

# CITYSPEAK

## “City Budget is Everybody’s Business...All Year Long!”

Are you happy the Fiscal Year (FY) 2018-19 Budget is done for your municipality? Of course you are! You labored for hundreds of hours, all the way back to mid-January with the Budget Kickoff meeting. Months later, on June 30<sup>th</sup>, when your City Council (or Board of Directors) adopted the final recommended budget document, you’re breathing a sigh of relief. Your work here is done, right? Not so fast!

### Happily Ever After?

So now you have spending authority that allows all Department staff to continue delivering the vital public services expected by the community. Voila! You now have another budget under your belt as municipal budget preparer (a great way to build up your resume for up and comers).

And they all lived happily ever after, right? Not so fast!

It’s the classic fairytale story. Drama ensues. There’s a big struggle. Guy rescues girl. Or girl rescues guy. (Hey! It’s 2018. Times are changing.) They kiss. Fade to black.

Except they *always* leave out what happens *after* happily ever after...always.

This is exactly what happens in your municipality. You work so hard for six months to get a budget nailed down, work out the kinks, work with your team, nail it down again, and finally you get it approved.

And yet there’s so much more work to do administratively with the new year spending plan (budget) for the next twelve months. Happily ever after really just means you’ve reached the next level. It certainly doesn’t mean you’re done. However, the administrative and financial budget work to be done after the June 30<sup>th</sup> adoption is different for the various Departments at your municipality, yet it affects everyone!

### Annual Budget Affects Everyone!

Now, to be clear, I realize that some municipalities prepare a two-year budget, but this specific article focuses more on the annual budget. Budget preparers from some municipalities with a two-year budget will tell you they feel they spend just as much work as those who prepare an annual budget. Basically, they feel they’re not saving much time by preparing a two-year budget. I’ll discuss the two-year budget in a future CitySpeak newsletter.

Having said that, this topic of organization-wide financial and administrative budget workload applies across the board to all municipal Departments and organizations, even though Finance ends up with the bulk (if not all) of the financial tasks related to the ongoing budget work after the July 1.

Lastly, regardless of your fiscal year month end, June 30<sup>th</sup> will be used for purposes of this article because the point here is that once you've spent half a year planning for the budget and getting it approved, you still have another half year of work to do before the NEXT budget cycle begins in January all over again.

Yes, the budget work at a municipality NEVER ends!

## Picture It

Municipal finance officers and other budget preparers, breathe a sigh of relief on June 30<sup>th</sup>, thankful the six-month "budget dance" marathon is over. This is an awesome feeling!

As you sit at your desk at 5pm, everybody's gone home, so you lean back in your chair, putting your hands behind your head, kicking your feet up on the desk.

You glance over at the thick budget document (which can actually be six inches or larger at some municipalities), which sits prominently on your desk. The finance officer and budget preparers from all Departments are proud of this most important fiscal accomplishment of the year. Yes this new-year budget document was a team project, everybody knows this.

Of course, everyone in your organization also knows **it is the Finance Director (finance officer) who is ultimately responsible for the financial integrity of the numbers in the final budget.** The buck stops with the Finance Director when it comes to any math errors in the budget, or even worse, missing items from the budgets of the PD (bullets) or Fire Department (fire hoses), or mission-critical items from any other municipal department for that matter.

As you leaf through the budget pages, perhaps rereading the Budget Message, or glancing at the colorful charts, graphs, and other key budget schedules, you reflect on the things you did well this year, and make mental notes of the things that didn't go so well with the budget preparation process. You vow to start earlier on next year's budget document, perhaps even creating your Next Year Budget folder to throw notes and related documents during July through December for next year's new budget cycle.

Ah it feels good to hold the completed budget document in your hands! Sadly, the budget celebration you enjoy there at your desk is truly short-lived, for you quickly remember the budget work does not end on June 30<sup>th</sup>. You remember the budget work is an ongoing process.

## Budgeting Is an Ongoing Process

The budget is the single most important fiscal policy decision you bring to your City Council for approval by June 30<sup>th</sup> of each year. It represents the values of your community as perceived by elected officials. It also reveals the priorities of the organization as envisioned by the City

Manager. The more time you dedicate to the budget process, which is ongoing and at varying stages at any moment in time, will yield good results to your Department.

Although it is the Finance Director / finance officer who must facilitate, manage, and craft the budget model, as well as fine tune the accounting system, which is the “engine that drives the budget”, he or she relies of budget staff from all Departments. In a future CitySpeak newsletter I will discuss how it is difficult to prepare a good budget without an accurate and current accounting system (i.e., cash postings, bank reconciliations, etc.).

It is certainly a huge job to achieve the fiscal goals of the City Manager, the Council, and all the stakeholders of the municipal organization...and not just for six months, or even a fiscal year, but on a long-term basis. I will also discuss the mechanics of long-term budget planning in a future CitySpeak newsletter.

As municipal finance practitioners and budget preparers, we recognize that *budgeting is a year-long (ongoing) process*. Last year blends with this year as old books are closing and new books are opened.

Although the summer months of July and August are spent closing the books for last FY ending June 30<sup>th</sup>, it is also the time when last year’s budget remains open in the accounting system, overlapping with first two accounting periods of the new year budget.

Just because a new fiscal year budget has been approved, doesn’t mean it takes effect immediately. The transition takes time. Typically, municipalities usually close out last year’s budget by August 31<sup>st</sup>, which means any invoices (or other transactions) received after August 31 will be posted against the new fiscal year budget. Dear Departments, hurry up and turn in to Finance Department all invoices which are for goods or services purchased last FY, so they don’t get charged against your new FY budget! However, there’s a lot more budget work that Finance and budget staff from other Departments will need to perform for both the prior fiscal year and the new fiscal year budgets.

## ***Lots of Budget Work To-Do’s!***

What is the budget work that must be performed after the budget is adopted on June 30<sup>th</sup>? There is A LOT of detail budget tasks that need to be performed by the Finance Department and by budget staff from other Departments. However, here is a partial list summary of the most significant budget tasks to be performed:

- **July (Post New Year Budget):** Municipal finance officers know the #1 budget task to be performed after June 30 is to post the final adopted budget in the accounting system. The posting of the budget involves data entry of the hundreds or thousands of line-item budget amounts (both revenue and expenditure) exactly as requested by Departments, but more importantly, as adopted in the enabling budget adoption resolution. This priority budget task must be performed on July 1, or as close to July 1 as possible (but *no earlier than July 1*). The allows Departments to process new year Purchase Requisitions and Finance to issue Purchase Orders (PO’s).

The last thing you want is for your Departments to go out and make purchases without a PO because the budget was not posted to the accounting and purchasing system. **POs are an internal control tool Finance Department is required to utilize to manage and control the organization's budget.** If the budget is not posted on July 1, the Finance Department could end up with unnecessary headaches and complaints. Thus, it is critical that the Finance Department come early, stay evenings, even work on weekends to get the budget posted on or shortly after July 1. *This extra effort during budget posting crunch time will save lots of budget issues and staff time during the rest of the year.*

Hopefully your organization prepared the FY 2018-19 Budget using the budget "module" in your accounting system, posting the new budget will only take a few minutes. Even the most basic budget module that comes with most municipal accounting software is 100% better than Excel for proofing the accuracy of numbers in the budget. And even most important is the corollary value of being able to "post" the new year budget directly into your accounting system rather than "manually" doing the data entry of thousands of budget accounts and descriptions. In a future CitySpeak newsletter I will discuss the value of preparing your budget using the accounting system instead of Excel.

July is also the month during which you will finish any missing charts or graphics that will be used in the printing of the new year budget document for distribution to all stakeholders. Don't ever be too busy to forget to assemble the final budget!

- **August (Reconcile Last Year's Budget):** The Finance Department is responsible for reconciling the original adopted budget from last fiscal year as compared to the final revised budget existing in the accounting system on June 30<sup>th</sup>. Any variances between the adopted and the revised budget are usually due to budget amendments approved during the twelve months of the fiscal year. This is important information that will need to be explained, and that will also be requested by the municipality's independent auditors before they issue their annual audit opinion letter.

Most Finance Departments strive to post budget amendments immediately following each Council or Board agenda. However, any budget amendments overlooked during last fiscal year can be posted retroactively back to June 30<sup>th</sup> using the staff report and budget amendment resolution approved by the Council or Board. Your auditors will appreciate it if you go through every one of the 26 or so Council agendas for last fiscal year to ensure all staff reports with budget amendments are posted to the accounting system for the adopted vs revised budget analysis.

This reconciliation of original to final revised budget is required by the independent auditors in order to prepare for either the Comprehensive Annual Financial Report (CAFR) or the general purpose financial statements.

- **September** (*Budget Carryover Staff Report*): Every year, the Finance Department coordinates with other Departments to prepare a list of unspent budget items from the prior fiscal year for carryover into the new fiscal year budget. These may be specific capital equipment or consultant services that did not get purchased.

When the budget carryover list complete (usually by August 31 when the prior fiscal year budget is closed) the Finance Department prepares a prior-year expenditure budget carryover schedule, staff report, and resolution for approval on a September Council agenda. Upon approval, the Finance Department will post the budget amendment, augmenting the new budget in the accounting system.

Remember that if last fiscal year's books are already closed and the trial balance has been submitted to the auditors for audit, you maybe can persuade the Finance Director to include carryover budget to cover invoices (immaterial ones) from last fiscal year so those last year's invoices don't take money from your new year budget. I will discuss this specific issue in a future CitySpeak newsletter.

- **October** (*Quarterly Financial Report for Q1*): The Quarterly Financial Report (QFR) for the first quarter (Q1) of the new fiscal year ending September 30<sup>th</sup> includes a budget and actual fiscal analysis which compares budget performance at Q1 in the current fiscal year with Q1 in the prior fiscal year.

The insights to be gained from the QFR are important to the City Manager as this allows him or her to identify budget errors and revenue trends and to keep the organization's budget on track for the new fiscal year. The QFR is as important to control and management of the budget as it is to "the storytelling process," which keeps all stakeholders informed and engaged in the budget process.

All municipal Departments should take an interest in reading the QFR, both for the benefit of their individual Department as it is for the benefit of their organization.

- **November** (*CIP Budget*): More municipalities are moving "off cycle" for approval of the Capital Improvement Program (CIP) Budget. The Operating Budget is adopted by June 30<sup>th</sup> and the CIP Budget is adopted in October or November. This budget work integrates the Operating and CIP spending plans for effective financial management throughout the fiscal year. A recent newspaper article in San Diego, California had an article that attempted to explain why the City's budget had gone up so much. Most people do not understand why a budget would go up by 25% in one fiscal year, however, they tried to explain that their Operating and CIP budgets are combined, and the increase was due to unspent CIP budget carried over. I will explain more about the issues caused by not separating out the operating from the CIP budget expenditures in a future CitySpeak newsletter article.

- **December** (*Next Year's Budget Calendar*): December is a slow month for most Departments; however, the Finance Department uses any available down time in December to get a head start on the Q2 QFR, which serves as the Mid-Year Budget report. This is a good time for operating Departments with their New Year Budget folders to get copies of budget items that came up during July to December, and get a head start with the Finance Department for next year's budget Kickoff meeting.

This time is also ideal to plan and prepare the Budget Calendar for the following fiscal year's "budget dance" which begins in January. Together with the executive management team, the Finance Director gathers valuable information from all stakeholders to help the City Manager or other chief executive, to get a primer on what next year looks like.

Finally, the executive management team establishes the game plan and budget instructions which will be distributed at the next Budget Kickoff meeting in January.

- **January** (*Mid-Year Budget*): January is the month where the last six months of the new year budget is analyzed and the next year's spending plan is launched during the Budget Kickoff meeting. The **Mid-Year Budget is a meaty subject** that I would prefer to discuss at length in a future CitySpeak newsletter article, but for now, be aware that January is a key milestone in the ongoing work required for management of the new year budget adopted on June 30<sup>th</sup>. If the Mid-Year Budget analysis, staff report, and presentation is not given to the City Council or Board by February, it becomes less of an opportunity for proactive planning and more of a budget clean up report. Thus, **get your Mid-Year Budget report done in January and get it to the City Council or Board by February latest!**

Clearly, there is little respite from budget work for the municipal Finance Department and the budget staff from other Departments.

The new budget may be adopted on June 30<sup>th</sup>, but budget activities continue on through the next six months of the year through Mid-Year Budget, and blends into the budget model of the following fiscal year that begins next July 1. Thus, Finance Directors and other budget preparers are obviously no strangers to the year-long budget work schedule.

Rather than feeling burdened by the perennial budget work, though, budget preparers consider this budget work schedule an opportunity to keep "telling the story" of the organization's finances. Budget preparers are storytellers too; we just tell our stories with numbers.

Through the integration of the organization's budget and business plans, the municipal finance officer is the key member of the executive management team upon whom the organization depends to ensure long-term fiscal sustainability. However, budgeting is a team effort that requires the ongoing support and feedback of all staff involved in the preparation of the budget.

So it's actually a great thing that budget work does not end on June 30<sup>th</sup>, right?

## I LOVE YOUR FEEDBACK...

As always, please call me if you want to share your thoughts on customer service or any other subject I write about in my newsletter; I would love to talk to you about your ideas for interesting municipal topics for my future CitySpeak newsletters.

I love your feedback!

## MUNITEMPS IS HERE TO HELP...

And remember, MuniTemps is here for you should you need temporary help to fill a staff vacancy in your Department. We can help you with closing the books during the July to September audit season, or with any budget cleanup work to kick off next year's budget with a clean set of books.

As president of **MuniTemps – Municipal Staffing Solutions**, I am passionate about implementing best practices with budgeting. I have worked hard during the past 28 years, serving many Cities and Special Districts as Finance Director and can provide your municipality with tried and tested organizational solutions.

My team and I understand municipal organizations, **the budget**, the CAFR, and the nuances of municipalities in serving their communities.

I wish us all success as we work through the execution of municipal best practices and the continuous professional work ethic of serving our City organizations!



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President / CEO & Municipal Finance Officer

**MuniTemps – Municipal Staffing Solutions**

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