



# Presentation Objectives

- Introduction/Overview
- Purpose of Budget
- Components of a Budget
- Development of Budget Process-Forecasting
  - Revenues
  - Expenditures
- Adoption/Implementation of Budget
- Arizona Statute Deadlines
- Questions/Discussions

# Purpose of Budgeting

- Internal Control mechanism for planning and controlling operations
- One of the most important activities undertaken by governments
- Revenues **MUST** = Expenditures
- Bottom line, you can add revenues, reduce expenditures or a combination of both!

# Purpose of Budgeting



## Simplistic Version

“On what basis shall it be decided to allocate X dollars

to activity A versus activity B?”

*Not as easy as it sounds.....*

# Building a Budget



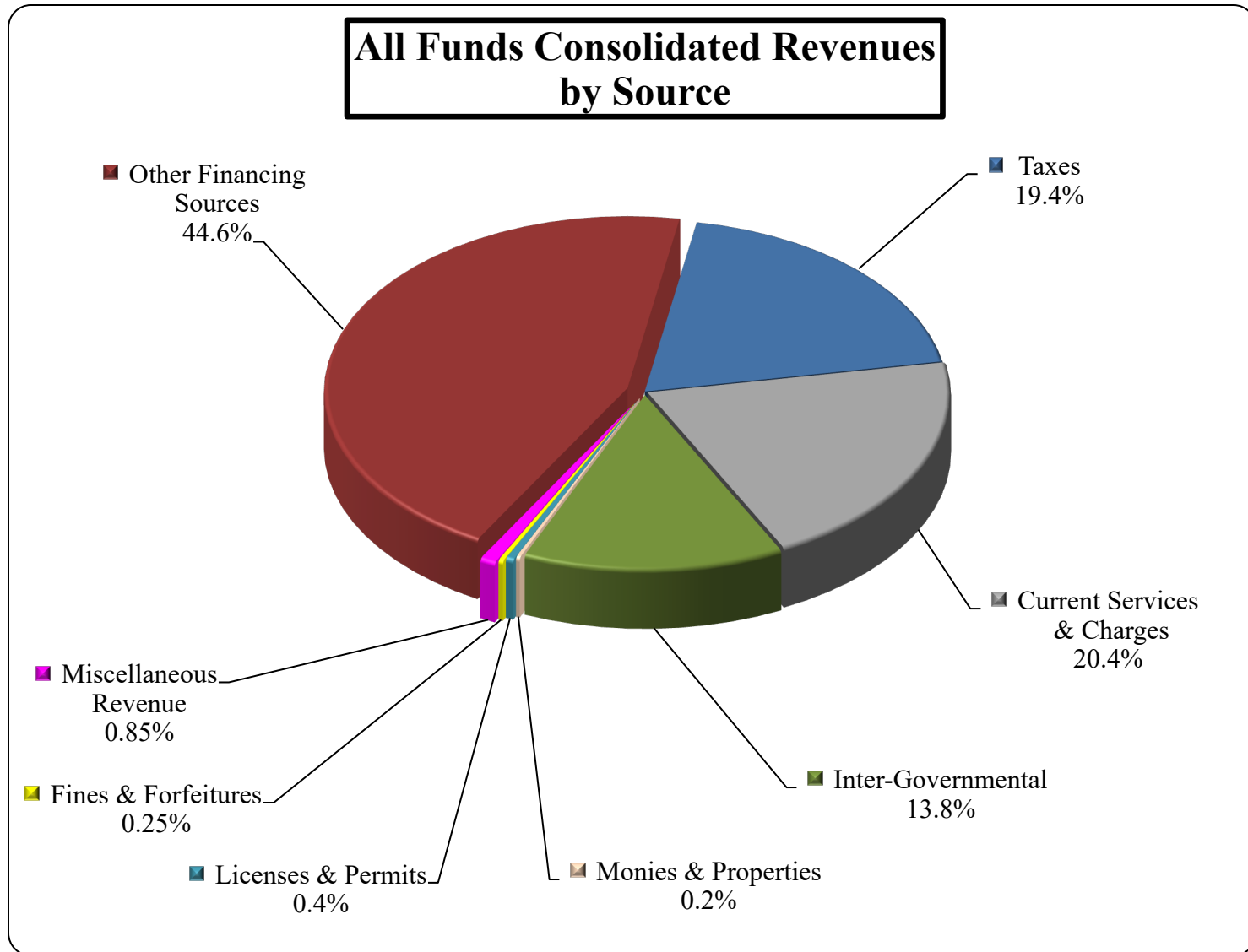
# Budget Process

- Project out your revenues
- Expenses-One time versus on-going
- Fund balances (carryover funds)

# Components of a Budget



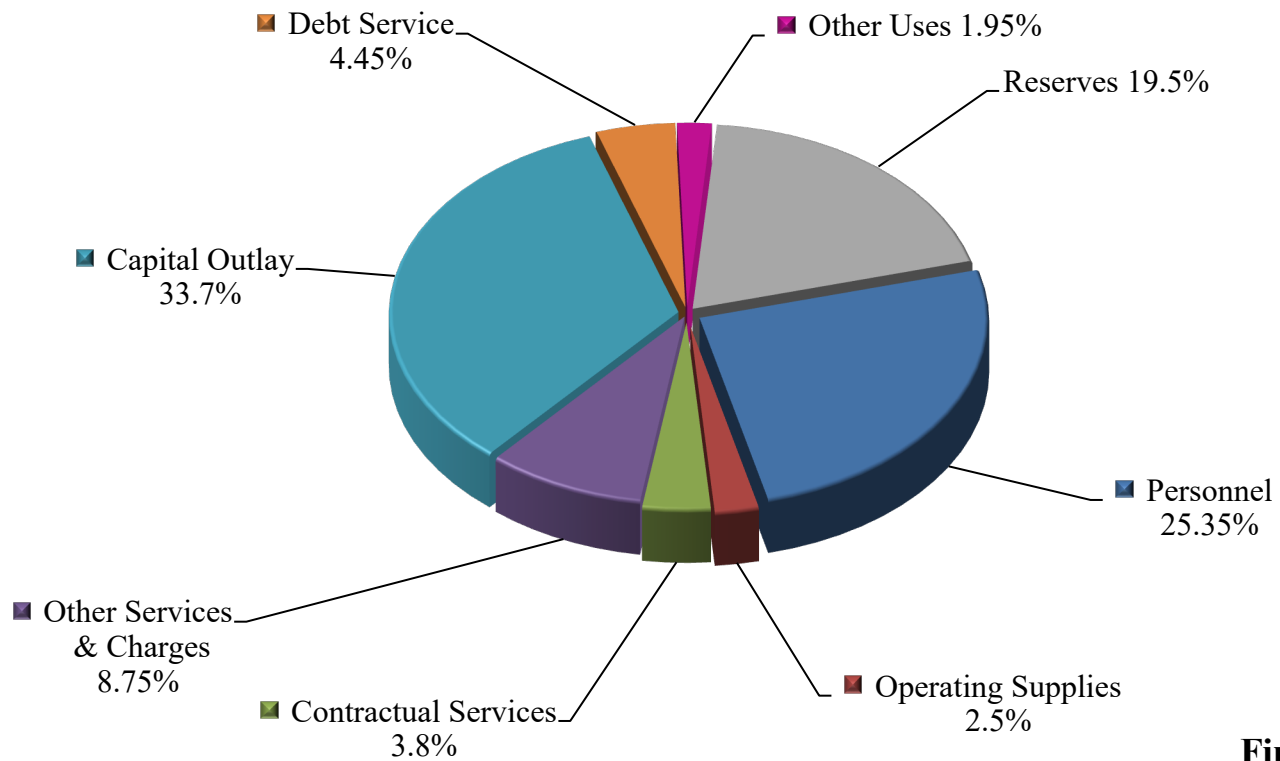
# Revenue Components of a Budget





# Expenditure Components of a Budget

**All Funds Consolidated Expenditures  
by Category**

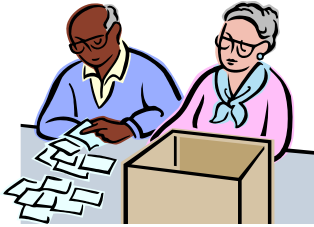


**Final Budget**

# Funds

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Projects
- Debt Service
- Enterprise Funds
- Fiduciary Funds

# General Fund Required by Statute



- Revenues to be used for any municipal purpose
- Contains most departments in the City/Town

# Special Revenue Funds

- Revenues collected for specific purpose and are restricted in their use
- Highway User Revenue Fund (HURF) required by statute
- Grants (Not enterprise though)
- Federal Funds such as AZ Cares Act & ARPA

# Internal Service Funds

- Fleet Management
- Risk Management
- Print/Copier Funds
- Information Technology

# Capital Budgets (CIP)

- Multi-year and of considerable value (5 to 10 years)
- Finance by pay as you go, grants, or borrowing
- First year of CIP becomes part of annual budget



# Enterprise Funds



- Like a business, needs to be “self supporting”
- Revenues cover cost of providing service
- User based versus tax-based revenues
- Enterprise Funds:
  - Utilities (Water, Sewer, Electric)

# REVENUES

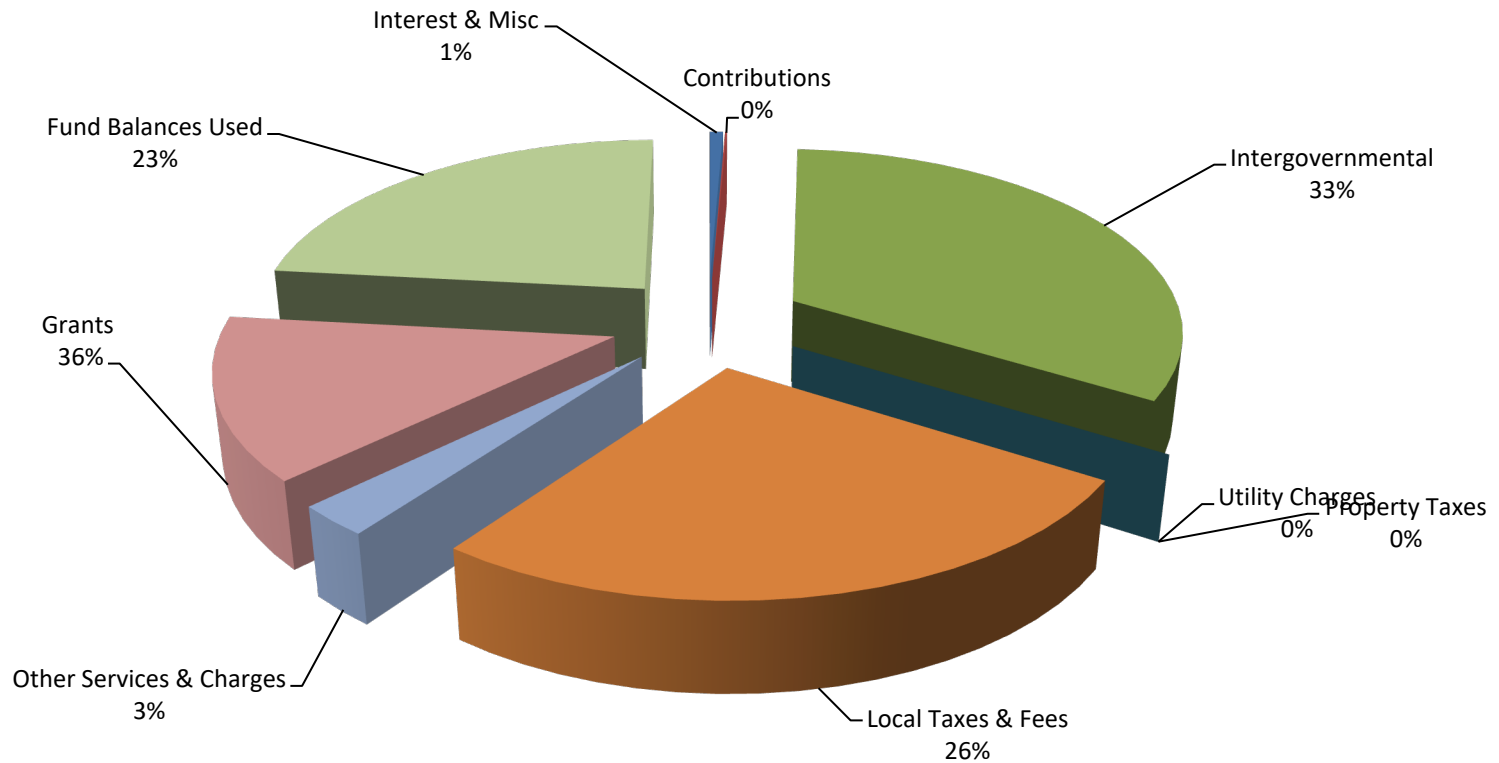




# Summary of Revenues

## WHERE THE MONEY COMES FROM

Total Resources \$8,205,385



# Major Revenues in General Fund

- Local revenues
  - Sales tax
  - Franchise taxes
  - Licenses, permits & fees
  - Fines
  - Property taxes



# Sales Taxes

- Major Revenue Categories:
  - Retail
  - Construction
  - Utilities
  - Rental
  - Restaurant & Bar

# Franchise Taxes

- Permission for utilities to use City/Town's right away for underground lines
- Must be approved by vote of the people
- Usually based on % of gross sales
- Cannot exceed 25 years



# Property Taxes- Municipal

- Primary tax rate can be used for any municipal purpose
- Establishing a “new” primary property tax requires a vote of the people
- Election is held 3<sup>rd</sup> Tuesday in May
- Secondary rate can only be used for payment of debt service (principal and interest) on bonds approved by voters

# State Shared Revenues

- State Sales tax
- Income tax
- Auto Lieu
- Highway User Revenue



# Other Finance Sources

- Bonds
  - General Obligation Bonds
  - Revenue Bonds
  - Highway User Revenue Bonds
  - Special Improvement District Bonds
  - Municipal Property Corporation Bonds
  - Water Infrastructure Financing Authority (WIFA)

“Forecasting is very difficult, especially if it is about the future”

*Niels Bohr, Nobel Prize-winning physicist*



# Purpose of Forecasting

Evaluate current and future fiscal conditions to guide policy and programmatic decisions

Fiscal management tool to provide financial estimates based on past, current and projected financial conditions

Integral part of budget process

Allows for improved decision making to maintain fiscal discipline

# Short Term Vs Long Term Forecasts

- Longer the period estimate, the lower the accuracy
  - Unexpected events can occur such as recessions, inflation, regulation or deregulation, law changes, relocation of major employer or natural disaster
  - Estimates out past 3 years may so far off and mislead public policy choices
  - Credibility issues if forecasts are way off from actuals
  - If long range forecasts are heeded to and actions are taken and then it is wrong, another credibility issue

# Short Term Vs Long Term Forecasts

- Positive side is that long term forecasts are needed for strategic financial planning
- Proactive steps can be taken to solve budgetary issues
- Short term is usually considered 3 years or less
  - Depending on forecasting tools used, should be more accurate than long term
  - Can be more easily explained and defended
  - Can be combined with long term forecasts

# Financial Forecasting



- Have to know how much you can spend without anything changing – baseline
- Financial forecasting is one of the Finance Director's most important tasks
- Allows a proactive versus reactive response to potential imbalances
- Long term plans & strategies

# Revenue Forecasting



# Key to Revenue Forecasting

Must understand revenue source

Historical data must be clean

- Incorrect posting of revenues
- Law changes
- Inconsistency

Revenue Fluctuations

Open and transparent process

No one methodology fits all revenues forecasted

# Guide for Revenue Forecasting



Revenue collections must be monitored regularly against budget projections



Some will be up, some will be down but keep below 3-5% of overall of projections or adjustments need to be made mid-year



Prior year months, quarters and annuals must be analyzed for better estimates

# Methods for Forecasting

Look for methods that produce a satisfactory forecast for the current situation



Simple time series or regression against time

Short term forecast

Only past revenue data is used

No economic, demographic, social or cultural variables are used

i.e. \$5,000 increase or past 5 years, then \$5,000 for next year

i.e. X% for past 5 years, then X% for next year.



# Methods for Forecasting

## Simple time or regression against time cont'd

- i.e. use average of past collections that have the least amount of variances

## Deterministic Modeling

- Used for long term forecasting
- Links GDP, personal income or other economic indicator
- Used when revenue is new and insufficient data available
- Not good when unstable economy

# Methods for Forecasting

## Multiple Regression

- Popular forecasting model
- Forecasts revenue as a function of one or more independent variables
- Each revenue source variable is independent of others

## Econometric modeling

- Models can be expensive
- Used for larger more complicated local economies
- Used for revenue sources that are impacted by various factors such as per capita income, inflation, population changes, etc.

# Methods for Forecasting

## **Judgmental and Experience Forecasting**

**Usually by seasoned long term Finance and Budget Directors**

**Knows the community inside and out**

**Works with other departments in gathering data from them for current and future revenue estimates**

**Can use it with other methodologies discussed**

# Most Widely Used Forecast

Judgmental and  
Subjective!

“Devastatingly accurate  
and immensely useful”



# Type of Revenue Forecast



Whatever type you use, it should be easy to understand, transparent and structured.



Forecast research has found “Statistically sophisticated or complex methods do not necessarily produce more accurate forecasts than simpler ones.”\*

**DON'T: Be overly conservative:  
represents a lost opportunity and  
damages credibility.**

**DO: Conduct Reasonableness test  
based on historical trends and  
other known factors.**

# Arizona Legislation

- Proposition 207 –Smart and Safe Fund
- Elimination of residential rental tax over 30 days begins January 1, 2025 (FY24-25 Budget!)
- Flat rate income tax (2.5%) with City/Town portion at 18% goes into full effect FY24-25
- Income Tax is from two years ago and starting to see slight decrease now and projected to see decline in the future
- Watch what is going on in AZ legislature I.e. Food tax, etc.

# The Takeaways



Forecasting is an art as much as a science



Understand if the patterns and anomalies in the data are Trend, Timing, or Other



Know how your revenues are recorded and if/when changes are made (accounting and budget)



Talk to other people!!!!



# Expenditure Forecasting





# Budget Guidelines

- Guidelines for departments to prepare their budget
  - Council goals
  - Spending priorities
- Can set targets for spending
- Examples of guidelines:
  - Inflationary factors to be used for operating and capital expenditures
  - New laws or mandates requirements
  - Population projections for the next year
  - Public Safety is a council priority
  - Lease or buy

Personnel costs are largest portion of operating budget

Consider salary increases, insurance increases (medical and workman's comp), retirement contributions, social security & overtime

What are one-time versus on-going expenditures?

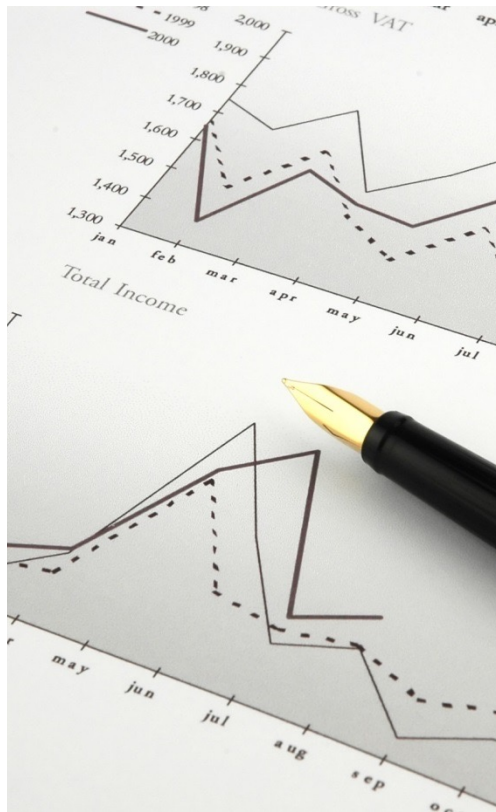
Can use CPI overall, or evaluate each line item to consider increases in fuel, utilities, etc.

# Expenditure Limitation

- State Expenditure limitation
- Alternative?
  - Home Rule
  - Permanent Base Adjustment
  - One time override

# Preparation of Requests

- Council vision and goals
- Fiscal picture for next year (Revenue Projections/Expenditure estimates)
- Instructions/rules to follow in preparation
- Budget justification
- Cost Estimations



# Types of Budget Processes

# Budget Processes

- Performance Based
- Program
- Zero Based
- Modified Zero-Based (Target)
- Incremental
- Expenditure Control Based (ECB)
- Line Item

# Budgeting in Arizona – Keeping it Legal





# Budget Issues Impacting Arizona

- Compensation
- Growth-Related Issues
- Revenue Reliance
  - Leakage
  - Competition
  - Unfunded Mandates
- Industry Attraction/Retention
- Water supply
- Regional Transportation
- Community Development

# Budgeting in Arizona

- Must adopt a balanced budget
- Tentative budget must be adopted by third Monday in July
- No requirement for final budget unless City/Town has property tax
- Property Tax must be adopted by 3<sup>rd</sup> Monday in August but 14 days after final budget adoption
- Various restrictions on funds – HURF, Impact Fees

# Budgeting in Arizona

- Tentative budget is required to be itemized per Auditor General Forms
- Published once a week for two consecutive weeks
- Notice of hearing date for final budget
- Both tentative and final must be published on City/Town website 7 business days after adoption
- Must remain posted for 60 months (five years)

# Publication Requirements

- Cities/Towns must establish and maintain an official internet website
- Posted no more than 7 days after estimates of revenues and expenditures are given to governing body
- A.R.S 42-17105 & 17103:
- Requires adoption of expenditure estimates (tentative budget)
- Posting of tentative and final budgets for 60 months

# Important Budget Related Statutes

- 9-499.15. Proposed municipal taxes and fees; notification required; exception
  - If New or increased tax rate or fee, post written notice of the proposed increase on the home page of the municipality's website at least sixty days before the date the proposed new rate is approved or disapproved by the governing body of the municipality.

# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments
  - Water & Wastewater rate, fee or service charge must file a written report supporting increase at least 30 days prior to a public hearing
  - Council adopt a “notice of intention” at a regular council meeting and set the public hearing date, but must be within 60 days.

# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
  - Must publish notice of intention in local newspaper with public hearing date, time & place no less than 20 days before public hearing
  - After public hearing, Council can adopt by resolution or ordinance rate, fee or service charge increase

# Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
  - Increase does not become effective until 30 days after the adoption of the resolution or ordinance



# Truth in Taxation

- Levy versus rate!
- Bottom line, if current AV goes up, truth in taxation may be required
- Citizen perspective: If you had a house that was valued at \$100K last year and it is valued at \$110K this year and the rate stays the same, your levy is going up!

# Budget Related Elections

## Bonds

- General Obligation Bonds – Yes!
- Revenue Bonds – Yes! (Exception of utility for Cities/Towns under 50,000)
- Highway User Bonds – Yes!
- Excise Tax Bonds-No! (POB's)
- Municipal Property Tax Corporation Bonds – No!
- WIFA-No!

# Budget Related Elections

- Establishment of a Primary Property Tax
- Alternative Expenditure Limitation (Home Rule) every 4 years
- Permanent Base Adjustment
- One-time override

# Resources

AZ Auditor General Office

***asd@azauditor.gov***

AZ League of Cities & Towns-Budget and Finance  
Manual

***azleague.org***

Pat Walker Consulting LLC

***[pwalkerconsulting@aol.com](mailto:pwalkerconsulting@aol.com)***

In depth AZ League Budget Workshop will be offered on February 14 and February 15 via Zoom

# Questions?

