates priorities and issues for the upcoming year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The message may take one of several forms (e.g., transmittal letter, budget summary section).
 - This criterion requires a summary explanation of key issues and decisions made during the budget process. The budget message also should address the ramifications of these decisions. It is recommended that the total amount of the budget be included in the budget message.

- **Northborough's Budget Message includes:**
 - Goals of the upcoming budget
 - Financial outlook and recent developments (i.e., state aid)
 - Budget in brief
 - Position FTE summary table for entire organization
 - Summary of the Capital Budget Expenditures
 - Previous year's accomplishments
 - Summary of major upcoming issues and projects

Budget in Brief

EXPENDITURES	FY2012 Budget	FY2013 Proposed	Variance	% Change
General Government (Town)	\$16,576,910	\$17,279,247	\$702,337	4.24%
Schools				
Northborough K-8	\$18,702,867	\$19,495,277	\$792,410	4.24%
Algonquin Reg. HS 9-12	\$7,817,716	\$8,100,321	\$282,605	3.61%
HS Debt Exclusion	\$1,267,629	\$1,289,084	\$21,465	1.69%
Assabet Valley	\$517,488	\$656,645	\$139,157	26.88%
Warrent Articles				
Reserve Fund	\$150,000	\$150,000	\$0	0.00%
Free Cash Capital Projects	\$804,000	\$615,000	-\$189,000	-23.51%
Free Cash Emergency Exp	\$0	\$100,000	\$100,000	100.00%
Zeh School Debt	\$520,567	\$500,040	-\$19,527	-3.75%
Colburn St. Debt Service	\$79,997	\$79,993	-\$4	-0.04%
Library Debt Service	\$424,995	\$419,595	-\$5,400	-1.27%
Senior Center Debt Service	\$609,135	\$599,855	-\$9,280	-1.52%
Other Funds	\$392,079	\$373,365	-\$18,714	-4.77%
Adjustments	(\$119,239)	\$0	\$119,239	
Subtotal General Fund	\$47,744,144	\$49,659,402	\$1,915,258	4.01%
Water Enterprise Funds	\$1,922,930	\$2,017,630	\$94,700	4.92%
Sewer Enterprise Fund	\$1,311,875	\$1,368,932	\$57,057	4.35%
Solid Waste Enterprise Fund	\$727,570	\$781,090	\$53,520	7.36%
Subtotal Enterprise Funds	\$3,962,375	\$4,167,652	\$205,277	5.18%
TOTAL ALL FUNDS	\$51,706,519	\$53,827,054	\$2,120,535	4.10%

GFOA BEST PRACTICES

- **Mandatory Criteria #3:** The document should provide an overview of significant budgetary items and trends. An overview should be presented within the budget document either in a separate section (e.g., executive summary) or integrated within the transmittal letter or as a separate budget-in-brief document.

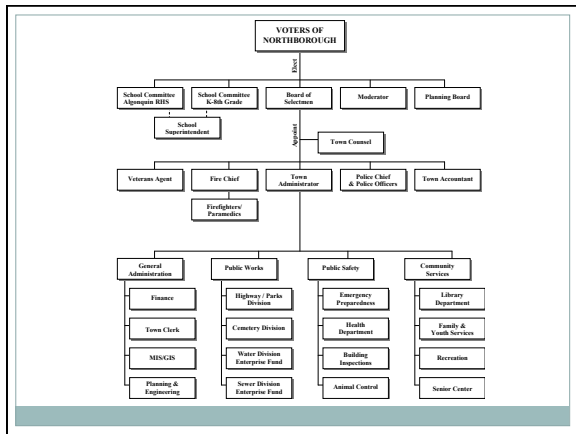
- The intent of this criterion is to help readers quickly understand major budgetary items and trends (revenues, expenditures, and capital). Highlighting, indentation, bullet points, outlines, tables, or graphs may help in communicating this information. If a budget-in-brief is published as a separate document, inclusion of easy to read summary financial information in the main budget document is encouraged.

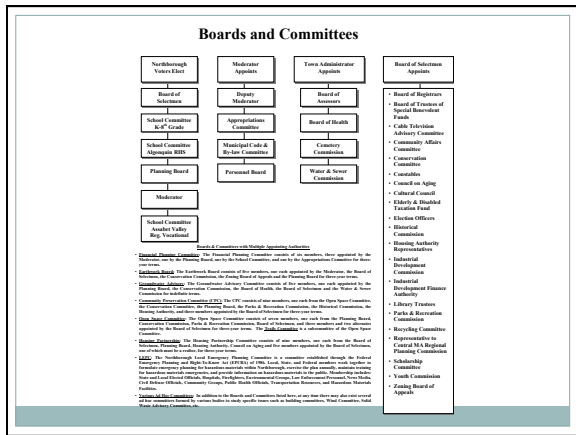
- Town Administrator’s Budget Message 1-13
- **SECTION 1—BUDGET SUMMARIES**
- Balanced Budget Summary 1-2
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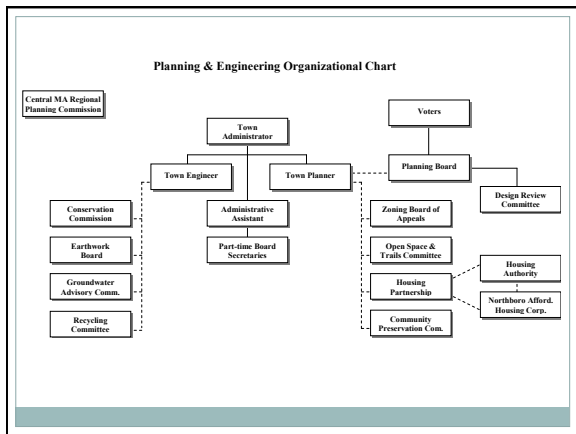
GFOA BEST PRACTICES

- **Mandatory Criteria #4:** The document shall include an organization chart(s) for the entire entity.

- This criterion requires that an organizational chart be presented only for the overall entity. Organizational charts for individual units are not required. When organizational charts are provided for individual units within the entity, those charts should be presented in such a way as to underscore the link between the individual unit and the overall entity.
- Be consistent in how the organizational charts are presented throughout the document







GFOA BEST PRACTICES

- **Mandatory Criteria #5:** The document should include a coherent statement of entity-wide long-term financial policies.
 - Financial policies that should be included (but not limited to) and formally adopted relate to: (1) financial planning policies, (2) revenue policies, and (3) expenditure policies. The entity should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, and cash management and investment policies.

GFOA BEST PRACTICES

- **Mandatory Criteria #6:** The document shall describe the process for preparing, reviewing, and adopting the budget for the coming fiscal year. It also should describe the procedures for amending the budget after adoption.
 - This criterion requires a concise narrative description of the budget process, including an explanation of relevant legal or policy requirements. This description should include the internal process to prepare the budget, the opportunities for public input, and the actual adoption of the budget. A budget calendar should be included (noting both key operating and capital dates), although its format may vary.

BUDGET CALENDAR

- Identify Goals & Strategic Needs
August/September
- Capital Budget Manual sent out to Departments
October
- Capital Requests Submitted & Reviewed by Financial Planning Committee
November
- Operating Budget Request Manual sent out to Departments
December
- Town Administrator Reviews Requests and Develops Operating Budget
- Town Administrator & Financial Planning Committee Develop Capital Budget
January/February
- Proposed Capital Budget Presented to Appropriations Committee
- Preliminary Operating Budget Presented to Appropriations Committee
February/March
- Appropriations Committee Holds Public Budget Hearings with Departments
- Proposed Budget Presented to Board of Selectmen and Appropriations Committee
April
- Proposed Operating and Capital Budgets Presented to Annual Town Meeting
June/July
- June 30th Current Fiscal Year 2012 Ends
- July 1st Fiscal Year 2013 Begins
- State Budget typically passed with Final State Aid numbers (a/k/a "Cherry Sheets")
November
- Tax Classification Hearing & Final Tax Rate Set

GFOA BEST PRACTICES

- **Citizens Guide to the Budget**
 - Explains the Budget Process
 - Provides a Budget Calendar
 - Explains the anatomy of the document and how to read the budget

GFOA BEST PRACTICES

- **Mandatory Criteria #7: The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.**
 - This criterion requires a summary of the revenues and other financing sources and expenditures and other financing uses of all appropriated funds in one place in the budget document. Other funds may be included in this schedule, but appropriated funds must be included. Both revenues and other financing sources and expenditures and other financing uses must be presented either (1) together in a single schedule OR (2) in separate but adjacent/ sequential schedules OR (3) in a matrix. Merely showing fund totals in a summary schedule is not proficient.

GFOA BEST PRACTICES

- **Mandatory Criteria #8: The document must include summaries of revenues and other financing sources, and of expenditures and other financing uses for the prior year actual, the current year budget and/or estimated current year actual, and the proposed budget year.**
 - This criterion requires a schedule(s) that includes both revenues and other financing sources and expenditures and other financing uses for at least three budget periods (prior year actual, current year, and budget year).

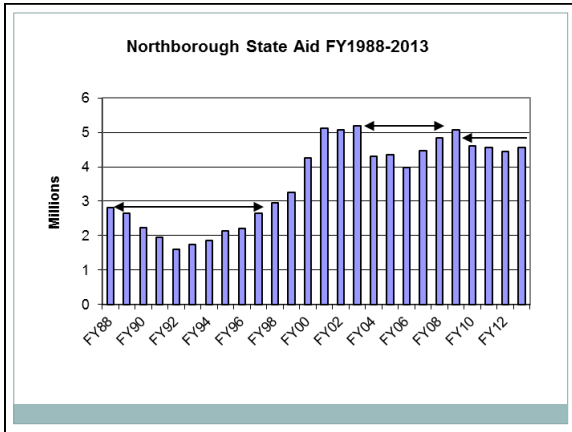
	FY2009	FY2010	FY2011	FY2012	FY2012	FY2013
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
HEALTH DEPARTMENT						
Personnel Services						
51100 Health Agent	51,207	60,581	60,417	63,972	23,492	65,878
51120 Part-time Animal Inspector	6,000	1,500	0	0	0	0
51130 Part-time Plumbing Inspector	11,220	12,001	17,874	14,288	17,346	14,417
51140 Administrative Assistant wages	47,852	49,705	51,187	52,143	23,893	53,061
51220 Temporary wages	0	0	0	0	0	0
51410 Longevity Pay	200	200	275	350	350	550
SUBTOTAL	116,479	123,987	129,763	130,763	65,081	133,906

GFOA BEST PRACTICES

- **Mandatory Criteria #9:** The document shall include projected changes in fund balances, as defined by the entity in the document, for appropriated governmental funds included in the budget presentation.
 - This criterion requires that beginning and ending fund balances, as defined by the entity in the budget document, be shown for the budget year, as well as revenues, expenditures, and other financing sources/uses.
 - What is happening with stabilization fund, free cash?

GFOA BEST PRACTICES

- **Mandatory Criteria #10:** The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.
 - This criterion requires that the major revenues of the appropriated funds in the aggregate be identified and described. If an outside source (e.g., another government or consulting firm) provides an estimate of the revenue for the budget year, that fact must be clearly stated.
 - Taxes, State Aid, Local Receipts and Available Funds

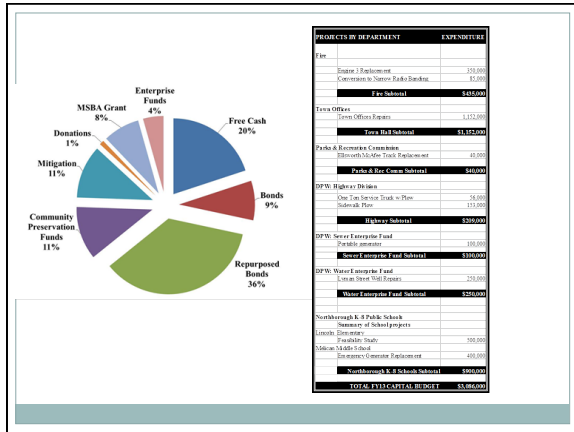


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- **Mandatory Criteria #11:** The document should explain long-range financial plans and its effect upon the budget and the budget process.
 - This criterion requires the identification of long-range financial plans that extend beyond the budget year. The impacts of the long-range financial plan upon the current budget and future years should be noted.
 - Five-year Financial Forecasts, Fiscal Indicators Report, etc.

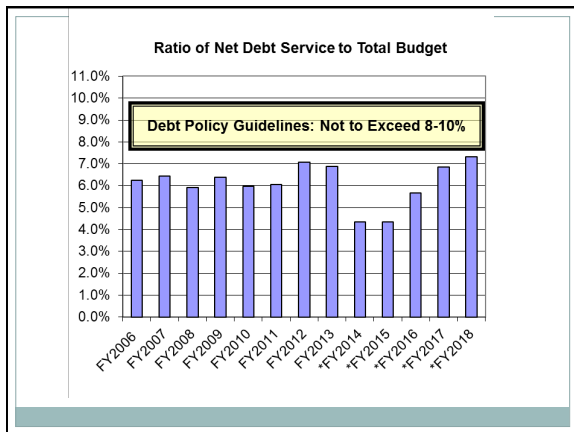
GFOA BEST PRACTICES

- **Mandatory Criteria #12:** The document should include budgeted capital expenditures, whether authorized in the operating budget or in a separate capital budget.
 - This criterion does not mandate any particular definition of "capital expenditures," only that whatever definition is being used by the entity be disclosed. After defining capital expenditures, the entity should indicate the total dollar amount of such expenditures for the budget year.
 - Current Fiscal Year Capital Budget and Six-year Capital Improvement Plan (CIP)



GFOA BEST PRACTICES

- **Mandatory Criteria #13:** The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current operations.
 - Entities should describe their legal debt limits. The legal debt limits may be expressed in terms of total dollars, millage rates, or percentages of assessed value. A graph may supplement the calculation, but may not be a substitute for the calculation.
 - What are your policies regarding debt? Will you still be in compliance if you approve this capital budget?



BOND RATING SYMBOLS

Moody's Investor Service
Aaa
Aa1
→ Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3
B1
B2
B3

GFOA BEST PRACTICES

- **Mandatory Criteria #14: A schedule or summary table of personnel or position counts for prior, current and budgeted years shall be provided.**
 - This criterion requires a presentation of position counts or full time equivalents (FTEs) within the entity. Presentation may be by position and/or by summaries of positions. Position summaries within individual departments may supplement, but not be a substitute for, the position counts on the consolidated schedule.
 - Be consistent in how these are shown and link departmental tables to the summary table.

TOWN OF NORTHBOROUGH PERSONNEL SUMMARY FY2010-FY2013

Town Government	FY 2010 FTE	FY 2011 FTE	FY 2012 FTE	FY 2013 FTE	Change FY12-FY13
Executive Office	3.75	3.75	3.75	3.75	0.00
Public Buildings	0.50	0.50	0.50	0.50	0.00
Financial Offices	9.25	9.25	9.25	9.25	0.00
MIS/GIS	2.00	2.00	2.00	2.00	0.00
Town Clerk's Office	2.00	2.00	2.00	2.00	0.00
Planning & Engineering	3.21			73	0.50
Police Department				0	0.00
Fire Department				17.67	-0.04
Building Department				2.80	0.00
Health Department				2.20	0.00
Dog Officer				1.00	0.00
Department of Public				16.75	16.75
Senior Center/CDA	2.89	2.89	2.86	3.00	0.14
Library	9.19	9.51	9.16	9.15	-0.01
Recreation	2.00	2.00	2.00	2.00	0.00
Family & Youth Services	1.96	1.96	1.96	1.96	0.00
Cable Access TV	1.75	1.75	1.75	1.75	0.00
Veterans Services	0.29	0.29	0.29	0.29	0.00
Town Subtotal	108.77	109.11	108.81	108.53	-0.28
School Department (K-8)					
K-5 Teachers	62.50	62.50	63.50	64.00	0.50
Grade 6-8 Teachers	34.20	34.20	33.40	33.40	0.00
Specialists	34.30	34.30	35.30	35.80	0.50
Special Education Staff	37.60	37.60	37.60	38.80	1.20
Administration	6.00	6.00	6.00	6.00	0.00
Support Staff	96.60	96.60	96.60	105.60	9.00
K-8 Schools Subtotal	271.20	271.20	272.40	283.60	11.20
Total Town & K-8 FTEs	379.97	380.31	381.21	392.13	10.92

FIRE DEPARTMENT				
Personnel Summary				
Position	FY 2010 FTE	FY 2011 FTE	FY 2012 FTE	FY 2013 FTE
Fire Chief	1	1	1	1
Fire Captain	4	4	4	4
Firefighter / EMT Basic	2	2	2	2
Firefighter / EMT Intermediate	1	1	1	1
Firefighter / Paramedic	9	9	9	9
Fire Marshal	0.25	0.25	0.25	0.25
Administrative Assistant	1	1	1	1
Office Assistant (ambulance billing)	0.18	0.18	0.18	0.18
Hazardous Materials Assistant	0.48	0.48	0.48	0.48
Call Firefighters	0.82	0.82	0.80	0.76
Total Full-time Equivalent	19.73	19.73	19.71	19.67

Concluding Thoughts

- **Benefits of pursuing the GFOA Distinguished Award**
 - Focuses the Financial Staff and Boards on a clear set of goals and standards to work toward
 - Improves communication and support for the budget at all levels
 - Minimizes accusations that budget is not transparent or easily understandable by design
 - Provides third party assessments and a process for continuous improvement

Concluding Thoughts

- **Where/how to begin?**
 - Approach it incrementally in and agreed upon priority schedule negotiated between staff and board members
 - Designate a point person or team
 - Develop and adopt comprehensive Financial Policies!
 - Start standardizing information, especially personnel tables and organizational charts
 - Create coherent "Budget Message," "Revenue Summary" and "Expenditure Summary" sections for the budget document
 - Work with departments to standardize their individual budget submissions