

Budgeting 101

A Guide to Best Practices



ASSOCIATION OF TOWN FINANCE COMMITTEES
OCTOBER 15, 2016

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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

- ✓ Debt
- ✓ Free Cash
- ✓ Investment
- ✓ Financial Reserves

Financial Policies

- ✓ Capital Investment
- ✓ Enterprise Funds
- ✓ Fees/Cost Recovery
- ✓ Independent Audits and Financial Reporting

- ✓ Six-Year Project Planning
- ✓ Equipment
- ✓ Buildings
- ✓ Infrastructure
- ✓ Pavement Management

Capital Improvement Plan

FTMS & Financial Forecast

- ✓ Financial Indicators
- ✓ 10-Year Trend Analysis
- ✓ 5-Year Financial Forecasts
- ✓ Bond Ratings



Distinguished Budget Award
Annual Budget Document

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 information, 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—identifies the Town's financial goals, objectives and guiding policies;
 - Financial Plan—presents the Town's current financial condition, stating assumptions and projecting where things are headed based upon those assumptions;
 - Operations Guide—describes the municipal services and operations, measuring their efficiency and effectiveness;
 - Communications Device—articulates 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.

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- **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.

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- A. Financial Management Policies & Objectives
- B. Fund Descriptions and Balances
- C. Financial Trend Monitoring Report
- D. Glossary of Terms

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- **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
 - Budget in brief
 - Summary analysis of the Town's financial condition & outlook
 - 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	FY2016 Budget	FY2017 Proposed	Variance	% Change
General Government (Town)	\$19,456,306	\$20,137,277	\$680,971	3.50%
Schools				
Northborough K-8	\$21,951,539	\$22,719,843	\$768,304	3.50%
Algonquin Reg. HS 9-12	\$9,421,675	\$10,078,475	\$656,800	6.97%
Algonquin Debt Exclusion	\$656,493	\$661,206	\$4,713	0.72%
Assabet Valley	\$868,431	\$688,313	-\$180,118	-20.74%
Assabet Valley Debt	\$15,006	\$192,135	\$177,129	1180.39%
Warrant Articles				
Reserve Fund	\$175,000	\$175,000	\$0	0.00%
Free Cash Capital Projects	\$2,214,000	\$1,833,460	-\$380,540	-17.19%
Transfer to Stabilization	\$200,000	\$200,000	\$0	0.00%
Transfer to OPEB Trust	\$500,000	\$500,000	\$0	0.00%
Zeh School Debt	\$444,010	\$424,419	-\$19,591	-4.41%
Colburn St. Debt Service	\$71,473	\$69,245	-\$2,228	-3.12%
Library Debt Service	\$399,395	\$392,025	-\$7,370	-1.85%
Senior Center Debt Service	\$445,395	\$433,795	-\$11,600	-2.60%
Lincoln Street Debt	\$675,000	\$1,144,882	\$469,882	69.61%
Other Funds	\$534,058	\$1,008,581	\$474,523	88.85%
Adjustments	-\$62,335	\$0	\$62,335	-100.00%
Subtotal General Fund	\$57,965,446	\$60,658,656	\$2,693,210	4.65%
Water Enterprise Funds	\$2,230,328	\$2,251,473	\$21,145	0.95%
Sewer Enterprise Fund	\$1,658,942	\$1,718,422	\$59,480	3.59%
Solid Waste Enterprise Fund	\$767,000	\$768,350	\$1,350	0.18%
Subtotal Enterprise Funds	\$4,656,270	\$4,738,245	\$81,975	1.76%
TOTAL ALL FUNDS	\$62,621,716	\$65,396,901	\$2,775,185	4.43%

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- **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.

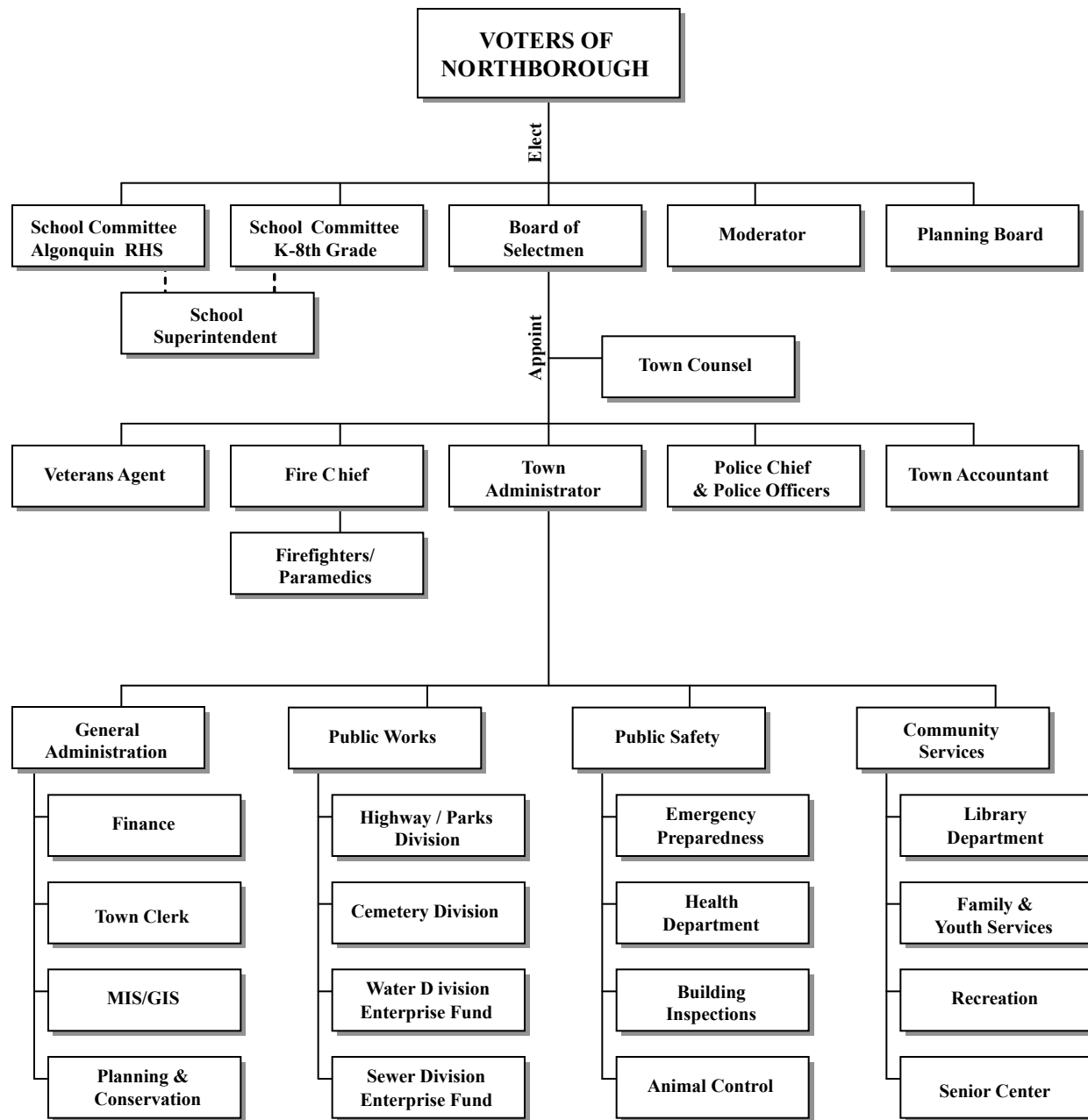


- Town Administrator's Budget Message 1-15
- **SECTION 1—BUDGET SUMMARIES**
- Balanced Budget Summary 1-2
- Revenue Budget Summaries 1-5
- Expenditure Budget Summaries. 1-11

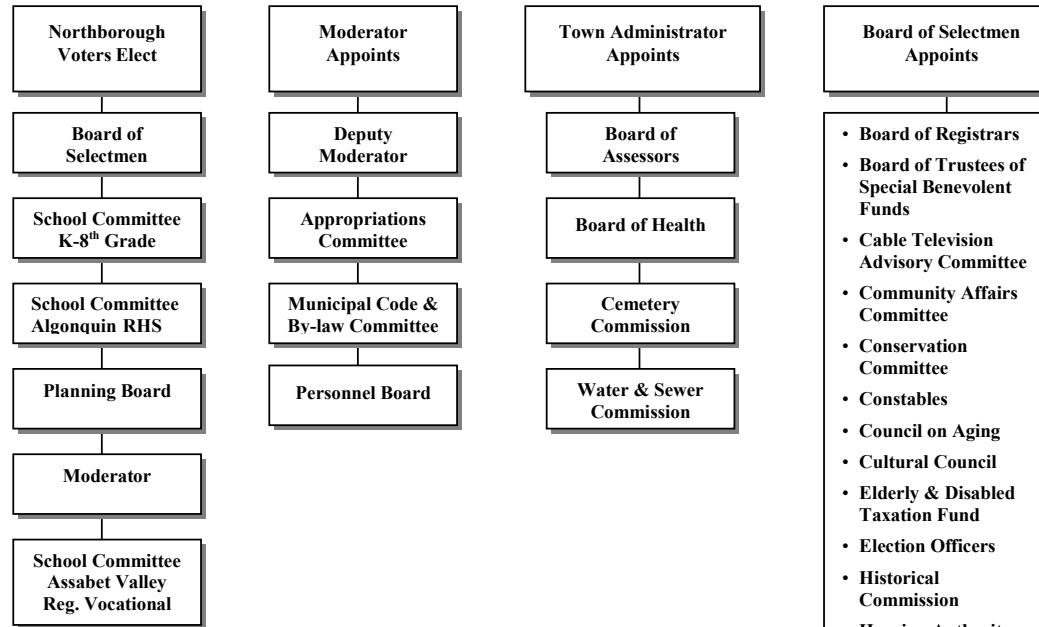
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- **Mandatory Criteria #4: The document shall include an organization chart(s) for the entire entity.**
 - This criterion requires that an organizational chart be presented only for the overall entity. Organizational charts for individual units are 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



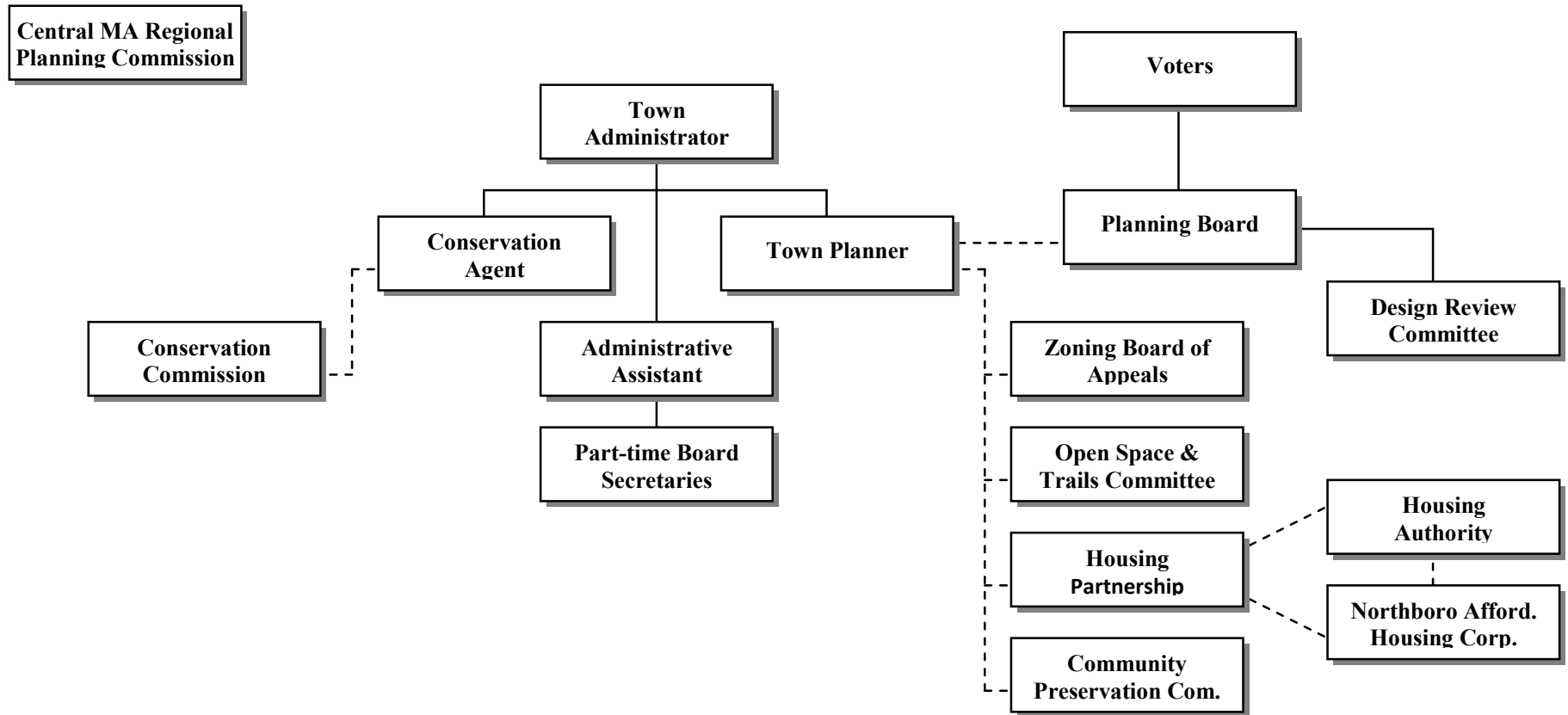
Boards and Committees



Boards & Committees with Multiple Appointing Authorities

- **Financial Planning Committee:** The Financial Planning Committee consists of six members, three appointed by the Moderator, one by the Planning Board, one by the School Committee, and one by the Appropriations Committee for three-year terms.
- **Earthwork Board:** The Earthwork Board consists of five members, one each appointed by the Moderator, the Board of Selectmen, the Conservation Commission, the Zoning Board of Appeals and the Planning Board for three-year terms.
- **Groundwater Advisory:** The Groundwater Advisory Committee consists of five members, one each appointed by the Planning Board, the Conservation Commission, the Board of Health, the Board of Selectmen and the Water & Sewer Commission for indefinite terms.
- **Community Preservation Committee (CPC):** The CPC consists of nine members, one each from the Open Space Committee, the Conservation Committee, the Planning Board, the Parks & Recreation Commission, the Historical Commission, the Housing Authority, and three members appointed by the Board of Selectmen for three-year terms.
- **Open Space Committee:** The Open Space Committee consists of seven members, one each from the Planning Board, Conservation Commission, Parks & Recreation Commission, Board of Selectmen, and three members and two alternates appointed by the Board of Selectmen for three-year terms. The Trails Committee is a subcommittee of the Open Space Committee.
- **Housing Partnership:** The Housing Partnership Committee consists of nine members, one each from the Board of Selectmen, Planning Board, Housing Authority, Council on Aging and five members appointed by the Board of Selectmen, one of which must be a realtor, for three-year terms.
- **LEPC:** The Northborough Local Emergency Planning Committee is a committee established through the Federal Emergency Planning and Right-To-Know Act (EPCRA) of 1986. Local, State, and Federal members work together to formulate emergency planning for hazardous materials within Northborough, exercise the plan annually, maintain training for hazardous materials emergencies, and provide information on hazardous materials to the public. Membership includes: State and Local Elected Officials, Hospitals, Firefighters, Environmental Groups, Law Enforcement Personnel, News Media, Civil Defense Officials, Community Groups, Public Health Officials, Transportation Resources, and Hazardous Materials Facilities.
- **Various Ad Hoc Committees:** In addition to the Boards and Committees listed here, at any time there may also exist several ad hoc committees formed by various bodies to study specific issues such as building committees, Wind Committee, Solid Waste Advisory Committee, etc.

Planning & Conservation Organizational Chart



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- **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.

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- 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

August/September

- Identify Goals & Strategic Needs

October

- Capital Budget Manual sent out to Departments

November

- Capital Requests Submitted & Reviewed by Financial Planning Committee
- 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 2016 Ends
- July 1st Fiscal Year 2017 Begins
- State Budget typically passed with Final State Aid numbers (a/k/a “Cherry Sheets”)

November

- Tax Classification Hearing & Final Tax Rate Set

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- **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

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- **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.

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- **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).

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
DEBT SERVICE						
Expenses						
59100 Principal/Long-term Debt	1,858,534	1,739,784	1,536,532	1,832,533	4,532	2,072,533
59150 Interest/Long-term Debt	593,226	567,248	514,191	765,888	329,298	851,116
59270 Interest/Temporary Loans	29,863	0	0	0	0	110,482
SUBTOTAL	2,481,623	2,307,032	2,050,723	2,598,421	333,831	3,034,131

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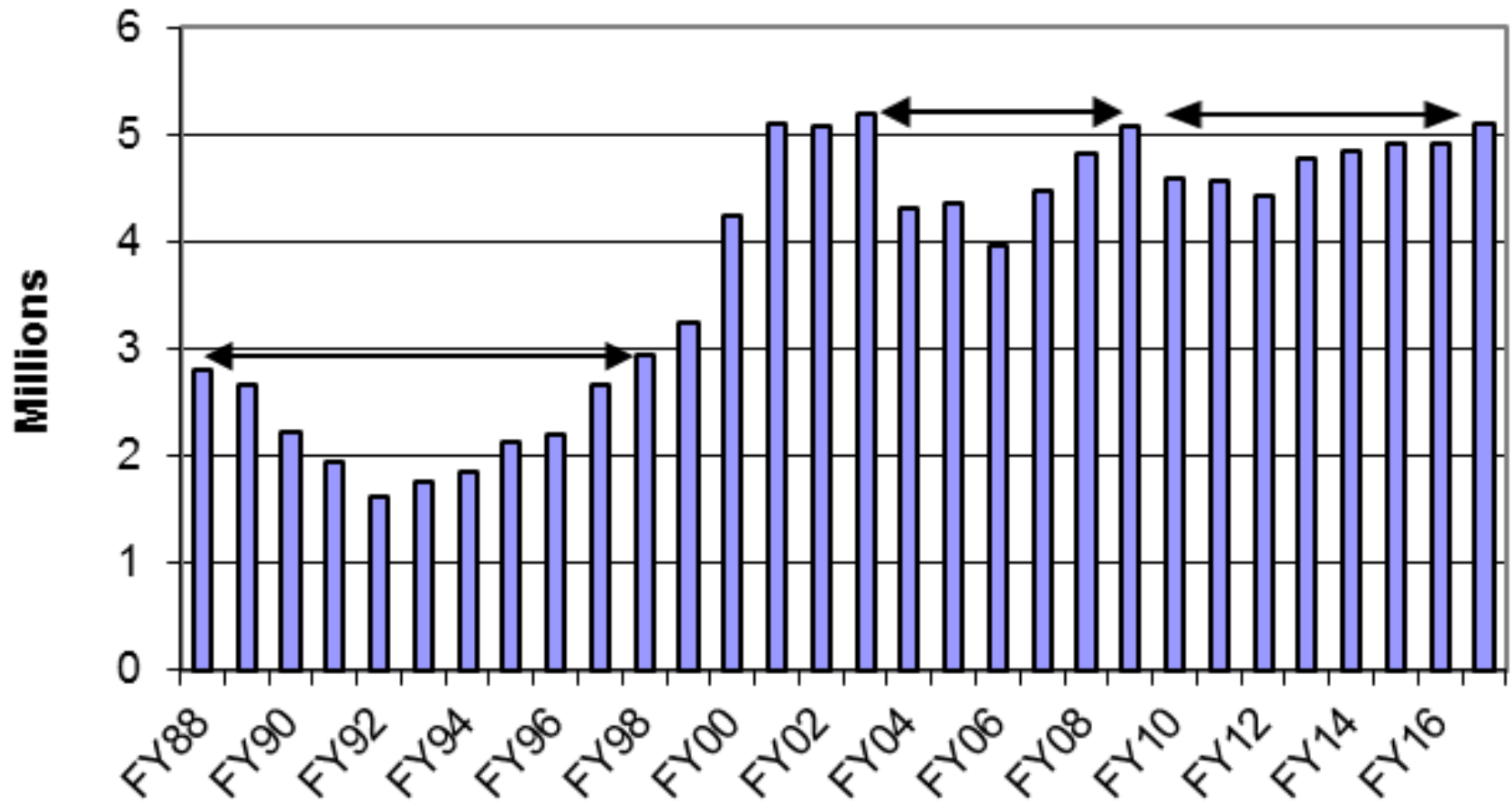
- **Mandatory Criteria #9:** The document shall include projected changes in fund balances, as defined by the entity in the document, for appropriated governmental funds included in the budget presentation.
 - This criterion requires that beginning and ending fund balances, as defined by the entity in 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?

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- **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

Northborough State Aid FY1988-2017



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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.

Financial Trend Monitoring Report Summary



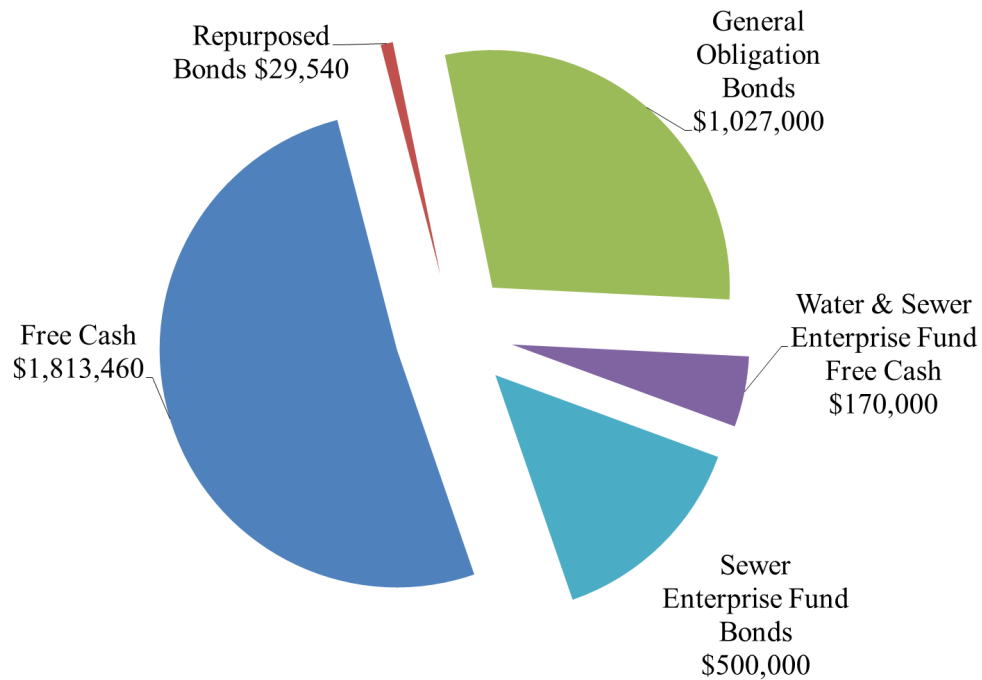
Financial Indicator	FY2016
1 Property Tax Revenues	Favorable
2 Uncollected Property Taxes	Favorable
3 Revenues & Expenditures per Capita	Favorable
4 State Aid (Intergovernmental Revenues)	Unfavorable / Uncertain
5 Economic Growth Revenues	Uncertain
6 Use of One-Time Revenues	Favorable
7 Personnel Costs	Marginal / Stable
8 Employee Benefits	Favorable / Uncertain
9 Pension Liability	Unfavorable / Improving
10 Other Post Employment (OPEB) Liability	Unfavorable / Improving
11 Debt Service Expenditures	Favorable
12 Financial Reserves/Fund Balance	Favorable
13 Capital Investment—Overall fixed asset values	Favorable
14 Capital Investment—Pavement Management	Unfavorable

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- **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)

FY2017 CAPITAL FUNDING SOURCES



PROJECTS BY DEPARTMENT		EXPENDITURE
Police		
	Police Cruiser Replacement	85,000
	Police Station Roof Replacement	90,000
	Police Subtotal	\$175,000
DPW: Highway Division		
	Church Street Culvert Replacement	2,000,000
	Six-Wheel Dump Truck w/ Spreader & Plow	215,000
	Sidewalk Machine	180,000
	Roadway Improvements/Maintenance	300,000
	Highway Subtotal	\$2,695,000
DPW: Sewer Enterprise Fund		
	Inflow & Infiltration (I&I) Study	500,000
	Sewer Enterprise Fund Subtotal	\$500,000
DPW: Water Enterprise Fund		
	Valve Maintenance Trailer System	75,000
	One Ton Dump Truck w/Plow	95,000
	Water Enterprise Fund Subtotal	\$170,000
TOTAL FY2017 CAPITAL BUDGET		\$3,540,000

PROJECT DETAIL SHEET

Project Title:	ENGINE 2 REPLACEMENT							
Department:	Fire				Category:			
Description and Justification:								
<p>This project seeks to replace the 1996 Engine 2. In 2016 the vehicle will be 20 years old and well beyond its expected useful life which is typically about 10 years for front-line service. The Insurance Services Office requires Northborough to maintain 3 pumping apparatus in order to sustain its ISO rating of 4, which residential and commercial fire insurance rates are based upon. Engine 2 is currently the back-up reserve pumper and carries the "Jaws of Life," has a 2,000 gallon portable water storage tank and extra hose for areas not served by municipal water supply. The 2005 Engine 1 will become the reserve back-up pumper once the new replacement is purchased and takes over as the new front-line pumper.</p>								


RECOMMENDED FINANCING

		Source of Funds	Total Six -Year Cost	Estimated Expenditures by Fiscal Year					
				FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
A. Feasibility Study									
B. Design									
C. Land Acquisition									
D. Construction									
E. Furnishings/Equipment									
F. Departmental Equipment		6	688,000	688,000					
G. Contingency									
H. Other									
TOTAL			\$688,000	\$688,000					

Source of Funds Legend

(1) Operating Revenues	(3) State Aid	(5) EMS Revolving Fund Fees	(7) Sewer Enterprise Fund Fees
(2) Municipal GO Bonds	(4) Trust Funds	(6) Free Cash / Other	(8) Water Enterprise Fund Fees

PROJECT DETAIL SHEET

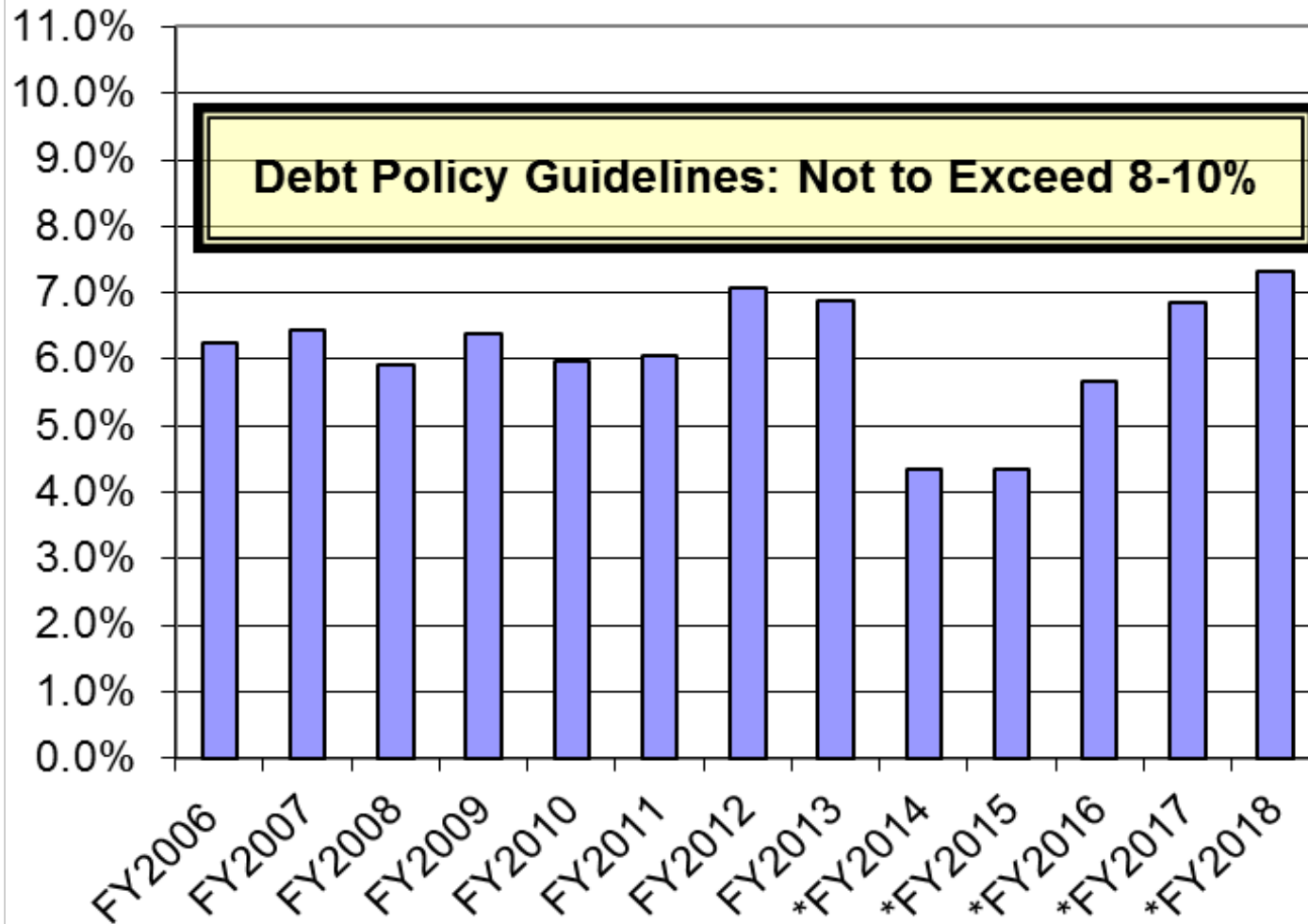
Project Title:	BACKHOE								
Department:	DPW - Highway				Category:	2B			
<u>Description and Justification:</u> <p>This request is to replace a 2005 model backhoe that is used by the Highway Division. This backhoe is used for drainage and roadway repairs, plowing of streets throughout Town and digging graves in the cemeteries. The long reach of a backhoe is necessary to properly excavate (repair, maintain and install) drain pipes and structures (catch basins, manholes, culverts, swales, etc.) throughout Town. The useful life of these vehicles is 10 to 12 years, the existing backhoe is a 2005 model year and will be at least 11 years old when it is replaced. The picture to the right represents an example of new similar model backhoe and the cost is net of an anticipated trade-in value for the 2005 model of approximately \$15,000.</p>									
RECOMMENDED FINANCING									
		Source of Funds	Total Six -Year Cost	Estimated Expenditures by Fiscal Year					
				FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
A. Feasibility Study									
B. Design									
C. Land Acquisition									
D. Construction									
E. Furnishings/Equipment									
F. Departmental Equipment		6	145,000	145,000					
G. Contingency									
H. Other									
TOTAL			\$145,000	\$145,000					
<u>Source of Funds Legend</u>									
(1) Operating Revenues		(3) State Aid		(5) EMS Revolving Fund Fees			(7) Sewer Enterprise Fund Fees		
(2) Municipal GO Bonds		(4) Trust Funds		(6) Free Cash / Other			(8) Water Enterprise Fund Fees		

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- **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?

Ratio of Net Debt Service to Total Budget



MOODY'S BOND RATING SYMBOLS

Aaa → Aa1 Aa2 Aa3
A1 A2 A3
Baa1 Baa2 Baa3
Ba1 Ba2 Ba3
B1 B2 B3
Caa Ca C

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- **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 FY2013–FY2017

Town Government	FY 2013 FTE	FY 2014 FTE	FY 2015 FTE	FY 2016 FTE	FY 2017 FTE	Change FY16-FY17
Executive Office	3.75	3.75	3.50	3.50	4.00	0.50
Public Buildings	0.50	0.50	0.50	0.50	0.50	0.00
Financial Offices	9.35	9.38	9.50	9.50	9.50	0.00
MIS/GIS	2.00	2.00	2.00	2.00	2.00	0.00
Town Clerk's Office	2.00	2.00	1.98		2.00	0.02
Planning & Conservation	3.73	3.73	2.50		2.80	0.02
Police Department	27.50	28.50			29.50	1.00
Fire Department	19.67				20.41	0.88
Building Department	2.80				2.80	0.00
Health Department					2.20	0.00
Dog Officer				contract	contract	0.00
Dept. of Public Works			18.48	20.48	20.48	0.00
Senior Center/COA			3.00	3.00	3.00	0.00
Library		9.36	9.40	9.60	10.28	0.68
Recreation	2.00	2.00	2.00	2.00	2.00	0.00
Family & Youth Services	1.96	1.96	1.96	1.96	1.96	0.00
Veterans' Services	0.29	district	district	district	district	0.00
Town Subtotal	106.78	108.61	109.00	112.33	115.43	3.10
School Department (K-8)						
K-5 Teachers	64.00	63.50	59.00	56.00	56.00	0.00
Grade 6-8 Teachers	33.40	32.90	33.40	33.00	33.00	0.00
Specialists	35.80	35.39	38.90	40.90	41.80	0.90
Special Education Staff	38.80	41.65	38.40	40.15	45.10	4.95
Administration	6.00	6.00	6.00	6.00	6.00	0.00
Support Staff	105.60	107.10	109.30	105.30	97.74	-7.56
K-8 Schools Subtotal	283.60	286.54	285.00	281.35	279.64	-1.71
Total Town & K-8 FTEs	390.38	395.15	394.00	393.68	395.07	1.39

THIS IS NOT AN
EYE EXAM!

FIRE DEPARTMENT**Personnel Summary**

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Position	FTE	FTE	FTE	FTE	FTE
Fire Chief	1	1	1	1	1
Fire Captain	4	4	4	4	4
Firefighter / EMT Basic	2	2	2	2	2
Firefighter / EMT Intermediate	1	1	1	1	1
Firefighter / Paramedic	9	10	10	11	12
Fire Marshal	0.25	0	0	0	0
Administrative Assistant	1	1	1	1	1
Office Assistant (ambulance billing)	0.18	0.18	0.18	0.18	0.18
Hazardous Materials Assistant	0.48	0.48	0.48	0.48	0.48
Call Firefighters	0.76	0.77	0.79	0.87	0.75
Total Full-time Equivalent	19.67	20.43	20.45	21.53	22.41

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 criticisms 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 an 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

Questions?



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Northborough
Massachusetts**

For the Fiscal Year Beginning

July 1, 2015

Jeffrey R. Enos

Executive Director