

BUDGETING - 101

THE BASICS TO UNDERSTANDING GOVERNMENTAL BUDGETS

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OVERVIEW & OBJECTIVES

- Budget Overview
- What We Budget
- Revenue Education & Projections
- Expenditure Education & Projections
- Budget Amendments

BUDGET OVERVIEW

1. Budget Strategy
2. Budget Roles
3. Budget Calendar

TYPES OF BUDGETS

OPERATING BUDGET

The financial plan adopted for a single fiscal year.

- Proposed Operating Budget – designates the financial plan initially developed by departments and presented by the City Manager to the City Council for approval.
- Adopted Operating Budget – the plan as modified and finally approved by the City Council.

CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

- The five-year financial plan which addresses development and improvements to the city's infrastructure.
- The first year is adopted by City Council, with the remaining four years serving as a forecast.
- *The City is in the process of creating this useful budgeting tool.*

BUDGET STRATEGY METHOD

TRADITIONAL, OR LINE-ITEM BUDGETING

- Widely used
- Historical Basis
- Control oriented – Where did the money go? – fund/function level
- Reports information on inputs used in the production of governmental services
- Reports by organizational unit

BUDGET ROLES

KEY ACTORS OF THE BUDGET

FINANCE
DIRECTOR
(CFO)

CITY
MANAGER
(CEO)

DEPARTMENT
HEADS

CITY
COUNCIL

CITIZENS

DIRECT PARTICIPANTS (INTERNAL)



FINANCE
DIRECTOR
(CFO)

- Represents the CEO's/organization's interests in all phases
- Advises the CEO not only on budget but broader financial policies
- Highly involved in capital budgeting, benefits policy and compensation policy
- Well versed in public policy analysis, financial analysis, and statistical analysis
- Oversees all budget aspects at a detailed level
- Objectivity, creation and application of a transparent process are highest priorities, because they are the source of trust in the process

DIRECT PARTICIPANTS (INTERNAL)



CITY
MANAGER
(CEO)

- Highly influential in all phases
- CEO & CFO influence financing methods for projects
- Oversees all budget aspects at a high level

DIRECT PARTICIPANTS (INTERNAL)



DEPARTMENT
HEADS

- Greatest impact in operational results, cost projection and success/effectiveness in measurements
- Provides the building blocks for the budget
- Will ultimately be charged with delivering a service within an approved funding level
- Interact primarily with CEO and CFO
- May also have direct connections with individual citizens

DIRECT PARTICIPANTS (EXTERNAL)



CITY
COUNCIL

- Most influential in appropriation approvals
- Least influence in budget execution
- Relationship with CEO is crucial to ensure budget is prepared and executed according to Council concerns

DIRECT PARTICIPANTS (EXTERNAL)



- Typically have narrow interests
- Typically focus on policies
- Relationship with citizens is crucial to ensure budget is prepared and executed according to citizen concerns

PHASES OF THE BUDGET CYCLE

BUDGET PREPARATION: JANUARY - JUNE

- Prepare strategic plan with City Council
- Establish budget focus
- Financial forecast – 3, 5, or 10 year
- Revenue estimates
- Develop Proposed Budget
- Preliminary appraisal roll information received

BUDGET APPROVAL: JULY - SEPTEMBER

- City Manager recommended budget & CIP to Council
- Works with County on tax rates
- City Council reviews and approves budget & tax rate
 - Budget adopted first
 - Tax rate adopted second

EXECUTION & IMPLEMENTATION: ALL YEAR LONG

- Periodic reporting and monitoring
- Publish and submit budget & CIP

BUDGET TARGETS

- January: Multi-Year Financial Plan Update
- February-March: City Annual Goals Determined
- April: Departmental Budget Requests Submitted
- May: Revenue Projections and Budget Workshops
- June: Budget Workshops for Budget Requests
- July: Tax Rate Calculations and Proposed Budget filed
- August: Propose Tax Rate and Set Public Hearing for Budget
- September: Budget and Tax Rate Adoption

WHAT WE BUDGET

1. Fund Types
2. Revenue Types
3. Expenditure Categories

FUND TYPES

Governmental

Funds through which most governmental functions of the City are financed (Ex. General Fund, Debt Service Fund)

Proprietary

Operations that are financed in a manner like private business enterprises (Ex. Water and Wastewater Fund)

Fiduciary

Contain resources held by a government but belonging to individuals or entities other than the government (Ex. Employee Benefit Trust)

GOVERNMENTAL FUND TYPES

General Fund

The general operating fund of the City, includes all activity not “qualified” for another fund. Typically, largest fund and receives the most focus from all involved.

Special Revenue Funds

A specific revenue source that is restricted or committed to a specific expenditure(s), other than debt service or capital projects. (Ex. Hotel Occupancy Fees)

Debt Service Funds

Funds restricted to debt-related expenditures.

Capital Project Funds

Funds restricted to expenditures for construction activity, usually multi-year projects.

PROPRIETARY FUND TYPES

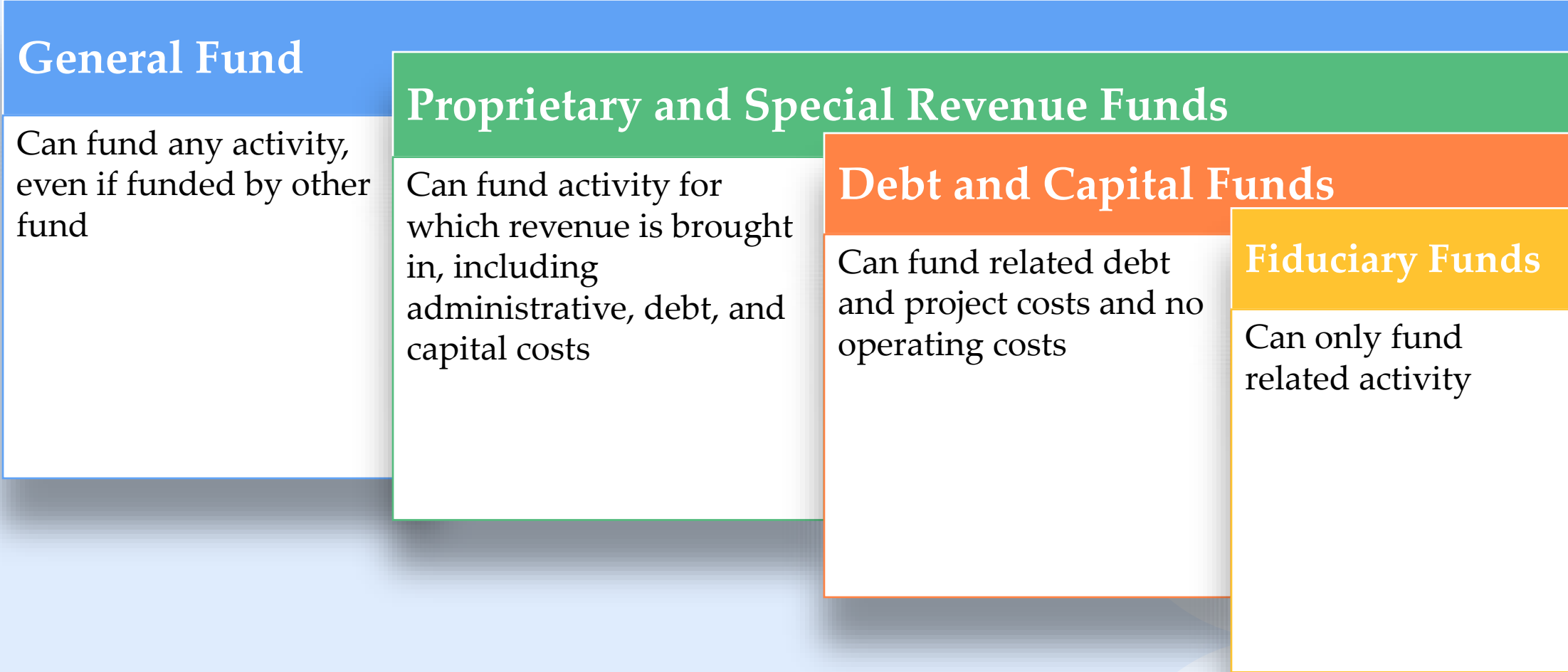
Enterprise Funds

Resemble business type activities because user fees fully support the operation (Ex. Water and wastewater fund)

Internal Service Funds

Provide support services to the entire organization (Ex. Replacement Funds, Insurance Services)

FUND RESTRICTIONS



EXPENDITURE CATEGORIES

PERSONNEL

Costs associated with employees that include salaries & benefits

SUPPLIES

An item or group of items that you purchase and own

SERVICES

Labor that does not produce a tangible good. Work is typically performed by an outside entity.

EXPENDITURE CATEGORIES

MAINTENANCE

A blending of services and supplies, but the main objective of this category is to track spending related to the preservation of existing assets.

UTILITIES

A service that is essential for public operations.

DEBT

Money owed to a third party or another fund.

EXPENDITURE CATEGORIES



CAPITAL

Items that exceed the capital threshold set by the organization. Typically, large purchases that retain value after one year and are listed as a fixed asset.



TRANSFERS

A movement of resources from one fund to another.

REVENUE EDUCATION & PROJECTIONS

1. Property Tax
2. Sales Tax
3. Other Revenue

TRUTH IN TAXATION

Property owners have the right to know about increases in their properties' appraised value and to be notified of the estimated taxes that could result from the new value

A taxing unit must publish its no-new-revenue tax rate and its voter approval rate before adopting an actual tax rate

Four Guiding Principles

A taxing unit must publish special notices and hold one public hearing before adopting a tax rate that exceeds the lower of the voter approval rate or the no-new-revenue tax rate

If a city adopts a tax rate exceeding the voter approval rate (3.5% M&O growth plus unused increment rate), a city must hold an automatic election in November

BRIEF REVIEW OF THE PROCESS

- Appraisal District provides the property values to the City
- Governing body drafts the budgets
- Tax Assessor calculates the rates and provides to the City
- Governing body proposes the tax rate and sets the public hearing date
- Tax Assessor publishes the notice for the hearing on the tax rate for the City
- Governing body holds the public hearing
- Governing body adopts the tax rate
- Tax Assessor mails the tax bills with the adopted rate

TAX RATE

Interest and Sinking (I&S)

- Funds the annual principal and interest payment on debt and is calculated first

Maintenance and Operations (M&O)

- Funds the ongoing General Fund operations and is calculated second

Tax Rate = M&O Rate + I&S Rate

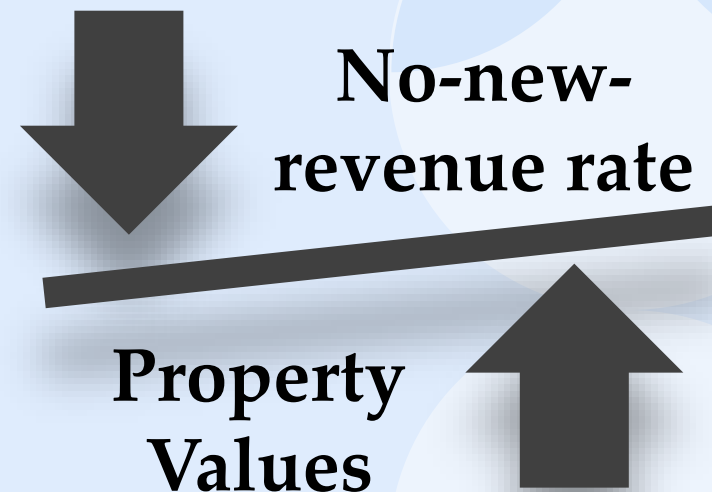
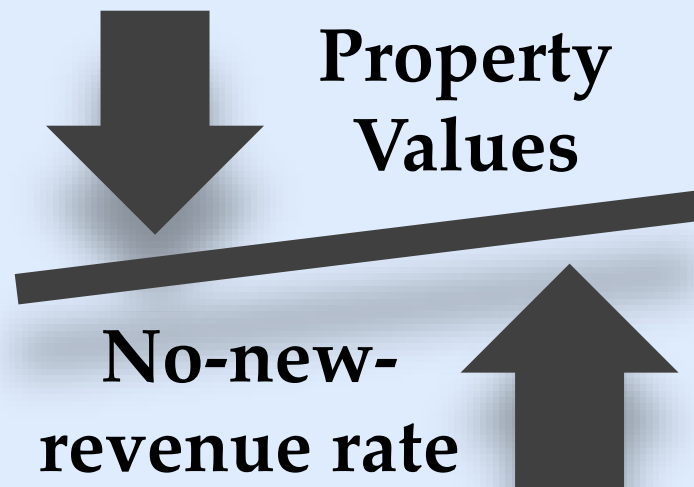
- Only the M&O rate can be adjusted, the I&S rate must be adopted

Calculation Formula

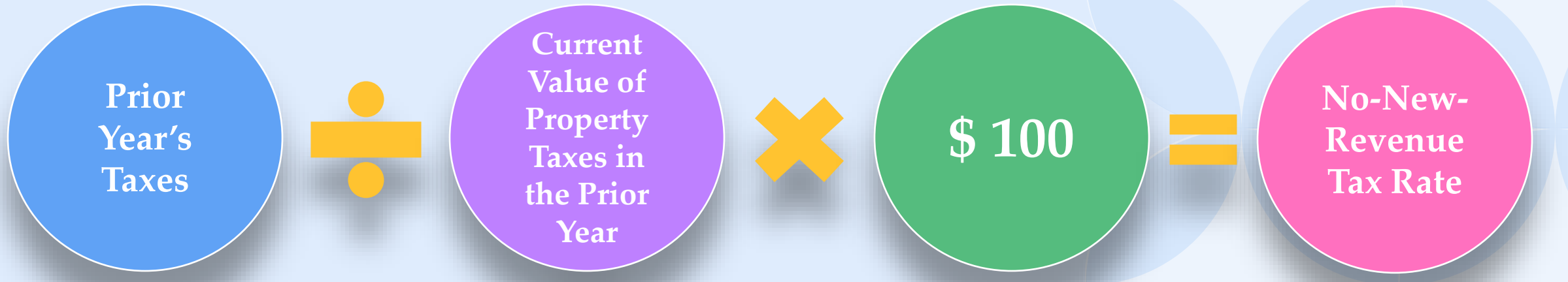
- $\text{Tax Rate} \times \text{Taxable Value} / \$100 = \text{Your City Tax Levy} (\$ \text{ paid to the City})$

NO-NEW-REVENUE TAX RATE

- The no-new-revenue tax rate is a calculated rate that would provide a taxing unit with the same amount of revenue it received in the year before on properties taxed in both years.
- The resulting tax rate shows the relationship between last year's revenue and the current year's values.



NO-NEW-REVENUE TAX RATE CALCULATION



VOTER-APPROVAL TAX RATE

- The voter-approval tax rate is a calculated maximum rate of 3.5% allowed by law without voter approval.
- This calculation splits the voter-approval tax rate into two separate components – a no-new-revenue maintenance and operations (M&O) rate and a debt service rate.
- The voter-approval tax rate is the sum of no-new-revenue M&O and debt service rates, plus the unused increment rate (if applicable).
- In most cases, the voter-approval tax rate exceeds the no-new-revenue tax rate, but occasionally decreases in a taxing unit's debt service will cause the no-new-revenue tax rate to be higher than the voter-approval tax rate.

UNUSED INCREMENT RATE

- A new component in the voter-approval rate formula
- The 3-year rolling sum of the difference between the adopted tax rate and the voter-approval tax rate
- The City can “bank” unused amounts for up to 3 years

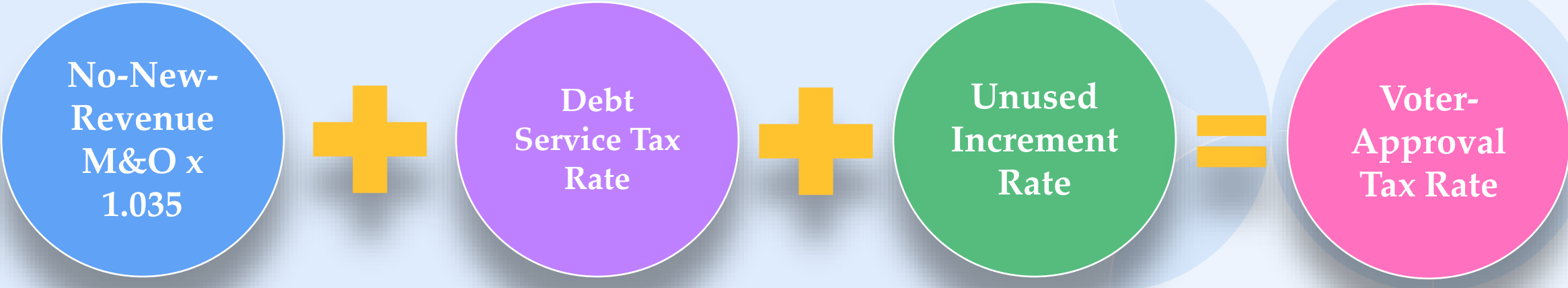
3-year rolling sum of adopted amount less than 3.5% voter-approval rate

Beginning in 2021 Tax Year

- 2021 – 3.0% (0.5% unused)
- 2022 – 2.5% (1.0% unused)
- 2023 – 3.0% (0.5% unused)

In 2024, the City could add up to 2% to voter-approval tax rate

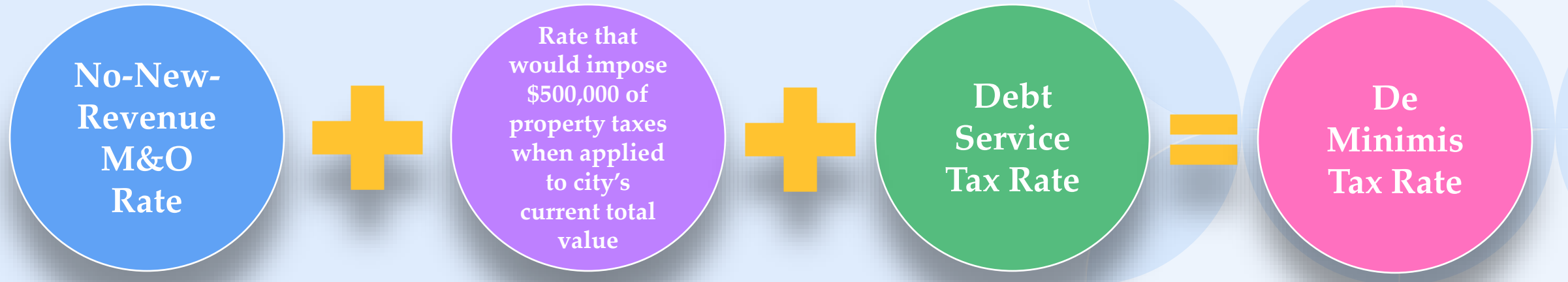
VOTER-APPROVAL TAX RATE CALCULATION



DE MINIMIS TAX RATE

- Only for small cities – less than 30,000 in population
- Rate will generate \$500,000 in additional tax revenue
- 3% of registered voters can petition an election if:
 - De Minimis tax rate exceeds the voter-approval tax rate
 - Adopted rate is equal to or lower than the De Minimis tax rate
 - De Minimis tax rate is greater than 8% of M&O portion

DE MINIMIS TAX RATE CALCULATION



WHAT ADOPTED RATES TRIGGER AN ELECTION

ADOPTED TAX RATE IS:	
BELOW voter-approval tax rate	No election required
ABOVE voter-approval tax rate	Election Required**
ABOVE voter-approval tax rate but BELOW de minimis tax rate	Voters may petition for an election*
ABOVE voter-approval tax rate and ABOVE the de minimis tax rate	Election Required**

* See Tax Code Sec. 26.075 for details on when voters may petition for an election.

** Must adopt rate by **August 21ST** if potential election, to meet legal deadlines

TAX RATE TIMELINE

Adopting Rate At or Below Voter-Approval Rate

July 25th

Chief Appraiser must submit certified appraisal roll or a certified estimate of property values

September 30th

Last day to adopt tax rate that is equal to or less than the voter-approval tax rate

Adopting Rate Above Voter-Approval Rate

July 25th

Chief Appraiser must submit certified appraisal roll or a certified estimate of property values

Mid August

- Any city adopting a rate exceeding the voter-approval tax rate must do so by at least the 71st day before election day.
- If the tax rate adoption will trigger an automatic election, tax rate should be adopted by the 78th day before election day.

November

- The November uniform election date is the first Tuesday following the first Monday in November.
- Automatic tax rate elections are held on this day.

REQUIRED PROPERTY TAX ITEMS

- **Must be a record vote with at least 60% of governing body members voting in favor of the tax rate.**
- **Motion** – Increase over *no new revenue rate*
“I move that the property tax rate be increased by the adoption of the tax rate of \$0.439000, which is effectively a 3.2% increase in the tax rate.”
Property Tax Code Sec. 26.05(b)
- **Publication** – Increase in *budgeted revenues*
“This budget will raise more revenue from property taxes than last year’s budget by an amount of \$3,996,863 which is a 6.2% increase from last year’s budget, and of that amount \$1,290,584 is tax revenue to be raised from new property added to the tax roll this year.”
Local Government Code Sec. 102.005(b)

SALES TAX CALCULATION

- Uses a conservative trend approach
- CFO requests the Comptroller Confidential Detail Report for historical data
- Formula Concept
 1. Determine the Base = Overall Sales Tax – Opened in Year
 2. Average annual base growth = estimated % to increase
 3. Add annual impact of opened in year
 4. Add **known** opening development
 5. Subtract one-times & corrections
 6. Total for estimate

SALES TAX HELPFUL LINKS

- Comptroller Confidential Information Report Request Info
<https://comptroller.texas.gov/transparency/open-data/by-request.php>
- Comptroller Monthly Payment Detail
<https://mycpa.cpa.state.tx.us/allocation/AllocDetail>
- Comptroller Sales Tax Publications – What is Taxable
<https://comptroller.texas.gov/taxes/publications/#sales>

OTHER REVENUE

- All other revenues are based on a combination of historical data, annual economically expected projections, and conservative estimates.

EXPENDITURE EDUCATION & PROJECTIONS

1. Salary & Benefits Projections
2. Operating Expenditures
3. Department Budget Requests

SALARY CALCULATIONS

- Full-Time hourly employees = Hourly rate X 2080 hours
- Part-Time hourly employees = Hourly rate X 1039 hours
- Salary employees = Bi-weekly rate X 26 pay periods
- Fire / EMS employees = Hourly rate X 2756 hours
- Overtime = Based on average spending shown in historical data
- Educational pay
- Allowances
- Longevity

COMPENSATION ADJUSTMENTS

- COLA – Adjustment to pay tied to changes in economy/inflation
- Market – Adjustment to pay tied to changed in comparison cities
- Merit – Performance based pay
- Reclassification – Change in job responsibilities
- Step Plan – Pay schedule outlining salary per year with entity
- Lump Sum – one-time payment

BENEFIT CALCULATIONS

- Salary Based Benefits
 - TMRS – (3 months at current rate; 9 months at new rate)
 - Worker's Compensation
 - Life Insurance
 - Social Security / Medicare

- Fixed Benefits
 - Health / Dental / Vision Insurance
 - HSA / HRA Contribution

OPERATING EXPENDITURES

- One-Time
 - Expenditures that only occur once and won't repeat in future years
 - Includes repairs, unforeseen circumstance, set-up of a new service, onboarding costs for a new employee, etc.
- On-Going
 - Repeat on a predictable basis
 - Most common type of municipal expense
 - Historical data is the best at showing the trends and predicting changes
 - Includes utilities, subscriptions & dues, contract services, personnel costs, seasonal costs, etc.

DEPARTMENT BUDGET REQUESTS

- Departments will submit their expected on-going costs
- Departments can submit supplemental budget requests for Council consideration. These can include additional personnel, one-time purchases, new software, etc.

BUDGET AMENDMENTS

1. Overview
2. Process

OVERVIEW

- A budget amendment is normal process for municipal budgeting
- Budget amendments are adjustments to the current year's adopted budget
- They help keep budgets aligned with current financial states
- Unforeseen expenses will trigger a budget amendment to include the expenditure
- Unexpected revenues will trigger a budget amendment to include the resources
- Budget amendments are not a bad thing, but too many can indicate poor budget planning

CONCLUSION

A note from the Finance Director:

“I hope you find this presentation helpful in better understanding your city’s finances. I try my very best to educate everyone because I believe that knowledge is power! We cannot make the best-informed decisions, if we are not properly informed and educated. There are often misconceptions about government finances that I hope to help clear up through education and spreading knowledge. Thank you for allowing me to serve you!” – Ashlee Hurst, CGFO