

# Best Practices in Budgeting Presented to GFOA of South Carolina



**Government Finance Officers Association**

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# Instructor

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# Session Objectives

- Become familiar with GFOA's budgeting best practices and rethinking budgeting initiatives.
- <https://www.gfoa.org/materials/topic/rethinking-budgeting> (link where to find rethinking budgeting).
- <https://www.gfoa.org/best-practices/budgeting> (link where to find the best practices).

# Rethinking Budgeting

Title	Publish Date	Content Type
Fiscal Fluency Made Easy	8/1/2023	GFR Article
<u>Should We Rethink Reserves?</u>	<u>8/1/2023</u>	GFR Article
Rethinking Public Engagement	5/22/2023	Research Report
Should We Rethink Reserves?	5/19/2023	Research Report
Fiscal Fluency Made Easy	5/9/2023	Research Report
Budgeting for Equity	5/9/2023	Research Report
Rethinking Public Engagement	4/1/2023	GFR Article

# 1. Adopting Financial Policies

Strong reasons for formal adoption:

- Institutionalizes good financial mgt practices
- Clarifies strategic intent for financial mgt
- Defines boundaries and framework for actions
- Supports good bond ratings
- Promotes long-term, strategic thinking
- Manages risk to financial condition
- Complies with established public management best practices

# 1. Adopting Financial Policies

*Scope* – Basic categories

- General fund reserves
- Reserves in other funds
- Grants
- Debt
- Investment
- Economic development
- Accounting and financial reporting
- Risk management and internal controls

# 1. Adopting Financial Policies

*Scope* – Basic categories

- Procurement
- Long-term financial planning
- Structurally balanced budget
- Capital
- Revenues
- Expenditures
- Operating budget

# 1. Adopting Financial Policies

## *Development*

- Define problem to be addressed
- Draft policy – legal requirements, public comments, peer governments
- Review with governing body
- Governing body formally adopts
- Implement



# 1. Adopting Financial Policies

## *Design*

- Must be in written form
- Expressed in understandable manner to the intended audience
- Available to stakeholders in more than one medium and accessible by multiple means
- Address all relevant issues and risks in a concise fashion

# 1. Adopting Financial Policies

## *Presentation*

- Same section of the budget
- Original and revision dates on each policy

## *Review*

- Monitored, reviewed and updated in a systematic way
- If not being followed, analyze reasons

## 2. Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund

- Focus on *unrestricted fund balance* (GAAP)
  - Committed fund balance
  - Assigned fund balance
  - Unassigned fund balance
- Minimum level of *unrestricted fund balance*
  - Two months of regular revenues or regular expenditures

## 2. Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund

- Factors to be considered in context of long-term forecasting
  - Revenue predictability, expenditure volatility
  - Perceived exposure to one-time outlays
  - Availability of other resources or potential drain by other funds
  - Impact upon bond rating, cost of borrowing
  - Commitments and assignments

### 3. Determining the Appropriate Levels of Working Capital in Enterprise Funds

- Use working capital as the measure of available margin or buffer in enterprise funds.
- Defined as current assets minus current liabilities
- Recommendations:
  - Establish appropriate allowance for uncollectibles.
  - Ensure inventories and prepaids included in current assets are realistic one-year estimates.
  - Target of no be less than forty-five (45) days worth of annual operating expenses.

### **3. Determining the Appropriate Levels of Working Capital in Enterprise Funds**

- Considerations and factors for setting a working capital target:
  - Support from general government
  - Transfers out
  - Cash cycles
  - Customer concentration
  - Demand for services
  - Control over rates and revenues.

### 3. Determining the Appropriate Levels of Working Capital in Enterprise Funds

- Considerations and factors for setting a working capital target:
  - Asset age and condition
  - Volatility of expenses
  - Control over expenses
  - Management plans for working capital
  - Separate targets for operating & capital needs.
  - Debt position

## 4. Establishing Government Charges and Fees

- Adopt formal policy (public)
  - Factors to be taken into account in pricing
  - Intent to recover full cost?
  - Circumstances where more or less than 100% recovery permitted
  - Rationale for not recovering full cost
- Full cost should be calculated to provide a basis for setting fees or charges
- Review and update regularly



## 5. Establishing an Effective Grants Policy

- Provides staff guidance to staff in order to maximize the benefits and minimize the risks of receiving grants.
- Identifies formal steps to take prior to applying for or accepting a grant.
- Policy should include, at a minimum, the following:
  - *Grants identification and application*
  - *Strategic alignment*
  - *Funding analysis*
  - *Evaluation prior to renewal or grant continuation*
  - *Administrative and operational support*

# 6. Enterprise Risk Management

## 1. *Risk identification*

- Physical environment (disasters & infrastructure)
- Legal environment (laws and legal precedents)
- Operational environment (day-to-day activities within the organization, workforce demographics)
- Political environment
- Social/community environment
- Economic environment
- Internal environment (the attitude of individuals towards risk)

# 6. Enterprise Risk Management

## 2. *Risk evaluation*

- Frequency and severity

## 3. *Risk treatment*

- Loss prevention and control (training, workshops, etc)
- Risk transfer (financial, contractual, etc)
- Risk retention (self insures)
- Risk avoidance

## 4. *Risk management implementation*

## 5. *Risk management review*

## 7. The Public Finance Officers Role in Fiscal Sustainability

- Balance needed (“triple bottom line”)
  - Economy
  - Environment
  - Social Equity
- Categories of specific representations
  - Define sustainability
  - Reporting
  - Analyze return on investment
  - Integrate sustainability goals into planning and budgeting

## 8. The Public Finance Officers Role in Collective Bargaining

- Finance officer's expertise should be utilized.
- Develop timelines.
- Prioritize issues.
- Communicate financial pressures.
- Evaluate renegotiation triggers.

## 8. The Public Finance Officers Role in Collective Bargaining

- Make peer comparisons.
- Determine proposal costs and affordability.
- Determine the effects on different employee units.
- Evaluate retroactive proposals.
- Consider one-time payments or non-financial incentives.

## 9. Key Issues in Succession Planning

- Develop an integrated approach to managing succession.
- Continually assess potential employee turnover.
- Provide formal, written succession plans as frameworks.
- Develop written policies and procedures to facilitate knowledge transfer.
- Leadership skills should be a key component.

## 9. Key Issues in Succession Planning

- Encourage personal professional development activities.
- Design better recruitment and retention practices.
- Consider collective bargaining agreements and how those agreements fit in.
- Consider non-traditional hiring strategies.



# 10. Establishment of Strategic Plans

- Every government should use some form of strategic planning
- Essential steps of a sound process
  - Initiate the process
  - Prepare a mission statement
  - Assess environmental factors
  - Identify critical issues
  - Agree on a small number of broad goals

# 10. Establishment of Strategic Plans

- Develop strategies to achieve broad goals
- Create an action plan
- Develop measurable objectives
- Incorporate performance measures
- Review or adopt the plan
- Implement the plan
- Monitor progress
- Reassess the plan

# 11. National Advisory Council on State and Local Budgeting

- NACSLB (1995-1997)
  - GFOA and 7 other SLG associations
  - Goal = set of recommended budget practices
- Recommendation:
  - Adopt NACSLB Framework and practice statements
  - Blueprint rather than mandatory prescriptions
  - Incremental implementation foreseen

## **12. GFOA Best Practice on Long-Term Financial Planning**

Beyond the annual budget cycle and multi-year capital plan, governments need to identify long-term financial trends. Long-term financial planning involves projecting revenues, expenses, and key factors that have a financial impact on the organization. Understanding long-term trends and potential risk factors that may impact overall financial sustainability allows the finance officer to proactively address these issues. Going through a long-term financial planning process allows decision makers to focus on long-term objectives, encourages strategic thinking, and promotes overall awareness for financial literacy in an organization. Long-term financial planning creates commitment and motivation to provide a guide for decision-making.

Long-term financial planning relates to strategic planning, developing financial policies, capital improvement planning, and budgeting, but it is inherently different, as shown in the table below. Each process fulfills a different combination of planning purposes. As such, long-term financial planning is most valuable when accompanied by these other planning processes and often communicated together.

## 12. GFOA Best Practice on Long-Term Financial Planning

GFOA recommends that all governments prepare and maintain a long-term financial plan that projects revenues, expenses, financial position, and external factors for all key funds and government operations at least five years into the future.

Governments that utilize debt financing and/or utility rate setting should consider a long-term financial plan greater than five years. The plan should be reviewed on an annual basis and updated as needed or as major assumptions change. Long-term financial planning should be the starting point for capital planning, developing operating budgets, estimating revenue, and other planning processes.

When fully embraced by an organization, long-term financial planning can have many benefits including:

- Creating a long-term outlook into other planning processes like budgeting, capital planning, and revenue forecasting
- Helping to diagnose potential risks and causes of fiscal distress
- Stimulating “big-picture thinking”
- Providing a tool for evaluating long-term compliance with financial policies
- Allowing for pre-emptive action to mitigate forecasted financial distress
- Defining parameters for decision-making
- Communicating long-term financial position to residents and other stakeholders, including rating agencies and bond investors.

## **13. Budgeting for Results and Outcomes**

- 1) Determine how much money is available.
- 2) Prioritize results.
- 3) Allocate resources among high priority results.
- 4) Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.

## **13. Budgeting for Results and Outcomes**

- 5) Budget available dollars to the most significant programs and activities.
- 6) Set measures of annual progress, monitor, and close the feedback loop.
- 7) Check what actually happened.
- 8) Communicate performance results.

# 14. Performance Management

Principles adopted by the National Performance Management Commission, in a 2010 report,

*A Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving*

- Information, measures, goals, priorities, and activities are relevant to the priorities and wellbeing of the government and the community.
- Information related to performance, decisions, regulations, and processes is transparent — easy to access, use, and understand.



# 14. Performance Management

Principles continued . . .

- Goals, programs, activities, and resources are aligned with priorities and desired results.
- Decisions and processes are driven by timely, accurate, and meaningful data.
- Practices are sustainable over time and across organizational changes.
- Performance management helps to transform the organization, its management, and the policymaking process.

## 15. Decide Purpose of Public Engagement

Articulating the purpose for conducting a public participation process is critical because the purpose becomes the foundation for deciding who to involve, how to select them, what activities they will be involved in, what information will be collected, and how the government will use the information. Consequently, determining the purpose should be the first step in designing a participation effort. Governments should not initiate public participation processes without first establishing a tangible purpose or objectives. Purposes may include one or more of the following, and, in addition, individual governments may identify other purposes for involving the public:

- Performance.* Improve performance by better understanding what the public wants and expects from its government. Establish performance measures that incorporate the public's perspective. See GFOA's best practice on [performance measures](#).
- Service Levels.* Adjust service levels more closely to citizens' preferences in the context of limited resources
- Differentiate.* Differentiate among the expectations of a jurisdiction's various demographic groups in policy and service design.
- Priorities.* Understand public priorities in planning, budgeting, and managing services. This is especially true when revenues are not sufficient, new services are required, or in disaster recovery situations.

## 15. Decide Purpose of Public Engagement

### Encourage People to Engage

The best way to assure a broad perspective is to collect information in a variety of ways and from a variety of sources. Consider the following items to get the public involved in the process.

- *Schedule.* Start early enough that public input meaningfully influences decisions.
- *Transparency.* Provide information to the public in a format that they can understand.

This approach is appropriate at all stages and may include:

- Newsletters
  - Public notices in community media
  - Public hearings
  - Public reports, such as Budgets-in-Brief, Popular Annual Financial Reports, or performance reports
  - Web sites and Dashboards – GFOA has a best practice on Website Posting of Financial Documents
  - Individual or group emails, phone calls, and in-person contact
- *Education.* Educate the public about different budget options. This can make for more informed decision making. Reach a shared set of facts. Recruit volunteers to attend meetings and educate the public. Use formats that encourage discussion about trade-offs, (such as a “game” format).
- *Fairness.* Make sure that typically underrepresented groups are included. Recruit a diverse mix of participants.

## 15. Decide Purpose of Public Engagement

- *Groups.* Create public or neighborhood advisory groups, committees, and informal task forces. These can be ongoing and can be used both to seek information during planning and information gathering, as well as with subsequent phases, including consideration of alternatives, decision making, implementation, evaluation, and reporting. It is important to identify specific groups that will be affected the most by the decisions made.
- *Technology.* Use technology, such as a Constituent Relationship Management (CRM) systems to manage service relationships as well as to identify public preferences and priorities. It can also be a resource as to certain services that the public may have an interest in.
- *Preferences.* Identify citizen preferences and satisfaction levels.. Common methods for soliciting information include the following:
  - Surveys, either in person or via mail, phone, or Internet
  - Focus groups
  - Interviews
  - Comment (or point of service) cards
  - Public meetings, such as public hearings, “Town Hall” meetings, and community vision sessions
  - Interactive priority setting tools

## 15. Decide Purpose of Public Engagement

### Provide the Engagement Medium

Conversations will be more productive if the following concepts are kept in mind.

- *Facts*. Participants should have a common set of facts to work from. For instance, consider allocating budget dollars by discretionary and non discretionary funds. Focus on the public process with the discretionary dollars (money not set aside for mandatory or fixed costs). Make your information readily accessible, such as through a dedicated web page.
- *Conversations*. The environment needs to be designed to facilitate the conversation. For instance, a school setting may be less formidable than city hall. Smaller group settings may be more amenable than larger groups.
- *Enjoyable*. Make public participation an enjoyable experience.
- *Trade-Offs*. Financial sustainability requires making hard decisions between competing uses of the community's resources. To truly engage the public in decision-making, they too must make hard choices.

### **Show Opportunities for Future Engagement**

Governments should systematically collect, maintain, monitor, and analyze information gained from public involvement activities, maintain contact information on individuals and groups that wish to be kept informed. Governments should use multiple communication mechanisms to ensure that those involved or interested in the process are notified of opportunities for additional feedback and of decisions made based on the public involvement process. Most importantly, governments should explain how public involvement has made a difference in plans, budgets, and performance, and gather public feedback on how successful the process has been through the public's eyes. Information derived from public involvement processes provides a critical perspective for making decisions in planning, budgeting, and management. However, such information should be considered along with expert knowledge and judgment (such as the engineering expertise necessary to build a bridge) and objective data (such as economic and demographic information, both of which are also critical to good decision making).

## **16. Financial Forecasting in the Budget Preparation Process**

- Define assumptions – time horizon, objective, political/legal issues, major revenue and expenditure categories.
- Gather information.
- Preliminary/exploratory analysis
  - Business cycles
  - Demographic trends
  - Anomalies
  - Variables

## **16. Financial Forecasting in the Budget Preparation Process**

- Select methods – extrapolation, regression, knowledge-based.
- Implement methods, make the forecast, and forecast ranges.
- Use the forecast.
  - Credibility of the forecaster
  - Presentation approach
  - Linking forecast to decision-making.



## 17. Effective Budgeting of Salary and Wages

- Personnel tracking system
- Vacancy adjustments
  - Start dates
  - Trends, attrition
  - Frozen positions
  - Funded versus unfunded
- Collective Bargaining Agreements

## 17. Effective Budgeting of Salary and Wages

- Impact of Inflation
- Optimal Staffing Level
  - Comparison to other Governments
  - Staffing Guidelines
  - Classifying Position by Goal
  - Use of Volunteers/Temporary Positions

## 17. Effective Budgeting of Salary and Wages

- Compensation approaches
  - Step and grade systems
  - Pay for performance
  - Surveys

## 17. Effective Budgeting of Salary and Wages

- Personnel categorization
  - Capital versus operating
  - Cost allocation
  - Funding sources
  - Privatization or shared services
- Monitoring

# 18. Inflationary Indices in Budgeting

- Inflation indices
  - CPI (BLS)
  - GDP Deflator (BLS)
  - Construction Price Index (*ENR*)
  - Employment Cost Index (BLS)
  - Municipal Cost Index (*American City & Co*)

# 18. Inflationary Indices in Budgeting

- Alternatives to using indices
  - Economic consultants
  - Local universities
  - Peer governments
  - Vendor contacts
  - Industry specific journals

# 19. Strategies for Managing Health-Care Costs

- Monitor medical plan network and prescription drug discounts.
- Set an appropriate level of employee cost sharing.
- Encourage good consumer behaviors.
- Analyze risks in self-insurance
  - Premiums, administrative fees
  - High-cost claims and high cost areas
  - Stop-loss insurance programs
  - Wellness programs

# 19. Strategies for Managing Health-Care Costs

- Measurements to assess plan performance
  - Medical loss ratio
  - Medical claim trends
  - Network discounts
  - Administrative fees
  - Prescription drug cost trend/generic drug substitution rate



# 19. Strategies for Managing Health-Care Costs

- Additional Strategies
  - Federal Requirements
  - Long-term Plan
  - Build Support
  - Educate Employees
  - Audit Plan Records
  - Rebid Periodically

## 20. Evaluating Service Delivery Alternatives

Carefully analyze all aspects of a service delivery option before changing service delivery methods.

- Current service – level of service, secondary functions
- Required governmental control of service
- Risks and benefits
  - Flexibility, reversibility of the arrangement
  - Public opinion
  - Specialized knowledge

## 20. Evaluating Service Delivery Alternatives

- Risks and benefits
  - Mgt capacity for alternative arrangement
  - Continuity of competitive forces
  - Financial risks – legal liability for performance and safety
  - Continuity
- Risk mitigation
  - Transferring risk thru bonding/ insurance
  - Monitoring
  - Multiple vendors

## 20. Evaluating Service Delivery Alternatives

- Financial analysis
  - Focus on avoidable costs
  - Internal costing information accuracy
  - Present value analysis for multiple year contracts
  - Transitional financial impacts
  - Equipment, capital and infrastructure usage
  - Market input
  - Peer government comparisons
- Communication and change mgt strategy

# 21. Measuring the Full Costs of Government Service

- Calculate the full cost of all services
  - Useful when considering alternative service-delivery options
    - ✓ Distinguish avoidable costs from unavoidable costs
    - ✓ Consider cost of transition
    - ✓ Consider offsetting revenues

# 22. Pricing Internal Services

- Identify Goals
  - Govern demand for a service
  - Develop enterprise rate models
  - Calculate indirect costs
  - Provide input for full costing
  - Discuss value of service
  - Promote competition in service delivery
  - Customize service levels for different customers
- Decide Basis of Allocation
  - Cause and effect relationship
  - Benefit received
  - Fairness
  - Legal constraints

## 23. Presenting Official Financial Documents on Your Government's Website

- Benefits
  - Heightened awareness
  - Universal accessibility (range of potential users)
  - Potential for interaction with users
  - Enhanced diversity (use of different languages)
  - Facilitated analysis (can extract data)
  - Increased efficiency (reduce redundant reports)
  - Lower costs
  - Broadened potential scope (use of hyperlinks)

## 23. Presenting Official Financial Documents on Your Government's Website

- Specific guidelines:
  - Consistency with hardcopy version (if any)
  - Legibility (font size and page layout/direction) should be consistent
  - Pagination (numbers pages sequentially)
  - File size
  - Security (protect document from unauthorized changes)



## 23. Presenting Official Financial Documents on Your Government's Website

- Specific guidelines:
  - Placement (predominately on homepage)
  - Software compatibility
  - Features such as zooming, bookmark, facing pages and search mechanism should be available

## 24. Making the Budget Document Easier to Understand

- Organization – Consider Budget Awards criteria
- Avoid excessive detail
- Attractive, simple and easy to use design
- Consistency – ex. department presentations
- Highlights
  - Consider a budget-in-brief
  - Effective tables, charts, illustrations
- Format
  - PDF numbering matches document pages
  - Hot links in table of contents
  - All pages same direction

## 25. Budget Monitoring & Control

- *Revenues.* Governments need to carefully analyze sources of funds with particular attention to:
  - Seasonality, and whether comparable to prior observations
  - Any potential volatility and the resulting impacts
  - Trends and comparison to projections
  - Timing of receipts
  - Relationship to economic indicators and potential impacts
  - Changes in policy/practice of overarching governments involved in disbursement of revenues
  - Review of patterns at other similar/related governments

## 25. Budget Monitoring & Control

- *Expenditures.* Governments need to carefully monitor all expenditures as well – including one-time uses and also examining key aspects of the following:
  - *Personnel.* Examine additional detail beyond just regular payroll expenses, including analysis related to hiring and vacancy information and also, depending on magnitude, analysis of part-time, overtime and special pay. In addition, conduct analysis of re-class/promotions to see if on-track with expectations. And whether fringe benefit costs are within budgeted expectations as well.
  - *Non-personnel.* Monitoring needs to include more than just current expenses. Governments need to analyze draw down of encumbrances, outstanding purchase orders, and its major contracts to develop a better picture of not only what was spent, but what remains to be spent.

## 25. Budget Monitoring and Control

- How the elements should be analyzed
  - *Root cause.* Governments should move beyond just identifying deviations from budget versus actuals and work towards analyzing and articulating why deviations occurred in order to move towards resolution.
  - *Time frame.* Is it anticipated for any identified variance to continue or is there an underlying reason for the variance? How does the current spending pattern impact the subsequent year's budget?
    - *Requirements.* Structure budget monitoring to meet any interim reporting requirements that the government may have, if possible.

# 25. Budget Monitoring and Control

- At what level of detail should the analysis be conducted. This will vary depending on revenue/expenditure type. Organizations should discuss benefits of more versus less detail and its impacts on the timeliness, usefulness, and degree of difficulty to compile, among other factors. Potential levels at which to monitor the budget should mirror an organization's chart of accounts, including the following:
  - *Fund*. Use for high level analysis and also may be the only monitoring needed for minor revenue/expenditure areas
  - *Department*. Analysis at this level can be used to establish budget accountability for department heads
  - *Sub-department/division*. Appropriate to analyze in particular if budget accountability resides at the sub-department head level.
  - *Function*. Use to track expenditures by major organizational responsibilities, i.e. public safety, public works, etc.
  - *Object/account*. Utilize for examining key types of expenditures at an organization-wide basis, such as overtime.
  - *Project/program/grant/activity*. Use to track revenue/expenditures of specific activities associated with areas that need additional scrutiny or for reporting requirements

## 25. Budget Monitoring and Control

- Who is responsible and outlining roles
  - *Production.* Who produces the analysis, reports, etc. related to budget monitoring should be clearly articulated and disseminated.
  - *Roles.* Collaboration and ownership within the organization should be promoted to help provide context related to any potential issues.
  - *Ownership.* Identify who is responsible for resolving variances related to both spend and service delivery as well as any other problems identified that need attention.

## 25. Budget Monitoring and Control

- Tools for conducting the analysis
  - *Electronic system.* An organization's enterprise resource planning (ERP) system should drive data gathering and analysis related to budget monitoring. Use of the ERP system allows for real time information to be readily accessible for encumbrances and other time sensitive information as opposed to reliance on static, stand-alone reports.
  - *Automation.* Budget monitoring data and reports should be integrated into and generated by an organization's ERP system to ensure efficient use of staff time and also consistency of information.
  - *Overspend Protection.* Governments should also ensure that mechanisms are in place in their ERP system to automatically prevent overspending of budget and notify the organization's financial leadership.
  - *Consistency.* Off-system analysis should be consistently applied to all aspects of monitoring the budget and clearly articulated to both staff conducting the analysis and end users.



## 25. Budget Monitoring and Control

- Communications

- *Frequency.* The frequency of how often budget monitoring reports and information is generated should be agreed upon at all levels of the organization.
- *Delivery.* How the information is communicated and to which stakeholders, both internally and externally, needs to be clearly structured.
- *Format.* The format for how information related to budget monitoring needs to be clearly established as well.
- *Transparency.* How can the information be shared on a wide spread basis to the community and include the proper context to best inform the public and minimize additional request for more information.