

Mayor & Councilmember
handbook



Budget basics

The budget is one of the city's strongest policymaking tools. Spending guidelines reflect numerous policy decisions. The budget message can give a clear view of city policy on many issues. It describes in narrative form significant items in the budget, financial trends, and the policy implications.

Setting policy through the budget is a continuous, yearlong process. It involves setting goals and establishing priorities. Public participation is critical to the budget process, and is required by law, because of the many policy decisions involved. Once a budget is adopted, the mayor or city manager is responsible for carrying out the budget and councilmembers are responsible for monitoring program progress through periodic reports from staff and from the community. If programs are not effectively implementing policy decisions, revisions can be made.

The three types of budgets:

- **Operating budget** – These funds are for delivering services like police, fire, parks and library. The operating budget enables you to set policy. When most people think about their city's budget, they're referring to the operating budget. The operating budget is financed from the city's ongoing general revenue sources.
- **Utility services** – These city-provided services are separately funded through user fees and taxes. Most cities provide sewer/water, many provide garbage and a few cities provide electricity, natural gas, and/or transit.
- **Capital budget** – This budget determines what capital improvements will be bought or built over several years, and how they will be financed.

The legal document

State law governs municipal budgets. Although no uniform budget document exists for cities, cities must use uniform revenue and expenditure categories specified by the state auditor (known as the BARS system). Cities can use either annual or biennial budgets, but most use annual.

In Washington, budgets must be balanced – anticipated revenues must equal forecasted expenditures. Unexpected revenues can be appropriated by a supplemental budget modification or can be allocated to reserve funds or to the following year's beginning balance. Expenditures which exceed revenues can be made only by the council transferring funds from reserve accounts (subject to council approval) or by issuing interest bearing warrants.

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Additional resources:

Budget Suggestions, MRSC

Budgeting basics, AWC
eLearning

*A Revenue Guide for Washington
Cities and Towns*, MRSC

Center for Government
Innovation, Washington State
Auditor's Office

Financial Intelligence Tool,
Washington State Auditor's
Office

Budgeting methods

Cities and towns use three budgeting methods:

- **Line-item or incremental budgets** are used by most local governments. The budgets are prepared by adding proposed spending increases to current expenditure levels. It lists how much money will be spent on every item in a department. While this is the easiest budget method, it makes it difficult to analyze service delivery.
- **Program budgets** focus on specific services or outputs, and involve allocating resources to obtain desired goals. This approach makes it easier to set priorities and select among competing programs and service alternatives, but is more staff intensive.
- **Zero-base budgeting** is a nontraditional budget process in which “decision packages” are prepared for various levels of service for each activity. Programs and activities are reviewed and ranked according to how they meet the city's goals. The lowest ranking programs may be reduced or discontinued. Zero-base budgeting requires a high level of analysis and preparation.

The budget calendar

State law defines a city budget calendar, which specifies the timetable for completing the various steps leading to the budget's adoption. Many cities supplement the calendar with increased budget preparation during the summer, finance committee meetings during the fall, and ongoing budget reviews throughout the year.

Although many cities start the process earlier, the law requires department heads to prepare expenditure estimates for the coming year no later than the second Monday in September. The process ends when the final budget is adopted on or before December 31. Between these two dates, the clerk or other staff prepares the proposed preliminary budget for the mayor, the mayor or staff drafts the proposed budget and presents it to the council, and public hearings are held. The complete budget calendar, as spelled out in the statutes, along with the dates for the current year, is published each year in MRSC's *Budget Suggestions*.

The mayor/city manager's role

The state statutes provide details concerning the mayor/city manager's responsibility to prepare the preliminary budget and a “budget message.” Their authority to make transfers within individual funds is also spelled out in the statutes. (See Appendix 1)

Putting the budget together

Let's look at the actual budget process. It is definitely a team effort involving the mayor or city manager, council, and staff.

Setting policy

The council sets public policy in two major ways: by enacting ordinances during the year, and by establishing budgetary (taxing and spending) policies. Your city administration influences policy through budget implementation and recommendations to the council as to what is needed.

Estimating expenditures

Department heads prepare estimates based upon a projection of current trends, a forecast of the effect of new programs, and an estimate of what is needed to pay remaining bills.

Reviewing estimates

The mayor or city manager (in a council-manager city) reviews the department requests, taking into account policy objectives and priorities for new or expanded programs. It's a give-and-take process, sometimes with department heads lobbying for their program or service. What develops is a preliminary budget.

Estimating revenues

While expenditures are being estimated, the city's finance officer looks at revenues. Two key questions are raised: What factors impact future revenue flows, and what are the estimated level of revenues for the upcoming budget period? Once these questions are answered, revenue estimates should not be changed to accommodate additional spending desires.

Forecasting budgets

Although it's an optional step, forecasting your projected revenues and expenditures for up to five years helps determine whether your city can maintain its service levels. This long-term analysis helps pinpoint whether any corrective actions are necessary.

Preparing the document

The mayor/staff prepares the draft budget for council review. The actual budget document typically contains four parts: a budget message; a summary schedule of revenues and expenditures; detailed revenue elements; and expenditure details, with dollar and workload implications.

Adopting the budget

The mayor or city manager presents the budget to the council and the public for review and adoption. Some cities use a budget committee for review. Hearings are held with department heads and with the public to review expenditure requests. Once the hearings are completed, a budget ordinance is enacted. The ordinance authorizes funding specific expenditures with specific resources.

Budget do's & don'ts

Do:

- Find good basic training. AWC offers the Municipal Budgeting & Fiscal Management workshop annually.
- Evaluate materials and data carefully before you speak.
- Show your appreciation for staff. Respect their experience.
- Explore creative ways to meet your city's needs.

Don't:

- Expect to be an instant expert.
- Drown in details.
- Criticize previous budgets until you know all the facts and can correctly interpret them.
- Try to immediately change traditional budget practices.

Implementing the budget

The mayor/city manager's job is to implement the budget adopted by the council and to provide the council with periodic reports that show a comparison of accrued revenues and expenditures to the budget projections and appropriations. The law also requires the city to present a report of remaining expectation and unexpended balance for each appropriation to the council on a quarterly basis, however depending upon the financial condition of the city, it may be appropriate to provide a report more frequently. It is important to carefully monitor these budget results, which may be a function of the mayor's office.

State audit

Each city is audited by the Washington State Auditor's Office (SAO), and the audit includes an assessment of the internal control procedures over this monitoring routine. The financial condition of each of the city's individual funds should be reviewed in a documented procedure that will provide SAO with the information needed for this audit assessment.

In particular, the auditor's office reviews budget adjustments and strategies to resolve shortfalls and unanticipated expenses. Documented communications between the mayor's office and the council will demonstrate these strategies and assist with the auditor's evaluation of financial condition and internal controls over the implementation and monitoring of the budget. A copy of the report should be on file in your city's administrative office and are also available online (sao.wa.gov).

An inside look

Now that you know how the budget works, it is important to understand what the budget is – and what it is not.

The budget:

- Expresses your community's priorities.
- Works as a plan to identify resources and expenditure flows.
- Operates an annual work program by identifying objectives, guiding program management, and evaluating existing expenditures.
- Responds to change. The budget process is dynamic – it must be flexible to meet public needs, keep up with technology, and adjust to financial circumstances.

But the budget can't do it all. It will not:

- Be precisely accurate. The budget relies on estimates based on forecasts.
- Create efficiency. The budget is a resource allocation plan. It can't overcome obstacles in your management or staff structure.
- Establish public policy. Public policy is established through careful discussion before the budget is prepared.
- Make everyone happy. There will be winners and losers!