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# A Budget Guide for Georgia's Municipalities





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# A Budget Guide for Georgia's Municipalities

December 2003

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# Foreword

**T**he Georgia Municipal Association is pleased to provide A Budget Guide for Georgia's Municipalities. This publication has been prepared for municipal officials as a practical guide to the budget process. It includes definitions of budgeting terms, an explanation of the roles of stakeholders in the budget process, and a step by step guide to developing a municipal budget. The laws, regulations, and principles that guide the budget process are also defined and explained in this guide. Finally, the guide includes numerous examples of forms, charts, and graphs that can be duplicated by most cities as they develop their budget documents.

This publication was prepared by Becky Taylor, Manager, Research and Outreach Services. Perry Hiott, GMA Director of Research and Redevelopment Services, Paul Radford, GMA Deputy Director, External Affairs, and Gwin Copeland, Associate General Counsel assisted in editing the publication, while Philip Dobbs, GMA Visual Communications Manager, designed the cover and provided formatting assistance. We are indebted to them for their efforts.



**Jim Higdon**  
Executive Director





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# Introduction

A city's operating budget fulfills several important functions. It is a tool for financial management, a plan for providing services, a way to rationalize how tax dollars will be spent, and a mechanism for communicating policy preferences and goals to the public. This single document contains the city's financial, operational, and political plans for the next twelve months, making the budget one of the most important documents produced by a city government.

One overriding function of the budget is as a tool for communicating with the public. The budget communicates the city's fiscal and management policies and provides an explanation to citizens on how programs and services will be funded. Unlike private sector organizations that are responsible for reporting profits and losses, public entities such as city governments are primarily responsible for accountability in spending public tax dollars. Public funds must be used as efficiently and effectively as possible to provide programs and services. The budget document is a statement of the city's priorities for providing the services that are demanded by the public.

The budget cycle is a continuous process that requires values, goals, and priorities to be translated into programs and services. Budgeting requires the legislative body and executive branch to work together to decide on the most effective and efficient way to spend a city's revenues. The budget process involves conflict resolution, competition for scarce resources, and developing alternatives and compromises. Although each city has its own unique process for budget development, common elements are found in most budget processes. In order to better understand the budget process, it is important

to be familiar with the terminology used in budgeting, the laws that govern the process, and the procedures that are generally followed by most cities in Georgia.

The purpose of this guide is to provide an overview of the budget process, the laws that affect budget preparation and adoption, and the process of preparing and adopting a budget. It is designed to give newly elected officials and those just learning about the municipal budget process general information about the roles of various appointed and elected officials in the budget process and to describe the steps involved in adopting a balanced budget. Throughout this publication, we have provided examples of forms, documents, graphs, and charts from actual city budget documents.



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# Laws, Regulations, and Principles Governing the Budget Process

Every local government in Georgia is required by state law to adopt a balanced operating budget each year. The laws that govern the budget process generally fall into one of three categories:

- 1) Laws that ensure compliance with sound financial management practices and generally accepted accounting practices;
- 2) Laws that ensure the public can inspect the budget document and have opportunities to provide input during public hearings; and
- 3) Laws to facilitate the collection and evaluation of data by state and local agencies for use in understanding and evaluating local government service delivery and operations.

The following list details some of the legal and procedural requirements related to the budget process. For clarification about specific legal issues related to your city's budget process, please consult with your city's finance or budget

officer or your city attorney.

- A. O.C.G.A §§ 36-81-5 and 36-81-6: Requirements for advertising and conducting public hearings for local government budget adoption.
- B. O.C.G.A. § 50-18-70: Open Records Act
- C. GAAP (Generally accepted accounting principles; failure to report using GAAP will result in a qualified or adverse audit opinion and risk of losing QLG.)
- D. O.C.G.A. § 48-5-32: Requirements for setting millage rates, and the "Property Taxpayer's Bill of Rights Law," Revenue Rule 560-11-2-.58 .
- E. O.C.G.A. §§ 36-81-3: Establishment of fiscal year; requirement of annual balanced budget; adoption of budget ordinances or resolutions generally; budget amendments; uniform chart of accounts.
- F. O.C.G.A §§ 36-81-3(d): Requirement to adopt a resolution or ordinance to approve a budget amendment.
- G. O.C.G.A §§ 36-81-4: Appointment of budget officer; performance of duties by governing authority in absence of appointment; utilization of executive budget.

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## Accounting Principles: Local Government Fund Types

Local governments are required to account for all money that is received by and spent on behalf of the jurisdiction. Financial records are maintained according to certain fund types, in accordance with Generally Accepted Accounting Principles (GAAP) which are disseminated by the Governmental Accounting Standards Board (GASB). The three basic types of funds are governmental, proprietary, and fiduciary funds.

**Governmental funds** make up most of the budget and account for records of all operations that are not normally found in private enterprise. These include general funds (with revenue sources such as taxes, fines, fees, and licenses), special revenue funds (e.g., grant funds), debt service funds, capital project funds (e.g., city hall renovation), and special assessment funds (e.g., from special charges paid by property owners who benefit from a service such as a street light district).

**Proprietary funds** are similar to those found in private business - the government provides goods or services and recovers the cost to provide them through user fees and service charges. Examples include water, electricity, and natural gas.

**Fiduciary funds**, as defined by the Governmental Accounting Standards Board (GASB), “account for assets held in a trustee or agency capacity for others and which

therefore cannot be used to support the government's own programs.” Examples include pension trust funds and investment trust funds.

This publication will primarily focus on the general fund budget, which is the fund used by cities to set revenue and spending levels for management and operation of the city government and for the provision of most city services.

## The Budget Process: The Fiscal Year and Budget Calendar

### Fiscal Year

Every city operates on a fiscal year, an official twelve-month period which typically begins on January 1, July 1, or October 1. The calendar for updating and adopting your city’s operating budget is centered around the beginning of the fiscal year. Most cities begin working on the upcoming fiscal year’s budget several months before the start of the fiscal year to allow sufficient time for data collection, detailed review of financial data, and compliance with laws for public hearings and adoption of the budget by resolution. The amount of time needed to prepare a city’s budget will vary depending on the size of the government, the number and types of services the city provides, and other factors.

### Budget Calendar

The budget calendar is a tool used to establish a timeline for the completion of each step in the budget-setting process. Deadlines are very important in the budget process to ensure that the budget is adopted before the new fiscal year begins. The budget calendar includes deadlines for departments to submit information to the budget officer, dates for advertising and conducting public hearings, and a timeline for adoption of the budget. The following table shows an example of the primary steps in the budget calendar for a city with a July 1 fiscal year.

<b>Sample City</b>	
<b>Fiscal Year '04 Budget Calendar</b>	
<b>Date</b>	<b>Action</b>
March 1	Budget officer prepares budget forms for distribution to departments
March 1	Budget officer enters prior years actual and YTD estimates for revenues & expenditures for departments
March 15	Budget officer distributes forms to department heads
April 1	Budget officer prepares preliminary revenue estimates
April 15	Departments return budget request forms to budget officer
May 15	Budget officer reviews and adjusts each department’s budget and prepares expenditure and revenue plans
May 15	Begin executive review and development of final budget content (budget officer & manager or CEO)
May 22	Budget officer submits budget to the city council for review
June 1	Advertise public hearing
June 8	Conduct public hearing
June 15	End of council review period; budget officer makes adjustments
June 22	Budget officer advertises budget adoption hearing
June 31	City council adopts the budget and revenue ordinances
July 1	Fiscal year begins

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# Guiding Principles in Budget Development

When developing the city's budget, municipal elected and appointed officials work to allocate limited resources to provide services efficiently and effectively. The factors that influence city budget development include political goals and objectives, departmental revenue and staffing limitations, mandated programs and services, and changes to service levels. The budget is the primary tool used by the mayor and city council to guide the delivery of services to the community and to communicate priorities to the public. Therefore, it is important when going into the budget process that municipal offi-

cial clarify goals and set priorities for the upcoming year. Is your city's number one goal to maintain service levels without raising taxes? Or is your policy to cut spending by a certain percentage across all departments? Is one of your goals to increase employee salaries to attract and retain better employees? Do your priorities include increasing parks and recreation service levels? Whatever the goals of the governing authority may be, they must be understood by the departments and the budget officer so that they can be taken into consideration during the budget process.

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## The Budget Process: Who Does What

Budget formulation, adoption, and execution is not just an annual exercise, it is a year-round cycle that involves the interaction of many people. These people must work together to identify service needs, to develop strategies to meet these needs, and to develop detailed revenue and expenditure plans to carry out these strategies.



for department heads to justify their requests.

The budget officer is responsible for analyzing department requests and compiling all information on requested expenditures into a single document. The budget officer also estimates revenues and then combines revenues and expenditures into a balanced draft budget spreadsheet to

be reviewed by the city manager, administrator, or chief executive. In doing so, the budget officer makes sure that all budget printouts are correct according to financial, accounting, and legal standards and principles before they are presented for further review. The budget officer should anticipate and be prepared to answer any questions about the budget.

### **Budget Officer**

Every city has a designated budget officer or central budget office which is responsible for coordinating each step in the budget process: budget development, adoption, execution, and auditing. This employee may be the city clerk, city manager or administrator, finance or budget officer, or the mayor or a council member. During the budget development phase, the first task for the budget officer is to develop and distribute instructions and forms to all departments describing exactly how and when to submit budget requests for the upcoming year. The budget officer should provide standardized forms to all departments that include blanks for the requested expenditure amounts and space

### **Department Heads**

One role of department heads in the budget cycle is to provide budget requests to the budget officer by a predetermined deadline on the calendar. Especially during difficult economic times, department heads cannot simply request an incremental increase in their annual budgets. Rather,

it is each department head's responsibility to estimate what funds will actually be needed in the upcoming fiscal year to provide services, taking into account staffing needs, service levels, state and federal mandates, and the priorities of city officials. The budget officer often requires departments to provide written justification for all budget requests, especially for significant increases or new personnel. Many cities also require departments to meet pre-established performance measures to qualify for an increase in funds. The department heads complete budget request forms and return them to the budget officer with a cover memo outlining generally what the department is seeking.

### **Executive Role**

After the budget officer has completed a first draft of the upcoming fiscal year's revenues and expenditures, it is customary for the budget officer and chief executive to meet and review the preliminary budget printouts. The chief executive may be the mayor or city manager. During this process, questions about department requests are answered and initial adjustments to departmental budgets are made. The chief executive applies his or her knowledge of the political and service goals of the governing body to make decisions about what items to cut, amend, or keep in the budget at this stage. The city manager or administrator is responsible for presenting the mayor and council with a balanced budget that will only need "tweaking" before it is finalized and adopted.

### **Legislative Role: Mayor and Council**

The mayor and city council guide the entire budget process by setting priorities for the upcoming fiscal year. After the budget officer has compiled budget requests from departments and has prepared proposed expenditure and revenue reports, the role of the governing

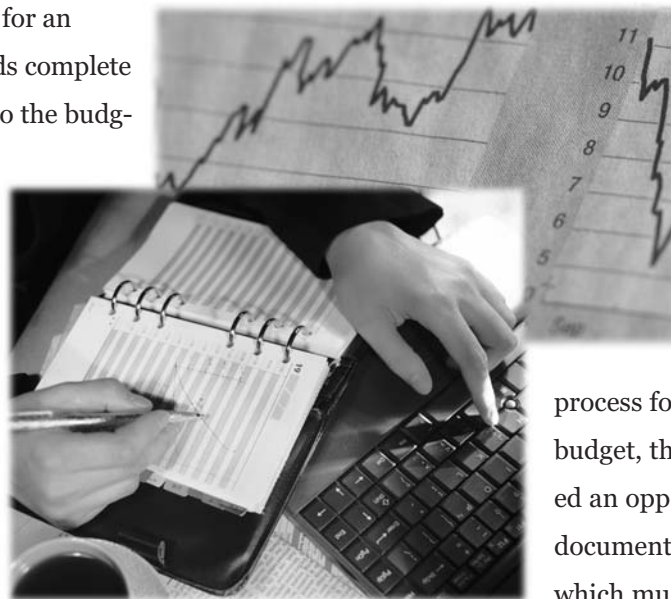
authority is to review the proposed budget. The review process allows elected officials to examine departmental budget recommendations including anticipated revenues by source and expenditures by fund category and type. Normally, one does not introduce completely new issues, services, or goals at this time. The review process is an opportunity for the mayor and council to clarify any

increases (or decreases) in the budget and to ask questions about recommended allocations.

### **Public Input**

Once the council has completed its review process for the recommended budget, the public must be afforded an opportunity to review the document at a public hearing, which must be scheduled at least one week before the council meeting to adopt the budget. A copy of the budget document must be available for public review at the meeting and citizens must have the opportunity to ask questions about budget recommendations or to make comments. A city may hold more than one public hearing during the budget process, but a minimum of one hearing is required.

After the budget hearing, the budget officer will make any remaining minor revisions to the budget document and will then advertise the meeting to adopt the budget. This advertisement must be published at least one week before the council meeting to adopt the budget. Because each city's charter is different, your city's charter requirements may specify that a second reading of the budget must take place prior to adoption of the budget. Please refer to your city charter or contact your city attorney if you are unsure about the requirements for your city.



# Step by Step Activities in the Budget Process

Now that the roles of each of the players in the budget process have been described, the next section of this guide will focus on an explanation of the basic steps in the process. The budget process is a continuous, ongoing cycle that includes budget development, public review, official adoption, implementation, and auditing. As stated earlier, each city has a slightly different approach to developing the budget document. Likewise, the document produced by each city will vary in appearance and complexity, ranging from several pages stapled together to a large volume of information. This section describes the steps that are commonly taken in most Georgia cities in the development of the budget document.

## Department Budget Requests

Several months before the beginning of the upcoming fiscal year, the budget officer should prepare a packet of information for each department, including a cover memo with instructions, forms for budget requests, and a table or chart showing year-to-date expenditures for the department. The budget officer must establish a deadline by which forms must be returned. Each department head must be able to defend budget requests and justify increases. Part of a department's justification should address workload changes and service level increases using quantitative data when possible (e.g., resurface 3 miles of road; add a new fire or police substation; construct and staff a new city park). In developing their budgets, departments should work to implement the goals and priorities that have been set by

the mayor and council and communicated to departments through the city manager, administrator, or chief executive. Therefore, some departmental increases may be requested to address a specifically stated priority set by the legislative body.

## Budgeting for Departmental Needs

Departmental budget proposals should include requests for personnel, operations, and capital needs for the upcoming year. Cities spend the largest percentage of their annual budgets to pay for personnel costs. Personnel costs include salaries, fringe benefits, and cost of living adjustments. When developing personnel requests, department heads should include existing personnel costs for current employees and new personnel costs. To assist department heads in budgeting for current employees, many cities have computer software that can calculate salary projection reports that include fringe benefits. The budget officer can print these reports and provide them to department heads to assist them in calculating base salary and fringe benefits (FICA, Retirement, Insurance) for current and new employees. Requests for new personnel should be accompanied by a written justification.



Departmental budget requests should also include operating expenses. These are the ordinary costs associated with operating the department, including contractual services and supplies. Department heads may estimate operating expenses by using an incremental or trend-line approach, or by employ-

ing analytical techniques, such as unit costs, standard costs, and predetermined charges. In the incremental approach, budget requests for materials and supplies are based on departmental spending for each particular line item in the past. This is a good method to use if one can assume that past practices have been effective and efficient, and where it can be assumed that the future operating environment will be similar to that of the past.



Analytic approaches to budgeting for operating expenses go beyond a simple trend-line projection. With these approaches, requests are based on judgments about what is actually needed and what it will cost. Unit costs compare the anticipated volume of work to the items needed to complete the work and the funds required to purchase each item. For example, a recreation department may anticipate that it will maintain 5 parks in the upcoming year. If it costs \$10,000 per year to maintain the grounds at each park, the total cost for park maintenance (and the amount of the budget request) would be \$50,000.

**Internal service funds** are sometimes used in cities. These are predetermined costs that are calculated by the budget officer for common support activities. Examples of these include data processing, risk management, and facility management (e.g., janitorial services).

**Standard costs** are based on the ratio of expenses to a fixed quantity (e.g., the number of employees or number of pieces of equipment.) For example, the standard cost for office supplies for one employee for one year may be \$1,000. This number can be multiplied by the number of employees in a department to get an amount for the budget request for office supplies.

**Capital outlay** includes equipment and tangible prop-

erty with an expected normal life of more than one year and a cost which exceeds a given dollar amount (e.g., over \$1,000). Land and buildings are not included in this definition because they are usually a part of a separate capital improvement budget. Requests for capital items are usually easier to calculate than those for operating expenses. For example, if a city department needs a new copy machine, the department head may get quotes or estimates from sev-

eral vendors. After deciding which estimate is most reasonable, the department head can include the amount of the quote in the budget request. The most difficult part of requesting capital items is justifying and defending the request. For instance, departments may want to upgrade to the latest and fastest computer model, even though the existing computer equipment is sufficient to complete required tasks effectively. It is the department head's responsibility to explain the true advantages of such equipment expenditures to their department.

Most city departments develop budget requests using year-to-year comparisons and written justifications for significant increases or decreases for individual line items. It is important to be able to estimate the cost to continue past programs, taking into account factors such as inflation and changing service demands. Department heads should be able to document the true cost of service delivery. Budget requests presented in inflation-adjusted terms helps reviewers understand the department's plans and is simple to do. The Quick Reference section in the back of this publication includes an inflation calculation table adapted from the U.S. Department of Labor Bureau of Labor Statistics data on the consumer price index, which can be found at

<http://www.bls.gov/home.htm>. An inflation calculator is also available on the BLS website at <http://data.bls.gov/cgi-bin/cpicalc.pl>.

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# Sample Cover Memo and Instructions for Forms for Department Heads

Date: March 15, 2003

To: All City Department Heads

From: Judy Smith, City Manager

RE: FY 2004 Budget Request Forms and Instructions

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Attached please find the forms you will need to submit budget requests for the 2004 fiscal year. Department heads will have until **April 15, 2003** to complete and return all forms to my office. Please remember to include a detailed justification for all requests, including line item increases and requests for new supplies and equipment. Failure to include a justification may result in a denial of the request.

Salary projections are to be calculated for all filled and vacant positions as follows and submitted with your request. You will recall that under the city's new pay classification system, salary projections include merit increases from 0%-3%. A cost of living adjustment of 2% may be included in your requests. *Please note that funding for merit and cost of living increases is not automatic, but are subject to approval by the mayor and council through the adopted budget.* The city's ability to increase employee salaries depends on each department's efforts to contain costs in other areas.

Please use the following method for calculating employee fringe benefits:

<u>FICA</u>	7.65% of the total salary up to \$87,000
<u>Retirement</u>	9.38% of the projected salary
<u>Health Insurance</u>	\$3,629 annually for employee coverage

For new personnel, use the attached form and the city's 2003 pay classification schedule. If you need a copy of the schedule, please contact my office.

If you have any questions or need assistance completing your departmental budget request, please do not hesitate to call me or come by my office.



## Sample Budget Request Forms for Department Heads

City of _____ Non-Personnel Items Budget Request Form, FY 2004	
Department Name	
Submitted By	
Date of Request	
Need	
Cost	
Justification	

City of _____ New Personnel Request Form, FY 2004	
Department Name	
Submitted By	
Date of Request	
Position Title	
Number Requested	
Full or Part Time	
Pay Grade	
Base Salary	
Social Security	
Retirement	
Insurance	
Total	
Justification	

# Sample Line Item Departmental Budget Request Form

*(source: Adapted from Athens-Clarke County budget document)*

Account No.	Account Description	FY02 Actual Expenditures	FY03 Operating Budget	FY04 Budget Request	FY04 New Services	FY04 Capital Request
101-23117-00042-11101	COMPENSATION-FULLTIME REGULAR	\$401,687.69	\$431,426			
101-23117-00042-11102	COMPENSATION-FULLTIME ELECT CONST	\$63,350.58	\$67,454			
101-23117-00042-11120	COMPENSATION-TEMPORARY	\$5,042.63	\$0			
101-23117-00042-11150	COMPENSATION-OVERTIME	\$16,127.69	\$7,000			
101-23117-00042-11219	EMPLOYER 401(A) CONTRIBUTION	\$694.44	\$482			
101-23117-00042-11270	FRINGE BENEFITS-CHARGES	\$127,680.24	\$152,214			
	<b>PERSONAL SERVICES</b>	<b>\$614,583.27</b>	<b>\$658,576</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
101-23117-00042-22146	REPAIR & MAINT - OFFICE EQUIPMENT	\$9,230.70	\$10,300			
101-23117-00042-22173	SERVICES-OFF-SITE RECORD STORAGE	\$6,326.25	\$7,000			
101-23117-00042-22179	SERVICES-POSTAGE	\$3,665.81	\$3,400			
101-23117-00042-22180	SERVICES-PRINTING	\$6,813.59	\$12,000			
101-23117-00042-22182	SERVICES-INTERNET	\$332.92	\$346			
101-23117-00042-22301	TRAVEL & LODGING	\$1,667.79	\$1,440			
101-23117-00042-22302	CONFERENCES & SCHOOLS	\$481.00	\$550			
101-23117-00042-22305	DUES & MEMBERSHIPS	\$735.00	\$765			
101-23117-00042-22615	SURETY BONDS	\$0.00	\$500			
101-23117-00042-22716	RENTAL/LEASE-POST OFFICE BOX	\$0.00	\$114			
	<b>SERVICES AND OTHER CHARGES</b>	<b>\$29,253.06</b>	<b>\$36,415</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
101-23117-00042-33102	SUPPLIES-OFFICE & DUPLICATING	\$35,203.54	\$30,000			
101-23117-00042-33302	NON CAPITAL-DATA PROCESSING	\$3,057.62	\$3,200			
101-23117-00042-33303	NON CAPITAL-OFFICE EQUIPMENT	\$4,537.39	\$5,375			
101-23117-00042-33702	ADVERTISING-LEGAL	\$1,250.00	\$1,800			
	<b>OTHER OPERATING EXPENDITURES</b>	<b>\$44,048.55</b>	<b>\$40,375</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
101-23117-00042-44401	COPIER	\$25,186.72	\$25,688			
101-23117-00042-44402	POSTAGE	\$21,646.58	\$20,000			
101-23117-00042-44403	PRINTING	\$5,521.03	\$4,000			
101-23117-00042-44404	INDIRECT-TELEPHONE SYSTEM BASE CH	\$6,897.60	\$6,898			
101-23117-00042-44406	INDIRECT-TELEPHONE/LONG DISTANCE	\$201.41	\$270			
101-23117-00042-44408	INDIRECT-COPIER PAPER	\$240.00	\$354			
	<b>INDIRECT EXPENSES CONTROL</b>	<b>\$59,693.34</b>	<b>\$57,210</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Administration</b>		<b>\$747,578.22</b>	<b>\$792,576</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **Budget Officer Review**

Once all departments have returned their request forms, the budget officer is responsible for reviewing all budget requests. The budget officer has the difficult job of balancing the needs of competing departments with the policies set by the city council. This employee must understand the management and fiscal policies of the city, the financial condition of the city, and the political climate that influences the budget process. For example, the city council may have stressed to the manager that no tax increases will be permitted, that a 10% across-the-board cut in spending in all departments is mandatory, or that specific service levels must be increased. The budget officer must take all of these things into consideration when reviewing departmental budget requests.

Once the budget officer has reviewed and analyzed all departmental requests, information on expenditures and revenues is compiled in a spreadsheet or chart to be reviewed by the city manager, administrator, or mayor. Expenditure details in this spreadsheet will include information on prior year actual expenditures, budgeted expenditures for the current fiscal year, actual (estimated) expenditures for the current fiscal year, and a recommendation for the new fiscal year. This detail will provide the city manager/ administrator and elected officials with a snapshot of spending in recent fiscal years and gives some perspective for the budget request.

## **Revenue Projections**

Revenues are the key to developing the city's budget. Most department heads are not directly involved in the revenue side of budgeting unless they are funded through an enterprise fund. For example, the city's public works or utilities director will likely participate in the development of revenue estimates for water, sewer, and sanitation. Department heads whose functions are funded from the general fund are primarily concerned with developing reasonable budget requests and getting at least what they

were budgeted the year before.

Most general fund revenue projections are made by the budget officer. Projecting revenues has been called "more an art than a science." Many factors cannot be controlled or accurately predicted, including economic conditions and population decline which could negatively impact the budget. Moreover, if a city starts its budget preparation six months before the upcoming fiscal year, it is necessary to project eighteen months into the future to predict the economic, political, and financial conditions in the city to get an accurate revenue estimate. Despite these inherent difficulties, every city has developed techniques to estimate budget revenues. While estimates will never be exact, it is possible to get a good estimate. A budget officer's ability to do this depends on a knowledge of the present and past conditions that impact collections, an understanding of the city's financial condition, and good judgment.

Most general fund revenue estimates involve a thorough examination of historical revenue data, taking into account general economic and financial conditions in the city, making various assumptions about collections in the upcoming year, and applying good judgment. In many cities, a major source of funding for city services is ad valorem taxes (real and personal property taxes). Other major sources of revenues collected by cities include motor vehicle taxes, insurance premium taxes, sales taxes (LOST), franchise fees, beer and wine license and excise taxes, business license fees, building permit fees, fines and forfeitures, intergovernmental revenues, and some miscellaneous revenues. To estimate revenues, the budget officer examines each individual revenue source. The most time is usually spent on estimating property taxes and sales taxes, the two largest sources of revenue for many cities. Property taxes can be estimated by the budget officer using tax digest information. Sales tax revenue estimates are much more dependent on economic conditions.

The estimator starts with historical data and looks for trends in collections to approximate the upcoming year's revenues. The best advice for projecting revenues in any category is to be conservative in making estimates. It is much better to project a revenue number that is too low than one that is too high, which would result in a deficit.

The following table lists revenue estimation models used by some local governments to project revenues. As you can see, the methods can range from very basic to very complicated. Regardless of which model your city uses, it is helpful to know about the techniques available for use in completing this task.

## Revenue Estimation Models

<b>Simplistic Model</b>	Bases revenues on trend analysis of historical data, as well as taking into account changes in service demands that might affect revenue collections. (Cities can also project trend data using data from comparable cities, which is available from the Georgia Department of Community Affairs.) Good judgment and intuition used in interpreting these trends is a major factor in this model.
<b>Multiple Regression Model</b>	Uses independent variables such as population and economy to predict revenues.
<b>Econometric Model</b>	Bases revenue estimates on review of interdependent variables such as the Consumer Price Index, interest rates, and construction activity.
<b>Microsimulation Model</b>	Revenue estimates are made by using sample files of data, such as IRS returns, to predict future trends.
<b>Input-Output Model</b>	Uses sales and purchase data to determine where revenue is being generated.

Source: Riley, Susan L. and Colby, Peter W., Practical Government Budgeting: A Workbook for Public Managers, 1991.

### ***Simplistic Model***

This model is the most commonly used for forecasting revenues in Georgia's cities. Most cities use this system because there may not be reliable local data available on the economy which could be used for more complex models. Revenues can be estimated in constant increments, constant percentages, or linear/ nonlinear time trends.

**Example:** Constant increments – collections increased by \$5,000 in each of the last three fiscal years, so they are estimated to increase by \$5,000 for this fiscal year.

**Example:** Constant percentages – collections increased by 5% in each of the last three fiscal years,

so they are estimated to increase by 5% in this fiscal year.

**Linear/ nonlinear time trends:** – revenues are estimated as an arithmetic function of time, ( $R = a + bt$ ) or as a logarithmic function of time ( $\ln R = a + bt$ ), where  $R$  = collections from the revenue source and  $t$  = time index.

### ***Multiple Regression***

This model is more accurate than the simplistic model and requires estimates of independent variables such as economic data (e.g., CPI) or the population for the forecast period. Suppose data are available on the GNP (gross

national product) from 1970 – 2002, and you are preparing an estimate for the 2004 budget year. Possible equations can be developed from 1970 – 2001 and test predictions for revenues can be made for 2002. The equation that comes closest to the 2002 result would be selected. This model requires that separate equations be prepared for each revenue category.

### **Econometric Model**

This model bases revenue estimates on the simultaneous review of interdependent variables, such as the CPI, interest rates, and construction activity. Equations are developed for each of the relationships in the model. The independent variables used are estimates that can be obtained from economic forecasting companies, universities, technical advisers, and state or federal government economists. This model is more complicated than multiple regression, but has not been proven to be much more accurate than multiple regression models. Generally, multiple regression models can be produced less expensively and with less required data.

### **Microsimulation Model**

This model is being experimentally used by some states and is used by various federal agencies. With this model, individual tax return data from a sample of returns are entered into a computer file. From this information, the effect of changes in selected fiscal parameters can be estimated as the impact in the sample is expanded to the entire taxpaying population. This model requires significant effort to select tax records, so it is most efficient to choose this model if your city can use the data for more than just revenue forecasting.

### **Input-Output Model**

In this model, a model of interindustry sales and purchases shows how much each industry (e.g., steel) sells to other industries for use in products made by those industries (e.g., automobiles) and to final purchasers (e.g., gov-

ernment, households). The resulting table provides great detail about the operation of an economy and can provide usable estimates of the impact to revenue of specific economic shocks. The drawback to this model is that the input-output model must exist before it can be used. The preparation of the model is too expensive for just estimating revenues, and it must be kept up to date as the economy changes.

### **Summary: Revenue Estimation Models**

Cities have several options available for forecasting revenues. The descriptions of each model are included here to provide a basic understanding of how each model works, and to identify drawbacks or advantages to using each model. Most municipal governments in Georgia have access to computer software that simplifies the use of some of the models listed, particularly if cities wish to use the linear regression or multiple regression techniques described. Most spreadsheet programs include formulas and functions that allow the relatively easy calculation of revenue estimates so that city officials do not have to labor over complex formulas. Regardless of whether your city uses the more complex revenue forecasting techniques, it is worth the investment of a city's time and resources to make sure that the budget officer and other key employees receive sufficient training on software programs that are already installed on most computers and which can be used to help prepare and analyze data throughout the budget process.

### **Conclusion: Revenue Projections**

For the easiest review, revenue and expenditure data should be entered into a computer spreadsheet in a line item format. A history of prior year actual revenues should be included in this chart to show the trend in revenues for the previous two or three years, compared to the current revenue estimate. Revenues and expenditures are balanced prior to executive review of the budget.

## Revenue Structure Considerations

Every city has different priorities when it comes to deciding which revenue sources will be relied upon to fund city services. Many cities rely heavily on property taxes, while others depend on sales taxes to pay for programs and services. The decision on how to fund city programs is strictly local and largely political: there are no state laws that dictate how a city must set up its revenue structure. (An exception to this statement is that in order for cities to be eligible for LOST, they must assess another tax.) However, in order to develop a sound budget that will withstand economic fluctuations, generally accepted budgeting and finance practices recommend that city officials should attempt to diversify revenue sources so that they do not become over-dependent on one particular revenue source. The four basic considerations cities should make when deciding how to pay for city services are:

- **Acceptability** – city officials should consider how the community as a whole would be impacted by the city’s use of a particular funding source. For example, if a tax is regressive it may have an unfair impact on low-income residents if it is used as the primary source to fund services. Cities should look at all funding options to ensure that there is a balance of revenue sources that will be fair to all city residents.

- **Stability** – city officials should attempt to maintain revenue sources that will remain stable regardless of economic fluctuations or political changes. For example, during times of economic downturn, sales tax collections may decline and a city may not collect as much as was anticipated when the annual operating budget was developed. If this situation occurs, a city may be forced to cut

services or staff to avoid a deficit. Sales tax collections also depend on the renegotiation process. If, after the renegotiation of sales taxes, a city does not receive the revenue share originally anticipated, it may need to reduce service levels or eliminate programs. Property taxes, on the other hand, are less susceptible to economic fluctuations. The key is to take into account the potential factors that will effect revenue collections to find the right balance of revenue sources for your city.

- **Self-Sufficiency** – cities should not become overly dependent on state or federal grants to fund services. While this dependency was much more of a problem in the early 1980’s when the federal revenue sharing program was eliminated, cities should still seek to fund services by relying more on local revenues, which are much more reliable than state or federal revenue. Additionally, as new capital projects are brought online, cities should always forecast the cost of operation and maintenance for these projects.

- **Cost Efficiency** – city officials must constantly perform a balancing act with revenues to be sure that the best quality of services are provided in the most efficient manner. Cities should consider levels for fees, fines, and other revenue sources, in addition to sales taxes and property taxes, to be sure they are at an appropriate level to fund services.

When it comes to considering a city’s revenue structure, local officials should look at the big picture to ensure that a sound budget is developed that includes a variety of revenue sources that will be available to fund services in the most efficient and effective manner.

# Sample Department Budget

## (Annotated for Executive & Council Review)

*Source: Adapted from City of Sylvania Budget*

### Fire Department

Category	Account #	Actual FY 2000	Actual FY 2001	Actual FY 2002	Budget FY 2002	Budget FY 2003	Request FY 2004
Salaries	15511	244,661	255,522	265,152	246,084	238,902	220,960 <sup>1</sup>
Volunteer Pay	15513	16,633	16,404	15,774	22,178	22,000	10,000
FICA	15514	18,403	19,457	18,475	20,522	18,812	16,903
Group Health Ins.	15515	15,702	18,073	26,822	20,352	23,626	23,336
Retirement	15516	13,234	13,237	13,899	18,456	23,325	20,732
Uniform Allowance	15517	603	581	690			1,620
Worker's Comp	15518			3,640	4,363	4,363	4,363
Supplies & Forms	15520			1,242	1,400	1,500	1,500
Chemicals	15521	1,024	785	1,648	3,500	3,500	2,500
Mat, Supp, Cleaning	15522	14,199	15,517	7,744	9,631	9,500	8,000
Gas & Oil	15523	1,836	1,631	2,905	2,500	3,000	3,000
Uniforms	15526	6,866	19,179	8,003	8,500	8,500	7,500
Small tools, equip.	15527			4,749	3,990	5,000	3,000
Vehicle maintenance	15528	8,991	5,121	3,086	5,500	5,500	5,500
Postage	15534			198	200	300	300
Telephone	15535	3,021	4,463	3,746	4,808	4,952	4,300
Advertising	15537			85	500	500	500
General Insurance	15538	6,042	5,755		2,842	5,050	5,050
Electricity	15540	7,064	7,292	7,575	7,704	7,935	7,500
Bldg. & Grounds	15541	884	602	1,468	1,650	1,600	1,600
Maint. Agreements	15542			2,451	1,600	2,000	2,000
Contingencies	15545	564	1,305	2,275	2,000	2,000	2,000
Dues Cert., Subscr.	15553			609	1,000	1,500	1,500
Software, Data Proc.	15554				1,500	1,500	1,500
Training & Conferences	15555	2,419	4,517	5,214	5,956	6,000	6,000
Public Relations	15587	98	427	613	500	1,000	1,000
Capital Expenditures	15588	11,205	44,437	17,117	28,750	53,000	180,625 <sup>2</sup>
<b>Total Fire Department</b>		<b>373,449</b>	<b>434,305</b>	<b>415,180</b>	<b>425,986</b>	<b>454,865</b>	<b>542,789</b>

<sup>1</sup>Eliminating one full-time vacant position

<sup>2</sup>Purchasing new 3,000-gallon pumper truck and 10 sets of turnout gear

### **Review by the Mayor or City Manager**

The “first draft” of the budget is reviewed by the mayor or city manager, whose primary goal in the budget review process is to make sure that the policies and priorities set by the mayor and council are met. The city manager will review each recommended departmental budget to ensure that they are appropriate and not excessive. Department heads may be asked to sit in on

the budget review process at this stage to explain any major increases or decreases in budget requests. The manager or executive’s goal is to anticipate any questions the council may have and prepare responses to these questions: there should be no surprises going into the final review of the budget by the governing body. Adjustments to the budget are entered by the budget office, and the modified budget is prepared for review by the mayor and council.



### **Review by the Mayor and Council**

The city manager/ administrator’s presentation of the budget to the mayor and council will provide brief overviews of recommendations for each department and will feature explanations of major increases. The manager will explain how the mayor and council’s priorities are being met through the recommended budget. The presentation should also include an explanation of any changes in the millage rate or anticipated changes in other revenue sources. At this time, city council may choose to cut items out of the budget or make other adjustments. The city council has the goal of adopting a budget that fulfills its established goals without being controversial.

### **Public Review**

After legislative review, the budget office should finalize the budget document for public review and adoption by the council. Prior to adoption of the budget, Georgia law requires that the city must hold at least one public hearing to allow citizens to review the budget. After the public hearing, the city can schedule and advertise a meeting to formally adopt the budget.



# SAMPLE PUBLIC HEARING NOTICE

**CITY OF \_\_\_\_\_, GEORGIA**  
**FISCAL YEAR 2003 (FY03) BUDGET REVIEW & ADOPTION**  
**(July 1, 20\_\_ - June 30, 20\_\_)**

**PUBLIC HEARING ON FY03 BUDGET:** A Public Hearing on the FY03 Budget is scheduled for (day) \_\_\_\_\_, (date) \_\_\_\_\_ at \_\_\_\_\_ p.m. in the City Hall Chambers located at \_\_\_\_\_. At this meeting, the Mayor and Council will receive both written and oral comments about the Annual Operating and Capital Budget for the City of \_\_\_\_\_, Georgia. A qualified interpreter for the hearing impaired will be available upon request made at least ten (10) days in advance of this meeting. Please call (\_\_\_\_) \_\_\_\_-\_\_\_\_, [TDD (\_\_\_\_) \_\_\_\_-\_\_\_\_] to request an interpreter or for more information.

**MAYOR'S RECOMMENDED BUDGET AVAILABLE FOR REVIEW:** The FY03 Mayor's Recommended Budget will be available for public inspection during normal office hours on (day) \_\_\_\_\_, (date) \_\_\_\_\_, at the following locations: Office of the Manager, \_\_\_\_\_ (street address and room number) \_\_\_\_\_; Regional Library, \_\_\_\_\_ (street address) \_\_\_\_\_; and the City Clerk's Office, Room \_\_\_\_\_, City Hall. Copies will also be available at \_\_\_\_\_ (list other locations where citizens can make copies of the budget, if desired) \_\_\_\_\_. Summary information on the FY03 Recommended Budget can also be found at the city's web site [www.yourcity.com](http://www.yourcity.com).

**BUDGET REVIEW:** The Mayor and Council of the City of \_\_\_\_\_ are scheduled to review the FY03 Recommended Budget on the following dates:

Month, day, year (day of week)	(list time and location)
Month, day, year (day of week)	(list time and location)
Month, day, year (day of week)	(list time and location) (if needed)

(Public Comment will also be taken at the regularly scheduled meeting of the Mayor and Council on (list day, month, year, time, and location)).

**BUDGET ADOPTION:** The Mayor and Council of the City of \_\_\_\_\_ are scheduled to adopt the FY \_\_\_\_\_ Budget at their regular monthly meeting on \_\_\_\_\_. The meeting will be held at \_\_\_\_:00 p.m. in the City Hall Chambers located at \_\_\_\_\_.

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# SAMPLE LETTER TO NEWSPAPER TO PRINT PUBLIC NOTICE

April 16, 20\_\_

Statesboro Herald  
One Herald Square  
Statesboro, Ga. 30458

Dear \_\_\_\_\_:

Please run the attached public notice as a **display ad** in the **Thursday, April 23rd, 20xx** issue of the Statesboro Herald. State law requires that this ad **not** be placed in the legal notices section.

Upon receipt of this letter, please call me to confirm size and price of the ad. Thanks for your assistance.

Sincerely,

\_\_\_\_\_  
Budget Administrator

**Budget Adoption**

The budget must be formally adopted at a regular meeting of the city council. A resolution or ordinance is required

to adopt the budget. The following document is an example of a resolution used to adopt a city’s annual operating budget.

# Sample Resolution to Adopt Budget

City of \_\_\_\_\_  
State of Georgia

## A RESOLUTION

**TO ADOPT THE FISCAL YEAR 200\_\_ BUDGET FOR EACH FUND OF THE CITY OF \_\_\_\_\_ , GEORGIA, APPROPRIATING THE AMOUNTS SHOWN IN EACH BUDGET AS EXPENDITURES/ EXPENSES, ADOPTING THE SEVERAL ITEMS OF REVENUE ANTICIPATIONS, AND PROHIBITING EXPENDITURES OR EXPENSES FROM EXCEEDING THE ACTUAL FUNDING AVAILABLE**

**WHEREAS**, sound governmental operations require a budget in order to plan the financing of services for the residents of the City of \_\_\_\_\_; and

**WHEREAS**, Title 36, Chapter 81, Article 1 of the Official Code of Georgia Annotated (OCGA) requires a balanced budget for the City’s fiscal year, which runs from \_\_\_\_\_ to \_\_\_\_\_ of each year; and

**WHEREAS**, the Mayor and City Council of the City of \_\_\_\_\_ have reviewed the proposed FY \_\_\_\_\_ budget as presented by the City Manager; and

**WHEREAS**, each of these funds is a balanced budget, so that anticipated revenues and other financial resources for each fund equal the proposed expenditures or expenses; and

**WHEREAS**, the Mayor and City Council wishes to adopt this proposal as the Fiscal Year \_\_\_\_\_ Annual Budget, effective from \_\_\_\_\_ through \_\_\_\_\_.

**NOW THEREFORE BE IT RESOLVED** by the Mayor and City Council of the City of \_\_\_\_\_, Georgia, as follows:

**Section 1.** That the proposed Fiscal Year \_\_\_\_\_ Budget, attached hereto and incorporated herein as a part of this Resolution is hereby adopted as the Budget for the City of \_\_\_\_\_, Georgia for Fiscal Year \_\_\_\_\_, which begins \_\_\_\_\_ and ends on \_\_\_\_\_.

**Section 2.** That the several items of revenues, other financial resources, and sources of cash shown in the budget for each fund in the amounts shown anticipated are hereby adopted, and that the several amounts shown in the budget for each fund as proposed expenditures or expenses, and uses of cash are hereby appropriated to the departments named in each fund.

**Section 3.** That the “legal level of control” as defined in OCGA §36-81 is set at the departmental level, meaning that the City Manager in his capacity as Budget Officer is authorized to move appropriations from one line item to another within a department, but under no circumstances may expenditures or expenses exceed the amount appropriated for a department without a further Budget amendment approved by the Mayor and City Council.

**Section 4.** That all appropriations shall lapse at the end of the fiscal year.

**Section 5.** That this Resolution shall be and remain in full force and effect from and after its date of adoption.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_\_.

**CITY OF \_\_\_\_\_, GEORGIA**

\_\_\_\_\_  
By: (typed name), Mayor

\_\_\_\_\_  
Attest: (typed name), City Clerk

(AFFIX SEAL)

## **Budget Administration**

Throughout this guide, we have stated that the budget is a cycle involving four major events: development, adoption, implementation, and auditing. Once the budget is adopted and the new fiscal year begins, the plans set forth in the budget must be put into operation. Department heads carry out their approved budgets and appropriations are spent to deliver services. While each department head is responsible for the efficient use of resources to stay within budget, the ultimate responsibility for executing the city's budget falls with the city manager, administrator, mayor, or other chief executive. This position is responsible for exercising general fiscal control over the budget, making sure department heads stay within their budgets, providing regular reports on budget activity to departments, and tracking actual revenues against forecasted amounts. Budget administration requires continuous communication so that the city can be responsive to day-to-day needs of citizens while ensuring that the city's overall priorities are met.

### **Budget Administration: Implementation and Monitoring**

Budget implementation and monitoring systems vary among city governments from being very simple to very elaborate. These systems allow city officials to:

- 1) monitor, adjust, and control spending;
- 2) maximize effectiveness and efficiency; and
- 3) develop long term revenue and expenditure strategies.

Even though budget execution practices and terminology vary from city to city, they consist of five basic components:

- 1) Authorization** – the law which permits spending for a specified purpose;
- 2) Appropriation** – the legal authority to spend up to a certain amount during the budget period (in cities, the budget document is the source for most appropriations);
- 3) Allocations** – used by the chief executive or bud-

et officer to provide further detail to the appropriations approved by city council (e.g., lump sum appropriations may need to be further divided into allocations for specific programs the department operates);

**4) Allotments** – divide appropriations or allocations (if any) into time periods such as quarters or months of the current fiscal year (allotments help assure that money is available to fund operations throughout the year); and

**5) Adjustments** – may be necessary as revenues and/ or spending varies from the budget document. Procedures for making adjustments vary from city to city. Department heads may be authorized to move up to a limited amount across budget categories within their budget. In some municipalities, the budget officer is authorized to transfer funds from one line item to another in departmental budgets without the approval of city council. Budget amendments resulting in an increase in a department's budget requiring additional revenues or the transfer of funds typically require a formal resolution by the mayor and city council to amend the budget. To better understand the specific budget implementation regulations that apply to your city, check with your city attorney and consult the city charter. State laws and city charters provide regulations for budget execution that allow cities the flexibility to make minor changes to the budget while maintaining sufficient control over the use of resources.

### **Spending Money**

State and local laws typically forbid cities to spend more money than has been appropriated. Spending practices vary from city to city, but in every city there must be sufficient managerial controls built into the implementation process to ensure that spending does not exceed appropriations and that resources are spent only for the purposes intended by the city council. The budget officer must continuously monitor the relationship between actual expenditures and budgeted (approved) expenditures throughout

the fiscal year.

Every city in Georgia has its own practice for spending money, but generally, the following steps are taken. Once a department head has an approved departmental budget, he or she makes decisions about how to obligate those funds. The department head does not directly handle cash, write checks, or use credit cards except to make minor, petty-cash transactions. Instead, spending money usually involves the preparation of a purchase order or some other type of voucher identifying the authority to spend, the

department and individual who is preparing the purchase order, the account from which funds should be drawn, the items to be purchased, and the name and address of the vendor who should receive payment. To ensure necessary “checks and balances” in the process, all of this information should be checked by a purchasing officer or another authorized city official before payment is made. Finally, the transaction must be recorded properly according to the city’s accounting system. This record will provide an audit trail so that the city’s finances can be reviewed and approved by the auditors at the end of the fiscal year.

## Sample Purchase Order

**Purchase order no. 2389**

**Date:**

**Vendor Name** \_\_\_\_\_

**Contact Name** \_\_\_\_\_

**Billing Address** \_\_\_\_\_

**City, State, Zip** \_\_\_\_\_

**Telephone** \_\_\_\_\_

**Fax Number** \_\_\_\_\_

**Email Address** \_\_\_\_\_

**Bill to:**

**Ship to:**

**Special instructions:**

---

**Item Description**

**Quantity**

**Price**

**Total:**

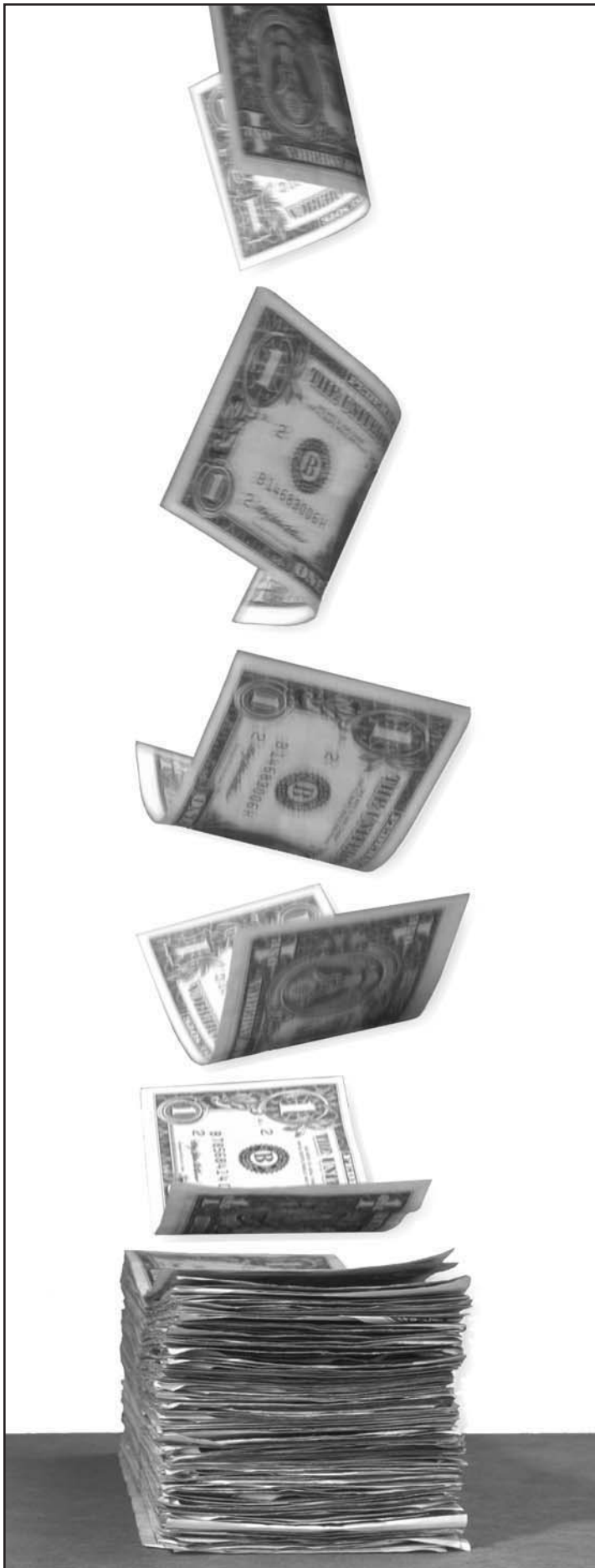
---

**Employee name:**

**Department:**

**Account:**

**Purchasing officer signature:**



### **Expenditure Controls**

Spending money is subject to many limitations and controls beyond the procedures just described. The purpose of using budgeting and GAAP practices is to control spending and to generate a record of accountability that proves that city funds were spent as directed by the mayor and city council. Beyond the need to meet legal requirements and controls, a city must maximize the efficiency with which public dollars are used to provide public services.

Some of the most commonly used techniques to control expenditures include:

- ***Line item appropriations*** – spending is confined to very specific purposes approved during the budget process. Some expenditures may even need to be pre-approved, such as those for travel, even though funds exist in line items for these purposes. This technique is the most costly and time-consuming control measure, but it is useful if a situation is politically sensitive or there is a potential (actual or perceived) for waste, fraud, or abuse.
- ***Unallocated reserves*** – the chief executive, acting through the budget officer, ensures that sufficient funds are available to meet expenditure demands throughout the year. For example, the budget officer may withhold 5% of a department’s appropriation as a kind of emergency reserve if there is a revenue shortfall or unavoidable overspending.
- ***Encumbrances*** – funds designated out of appropriations that can only be spent for specific purchases. A purchase order is the most common encumbrance. Money may be encumbered for planned purchases at the very beginning of the fiscal year, or as purchase orders are issued or contracts let. The function of encumbering money is to guarantee that

funds will be available to pay bills when they are due. Monthly or quarterly statements to departments should show encumbered and expended funds so that department heads will know how much spending authority or “unencumbered funds” they have for the rest of the year. It should be noted that the department’s ability to spend unencumbered money usually lapses at the end of the fiscal year and funds revert to the city’s general cash reserve accounts.

- **Position control** – this technique is used to ensure that all new personnel are hired only for positions which have been authorized and approved in the budget.
- **Ceilings and freezes** – this technique is the final and most drastic control measure. Ceilings impose an arbitrary limit on expenditures for some or all purposes, while freezes represent a prohibition on further spending for some or all purposes. Usually, these measures are only used in times of severe fiscal or political crisis.

### **Purchasing**

Many cities have begun to use a centralized approach to purchasing by hiring (or training an existing employee to be) a purchasing officer or by establishing a central purchasing department. This approach helps cities not only to avoid political influence in the area of purchasing, but to achieve maximum efficiency through volume buying and professionally-learned purchasing skills. The basic components of a good system are:

- **Centralization** is required to ensure integrity, effectiveness, and efficiency through a standardized process.
- **Competitive bids** are the preferred process for most purchases to guarantee integrity, maintain

public and vendor confidence in the purchasing process, and attract the greatest number of potential suppliers and the best terms.

- **A Code of Ethics** should be adopted to strictly forbid purchasing officials from accepting anything of value from potential vendors or from awarding a contract to any company with which the city official has an affiliation.
- **Standard procedures and open records** require careful and accessible documentation of all purchasing decisions so that questionable decisions may come to the attention of the media, voters, political opponents, and law enforcement officials.

While formal purchasing practices vary among cities, departments may be allowed to purchase some items while the purchasing officer or central purchasing office is responsible for other items or services. The division of responsibility usually depends on either a dollar value of the purchase or the type of good or service being purchased. Very expensive items will more likely be purchased by the central purchasing office.

### **Audit Requirements**

The final part of the annual budget cycle is the annual external audit of all city financial records. The audit involves an examination of accounting systems, procedures, programs, and financial data from a city. The end product is a report issued by an independent auditor describing how well a local government’s financial statements describe its financial condition and the results of its operations. Georgia law (OCGA § 36-81-7) requires cities with a population over 1,500 or expenditures of \$175,000 or more to complete an annual audit of all city financial statements. Cities with a population of 1,500 or less or with expenditures less than \$175,000 are required to complete an audit every two years, and

the audit must cover both fiscal years. The independent audit must be conducted in accordance with generally accepted auditing standards and the standards applicable to the Government Auditing Standards issued by the Comptroller General of the United States. The auditor reviews financial statements to provide an opinion on the city's financial condition, its control over financial reporting, and to test for the city's compliance with provisions and requirements of federal, state, and local laws, regulations, contracts, and procedures.

Three types of audits are financial audits, performance audits, and program audits. A *financial audit* determines if a city has acted according to the applicable federal, state, and local laws, regulations, policies, and procedures. A *management or performance audit* determines if a city is performing in the most economical and efficient manner, identifies possible causes for problems, and recommends methods for improvement. A *program audit* determines whether the intended results of a city activity are being achieved. All cities must prepare a financial audit, which is also called an annual audit or comprehensive annual financial report (CAFR). This audit must contain financial statements for each individual fund and for a combination of similar fund types.

The city must submit an audit report to the Georgia Department of Audits within 180 days after the close of each fiscal year. In addition to the audit report, the municipality must also forward to the state auditor, within 30 days after the audit report due date, written comments on the findings and recommendations in the report, including a plan for corrective action taken or planned and comments on the status of corrective action taken on prior findings. If corrective action is not necessary, the written comments should include a statement describing the reason it is not.

Each city's audit report and written comments are reviewed by the state auditor's office to insure that they meet the requirements for audits of local governments. If the state auditor finds the requirements for audits of local governments have not been complied with, the state auditor is required to notify the governing authority and the auditor who performed the audit within 60 days of receipt of the audit or the written comments. The state auditor must also submit to the governing authority and the independent auditor a list of deficiencies to be corrected.

### ***Annual Financial Reports and GASB 34***

Any local government undertaking a professional audit of its books should follow the standards established by the Government Accounting Standards Board (GASB). GASB is not a regulatory agency of the federal or any state government; rather it is more akin to a professional standard-setting association for self-regulation of its members. While compliance with GASB 34 is not a legal requirement, cities that do not comply with the GASB statement in preparing their annual financial report will receive an adverse report from their auditor.

In 1999, GASB issued Statement No. 34 for state and local governments. GASB 34 established new financial reporting requirements for cities. These requirements were developed to make annual reports more comprehensive and easier to understand and to use. GASB 34 standards are phased in as follows:

### **GASB 34 Phase-in Schedule**

<b>Dollars in Revenues</b>	<b>Phase-in Date</b>
> or = \$100,000,000	June 30, 2002
> or = \$10,000,000	June 30, 2003
< \$10,000,000	June 30, 2004



The main areas that will require changes to comply with GASB 34 are as follows:

- 1) A new section entitled “Management’s Discussion and Analysis” will need to be added. In it, the municipality’s key financial personnel should provide a general discussion of the most relevant information contained in the financial statement. This information is subject to review by outside auditors.
- 2) Government-wide financial statements must be issued. The government-wide statement enables readers to focus on the government as a single economic entity and provide a basis for comparison with other governments.
- 3) Fund Financial Statements continue to be required, but focus only on major funds. Capital assets and debt are to be incorporated into the government-wide statements.
- 4) Footnote disclosures are increased significantly in both number and content required. Included among the new disclosures are a policy for capitalizing assets, a policy for allocating indirect expenses, and a policy for the use of restricted and unrestricted assets.
- 5) Reporting of all the municipality’s capital assets, including the calculation of depreciation expenses for assets of all funds, is required. In addition, assets relating to the municipality’s infrastructure (such as roads, buildings, public lands) must be reported and assessed in the financial statements.
- 6) Budgetary comparison schedules must be expanded to include both the original budget as passed by the legislative body, as well as the final

budget that includes changes authorized during the year.

More information on the GASB requirements can be obtained on the GASB website at [www.gasb.org](http://www.gasb.org). The GASB guidebook, entitled *Guide To Implementation of GASB Statement 34 on Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, Questions and Answers*, can be purchased on the GASB website at <http://www.gasb.org/34QA.html>. The Georgia Department of Community Affairs also has information about GASB Statements and updates on its website at <http://www.dca.state.ga.us/research/uca/GASB34.pdf>.

### ***Performance and Program Audits***

Cities are not required to perform performance or program audits, although some cities that employ management or financial analysts may choose to conduct these types of audits. Performance audits are designed to measure the efficiency of the performance of various activities in each department. Program audits are useful in evaluating the overall effectiveness of city programs. Both program and performance audits help city officials make better decisions about whether services and programs are worth the investment of revenues by the city.



## **Accounting Systems**

Government officials entrusted with public resources have a responsibility to provide a full accounting of their activities. Accounting systems provide the tools necessary for city officials to assemble, analyze, and report financial information so that it can be used for planning, decision making, and control. The purpose of accounting is to provide financial information that is accurate, complete, timely, and can be understood by users. An accounting system consists of source documents, journals, ledgers, and procedures used to determine the financial position of a city. It involves recording, summarizing, analyzing, and interpreting the financial transactions of a city. The four parts to accounting systems are:

- **Source documents and forms** – includes invoices, receipts, time cards, and purchase orders which record the details of every financial transaction including authorization for each transaction
- **Journals** – summaries of all transactions of a certain type in chronological order (e.g., payroll journals record all payments to employees)
- **Ledgers** – based on the summary totals in journals, these show the balance in any revenue, expenditure, or other account at any given time.
- **Procedures and controls** – include forms and instructions for classifying, recording, and reporting financial transactions in source documents, journals, and ledgers.

## **Financial Reporting Requirements: Uniform Chart of Accounts**

Over the years, most local governments developed their

own accounting and financial reporting systems that adhere to generally accepted accounting principles (GAAP) as prescribed by the GASB. Nevertheless, considerable variation existed from one jurisdiction to another with respect to how financial information and data were presented in annual audits and reported to DCA and other agencies. This variation in approaches to financial reporting limited the utility of local government reports provided to various state agencies. It also made it difficult for local governments interested in comparing their financial and service delivery situations to make valid and useful comparisons. As a result, policymakers in Georgia recognized the need for a local government uniform chart of accounts.

In 1997, the Georgia General Assembly passed the Local Government Uniform Chart of Accounts and Reporting Act (HB 491). It called for the Georgia Department of Community Affairs (DCA) to develop a uniform chart of accounts for all local governments in the state.

Beginning in 2001, all local governments in the state were required to adopt and use this uniform chart in their accounting records, audited financial statements including CAFRs, and reports to state agencies. They are also required to classify their transactions in conformity with the fund, balance sheet, revenue, and expenditure classification descriptions contained in the uniform chart. The Uniform Chart of Accounts is an evolving document, and cities should be aware of updates to the chart.

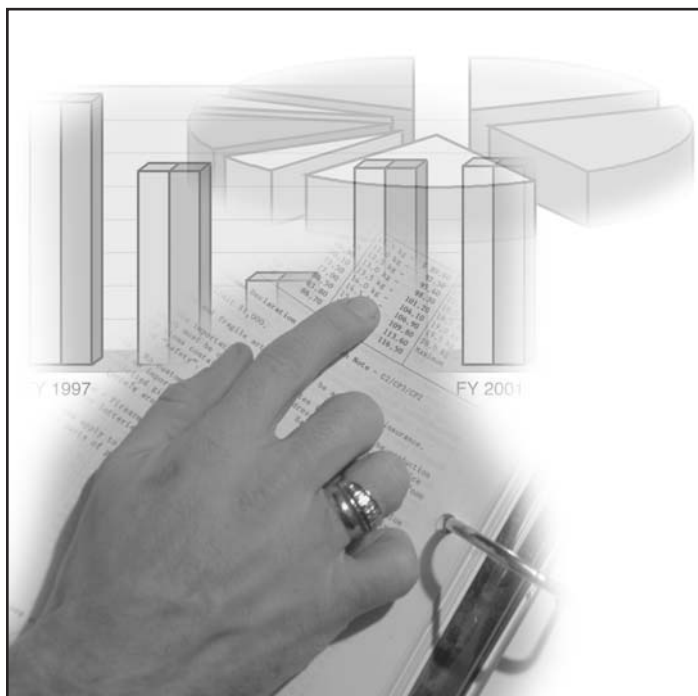
The most recent update, completed in March, 2001, is available on DCA's website at <http://www.dca.state.ga.us/research/uca/UCA2ndEdition.pdf>.

# Components of the Budget Document

Depending on your city's size and the number of staff available to work on the budget process, the budget document may be very simple or very sophisticated. Not every city elects to prepare a formal "budget document". Some cities may simply compile departmental budget reports and attach a summary of city revenues and expenditures for all fund and revenue categories. Cities that prepare a more formal budget document use different formats, but generally include the following components.

## ***Budget Message***

The budget message or transmittal letter usually appears at the front of the budget document and is signed by the mayor or city manager. The budget message summarizes the city's priorities and issues for the upcoming fiscal year. The letter will likely include information about the political and economic climate surrounding the budget process, as well as a few sentences about changes in services or programs, and an explanation for major changes in revenues or expenditures.



## ***Budget Summary***

The second element of the budget document is the budget summary. This section goes into more detail than the budget message and will help explain some of the issues mentioned in the budget message. The budget summary presents an overview of major revenues and expenditures, a summary of financial information such as total city-wide revenues and expenditures, revenues and expenditures for each fund by category, and a summary of personnel information (e.g., number of full time employees). The summary may also include charts and graphs to help illustrate and explain major changes in the millage rate, user fees, service delivery, and internal city operations.

## ***Departmental Budget Information***

This section could include each department's mission, performance goals, and information on the number of personnel working in the department. At a minimum, it should include a summary of expenditures by type. Usually the expenditure figures include previous year actual amount, current year budget amount, and the amount adopted for the next budget year. This section should also have a description of the operational and service delivery issues facing the department for the upcoming year.

## ***Additional Optional Sections***

Some cities include a section outlining the city's capital budget, debt service, and contributions to other agencies, such as the public library. Some cities include a glossary of budget terms and an index. Population and other demographic information about the city may be included in a community profile section, along with a location map. Fiscal policies may be included in an additional section.

# Sample Budget Message

*(print on city letterhead)*

*Source: Athens-Clarke County Budget Document*

July 1, 20\_\_

Dear Citizens of the City of \_\_\_\_\_:

As Mayor of the City of \_\_\_\_\_, I am pleased to present to you the Annual Operating and Capital Budget for the 20\_\_ Fiscal Year. In accordance with Georgia Law and the Charter of the City of \_\_\_\_\_, this Budget was adopted by the Mayor and Council of \_\_\_\_\_ on June \_\_, 20\_\_. Citizen input for this budget was received at public hearings on (list dates of public hearings).

Budget Goals established by the Mayor and Council on December \_\_\_\_, 20\_\_ guided the development of the FY20\_\_ Budget. These goals, along with additional summary information, have been provided in the "Budget Summary" section of this document.

Key Points in the FY20xx Budget

*(examples follow)*

- For the fifth year in a row, the property tax millage rate will remain 13.70 mills.
- This budget includes 1,397 full-time authorized positions, a decrease of 7 positions compared to the current authorized level. The number of employees per thousand population will remain at 14 for FY03, the same level for the last twelve years.
- One Ladder Company will be eliminated from the Fire Department. This reduction will save the government \$310,000. The six positions in question are currently vacant and will not necessitate terminating employment for any current Fire Department personnel.
- The changes to the employee health benefit program approved by City Council on April 2, 2002 are included in this budget. This will ensure that we have a sound health care program in the future. The total amount for this program in FY03 is \$8.7 million, which is an increase of \$1.4 million over FY02.
- There are no increases in service fees planned for Water and Sewer, Solid Waste Residential, Landfill, or Building Inspection in Fiscal 2003.
- The General Fund includes \$1.5 million and the Enterprise and Other Funds include \$450,000 for pay adjustments for employees ranging from \$800 to \$1,600 based on the individual performance pay program adopted by the Mayor and Council in April, 2000. In addition, \$589,000 has been set aside to increase salaries for Police Department Positions which have recruitment and retention problems.

A number of persons contributed many hours of effort in the development of the FY2003 Budget. My thanks and those of the City Council go to the Manager, the Manager's Office, the Finance Director, and the Finance and Personnel Departments for their supportive efforts during the budget process. My thanks go to each member of the City Council for their hard work, thoroughness, and thoughtful contributions during the development and adoption of the FY2003 Budget.

Sincerely,

\_\_\_\_\_

Mayor, City of \_\_\_\_\_

# Sample Department Budget Summary

Source: City of Macon Budget Document

**DEPARTMENT: City Clerk/Public Affairs Office**

**FUNCTION: Revenue, Information and Records Administration**

## DESCRIPTION

The City Clerk's Office collects revenue, licenses, permits, occupation taxes, paving assessments, landfill fees, hotel/motel tax, liquor, beer & wine taxes. Operates Records Center and manages inter-city mail.

Public Affairs Office disseminates public information and press releases. Customer service responds to citizens and tracks service.

## **BUDGET SUMMARY**

	CHAR	1999	2000	2001
EXPENDITURES	CODE	ACTUAL	ESTIMATE	APPROVED
PERSONNEL COST	(41)	208,896	167,328	223,437
SUPPLIES	(42)	24,100	2,554	2,520
SERVICES & CHGS	(43)	27,606	26,790	33,958
CAPITAL OUTLAY	(44)	5,204	2,741	3,325
TOTAL OPERATING		265,806	199,413	263,240
TOTAL CAPITAL	0	0	0	

## **AUTHORIZED POSITIONS**

	1999	2000	2001
FULLTIME	7	6	7
PARTTIME	1	1	1
OTHER			
TOTAL	8	7	8

## **GOAL STATEMENT**

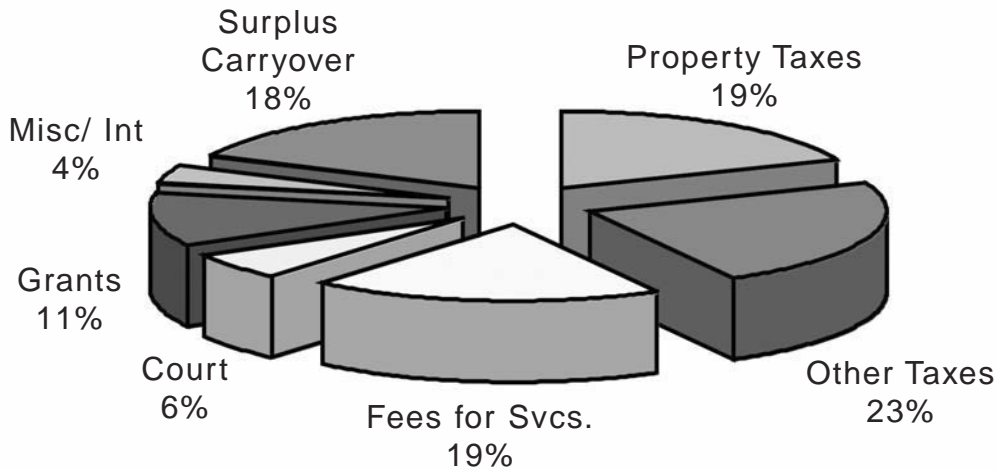
The goal of the City Clerk's Office is to provide timely and accurate services and information to the Public, the Administration, and the City Council.

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## Sample Graph Showing Revenue Categories

*Source: City of Snellville Budget  
General Fund Revenue Sources, 2003-2004*

### 2003 Revenue Sources

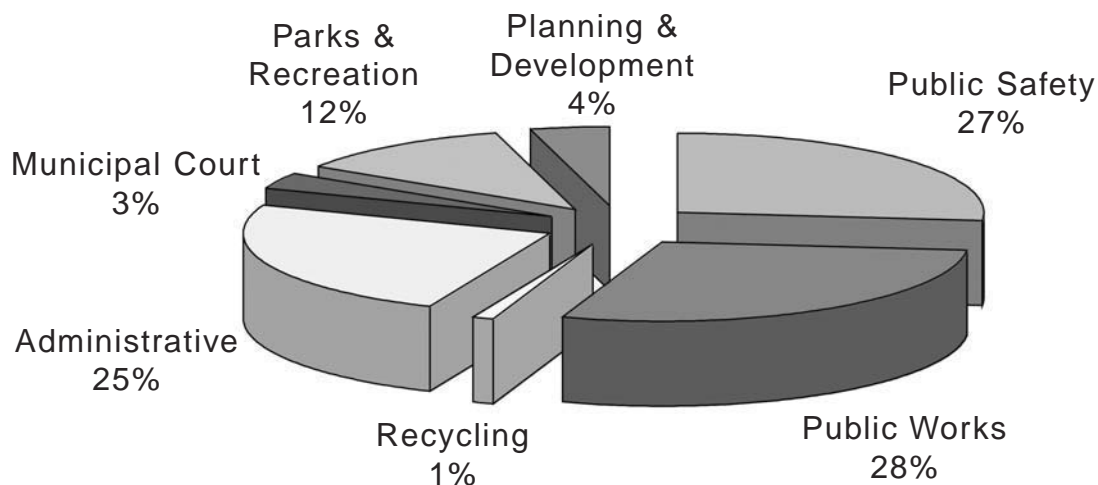


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## Sample Graph Showing Expenditure Categories

*Source: City of Snellville Budget*

### 2003 Operating Expenditures



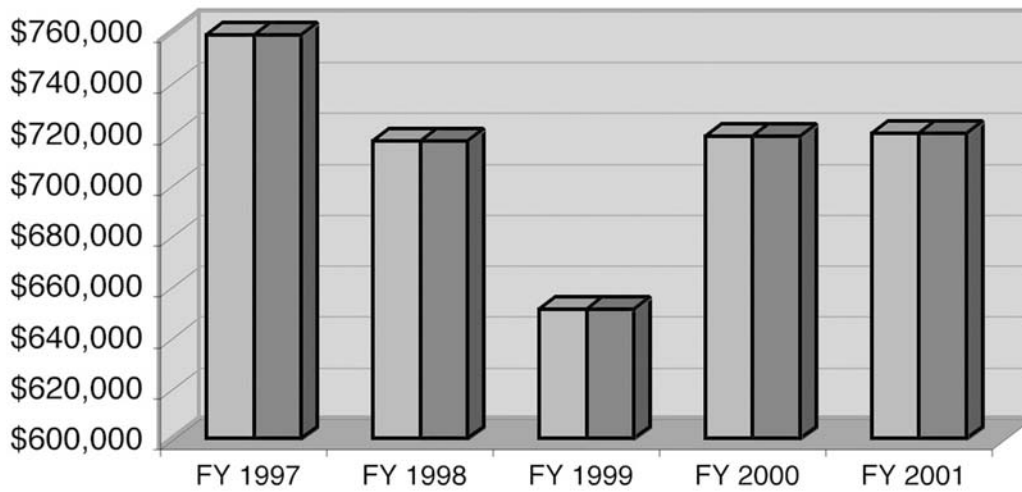
Capital projects include: 3 police cruisers; an expanded recycling center; parks and recreation green space acquisition; updated police technology network; and design fees for creation of our new Town Center.

---

# Sample Chart

Source: *City of Macon Budget Document*

## Hotel-Motel Tax Revenue-Expenditures FY 1997 - FY 2001



- Revenues
- Expenditures & Transfers Out

# Budget Types

The budget process helps cities allocate resources, control departmental spending, and manage service delivery. Budgets can be clear statements of plans, priorities, performance, and costs as well as guidelines for administrative control. Four basic types of budgets can be used to help city officials control waste and plan for the efficient use of resources: line item (traditional), performance, program, and zero-based budgets. Each budget type has a unique orientation and the type used by your city will vary depending on whether city officials want to use the budget primarily as a tool for budgetary control, management, or planning. The following information explains each budget type, including the advantages and disadvantages of using each type.

## Line Item Budget

The budget type most often used by Georgia's cities is the line item budget. The line item budget lists each expenditure by item purchased (e.g., \$3,500 for police uniforms). This budget type is good for exercising control over spending in the current fiscal year. Compared to other budget types, the line item budget is relatively simple to prepare and administer. Line item budgets allow city officials to monitor departmental spending and ensure that spending

does not exceed the amount appropriated within a particular category.

One of the disadvantages of the line item budget is that it does not require departments to consider alternative methods to spending or delivering services. Departments usually make next year's budget requests based on this year's spending estimates. Departments often lock themselves into "normal" operating practices and don't look at alternative methods for reaching their desired objectives. This situation occurs because the line item budget focuses on what departments buy rather than on the quality of services they provide. The information presented in the budget does not include indirect costs, social costs, or the value of providing a program. The line item budget does not provide a way to analyze whether the overall service the department is providing is worth what it costs.

Finally, while line item budgets allow control over spending in a single fiscal year, they make it more difficult to control spending over a period of years. Departments typically use their previous year's request as a starting point for next year's request. The budget for each department tends to be incrementally increased each year, regardless of changes in the economy or to local political policies. As

## Sample Line Item Budget

### DEPARTMENT: Public Works

Expenditure Classification	Previous Fiscal Year 2002-2003: Actual	Current Fiscal Year 2003-2004: Budgeted	Next Fiscal Year 2004-2005: Request
Salaries	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$



a result, it is more difficult to cut departmental budgets because there is an implied expectation of a certain level of funding going into each budget year.

**Program Budget**

The program budget organizes proposed expenditures according to broader overall functions. This format redirects the focus from what the city is buying (inputs) to what services the city is providing (outputs). Program budgeting defines the goals of an agency and classifies the organizational activities that contribute to each goal. The program budget is an excellent tool for planning. An example of an excerpt from a program budget might look like the following:

“Objective: Maintenance and construction of public facilities – to provide safe and efficient public access for vehicular and pedestrian traffic; prompt disposal of stormwater, wastewater, and solid waste; a clean and sufficient water supply; and clean, well-maintained public buildings.

**Service area 1** – administration and support (to provide general planning, coordination, supervision, and control of the activities necessary to accomplish this key objective);

**Service area 2** – public access (to provide and maintain vehicular and pedestrian access to private property while maintaining a safe, efficient flow of traffic on city streets; and to provide and maintain parking facilities considering short term and long term needs;

**Service area 3** – stormwater and wastewater (to provide a system for disposing all stormwater and wastewater to minimize the frequency and severity of flooding and pollution);

**Service area 4** – solid waste collection and disposal (to provide a system for the regular and efficient collection and disposition of all solid waste);

**Service area 5** – water supply and distribution (to provide and maintain facilities for storing, treating, transporting, and measuring water);

**Service area 6** – public buildings maintenance and construction (to provide for maintenance and construction of city-owned buildings not used and budgeted specifically for one service area).”

Unlike the line-item budget, which lists total departmental appropriations by items for which the city will spend funds, a program budget displays a series of “mini-budgets,” which show the cost of each of the activities that city departments perform. In the case of the water department, for example, a separate mini-budget would be established for water production and distribution, water system repair and maintenance and meter reading.

The sample below shows the budget for the street sweeping program of a public works department. Each of the other programs conducted by the department—street repair, solid waste collection and inspection services—would have a similar, separate budget.

## Sample Program Budget

**DEPARTMENT: Public Works**

**PROGRAM: Street Sweeping**

Expenditure Classification	Previous Fiscal Year 2002-2003: Actual	Current Fiscal Year 2003-2004: Budgeted	Next Fiscal Year 2004-2005: Request
Salaries	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
<b>TOTALS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Program budgeting requires that city officials carefully define each program. This type of budget does not use individual department classifications, items purchased, or activities by department. In fact, several services are classified as being provided in more than one department (e.g., administration). While program budgets are excellent planning tools, they do present some drawbacks.

First, this budget type requires a complete reorganization of the budget to assign expenditures to various categories. Line items are eliminated. Many activities contribute to more than one objective, and it is not always easy to tell how they should be classified. Whatever choice is made may unintentionally cause one set of policies to take precedent over another (e.g., spending on the DARE program may be classified as education spending or police department spending).

Second, program budgets still focus on the departments' direct costs to provide services rather than indirect or social costs. Also, because most departments work with several programs, many resources used by a department are shared and cannot be assigned to a single program. Finally, program budgets may not be very useful for decision making because most city officials are used to the traditional line-item approach and may not have the time or the inclination to develop new guidelines for analyzing program budgets.

### Performance Budget

Performance budgets emphasize departmental performance objectives and accomplishments rather than the pur-

chase of resources. These budgets present the cost of performing activities during the budget year. A performance budget will look at issues such as productivity, (e.g., the cost per mile to pave a street), and will include performance indicators such as effectiveness (e.g., number of complaints about roads) and demand for services (e.g., number of miles of streets to be paved). The budget process has the dual role of providing funds for services and establishing performance goals. The goal of the performance budget is to emphasize the efficiency and effectiveness of services and increase accountability among departments. This budget type is an excellent tool for managing the annual operating budget.

The quality of performance budgets depends on the quality of its performance measures, and these measures can be difficult to identify. Some services are very difficult to quantify, and it is not easy for most cities to produce all the necessary information for a performance budget under the city's current circumstances. Therefore, developing good performance budgeting systems takes at least a few budget cycles.

Performance budgets are more complicated than line item and program budgets. If the performance measures are misleading or irrelevant, city officials may erroneously interpret the information in the budget. As with the line item budget, the performance budget does not require departments to consider alternatives and does not consider whether the service is worth the cost of providing it. The following information is needed to develop a performance budget:

<b>Checklist of Items Needed for Performance Budgeting</b>	
✓	Expenditures broken down into organizational sub-units (distinct programs and activities)
✓	A written summary of what each organizational unit does
✓	A summary of personnel resources: (number of full time employee positions, actual expenditures for at least the previous two years, and estimates for the current and next year)
✓	Listing of major goals and objectives for the current and coming year
✓	Performance indicators – actual information for at least the previous two years and estimates for the current and coming year. <i>Workload</i> – number clients served; miles of streets maintained; businesses inspected, etc. <i>Efficiency</i> – cost per unit <i>Effectiveness</i> – levels of satisfaction, % of targets met, etc.
✓	Explanation of factors significantly affecting the budget
✓	An organization chart showing major activities around which resources are allocated

# Sample Performance Budget

*The following document is a sample performance budget for a city's Building Safety and Permits Division.*

**Department: Public Works**

**Division: Building Safety and Permits Division**

The Building Safety & Permits Division is responsible for enforcing city codes pertaining to building, plumbing, electrical, and mechanical installations, use, occupancy, and location requirements. Services provided by this division are as follows: 1) recommended codes and ordinances, rules and regulations applicable to construction and property conservation; 2) check plans, specifications, and calculations of all proposed construction, including alterations and additions, for compliance with building codes, ADA, and planning requirements prior to issuance of building permits; 3) conduct on-site inspections of new construction, alterations, additions, mobile home installations for compliance with all applicable code requirements; 4) receive and investigate complaints of all alleged building violations, and initiate actions to abate violations; and 5) issue building, electrical, mechanical, plumbing, engineering, and fire permits related to private development.

**2001 – 2003 Highlights:**

In the Building Safety & Permits Division, funding was authorized in the city's budget to include: 1) 4 part time Building Inspector positions converted to full-time positions; 2) \$30,000 each year for contract plan review services; and 3) increased funding for safety ISO training by \$10,000.

Expenditures by Type	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04 Budget
Personal Services	\$	\$	\$	\$	\$
Supplies & Services	\$	\$	\$	\$	\$
Capital Outlay	\$	\$	\$	\$	\$
Expenditure Total	\$	\$	\$	\$	\$
Per Capita	\$	\$	\$	\$	\$
	<b>2001-02 Revised</b>	<b>2002-03 Budget</b>	<b>2003-04 Budget</b>		
Authorized Personnel	FT	PT	FT	PT	FT PT
Building Safety & Permits					
Total					

**Goal:** To verify through formal plan check and permit processes that plans, specs, and engineering calculations meet minimum requirements for adopted building codes, ADA, and planning & zoning ordinances.

**Objective:** To provide thorough, accurate, objective plan check services for all applicants within the following standard time frames: new commercial building 7 days; new residential construction 4 days.

Measures	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04 Budget
Plan Check					
Total M&O	\$	\$	\$	\$	\$
Total # Plan Checkers					
Building plans submitted					
M&O Per Plan check	\$	\$	\$	\$	\$
Plans checked per month					
# Bldg. Permits Issued					
M&O Per Bldg. Permit	\$	\$	\$	\$	\$
Average Plan review time:					
New commercial building					
New residential construction					

**Goal:** To perform on-site inspections of commercial and residential buildings, and to inspect damaged buildings for compliance.

**Objective:** To consistently perform at least 33 inspections per inspector per day on a sustained basis without reducing the level of service or quality of inspections.

Measures	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04 Budget
Building Inspection					
Total M&O	\$	\$	\$	\$	\$
Total # Building Inspectors					
Number inspections performed					
M&O Per Inspection	\$	\$	\$	\$	\$
Inspections per inspector per day					

## Zero-Based Budget

A zero-based budget system (ZBB) annually challenges and requires departments to defend their programs. For each program, the department must show the various levels of service that could be provided with different levels of funding—including zero funding; alternative courses of action; the consequences of funding the service at different levels, or not funding it at all. The purpose of using a zero-based budget system is to make government more flexible, to eliminate programs that are not productive, and to improve effectiveness by forcing department heads to consider their total programs each year.

The ZBB attempts to prevent a budget process that focuses on annual program increases. Department heads must come up with alternative service delivery proposals, including a description of each activity and an estimate of what it will cost to perform each activity. The proposal also includes an explanation of the implications of not provid-

ing the service or program. The advantage of ZBB is that it is an excellent management tool that induces the consideration of priorities and service delivery methods every year. Despite its usefulness as a management tool, most cities in Georgia do not use ZBB. Drawbacks to this budget type include 1) it generates a lot of paperwork; 2) it is not realistic to consider “zeroing out” some programs; 3) it does not take into account state and federally- mandated services which cannot be zeroed out; and 4) it does not compare service costs to what a service is actually worth.

In the example below, the head of the public works department is required to prepare a “decision package” that will show what would happen if the amount budgeted next fiscal year for street sweeping were reduced by 25 percent. Similar decision packages would have to be prepared to show the effects of maintaining the funding at the current level, of increasing and of reducing expenditures by various percentages, or abolishing the program altogether.

# Sample Zero Base Budgeting Decision Package

## DEPARTMENT: Public Works

### PROGRAM: Street Sweeping

Instructions: Complete this decision package on the assumption of three different funding levels: continuation of the current funding level; a 10-percent reduction; and a 25-percent reduction.

Program Costs	Continuation of the Current Level of Funding	Assuming a 10% Reduction in Funding	Assuming a 25% Reduction in Funding
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$
Please describe the desired results of this program:			
Please list any alternatives and describe them:			
How and when will the results be accomplished:			
For each level of service, please clearly identify the results of operating at that level of funding.			
What would be the result of totally eliminating this program?			

Upon completing the decision packages for each program, the department head ranks each program's relative importance to the other programs within that department. This ranking enables the department head to express opinions on service priorities.

If cutbacks become necessary, the council can begin by trimming the lowest priority service by the smallest amount of expenditure shown in the decision package for that program. The council can make future reductions by working upward through other higher-ranking programs. It is important that each department head follow closely the priorities established by the city council in the policy statement that was issued before the staff began working on the budget.

The following table summarizes the different budget types and provides their key characteristics, features, and orientations.

### **Budget Types: Summary**

Each of the budget types described in this booklet are acceptable for use in municipal governments. Each type provides a different orientation in an attempt to help city officials make rational budget choices. While none of the budget types listed offers a complete solution to ensure that resources are used most effectively, each system tries to organize information so that decision makers can make reasonable choices. Each system attempts to increase city officials' flexibility in budgeting. However, it would be improper to expect any system to provide judgments that must, in the end, be made by people. Whichever system your city uses, it is critical that all players in the budget process must "buy into" the system, or it will likely fail.

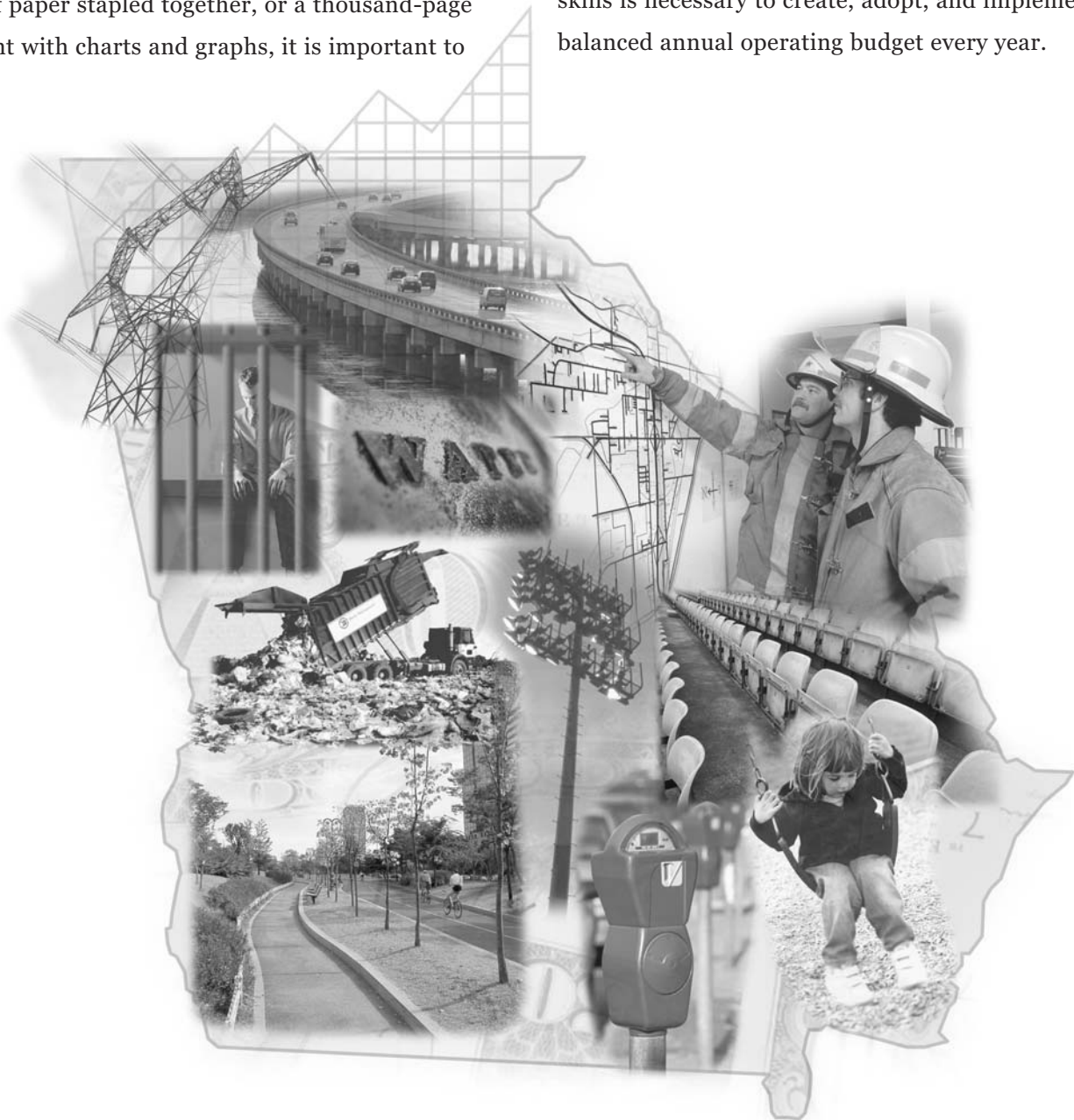
<b>Alternative Budget Formats and Associated Features</b>			
<b>Format</b>	<b>Characteristics</b>	<b>Primary Feature</b>	<b>Orientation</b>
<b>Line-item</b>	Expenditure by item or resource purchased	Resources purchased	Control
<b>Performance</b>	Expenditure by activity	Tasks or activity performed	Management
<b>Program</b>	Expenditure related to public goals; cost data cross organizational lines	Achievements (outputs, what is produced)	Planning
<b>Zero-base</b>	Expenditure by activity; cost centers differ from organization lines	Alternate activity levels	Management

Source: Adapted from Mikesell, John L., *Fiscal Administration: Analysis and Application for the Public Sector*, 1991, p. 122.

# Conclusion

The budget is the most important document a city produces. It contains the financial, political, and service delivery plans for the upcoming fiscal year. It is a vital tool for communicating public policy to the public. While every city has a different approach to developing the annual operating budget, common activities occur in budgeting regardless of a city's size. Whether your city prepares an annual budget that consists of several sheets of paper stapled together, or a thousand-page document with charts and graphs, it is important to

understand the terms and concepts inherent to the budget process. Budget development is a complex process, requiring the input of city appointed and elected officials. The process combines the efforts of people with knowledge and skills in finance, accounting, policymaking, management, state law, and the institutional knowledge of the city's fiscal condition to make the difficult decisions necessary to provide the highest level of services for city residents. The combination of these skills is necessary to create, adopt, and implement a balanced annual operating budget every year.



# Budget Document Terms, Concepts, and Definitions

**Assessed valuation** – the value placed on property for the purpose of distributing the tax burden.

**Budget** – a financial plan, including estimated revenues and expenditures, for a specific period of time.

**Budget document** – the instrument used to present a governmental jurisdiction’s comprehensive financial plan.

**Enterprise Fund** – a fund established to account for operations that are financed and operated in a manner similar to private enterprise (ex. solid waste, water, sewer).

**Expenditure** – the disbursement of money to cover the expenses of municipal operations. Expenditures are decreases in net financial resources and include current operating expenses which require the current use of net current assets.

**Expenses** – Decreases in net total assets. Expenses represent the total cost of operations during a period regardless of the timing of related expenditures.

**Fiscal year** – the 12 month period in which a local government operates.

**Budget year** – the fiscal year for which the budget is being considered;

**Current year** – the fiscal year in progress;

**Prior year** – the fiscal year preceding the current year.

*In most budget documents, prior year figures are actual spending or revenues; current year numbers are estimates based on year-to-date, and budget year data reflect plans for the future.*

**Fund** – accounting device established to control the receipt and disbursement of income.

**GAAP** – Generally Accepted Accounting Principles – uniform minimum standards of and guidelines to financial accounting and reporting. GAAP govern the form and content of the basic financial statements of a reporting entity.

**GAAS** – Generally Accepted Auditing Standards – measures of the performance quality of auditing procedures and the objectives to be attained through their use. GAAS are concerned with the auditor’s professional qualities and with the judgment exercised in the performance of an audit.

**GASB** - The Governmental Accounting Standards Board (GASB) is a private, non-profit organization which is responsible for establishing and improving accounting and financial reporting standards for more than 84,000 state and local governments. While GASB is not a governmental agency, its rules are required in most states for financial reporting at the state and local level. Governments are required to follow GASB standards in order to obtain clean opinions from their auditors.

**General Fund** – the fund used to account for all financial resources which are not accounted for in specific purpose funds .

**Millage rate** – the tax rate expressed in mills per dollar, i.e., one (1) mill equals \$1 per \$1000 of assessed valuation.

**Revenue** – the money used by the city to operate.

**Revenue sources** – specific areas from which revenue is derived, e.g., property taxes, franchise fees, building permit fees.

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# Quick Reference

## **Advertising and Public Hearing Requirements**

The requirements for advertising and conducting public hearings for local government budget adoption are contained in O.C.G.A Section 36-81-5 and 36-81-6. These requirements are summarized below:

- 1) On the day that the proposed budget is submitted to the city council for consideration, a copy of the budget must be placed in a public location that is convenient to the residents of the city. The city must provide convenient access to the residents during reasonable business hours in order to provide the public with ample opportunity to review the budget prior to its adoption. A copy of the proposed budget must also be made available, upon request, to the news media.
- 2) A statement advising the city's residents of the availability of the proposed budget must be published in a newspaper having general circulation within the city. The notice must be published during the week in which the proposed budget is submitted to the city council. Additionally, the statement must also advise the residents that a public hearing will be held on the

proposed budget. The statement must be a prominently displayed advertisement or news article, and must not be placed in the legal notice section of the newspaper.

- 3) At least one week prior to the meeting of the city council at which adoption of the budget ordinance or resolution will be considered, the city council must conduct a public hearing, at which time any persons wishing to provide comments on the proposed budget may appear.

- a) The city council must give notice of the time and place of the required budget hearing at least one week before the hearing date. The notice must be published in a newspaper having general circulation within the city. The statement must be a prominently displayed advertisement or news article, and must not be placed in the legal notice section of the newspaper.

City officials are encouraged to review the entire provisions of O.C.G.A. Section 36-81-5 and 36-81-6 and to consult with their city attorney prior to taking any action on this subject.



# Inflation Calculation Table

*Calculated using CPI data on US City Average on All Items*  
 Source: U.S. Department of Labor, Bureau of Labor Statistics  
 Base Period: 1982 – 1984

Year	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1983	1.000	1.043	1.080	1.100	1.141	1.188	1.245	1.312	1.367	1.409	1.451	1.488	1.530	1.575	1.611	1.637	1.673	1.729	1.778	1.806
1984	0.959	1.000	1.036	1.055	1.093	1.139	1.193	1.258	1.311	1.350	1.391	1.426	1.467	1.510	1.545	1.569	1.603	1.657	1.705	1.731
1985	0.926	0.966	1.000	1.019	1.056	1.099	1.152	1.215	1.266	1.304	1.343	1.377	1.416	1.458	1.492	1.515	1.548	1.600	1.646	1.672
1986	0.909	0.948	0.982	1.000	1.036	1.079	1.131	1.193	1.243	1.280	1.318	1.352	1.391	1.432	1.464	1.487	1.520	1.571	1.616	1.641
1987	0.877	0.915	0.947	0.965	1.000	1.041	1.092	1.151	1.199	1.235	1.272	1.305	1.342	1.381	1.413	1.435	1.467	1.516	1.559	1.584
1988	0.842	0.878	0.910	0.926	0.960	1.000	1.048	1.105	1.151	1.186	1.221	1.253	1.288	1.326	1.357	1.378	1.408	1.456	1.497	1.521
1989	0.803	0.838	0.868	0.884	0.916	0.954	1.000	1.054	1.098	1.131	1.165	1.195	1.229	1.265	1.294	1.315	1.344	1.389	1.428	1.451
1990	0.762	0.795	0.823	0.839	0.869	0.905	0.949	1.000	1.042	1.073	1.106	1.134	1.166	1.200	1.228	1.247	1.275	1.318	1.355	1.376
1991	0.731	0.763	0.790	0.805	0.834	0.869	0.910	0.960	1.000	1.030	1.061	1.088	1.119	1.152	1.178	1.197	1.223	1.264	1.300	1.321
1992	0.710	0.741	0.767	0.781	0.810	0.843	0.884	0.932	0.971	1.000	1.030	1.056	1.086	1.118	1.144	1.162	1.187	1.227	1.262	1.282
1993	0.689	0.719	0.745	0.758	0.786	0.819	0.858	0.904	0.943	0.971	1.000	1.026	1.055	1.086	1.111	1.128	1.153	1.192	1.226	1.245
1994	0.672	0.701	0.726	0.740	0.767	0.798	0.837	0.882	0.919	0.947	0.975	1.000	1.028	1.059	1.083	1.100	1.124	1.162	1.195	1.214
1995	0.654	0.682	0.706	0.719	0.745	0.776	0.814	0.858	0.894	0.921	0.948	0.972	1.000	1.030	1.053	1.070	1.093	1.130	1.162	1.180
1996	0.635	0.662	0.686	0.699	0.724	0.754	0.790	0.833	0.868	0.894	0.921	0.945	0.971	1.000	1.023	1.039	1.062	1.098	1.129	1.147
1997	0.621	0.647	0.670	0.683	0.708	0.737	0.773	0.814	0.849	0.874	0.900	0.923	0.950	0.978	1.000	1.016	1.038	1.073	1.103	1.121
1998	0.611	0.637	0.660	0.672	0.697	0.726	0.761	0.802	0.836	0.861	0.887	0.909	0.935	0.963	0.985	1.000	1.022	1.056	1.087	1.104
1999	0.598	0.624	0.646	0.658	0.682	0.710	0.744	0.785	0.818	0.842	0.867	0.890	0.915	0.942	0.963	0.978	1.000	1.034	1.063	1.080
2000	0.578	0.603	0.625	0.636	0.660	0.687	0.720	0.759	0.791	0.815	0.839	0.861	0.885	0.911	0.932	0.947	0.967	1.000	1.028	1.045
2001	0.562	0.587	0.608	0.619	0.641	0.668	0.700	0.738	0.769	0.792	0.816	0.837	0.861	0.886	0.906	0.920	0.941	0.972	1.000	1.016
2002	0.554	0.578	0.598	0.609	0.631	0.658	0.689	0.727	0.757	0.780	0.803	0.824	0.847	0.872	0.892	0.906	0.926	0.957	0.984	1.000

**Example 1:** As the City’s Animal Control officer, you have developed a budget request for your department of \$170,000, an increase of \$25,000 over last year’s budget amount. Your justification for the increase is to allow you to purchase more kennels and to hire a part time assistant. Both expenditures are being proposed to improve your department’s effectiveness. To help justify your request for a budget increase, you would like to develop a table that shows the impact of inflation on your department since it was established in 1990.

Department	1990	2002
Animal Control	\$125,000	\$125,000 x 1.376 = \$172,000

**Example 2:** The City’s police department budget has increased steadily over the past five years. The city council has requested a table showing spending in the department over the last five years in terms of 2002 dollars.

City Police Department Budget, 1998 – 2002					
Year	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Actual \$	131,510	142,176	147,961	148,003	148,651
Constant \$	145,187	153,550	154,619	150,371	148,651
% Change (Constant \$)		5.7%	.07%	-2.7%	-1.1%

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# Notes

**In addition to the O.C.G.A and numerous websites cited in the text, the following publications were used as sources for information in the development of this publication:**

Campbell, Richard W., and Paul E. Glick. "Operations Budgeting." Handbook for Georgia Mayors and Councilmembers. Ed. J. Devereux Weeks and Paul T. Hardy. Athens: Carl Vinson Institute of Government, 1999. 100-116.

Glick, Paul E., How to Understand Local Government Financial Statements: A User's Guide. Chicago: Government Finance Officers Association of the United States and Canada, 1992.

Mikesell, John L., Fiscal Administration Analysis and Applications for the Public Sector. Pacific Grove, CA: Brooks/ Cole Publishing Company, 1991.

Riley, Susan L. and Peter W. Colby., Practical Government Budgeting: A Workbook for Public Managers. Albany: State University of New York Press, 1991.





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