

# BUDGETING BASICS

The annual (or biennial) 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 for one fiscal year. It shows the estimated costs of expenditures (items or services the city wishes to purchase in the coming fiscal year) and other budget requirements that must be planned for, but won't actually be spent. It also shows the resources that will be available to pay for those expenditures.

The budget authorizes the city to spend money and limits how much money can be spent. It also justifies the levy of property taxes. In order to levy taxes through a county assessor, cities must prepare a budget following a specific local budgeting process. The budgeting process in Oregon has four steps, in which the budget is: 1) prepared; 2) approved; 3) adopted; and 4) executed. After adopting the budget, the governing body makes the necessary appropriations and certifies to the county assessor the tax to be imposed.

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.

## 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 of the budget before it's formally adopted;
- Giving a method for estimating expenses, 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 I: The Budget Officer Puts Together a Proposed Budget.**

Each city must designate a budget officer, who may be appointed by the governing body (the city council) or designated in the city's charter. The budget officer is responsible for preparing the budget or supervising its preparation. The budget officer must prepare the proposed budget in a format designed by the Oregon Department of Revenue, which meets the requirements set out in state statutes.

The first step in the budget process is the development of 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. A sample budget calendar, including all of the required steps, is shown in the adjacent box.

A city budget is comprised of several funds, each with a specific purpose. The city budget should include enough different funds to clearly show what a local government is doing and how it is paying for resources. 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 expenses used to build or acquire capital facilities, such as land or buildings. This is a type of special revenue fund and is only used while a project is being done.
- **Debt Service Fund** – records the repayment of general obligation bonds. The expenditures in the fund are the bond principal and interest payments. Money dedicated to repay bonds cannot be used for any other purpose.

Sample Budget Calendar	Sample Dates	Your Dates
1. Appoint budget officer	December 7	
2. Appoint budget committee members	January 5	
3. Prepare proposed budget	February 28	
4. Print first notice of budget committee meeting (not more than 30 days before the meeting)	March 16	
5. Print second notice of budget committee meeting (at least 5 days after first notice, but not less than 5 days before the meeting)	March 24	
6. Budget committee meets	March 30	
7. Budget committee meets again, if needed	April 6	
8. Publish notice of budget hearing (5 to 30 days before the hearing)	April 19	
9. Hold budget hearing (governing body)	May 4	
10. Enact resolutions to: adopt budget, make appropriations, impose and categorize taxes	June 29	
11. Submit tax certification documents to the assessor by July 15	July 12	

- **Trust and Agency Fund** – accounts for money for a specific purpose that you hold in trust for someone else. Example: 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.
- **Enterprise Fund** – records the resources and expenses of acquiring, operating and maintaining a self-supporting facility of service—such as a city water or wastewater utility.

Oregon budget law requires that each year a city’s budget provides a short history of each fund. To meet this requirement, the annual budget will include: the actual or audited resources and expenditures for the prior two years; the current year’s budget; estimated actual resources and expenditures for the current year; the next year’s budget as proposed by the budget officer (must balance); and columns for the budget approved by the budget committee and the final budget adopted by the council. The budget also includes a column for the descriptions of expenditures and resources. The box on page 18 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.

## The Budget Message

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. 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 gives the public and the budget committee information that will help them understand the proposed budget. The budget message 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 explain any major changes in financial policies.

The budget message should be 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.

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### 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 message and the budget document; and to provide the public with an opportunity to ask questions about and comment on the budget. Prior public notice is required 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 minutes of the committee.

Upon approval by the budget committee, the budget officer completes the budget column labeled "approved by budget committee," noting any changes from the original proposed budget. Upon completion, a summary of the approved budget is published with notice of a public hearing to adopt the budget no more than 30 days nor less than five days before the hearing.

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

The city council conducts a budget hearing to deliberate on the budget approved by the budget committee and to 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

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## Common Resources & Expenditures in a City Budget

### Resources:

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

**Taxes** – estimated taxes to be received during year

**Franchise Fees** – user fees charged by the city for use of public rights-of-way

**Fines and Forfeitures** – fines issued by city such as traffic fines, code enforcement fines, municipal court fines, drug enforcement forfeitures

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

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

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

**Transfers and Inter-fund Loans** – funds received through a transfer from another city fund

**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:

**Personal Services** – employee wages, insurance, workers' compensation, retirement and other payroll benefits

**Materials and Services** – includes a wide range of expenses such as property and liability insurance, utilities, building rent, supplies, vehicle maintenance, gas, and professional services contracts

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

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

**Transfers Out** – transfers to another city fund to pay for expenditures or to repay an interfund loan

**Contingency** – money that is budgeted for use during the year to deal with unexpected operating situations

**Unappropriated** – money that is planned to be left in the fund at the end of the year for which you are budgeting. The purpose is to ensure that the city begins the following year with enough cash to operate until tax revenues are received. Cannot be spent during the year it is unappropriated except in emergency situations caused by a natural disaster or civil disturbance.

prior to July 1. The following are the types of changes the governing body can make:

- Increasing expenditures in any fund up to \$5,000 or 10 percent, whichever is greatest. 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—permanent rate limit, 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.
- 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.

To adopt the budget, the city council enacts a resolution or ordinance. The resolution (or ordinance) 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 making tax levies. To accomplish this, cities do not have to pass multiple resolutions (or ordinances). All the resolution statements can be combined into one resolution, which must be signed by the mayor before submission to the county assessor's office.

By July 15 of each year, cities 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 ORS 221.770 must be submitted to the Oregon Department of Administrative Services by

July 31. Finally, a copy of the completed 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.

Once it is adopted, cities begin operating within that specific 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 resolution transfers and supplemental budgets. 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 in the adopted budget.

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. ■



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