

# BUDGETING BASICS



## A look at the budget process, common elements and current law

By Deborah Bond

A city's adopted budget is one of the most important and informative documents city officials will use. In simple terms, the city's budget is a financial plan that is prepared for one fiscal year or a two-year (biennial) cycle. Cities in Oregon operate within a fiscal year that begins July 1 and concludes the following June 30, or some cities will use a biennial budget, which covers a 24-month period beginning July 1 of the first fiscal year and ending on June 30 of the second fiscal year.

The adopted budget is a legal document that establishes the authorization to receive and spend money, and limits how much money can be spent for a specific activity or program. It presents the estimated costs of expenditures (goods or services the city plans to purchase in the coming fiscal year) and other budget requirements (contingency for unanticipated expenses) that must be planned for, but may not actually be spent. It also presents the anticipated and actual revenues that will be available to pay for those expenditures.

Budgeting is actually a cycle, which takes 12 months to complete. The budgeting process in Oregon has nine required steps, composed of four phases in which the budget is: prepared, approved, adopted and executed. After adopting the budget, the governing body makes the necessary appropriations and certifies to the county assessor the tax to be imposed. In order to levy taxes through a county assessor, cities must prepare a budget following the specific process as set out in state law.

### Oregon's Local Budget Laws

In Oregon, cities are required to adhere to the state's local budget law, a group of statutes that requires local governments to prepare and adopt annual or biennial budgets following a very specific process. Budget laws have been written to accomplish very specific objectives, including:

- Setting standard procedures for preparing, presenting and using budgets for most of Oregon's local governments;
- Encouraging citizen involvement in the preparation and deliberations of the budget before it's formally adopted;
- Providing a method for estimating expenditures, resources and proposed taxes; and

- Offering a way of outlining the programs and services provided by the local governments, and the fiscal policy used to carry them out.

Preparing a budget allows a city to look at its needs in light of the funds available to meet those needs. In Oregon, all local governments must plan a balanced budget, meaning that the resources and requirements are equal. A city cannot plan to purchase more items or services than it has money to pay for them.

### A CITY'S BUDGET PROCESS

#### Phase 1: The Budget Officer Prepares a Proposed Budget

The first step in the budget process is to appoint a budget officer, who may be appointed by the governing body (the city council) or designated in the city's charter. The budget officer reports to the executive officer or the governing body and is responsible for preparing the proposed budget or supervising its preparation. The budget officer must prepare the proposed budget in a format that meets the requirements set out in state statutes.

The budget officer develops the budget calendar, which maps out all the steps that must be followed for the legal adoption of the city budget. A budget calendar is not required by law, but is highly recommended. By scheduling the steps of budget preparation, a city can be more certain that it is allowing sufficient time to complete the entire budget process before June 30, as required by state law. After the budget calendar is set, the budget officer begins to develop the estimates of resources and requirements for the coming year or biennial cycle. A sample budget calendar, including all of the required steps, is shown on page 29.

Every city budget will have at least one fund, the general fund, which accounts for the daily operations of the city. In practice, a city budget will have a number of funds, each designed to account for a specific purpose. A budget should include enough different types of funds to clearly show what services and programs a local government is doing and how it is paying for expenditures. However, it is advisable to not have



too many funds, as this makes the budget harder to read and understand.

There are seven types of funds used in most city budgets:

**General Fund** – records expenditures needed to run the daily operations of the local government and the money that is estimated to be available to pay for these general needs.

**Special Revenue Fund** – accounts for money that must be used for a specific purpose and the expenditures that are made for that purpose.

**Capital Project Fund** – records the money and expenditures used to build or acquire capital facilities, such as land, buildings or infrastructure. This is a type of special purpose fund and is only used while a project is being completed.

**Debt Service Fund** – records the repayment of general obligation and revenue bonds and other financing obligations. The expenditures in the fund are the principal and interest payments. Money dedicated to repay these obligations cannot be used for any other purpose.

**Trust and Agency Fund** – accounts for money that is held in trust for a specific purpose as defined in a trust agreement or when the government is acting as a custodian for the benefit of a group. *Example:* gifts of investments or securities given to the city with provisions that the income be used to aid the library or park system.

**Reserve Fund** – accumulates money to pay for any service, project, property or equipment that the city can legally perform or acquire. It functions as a savings account. A special resolution or ordinance of the governing body is needed to set up a reserve fund. *Example:* money set aside to pay for the future replacement of city vehicles at the end of their useful lives.

**Enterprise Fund** – records the resources and expenditures of acquiring, operating and maintaining a self-supporting facility or service—such as a city water or wastewater utility.

Oregon budget law requires that each year a city's budget provides a brief financial history of each fund. To meet this requirement, the annual budget will include detailed information on: the actual revenues and expenditures for the prior two years; the budgeted revenues and expenditures for the current year; the estimated balanced budget as proposed by

the budget officer for the coming year which includes columns for the budget approved by the budget committee; and the final budget adopted by the governing body. The budget also includes a column for the descriptions of expenditures and resources. The box on page 28 illustrates typical resources and expenditures found in a city budget.

## Phase 2: The Budget Committee Approves the Budget

As defined by statute, a budget committee is an advisory group comprised of the city council and an equal number of appointed members. If the city council cannot identify enough citizens willing to serve on the budget committee, then the committee is made up of the citizens who have volunteered to serve along with the entire city council.

The appointed members of the budget committee must be electors of the city, meaning they must be qualified voters who have the right to vote on the adoption of any measure. The members of the budget committee are appointed for staggered three-year terms, and cannot be employees, officers or agents of the city. No member of the budget committee can receive compensation for serving on the committee except reimbursement of expenses incurred while serving.

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## Common Resources & Expenditures in a City Budget

### Resources:

**Net Working Capital** – fund balance from previous year

**Taxes** – estimated collections from property taxes or voter-approved special levies to be received during year

**Franchise Fees** – user fees charged to utility and refuse companies by the city for use of public rights-of-way

**Fines and Forfeitures** – payments imposed by the city for traffic, criminal and code violations and offenses

**Charges for Services** – charges for services provided to individuals by the city such as water and wastewater charges

**Interest Income** – interest earned by investing city funds

**Intergovernmental** – revenues received from other governments such as grants, shared revenues and gas taxes

**Transfers In and Inter-fund Loans** – the receipt of money or loan proceeds made between city funds that is authorized by a resolution or ordinance

**Licenses, Fees and Permits** – revenues from the sale of municipal licenses such as business licenses, fees for services such as planning fees and park user fees, and permits issued by the city

**Miscellaneous Revenue** – revenues that do not fit within one of the other major categories

### Expenditures:

**Personnel Services** – employee wages, employer taxes, health insurance, workers' compensation, retirement and other employment benefits

**Materials and Services** – includes a wide range of operating expenditures such as property and liability insurance, utilities, building maintenance, supplies, vehicle maintenance, fuel, training and professional services contracts

**Capital Outlay** – purchase of items that are considered to be capital assets. Capital assets are defined either by a set amount in financial policies or based on the useful life of the item. Capital outlay can include furniture, vehicles, buildings, land, software systems and other types of equipment.

**Debt Service** – annual principal and interest payments made on city loans and bonds

**Transfers Out** – cash transfers to another city fund to pay for expenditures or to repay an inter-fund loan that is authorized by resolution or ordinance

**Contingency** – money that is appropriated for use during the year to deal with unanticipated operating expenditures. Use of contingency funds must be authorized by a resolution or ordinance

**Unappropriated Ending Fund Balance** – money that is not budgeted and purposely remains in the fund at the end of the current fiscal year to be used as a cash carryover to the next year's budget. The purpose is to ensure that the city begins the following year with enough net working capital to operate until tax revenues are received. It cannot be spent during the year it is unappropriated except in qualifying emergency situations as defined by state statute such as a natural disaster or civil disturbance.

Among its many functions, the budget committee conducts public meetings to hear the budget message and review the budget proposed by the budget officer. One of its most important functions is to listen to comments and questions from interested citizens and consider their input while deliberating on the budget. The budget committee can revise the proposed budget to reflect changes it wants to make in the local government's fiscal policy provided that the revisions still produce a balanced budget. When the committee is satisfied, it approves the budget. (Note: the budget committee does not have the authority to negotiate employee salaries.)

### The Budget Message

The budget message gives the public and the budget committee information that will help them understand the proposed budget. It is required by statute to contain a brief description of the financial policies reflected in a proposed budget and, in connection with the financial policies, explain the important

features of the budget. The budget message must also explain proposed changes from the prior year's budget and any major changes in financial policies.

The budget message is prepared in writing so it can become part of the budget committee's records. It is delivered at the first meeting of the budget committee by the budget officer, the chief executive officer or the governing body chair.

### Budget Committee Meetings

A quorum, or more than one-half of the committee's membership, must be present in order for a budget committee to conduct an official meeting. Any action taken by the committee first requires the affirmative vote of the majority of the membership. In the event that only a quorum is present at a meeting, all members must then vote in the affirmative for an action to be taken.

Local budget law requires that a budget committee hold at least one meeting for the purpose of receiving the budget

Sample Budget Calendar	Sample Dates	Your Dates
1. Appoint budget officer	December 7	
2. Appoint budget committee members	January 7	
3. Prepare proposed budget	February 26	
4. Print first notice of budget committee meeting (not more than 30 days before the meeting)	March 12	
5. Print second notice of budget committee meeting (not less than 5 days before the meeting)	March 22	
6. Budget committee meets	March 29	
7. Budget committee meets again, if needed	April 5	
8. Publish notice of budget hearing (5 to 30 days before the hearing)	April 19	
9. Hold budget hearing (governing body)	May 3	
10. Enact resolutions to: adopt budget, make appropriations, impose and categorize taxes ( <i>can be done at the same meeting as the public hearing</i> )	June 28	
11. Submit tax certification documents to the assessor by July 15	July 12	

message and the budget document, and to provide the public with an opportunity to ask questions about and comment on the budget. The city must give public notice twice for the meeting(s) held for these two purposes. If the budget committee does not invite the public to comment during the first meeting, the committee must provide the opportunity in at least one subsequent meeting. The notice of the meeting(s) must tell the public at which meeting comments and questions will be taken.

When approving the budget, the budget committee must also approve a property tax rate or the tax amounts that will be submitted to the county assessor. The budget committee should make a motion to approve the property tax so that the action is documented in the committee meeting minutes.

Upon approval of the budget by the budget committee, the budget officer completes the budget column labeled “approved by budget committee,” noting any changes from the original proposed budget. A summary of the approved budget, which includes a narrative description of prominent changes to the budget from year to year, is published in the newspaper with the notice of a public hearing to adopt the budget five to 30 days before the hearing date.

**Phase 3: The Budget is Adopted and Property Taxes are Certified (when appropriate)**

The city council must conduct a budget hearing by June 30 to receive the budget committee’s approved budget, conduct deliberations, and consider any additional public comments. The council can make any adjustments that it deems necessary (with some restrictions) to the approved budget before it is adopted prior to July 1. The budget hearing and the resolu-

tions or ordinances necessary to adopt the budget and impose taxes can be conducted at the same public meeting. The types of changes the governing body can make are:

- Increasing expenditures in any fund in the annual budget up to \$5,000 (\$10,000 in a biennial) or 10 percent, whichever is greater. If the increase needs to be greater than these limits, the council must republish the budget summary and hold a second public hearing (before July 1);
- Reducing expenditures of any fund—does not require republishing;
- Increasing the amount or rate of taxes to be imposed above what the budget committee approved. This can only be done if the budget is republished and a second budget hearing is held. However, the council cannot raise taxes above legal limits—the city’s permanent rate limit, a voter-approved local option tax rate or dollar amount, and bond principal and interest requirements;
- Reducing the tax rate or amount approved by the budget committee—does not require republishing; and
- Adjusting the other resources in each fund—does not require republishing.

**Adoption of the Budget**

Interestingly, it is not a requirement that the budget be adopted at the hearing. The council has the option to wait until closer to the end of the fiscal year to formally adopt the budget. By waiting, the budget can include a better estimate of resources. However, the budget must be adopted by June 30.

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To adopt the budget, the city council enacts a resolution or ordinance which provides the legal authority to: establish or dissolve funds; make appropriations for expenditures; adopt a budget; impose and categorize taxes; and perform all other legal actions pertaining to budgeting and authorizing tax levies. To accomplish this, cities do not have to pass multiple resolutions (or ordinances). All the enactment statements can be combined into one resolution (or ordinance), which must be signed by the mayor before submission to the county assessor's office.

By July 15 of each year, a city must submit two copies of the resolution (or ordinance) adopting the budget, making appropriations, and imposing and categorizing the tax to the county tax assessor. In addition, the notice of property tax certification (form LB-50) and successful ballot measures for local option taxes or permanent rate limits must be submitted.

In addition to the county tax assessor's copies, a copy of the resolutions required by Oregon Revised Statutes 221.770 must be submitted to the Oregon Department of Administrative Services by July 31. Finally, a copy of the published adopted budget document, including the publication and tax certification forms, must be submitted to the county clerk's office by September 30.

### Phase 4: Changing the Adopted Budget

On July 1, cities begin operating within the appropriation authority that was adopted by the council for the budget. While it is possible for changes to be made to an adopted budget once the fiscal year begins, this can only happen under specific circumstances. Two such examples are council-approved resolution transfers of funds and supplemental budgets that make changes to adopted expenditure appropriations and estimated resources. These are actions that must be taken before more money is spent beyond what is appropriated in the adopted budget, or before money is spent for different purposes than what is appropriated. Any changes made to the adopted budget require that the budget remain in balance after the change.

It is unlawful to spend public money in excess of the amounts budgeted or for a different purpose than budgeted. Public officials can be sued for such actions if the expenditure is found to be malfeasance in office or willful or wanton neglect of duty. Creating a supplemental budget or a resolution transfer after the expenditure is made does not protect the governing body members from a lawsuit.

**Editor's Note:** Ms. Bond is the administrative services and finance director for the city of Salem. ■

## Looking for Budgeting Help?

Check out these resources available on the League's website.

### Examples and resources from the Finance Toolkit

[www.orcities.org/toolkit](http://www.orcities.org/toolkit)

Creating the budget is only one part of a successful budget season—communicating details about the budget and process is equally important. The toolkit is an online repository of resources that helps cities communicate about city finances. Helpful resources include a “Create Your Own” spreadsheet to use when creating visual examples for budget presentations; facts and information about Oregon's property tax system; and samples of creative budget reporting with graphics and a citizen focus.

### Budget process information in the City Handbook

[www.orcities.org](http://www.orcities.org)

Looking for details on the budgeting process? The League's City Handbook includes information on types of budgets, key aspects of Oregon budgeting law, and on the budget cycle. Budgeting information is in chapter 8.

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