

Dan Acquilano, Manager of Local Official Training

Division of Local Government and School Accountability

Budgeting and Multiyear Planning for Department Heads and Managers



New York State Comptroller
THOMAS P. DiNAPOLI

Definitions

- **Appropriate**: to set apart for or assign to a particular purpose or use appropriate money for a research program.
- **Appropriation**: Something that has been appropriated; specifically : money set aside by formal action for a specific use.
- **Expend**: to pay out; spend
- **Expenditure**: something expended : disbursement, expense

The Budget

- Every local government in New York State is required to adopt a budget for all major operating funds it maintains. The budget is comprised of two major parts:
 - **Budgeted Revenues:** The financing sources expected to be used to help finance operations.
 - **Appropriations:** The legally authorized limits for using the estimated revenues during a single fiscal year (or life of a capital project).

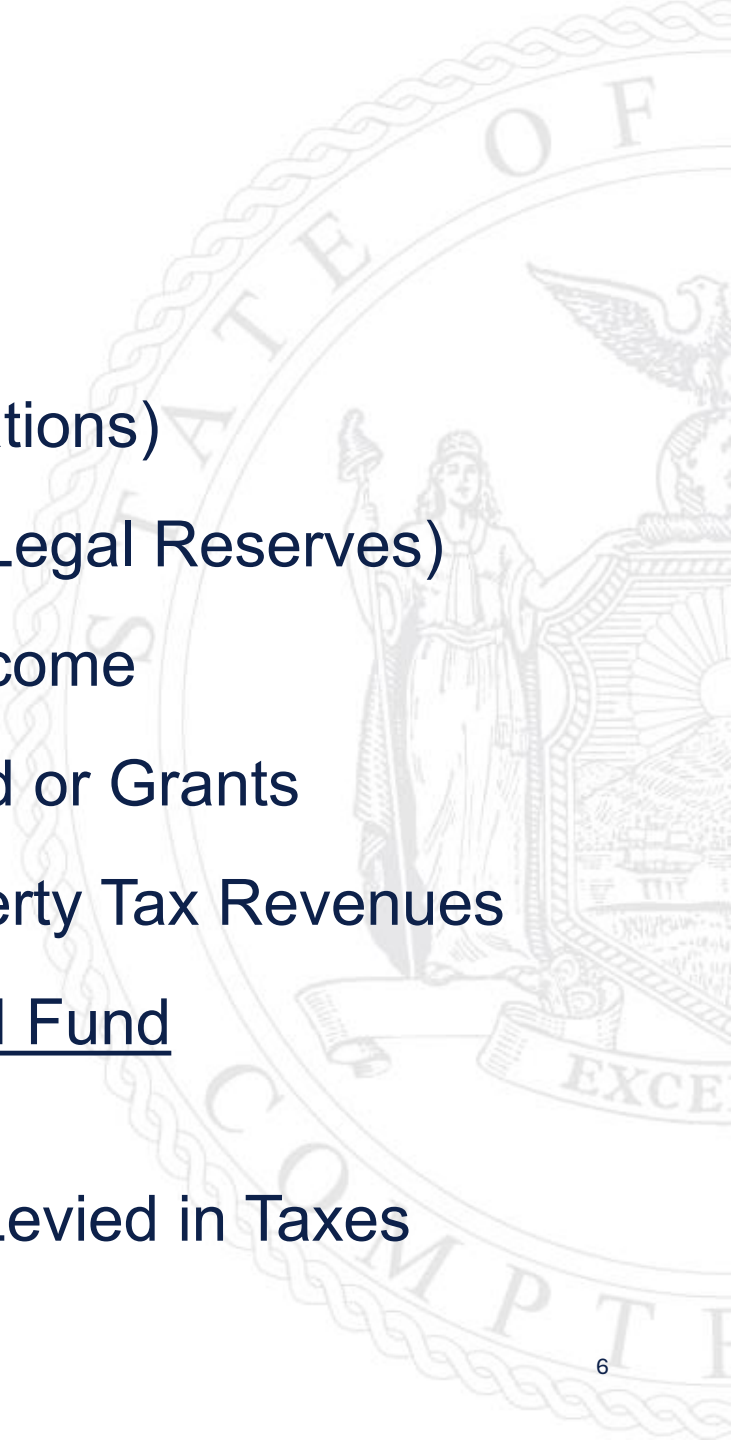
The Budget

- The budget is a plan of the services we want to provide to our taxpayers, and the funding sources to pay for the services.
- Annual plan
 - Do not get tunnel vision:
 - Plan for future known events using legal reserves
 - Plan for future unforeseen events using allowed contingencies
 - Maintain reasonable fund balance to be able to manage fluctuations and other events not planned for in the budget.

Appropriations in Government

- **Appropriation**- Authorized spending limit, granted by the governing board, for a particular purpose.
- Governing Board authorization is granted with the adoption of the budget and approved budget amendments made during a fiscal year.
- Although appropriations are shown in the budget in terms of money (\$), no actual money has been moved or “set aside” for the authorized purposes. All money still remains in the bank accounts of the local government.

Budget Formula



The seal of the New York State Comptroller is visible in the background. It features a central figure, likely a personification of Justice or Liberty, holding a torch and a shield. The figure is surrounded by a circular border containing the text "SEAL OF THE STATE OF NEW YORK" and "COMPTROLLER". Below the figure is a banner with the word "EXCELSIOR".

$$\begin{aligned} &+ (960) \text{ Appropriations (Cost of Operations)} \\ &+ (962) \text{ Other Budgetary Provisions (Legal Reserves)} \\ &\quad - (510) \text{ Departmental Income} \\ &\quad - (510) \text{ State/Federal Aid or Grants} \\ &\quad - (510) \text{ Other Non-Property Tax Revenues} \\ &\quad - \underline{(599/511) \text{ Appropriated Fund}} \\ &\underline{\text{Balance/Reserves}} \\ &= (1001) \text{ Amount to be Levied in Taxes} \end{aligned}$$

Expenditures in Government

- Expenditure: The disbursement of money or the use of assets in government, resulting in a reduction of Fund Balance.
- Expenditures can only be made where there are sufficient available appropriations. Expenditures reduce the Appropriations.
- Without available appropriations, there is no authority to enter into a contract or purchase.
- No Appropriation = No Authority
- Negative Appropriation = Violation

Budgetary Control

- Counties: County Law §362
- School Districts: Education Law § 1718
- Villages: Village Law § 5-520
- Fire Districts: Town Law § 181-a
- Towns: Town Law § 117
- Libraries: Education Law 259(1)
- Cities: Refer to City charter

Budgetary Control

- Purchase Order System
 - If a purchase order system is in place, it must be followed in order to allow proper budgetary control.
- Encumbrances
 - Encumbrances allow for better control of the budget because they prevent appropriations from being overspent.
- Financial Reports
 - Department heads should receive financial reports, and should review them to ensure available appropriations exist, and should request budget modifications **PRIOR** to entering into a contract.

Budgetary Control Example

- The governing board has adopted a budget with the following estimated appropriations:

1410.1 Clerk Salaries	\$10,000
1420.4 Law Contractual	\$10,000
1440.4 Engineer Contractual	\$10,000
1620.4 Operation of Plant	\$10,000
5130.2 Machinery (Capital)	<u>\$10,000</u>
Total Department	\$50,000

Budgetary Control Example (cont.)

- Based on the budget previously shown:
 - As the department head, you find a piece of machinery you want to purchase costing \$6,000.
 - You would first go review your available appropriation balance:

5130.2 Machinery (Capital)	\$10,000
-----------------------------------	-----------------

- After the purchase, your remaining authority to make purchases has reduced:

5130.2 Machinery (Capital)	\$ 4,000
-----------------------------------	-----------------

Budgetary Control (cont.)

- You now find a second piece of equipment you want to purchase costing \$8,000. Following the same process as before:
 - You first review your available budget and see you have an available appropriation of \$4,000 in 5130.2 Machinery (Capital).
 - What should you do?

Budget Modifications

- Before the second transaction your remaining budget balance is:

1410.1 Clerk Salaries	\$10,000
1420.4 Law Contractual	\$10,000
1440.4 Engineer Contractual	\$10,000
1620.4 Operation of Plant	\$ 6,000
5130.2 Machinery (Capital)	<u>\$ 4,000</u>
Total Department	\$44,000

- Remember, appropriations are not money, they are an authorization for you to spend.

Budget Modifications (cont.)

- The Board can authorize a budget modification by passing a resolution. And your available budgeted appropriations would be:

1410.1 Clerk Salaries	\$10,000
1420.4 Law Contractual	\$10,000
1440.4 Engineer Contractual	\$10,000
1620.4 Operation of Plant	\$ 6,000
5130.2 Machinery (Capital)	\$ <u>0</u>
Total Department	\$36,000

*You no longer have authority to purchase additional equipment this FY.

Encumbrances

- **Encumbrance:** A contract, purchase order, payroll commitment, tax payable, or legal penalty that is chargeable to an account while awaiting a bill or invoice. It ceases to be an encumbrance when liquidated or when the actual liability amount is determined (by receiving a bill or invoice) and recorded as an expenditure.
- Allow for budgetary control in **governmental funds** by putting a hold on available appropriations until an invoice comes in and an expenditure can be recorded.
- Think of sharing a checking account with someone when they order something that will be billed to you later?

Encumbrances (cont.)

- Assume we ordered the second \$8,000 piece of equipment and received it, but we had not yet been billed for it. After placing the order, your available appropriations still looks like this:

1410.1 Clerk Salaries	\$ 6,000
1420.4 Law Contractual	\$10,000
1440.4 Engineer Contractual	\$10,000
1620.4 Operation of Plant	\$10,000
5130.2 Machinery (Capital)	<u>\$ 8,000</u>
Total Department	\$44,000

Encumbrances (cont.)

- If we used encumbrances, our available appropriations would look like:

	<u>Budget</u>	<u>Encumbrances</u>	<u>Balance</u>
1410.1 Clerk Salaries	\$ 6,000		\$ 6,000
1420.4 Law Contractual	\$10,000		\$10,000
1440.4 Engineer Contractual	\$10,000		\$10,000
1620.4 Operation of Plant	\$10,000		\$10,000
5130.2 Machinery (Capital)	<u>\$ 8,000</u>	<u>(\$8,000)</u>	<u>\$ 0</u>
Total Department	<u>\$44,000</u>		<u>\$36,000</u>

Where does “My Money” go?

- A budget is only a plan for the estimated revenues and appropriations for one fiscal year that gives the authority for you to spend up to the budgeted limit. At the close of the fiscal year, this authority lapses in order for next year’s budget to take effect.
- Cash and money in the bank are not affected by the adoption or closing of the budget. If you don’t spend the money, you can’t lose it.
- If revenues are not received as planned, then there will not be any cash to allow you to spend up to your authorized limit. You can’t spend what you don’t have.

“Use it or Lose it?”

- At the end of a fiscal year, any unused appropriation (authority to spend) lapses. This means that you no longer have the authority to initiate expenditures for the purpose originally authorized.
- There is no bank account where money was deposited when your department budget was adopted.
- Avoid feeling that you must spend everything you were authorized.
- Don't forget... At the end of the fiscal year, next year's budget is already adopted. There is no such thing as “taking it away”.

Think of it this way...

Grocery Shopping:

1. **(Identify the fiscal year):** This shopping trip
2. **(Establish a Budget):** \$250 for my trip to be funded with \$200 from Savings and \$50 from money from a friend who owes me.

<u>Shopping Budget</u>	
Revenues:	\$250
Groceries:	(\$225)
Son:	(\$ 25)
Expenditures:	<u>(\$250)</u>
Balanced	

3. **(Revenue Shortfall):** On our way to the store I stop at my friend's house but they aren't home. I am unable to get the other \$50 I was going to use for the trip.

Think of it this way... (cont.

4. **(Submit Requisition):** My son shows me an item he wants to buy, and the cost of the item is \$15.
5. **(Review Budget):** Since I wasn't able to get the \$50 from my friend, I don't have the \$25 to let my son buy anything.
6. **(Amend the Budget):** I was able to find all of my groceries for \$180, so I allow my son to use up to the \$20 difference.
7. **(Approve Req.):** Now that there is an available \$20, I approve my son to get the \$15 item he asked me for.
8. **(Encumber):** We have not paid yet, so the \$15 is deducted from the \$20 authorization. Remaining Authorization is \$5.
9. **(Budget Review):** I make sure I still have the \$180 I need to cover the cost of my groceries. I verify all \$180 is still in my pocket (available)
10. **(Requisition Approval):** As I grab the items and place them in my cart, I verify they are the item I need and are at the cost I expect them to be. All items are approved and verified.

Think of it this way... (cont.)

11. **(Encumber):** We still have not paid yet, so the \$180 is deducted from the \$180 that I had in the modified budget for groceries.
12. **(Audit/Approve Claim):** We bring items to the register and I once again ensure each item is what I put in the cart and only the item I approved for my son is in the cart. Anything additional would be put back on the shelf because there was no approval to buy it. I verify the total and am in agreement to pay the total.
13. **(Expenditure):** I pay the cashier \$195 cash and takes the bags with our items in it.
14. **(Budget Review and Analysis of Fund Balance):** Before I leave the store, I verify that I have \$5 remaining in my pocket, and do a quick analysis to ensure I have not forgotten anything.
15. **(Close out FY):** We leave the store, and this shopping trip is over. We have \$5 remaining from the shopping trip (surplus) which I will hold on to until the next shopping trip (fund balance).

Think of it this way... (cont.)

- On the ride home, my son asks me to stop and get him some ice cream. I tell him that he already got something, and the shopping trip is over. He says to me, “But dad, you told me I could spend \$25. I want ice cream.” I explain to my son:
 1. Because we didn’t get the \$50 from my friend, we were not able to fund the \$25 I told him he could have and still get the groceries we needed.
 2. I was able to free up some extra funds to allow him to get something but I could only allow him to spend up to \$20 without going over budget.
 3. The remaining \$5 was available during the shopping trip but the trip is now over. But the \$5 is still in my pocket, we didn’t lose it.

Ways to Avoid “Use it -or- lose it” mentality

- Fund reserves for needed purposes with unspent fund balance if it is in spendable form.
- Understand budget modifications and budgetary control.
- Understand it’s not your money, and there might not even be money to support your approved appropriations.
- Work together on the plan and understand there are competing priorities.
- Establish and refer to multiyear plans.
- Communicate and educate.

What is a Multiyear Plan?

- It is a plan which allows decision-makers to set long-term priorities and work toward goals, rather than making choices based only on the needs and politics of the moment.
- Types of Plans:
 - Multiyear Financial Plan
 - Multiyear Capital Plan

Multiyear Financial Plan

A Multiyear financial plan projects revenues and expenditures for several years into the future.

- A Budget: authorizes spending limitations through appropriations.
- A Multiyear financial plan: illustrates what will happen to a government's ability to pay for and provide services, given a set of policy and economic assumptions.

“Can we continue on the path we are on?”

“What might be the impact of our decision to...?”

- Schedules out Anticipated Future Financial Position, based on a set of criteria, supported by management analysis, and includes impact of Capital decisions contained in a Multiyear Capital Plan.

Multiyear Capital Plan

A Multiyear Capital Plan identifies all capital and major equipment needs, incorporates a process for prioritizing projects, and includes a maintenance cycle to sustain current capital assets.

- What assets do we currently own?
- What are our local government's capital investment needs?
- How have we prioritized these needs?
- How much will they cost to build and maintain?
- What is our fiscal capacity to support capital spending over time?
- What is the best way to finance these capital investments?
- How can we effectively manage these projects?
- How much will they cost to operate once constructed?

Using Unanticipated Revenue

- Budgeted Revenues for the year in the County Road fund were \$1.5 million. 6 months into the fiscal year, the Superintendent of Highways decides to sell a piece of equipment that was not originally anticipated to be sold. Revenues from the sale of equipment are \$150,000. This was never anticipated as a revenue in the current year budget.
- What can be done with this \$150,000 unanticipated revenue right now?

Using Unanticipated Revenues (cont.)

Originally Budgeted:

Estimated Revenues: \$1,500,000

Estimated Appropriations: \$1,500,000

Actual to Date + Remaining Estimated:

Actual Revenues to Date: \$1,000,000

Estimated Revenues to be collected: \$ 300,000

\$1,300,000

Actual Appropriations to date: \$ 800,000

Estimated Appropriations to be realized: \$ 700,000

\$1,500,000

We have an expected budget deficit of: **(\$ 200,000)**

Personal Budgeting

- When you develop a personal or household budget, would you make purchases beyond what was budgeted or ignore a change in income without consulting your budget to determine how you will handle the changes?
 - Refer to budget example on the next page.

Personal Budget 2025

Expenses	Monthly	Annual	Actual
Car Payments	\$ 1,600	\$ 19,200	\$ 9,600
Insurance	\$ 400	\$ 4,800	\$ 2,400
Fuel	\$ 250	\$ 3,000	\$ 2,000
Groceries	\$ 800	\$ 9,600	\$ 4,800
Utilities	\$ 350	\$ 4,200	\$ 2,100
Phone	\$ 100	\$ 1,200	\$ 600
Car Maintenance	\$ 100	\$ 1,200	\$ 1,000
Mortgage + Escrow	\$ 1,700	\$ 20,400	\$ 10,200
Travel (Vacation)	<u>N/A</u>	<u>\$ 7,000</u>	<u>\$ -</u>
Total Expenses		\$ 70,600	\$ 32,700
Income			
Salary	\$ 6,500	\$ 78,000	\$ 39,000
Interest	\$ 90	\$ 1,080	\$ 290
Gifts	<u>N/A</u>	<u>\$ 350</u>	<u>\$ -</u>
Total Income		\$ 79,430	\$ 39,290
Added to Savings		\$ 8,830	
Savings Balance			
Beginning Balance	\$ 15,000		
Budgeted +(-)	\$ 8,830		
Budgeted Ending	\$ 23,830		

Balanced vs Structurally Balanced

- Balanced Budget:
 - Estimated Revenues = Estimated Appropriations
- Structurally Balanced:
 - One Time Revenues = One Time Appropriations
 - Recurring Revenues = Recurring Appropriations
- **Revenues and Appropriations are carefully scrutinized for likelihood of occurrence using trend analysis.*

Contemporary Budget vs Line-Item Budget

General Fund Estimated Appropriations

<u>Accounts</u>	<u>Code</u>	Actual Last Year <u>20X1</u>	Budget This Year as Amended <u>20X2</u>	Budget Officer's Tentative Budget <u>20X3</u>	Preliminary Budget <u>20X3</u>	Adopted <u>20X3</u>
GENERAL GOVERNMENT SUPPORT						
<u>LEGISLATIVE BOARD</u>						
Personal Services	A1010.1	\$ 5,000	\$ 5,000	\$ 6,000	\$ 6,000	\$ 6,000
Equipment	A1010.2	-0-	-0-	200	200	200
Contractual Expend.	A1010.4	<u>491</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>
Total		<u>\$ 5,491</u>	<u>\$ 5,500</u>	<u>\$ 6,700</u>	<u>\$ 6,700</u>	<u>\$ 6,700</u>
<u>MUNICIPAL EXECUTIVE</u>						
Personal Services	A1230.1	\$10,000	\$ 10,000	\$ 10,000	\$ 11,000	\$ 11,000
Equipment	A1230.2	426	400	500	500	500
Contractual Expend.	A1230.4	<u>694</u>	<u>700</u>	<u>700</u>	<u>700</u>	<u>700</u>
Total		<u>\$11,120</u>	<u>\$ 11,100</u>	<u>\$ 11,200</u>	<u>\$ 12,200</u>	<u>\$ 12,200</u>
<u>INDEPENDENT AUDITING AND ACCOUNTING</u>						
Contractual Expend.	A1320.4	<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 700</u>
<u>TAX COLLECTION</u>						
Personal Services	A1330.1	\$ 4,000	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500
Equipment	A1330.2	-0-	250	300	300	300
Contractual Expend.	A1330.4	<u>261</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>
Total		<u>\$ 4,261</u>	<u>\$ 5,050</u>	<u>\$ 5,100</u>	<u>\$ 5,100</u>	<u>\$ 5,100</u>

Contemporary Budget vs Line-Item Budget

General Fund Estimated Revenues

<u>Accounts</u>	<u>Code</u>	<u>Actual Last Year 20X1</u>	<u>Budget This Year as Amended 20X2</u>	<u>Budget Officer's Tentative Budget 20X3</u>	<u>Preliminary Budget 20X3</u>	<u>Adopted 20X3</u>
LOCAL SOURCES						
<u>OTHER TAX ITEMS</u>						
Interest and Penalties on						
Real Property Taxes	A1090	\$ 4,268	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300
Non-Property Tax						
Distribution by County*	A1120	9,265	10,000	10,000	10,000	10,000
<u>DEPARTMENTAL INCOME</u>						
Clerk Fees	A1255	\$ 2,160	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200
Safety Inspection Fees	A1560	126	125	125	125	125
Parking Lots and Garages	A1720	956	1,000	1,000	1,000	1,000
Park and Recreation						
Charges	A2001	426	500	500	500	500
Special Recreational						
Facilities Charges	A2025	654	700	700	700	700
Planning Board Fees	A2115	875	900	900	900	900
<u>USE OF MONEY AND PROPERTY</u>						
Interest and Earnings	A2401	\$ 4,262	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Rental of Real Property	A2410	500	500	500	500	500
<u>LICENSES AND PERMITS</u>						
Licenses, Other	A2545	\$ 1,732	\$ 1,775	\$ 1,775	\$ 1,775	\$ 1,775

Contemporary Budget vs Line-Item Budget

- Line-Item Budget vs. Contemporary Budget
 - Line-Item Budget (Traditional): lists all Appropriations with a total, then all Revenues with a Total and determines total tax levy.
 - Contemporary Budget: Lists all appropriation categories by program and matches to attributed revenues generated by those programs and determines tax levy by program.

Contemporary Budget (cont.)

County of XYZ General Fund- Contemporary Budget

	(DIRECT) Appropriations	(INDIRECT) Allocated Cost	Total Cost	*Revenues	**Real Property Tax Efforts	<u>Overall Tax Effort %</u>
Community Services	\$ 900,000	\$ 26,000	\$ 926,000	\$ 400,000	\$ 526,000	12%
Parks & Recreation	\$ 2,700,000	\$ 1,850,000	\$ 4,550,000	\$ 3,725,000	\$ 825,000	18.8%
Solid Waste Mgmt.	\$ 800,000	\$ 45,000	\$ 845,000	\$ 815,000	\$ 30,000	0.6%
General Gov. Supt.	\$ 5,000,000	\$ 1,000,000	\$ 6,000,000	\$ 3,000,000	\$3,000,000	68.5%
Employee Benefits	\$ 2,000,000	(\$2,000,000)				
Debt Service	<u>\$ 921,000</u>	<u>(\$ 921,000)</u>				
Total	<u>\$12,321,000</u>	<u>\$ 0</u>	<u>\$12,321,000</u>	<u>\$ 7,940,000</u>	<u>\$ 4,381,000</u>	

Benefits of the Budget Process

- Compels local officials to examine spending plan
- Provides taxpayers with information on proposed programs
- Indicates funding sources and determines tax levy
- Gives an overview of the year's programs

Tools to be Used in Budgeting

- OSC Local Government Management Guides
- Prior and Current Year Budgets & Actuals (Modified)
- Open Book NY: <http://www.openbooknewyork.com/>
- Communication with Department Heads
- Board adopted Fund Balance Policy
- Multiyear Financial Plan
- Multiyear Capital Plan

Other Considerations

- Reserve Needs
- Appropriations for contingencies
- Interfund Transfers
- Legislation
- Local economic changes
- Others?



Division of Local Government and School Accountability

localtraining@osc.ny.gov

Thank you



New York State Comptroller
THOMAS P. DiNAPOLI

