



Budgeting Manual for Texas Cities 2010

The annual budget is the top financial responsibility for local governments. This manual offers a wealth of resources to help cities set financial goals and develop a solid plan to



meet them. Use it to community's needs, and help you define



help you assess your priorities and challenges objectives. You can learn

how to do more with less and balance the budget.

Let it help you produce a budget that goes beyond bare numbers and acts as a barometer for your city's financial health.



Foreword

The Texas Comptroller of Public Accounts developed this manual to help Texas cities improve their budgeting processes. While each government may set up the type of system best suited for its city's needs, this document serves as a reference manual for city budget officers and others involved in developing municipal government budgets.

Designed to be a simple reference guide for officials in smaller cities and towns, the manual describes budget fundamentals, key budgeting issues, and procedures necessary to plan, complete and effectively use a city budget.

Acknowledgements

The Comptroller's office appreciates the contributions of the following individuals who contributed time and expertise to the publication of the *2010 Budget Manual for Texas Cities*. Contributors from the Comptroller's office included Ginger Lowry, Project Manager and Michelle Luera (Local Government Assistance & Economic Development), Barbara Funnell (Budget & Internal Accounting), Jennifer Paris (Fiscal Management), Gerard MacCrossan (Public Outreach & Strategies) and Michael Villanueva (Document Processing). Special thanks also goes to Bennett Sandlin (Texas Municipal League) for this review.

Table of Contents

Chapter 1 – The Budget: An Overview	1
The Process	2
Key Budget Players	3
The Budget Officer	3
The City Council	3
Department Heads	3
The Public	3
Chapter 2 – The City’s Budget System	5
Budgeting Basics	5
<i>Example 1: General Fund – Expenditures by Account</i>	<i>5</i>
<i>Example 2: General Fund – Expenditures by Account</i>	<i>6</i>
Components of a Budget	6
Funds	6
Organizational Structure	7
Revenue	7
Expenditures	7
The Budget Summary	8
<i>Exhibit 1: Sample Line – Item Budget – Budget Summary</i>	<i>8</i>
The Revenue Summary	10
<i>Exhibit 2: Sample Line-Item Budget – Revenue Summary</i>	<i>10</i>
The Departmental Expenditure Summary	11
<i>Exhibit 3: Sample Line – Item Budget – Department Expenditure Summary</i>	<i>12</i>
The Departmental Budget	13
<i>Exhibit 4: Sample Line – Item Budget – Department Budget*</i>	<i>13</i>
The Schedule of Outstanding Bonded Debt	14
<i>Exhibit 5: Sample Line – Item Budget – Schedule of Outstanding Bonded Debt</i>	<i>15</i>
<i>Payments Due During Next Fiscal Year**</i>	<i>15</i>
The Schedule of Capital Outlays by Department	15
<i>Exhibit 6: Sample Line – Item Budget – Schedule of Capital Outlays by Department</i>	<i>16</i>
Chapter 3 – The Budget Preparation Process	17
Goals and Objectives	17
Assessing Community Needs	17
The Administrative Plan	17
<i>Exhibit 7: Components of an Administrative Plan</i>	<i>18</i>
Budget Calendar	19
<i>Exhibit 8: Sample Budget Calendar*</i>	<i>20</i>
Estimating Revenue	20

Chapter 4 – Departmental Requests	21
Budget Information Packet	21
Budget Policy Statement	21
<i>Exhibit 9: Sample Budget Policy Statement</i>	<i>22</i>
<i>General Budget Policy</i>	<i>22</i>
<i>Public Safety</i>	<i>23</i>
<i>Public Works</i>	<i>23</i>
<i>Water and Wastewater Utilities</i>	<i>23</i>
<i>Conclusion</i>	<i>23</i>
Departmental Request Forms	24
<i>Departmental Workload Form</i>	<i>24</i>
<i>Departmental Budget Request Form</i>	<i>24</i>
<i>Departmental Personnel Request Form</i>	<i>24</i>
<i>Departmental Change-In-Service Form</i>	<i>24</i>
<i>Departmental Capital Outlay Form</i>	<i>24</i>
<i>Exhibit 10: Departmental Budget Request Form</i>	<i>25</i>
<i>Exhibit 11: Summary Departmental Budget Request Form</i>	<i>26</i>
<i>Exhibit 12: Departmental Personnel Request Form</i>	<i>28</i>
<i>Exhibit 13: Departmental Change-in-Service Form</i>	<i>29</i>
<i>Exhibit 14: Capital Outlay Form</i>	<i>30</i>
Review of Departmental Requests	31
Chapter 5 – Forecasting/Estimating Revenues	33
The Local Economy	33
Determining the Ending Balance for the Current Fiscal Year	34
Estimating Known Expenditures for the Next Fiscal Year	34
Estimating Revenue and Revenue Sources for the Next Fiscal Year	35
Historical Revenue Trends	35
Revenue Sources	35
<i>Exhibit 15: Revenue Sources</i>	<i>36</i>
Property Tax	36
<i>Exhibit 16: Estimating Property Tax Revenue</i>	<i>37</i>
<i>Estimating Total Annual Property Taxes</i>	<i>37</i>
<i>Estimating Property Tax Receipts for the Next Fiscal Year</i>	<i>38</i>
<i>Delinquent Taxes</i>	<i>38</i>
<i>Penalties and Interest</i>	<i>38</i>
City Sales and Use Tax	38
Interest Income	39
Other Revenue Sources	39
Estimating Revenues by Trend Analysis	40
<i>Exhibit 17: Projected Revenue Sample</i>	<i>41</i>
Revenue Estimate Worksheet	42
<i>Exhibit 18: Revenue Estimate Form</i>	<i>43</i>
<i>Explanation of Revenue Estimate Form</i>	<i>43</i>
Chapter 6 – City Council Action on the Budget	45
The Budget Message	46
<i>Exhibit 19: Sample Budget Message</i>	<i>47</i>
Budget and Supporting Data	48

Budget and Other Ordinances 48

Budget Ordinance 49

Exhibit 20: Sample Ordinance Adopting the Budget. 50

Property Tax Levy 51

Exhibit 21: Sample Ordinance Setting Tax Rate. 52

Notice of Public Tax Rate Hearing 53

Exhibit 22: Notice of Public Hearing on Tax Increase.* 54

Notice of Vote on Tax Revenue Increase 55

Exhibit 23: Notice of Vote on Tax Rate.* 56

Final Budget Requirements. 57

Chapter 7 – Operating with the Budget 59

 Budgetary Control 59

 Encumbrance Accounting/Reporting Control 59

 Amending the Budget 60

 Budgeting for Surpluses and Contingencies 61

 Disposition of Budget Balances. 61

 Budget Balancing Techniques: How to Do More with Less. 61

Appendix A – Local Government Code: Municipal Budget 63

Appendix B – Tax Code: Assessment 67

Appendix C – Alternative Methods of Budgeting 73

Appendix D – Explanation of Budget and Accounting Categories and Terms . . 77

CHAPTER 1

The Budget: An Overview

An annual budget is the single most important financial responsibility of a local government. The Local Government Code, Chapter 102, requires Texas cities to adopt an annual budget. Chapter 102 applies to all general law cities. A general law city is incorporated under the general-laws of Texas. The provisions of Chapter 102 also legally bind home rule cities, but a city charter can impose additional requirements. A city is a home-rule municipality if it operates under a charter adopted or amended by its citizens under provisions of the Texas Constitution. Texas has 1,200 incorporated cities.¹ Of these municipalities, about 75 percent operate under the classification of general law cities, and the remaining 25 percent operate as home rule cities. Some 75 percent of all incorporated cities have populations of less than 5,000 people.

As required by statute,² a budget should:

- set goals and formulate a plan to achieve them;
- establish priorities in the selection of city programs to help achieve those goals;
- determine the level of taxation necessary to finance city programs;
- estimate the city's income and expenditures;
- serve as a control tool for using the city's resources;
- provide the public a written document, which plainly describes activities and expenditures that will be undertaken during the next fiscal year;
- serve as a short- and long-term planning tool; and
- serve as a day-to-day operations guide.

The budget is the proof that city officials and staff are accountable for how they spend taxpayers' dollars. City government officials must determine how they can best serve the interests of the city's citizens while maintaining fiscal accountability. A reliable system of budgetary controls can help them accomplish this task.

Once the budget is adopted, it can be used to measure the city's expected performance. The budget provides a framework to determine the number of employees, departmental organizations and other factors that affect the day-to-day operations of local governments.

After adopting a budget, city officials may only spend funds that comply with the budget, except in an emergency. The published adopted budget reports to the public whether the city's resources are being used in line with the city's adopted goals and objectives.

City officials must ensure the budget document effectively communicates to all concerned its important role as a legal and financial control tool. The budget document should serve as a forecasting tool for the future, while revealing the current status of the city's long-term plan.

The budgeting process in every Texas city, regardless of size, must comply with Chapter 102 of the Texas Local Government Code (**Appendix A**). The law requires cities to observe the following regulations:

- the city's budget officer must prepare a proposed budget for the city council's consideration;

- the city council must adopt an annual budget and conduct the financial affairs of the city in strict conformance with that budget;
- the budget for each fiscal year must be adopted before the first day of the fiscal year;
- the budget must include all expenditures proposed for the next fiscal year and compare the proposed expenditures with expenditures for the current and previous fiscal years; and
- the budget must contain a complete financial statement of the municipality, which includes the outstanding obligations of the municipality, the cash on hand to the credit of each fund, the total revenue received from all sources during the previous fiscal year, the estimated revenue for the current fiscal year, projected revenue for the next fiscal year, and the estimated tax rate required to provide for the proposed budget.

In addition to satisfying state law and sound financial management principles, a city's budget can be used to secure federal and state financial aid. Grant assistance programs require cities to keep their financial records in a manner that will permit easy identification of expenditures involving grant funds. In such cases, the city must either maintain separate grant ledgers in the accounting system or establish an integrated budgeting system that distinguishes between grant funds and locally derived funds. An accurate and clearly defined budget may help obtain additional grant funds.

The Process

While many individuals are involved in developing a budget — including elected officials, department heads and the public — the primary responsibility belongs to the budget officer. The mayor serves as the budget officer, except in a city with a city manager form of government, in which case the city manager is the budget officer.

In home rule cities, city charters may specify the budget officer as someone other than the mayor or the city manager. In practice, the details of budget preparation are often delegated to the city clerk or secretary, the city finance officer or a committee of the city council, with overall responsibility remaining with the budget officer.³

Each year, the budget officer prepares a municipal budget to cover the proposed expenditures for the upcoming year. As stated above, the budget must be adopted before the first day of the designated fiscal year. Most Texas cities use a fiscal year that begins Oct. 1. In these cities, the budget should be adopted by Sept. 30.

If the fiscal year starts on Jan. 1, then the budget must be adopted by Dec. 31 of the previous year. The Texas Tax Code requires cities that levy a property tax to approve their budgets by Sept. 30 regardless of the date their fiscal year starts (**Appendix B**).

The council could conceivably approve a budget after the Sept. 30 date. If the city council does not adopt a tax rate before the required date, however, the city's tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the city for the preceding tax year.

The budget officer submits a preliminary budget to the city council and files the proposed budget with the municipal clerk. This document must be available for public inspection. If a city maintains an Internet site, the municipal clerk must ensure the preliminary budget is posted on the website. The city council reviews the proposals, makes any desired changes and then sets a date for the required public hearing. After the public hearing is conducted and final modifications are made, the budget is adopted by the city council by means of an ordinance.

The budget officer then files a copy of the approved document in the office of the municipal clerk. If the city maintains an Internet site, a copy of approved budget must be posted on the website.

Key Budget Players

Although many people are involved in developing a budget, four are profiled in this section: the budget officer, the city council, department heads and the public.

The Budget Officer

It is the budget officer's responsibility to prepare the proposed budget.⁴ It is essential that the city council and all department heads know who is the budget officer. Although practices vary, the budget officer is usually responsible for conducting the budget planning process, communicating timelines, preparing and assisting with budget forms, making revenue forecasts, and collecting the financial information necessary to compile the budget. With the help of other officials, the budget officer gathers estimated revenue data and proposed expenditures, prepares a preliminary budget, and presents it to the city council for final review.

When the budget officer files the budget proposal with the municipal clerk, each council member receives a copy. From this point on, the budget becomes the responsibility of the city council.

The City Council

The city council must ensure the process and budget are legal. This includes publishing a notice for a public hearing and conducting the public hearing on the proposed budget.

The city council often writes a statement of its budget policy. This policy statement is usually developed at a council workshop session in which members outline their objectives and priorities for the coming year. The city should make sure that notices for workshops are posted in accordance with the Texas Open Meetings Act. The workshop session is open to the public.

The city council may wish to adopt a written policy that clearly outlines the following points:

- the financial outlook for the city for the next fiscal year and a description of major factors that will contribute to that outlook;
- an itemization of known budget priorities for the next fiscal year; and
- a description of the guidelines the city council will require department heads to follow in preparing their budget requests for the next fiscal year.

This statement should be distributed to all department heads and others who will participate in the preparation of the budget for the next fiscal year. It can also serve to inform the public of the city council's goals.

Department Heads

The budget officer works closely with city officials and the heads of departments to determine the expenditures necessary to provide programs and services and to estimate the necessary revenue. This process should include the completion and submittal of departmental requests for budget items, salary actions, and requests for equipment and supplies. Department heads also operate as channels for cost-cutting ideas from staff members.

The Public

State law mandates that a city council must hold a hearing to provide the public an opportunity to comment on the proposed budget. In addition to the published notice in at least one newspaper of general circulation in the county in which the city is located, the Texas Open Meetings Act requires the agenda for all meetings to be posted at City Hall — showing the date, time, place,

the items to be discussed and the action that may be taken. The agenda also must show the items to be discussed or to be acted on by the council.

The Local Government Code requires that the city “take action on the proposed budget” at the conclusion of the public hearing.⁵ This does not mean that it must adopt or reject a budget at that time. If proposed changes are minor, at the conclusion of the public hearing, the council can amend the proposed budget as appropriate and adopt the final budget as revised.

If the city council wishes to make substantial changes to reflect the requests made at the public hearing, it could postpone a vote on the budget until it has time to consider those requests. The courts have ruled that a city may “recess” a meeting for no more than one day without posting a notice as required by the Texas Open Meetings law.⁶ A delay for more than a day would require a new notice to be posted in accordance with the Texas Open Meetings Act. Delaying the adoption for a reasonable time, such as a week, gives the council time to consider the impact of any changes proposed and sends a message to the community that its input is valued. The city council could then adopt the budget at its next meeting.

Taxpayers place their trust in local elected officials, and they have a right to see the budget documents, including a detailed summary of all revenue and expense items. During the public hearing, citizens are encouraged to express their views and concerns about the budget.

Citizens also may express their opinions on community matters by visiting with council members. Contact with council members throughout the year helps the public to be informed and can influence budget decisions.

At times, the city council may find the priorities and concerns of the citizens have shifted. For example, with an increase in population, the public may be concerned with traffic congestion and highway improvements. Other cities may find the public is interested in environmental concerns or affordable housing.

Endnotes

¹ This number changes from time to time as new cities are incorporated.

² V.T.C.A., Local Government Code §102.

³ The official term used to describe the governing body varies. It may be referred to as the city council, the board of aldermen or the board of commissioners. In this manual the term “city council” is used to refer to all forms of city governing bodies.

⁴ V.T.C.A., Local Government Code §102.002.

⁵ V.T.C.A., Local Government Code §102.007.

⁶ See *Rivera v. City of Laredo*, 948 S.W.2d 787 (Tex. App. – San Antonio 1997), writ denied.

CHAPTER 2

The City's Budget System

The type of budget system used by a city is up to the city council. Almost without exception, smaller cities use line-item budgets. These budgets list, line by line, the various items — such as salaries, materials and supplies — for which the city plans to spend money during the upcoming fiscal year.

Over the years, a variety of innovative budgeting techniques have been introduced, each of them hailed as “the answer” to the deficiencies of traditional budget systems. Program budgeting, performance budgeting, zero-based budgeting and other types of systems have been suggested as replacements for the conventional line-item budget (**Appendix C**). The Government Finance Officers Association (GFOA) offers a broad range of services, programs and publications to help state and local government officials with budgeting and financial planning. *Governmental Accounting, Auditing and Financial Reporting*, a GFOA publication, offers specific guidance on budgetary accounting and reporting.¹

Although the focus of this manual is the annual operating budget, there are many different types of budgets. There are long-term budgets, capital budgets, project budgets and others. The current portion of each of these affects the annual operating budget.

Some of these budgets require staff time and technical expertise beyond the scope of a typical small city. Consequently, after examining the alternatives, the tendency is to adopt the traditional line-item budget, although there is no requirement for a city to adopt this type of budget. If properly administered, the line-item budget permits the chief executive officer and the city council to exercise close control over budget dollars.

Budgeting Basics

Generally accepted budgeting standards require a city budget to be integrated into the city's accounting system. For this to take place, the accounting system must be designed to provide ongoing and up-to-date information on budgeted revenues, expenditures and encumbrances, as well as balances of unrealized revenue and unspent and unencumbered appropriations. Appendix D lists example of definitions that a city may use for revenue and expenditure classifications. These are only examples; cities may establish their own definitions.

It is crucial that the items, objects and classifications in the budget correspond to the line items in the accounting system. Budgetary accounts report estimated amounts and differ from actual accounts, which report actual revenue, expenditures, assets, liabilities and fund equity amounts. Budgetary accounts are used to record the legally adopted annual operating budget. These accounts are recorded in the general ledger to facilitate control over governmental revenue and expenditures during the year. The following example illustrates this distinction and comparison between budgeted amounts and actual expenditures.

Example 1: General Fund – Expenditures by Account

Account Number	Account Name	Budget Amount	Actual Expenditure
110	Full-time Employees	\$6,400	\$5,600
120	Part-time Employees	\$500	\$600
200	Fringe Benefits	\$1,200	\$1,720

By using the same account numbers, a comparison can easily be made between what has been budgeted and spent, as well as a system of controls can be established that prevent spending that exceeds the budget.

To ensure adequate budgetary controls, the budget should be structured according to a chart of accounts used by the city's accounting system. Since the budget is a planning document, it does not always include all of the detailed information encompassed by the accounting system. For instance, the budget may show the total cost of city employee salaries and benefits, while the accounting system shows employee-by-employee cost breakdowns, including wages, overtime pay, retirement contributions, income tax and social security deductions, and insurance premiums paid. The following illustration sets out this concept.

Example 2: General Fund – Expenditures by Account

Account Number	Account Name	Budget Amount	Actual Expenditure
110	Full-time Employees		
110-1	City Manager		\$3,000
110-2	Finance Officer		2,100
110-3	Receptionist		500
110-9	Total Full-time Employees	\$6,400	5,600
120	Part-time Employees		
120-1	Police Officers		\$300
120-2	Meter Readers		200
120-9	Total Part-time Employees	\$600	500
200	Fringe Benefits		
210	Social Security		\$720
230	Group Health Insurance		1,000
299	Total Fringe Benefits	\$1,200	1,720

Components of a Budget

Budgets are built around four components: funds, organizational structure, revenue and expenditures.

Funds

A fund is an accounting device used to segregate city's earned revenue accountability purposes. A fund can be thought of as a bank account into which revenue is deposited and from which expenditures for a specific purpose are withdrawn. A local government can have an unlimited number of funds, but to be most effective, it should use the smallest number necessary to account for its operations.

Following are some of the categories of funds recognized by generally accepted accounting principles (GAAP) for municipalities.

The **general fund**, which is the chief operating fund of the city, accounts for all financial resources and expenditures that are not covered in one of the other funds.

Special revenue funds are used to account for revenue that is earmarked by law or by city policy for specific purposes. For example, hotel-motel tax receipts must be earmarked for tourism or other designated projects. Many state and federal grants are funded for specific purposes and are accounted for in special revenue funds. The exception is capital grants, which are not special revenue funds and should be classified as capital projects funds.

Capital projects funds account for all financial resources and expenditures for the acquisition or construction of major capital facilities.

Debt service funds account for money set aside to pay the principal and interest on long-term debt.

Enterprise funds are used to account for a city's business activities that receive a major portion of their funding from user charges.

Internal service funds are used to account for revenue and expenses for services rendered by one city department to another. For example, revenue and expenses for a print shop or vehicle maintenance facility that serves other city departments would be classified as internal service funds.

Enterprise and Internal service funds are also sometimes referred to as **proprietary funds**.

Fiduciary funds account for money that the city collects on behalf of other parties. There are two types of these funds. **Trust funds** account for money that the city holds for the benefit of others, such as employee pension funds. **Agency funds** are used to account for money that the city collects as an agent for another entity. Court costs and fees that municipal courts collect for the state are agency funds.

In earlier years, GAAP recognized special assessment funds, but this category has been eliminated. Street assessment paving funds can be accounted for in special revenue funds.

Capital assets such as land, buildings, equipment, construction and other improvements such as water lines and sewage systems are non-financial and are not reported in individual government funds. They are reported as separate account groups or in a fixed-assets register. These groups do not account for money and usually do not appear in the city budget document.²

Capital assets accounts record the capital assets of the city with the exception of those included in proprietary or trust funds. The general long-term debt accounts record the amount of long-term debt of the city, excluding proprietary and trust funds.

Each city's accounting system must be capable of preparing a budget report for each fund, plus a consolidated statement encompassing all funds. The beginning balance in each fund represents funds left over from the prior fiscal year. The ending balance represents money that the city expects to have at the end of the year. Some of this unencumbered fund balance may represent various reserve amounts or funds held for contingencies.

Organizational Structure

Before beginning the budget process, the organizational structure of the city must be determined. Smaller municipalities may group all general fund expenditures into one account, while larger cities may establish a number of accounts. Cities may group a number of related activities into a department. For example, the public works department may include street maintenance, storm drainage and streetlights. The public safety department may include fire, police and animal control. The key is to select the organizational structure and accounting system that best suits the city.

Revenue

The revenue structure of the budget follows the revenue system that the city has defined in its accounting system. Revenue should be budgeted on a net basis, which means total collections, less allowance for early payment discounts, etc. Major revenue classifications should include property taxes, sales taxes, and other taxes. Other revenue classifications may include franchise fees, investments, grants, fines and forfeitures and utility charges. Some sources of revenue, like grants, are limited to certain expenses.

Expenditures

At a minimum, expenditure classifications should include categories for personnel services, benefits, contracted services, operating expenses, supplies, capital outlay, and debt service payments. Operating expenses include rentals and leases. Equipment or structures, including roads and bridges, are

classified as capital outlay. More detailed information may be included in the accounting system. For example, personnel services can be separated into accounts for salaries, hourly wages and fringe benefits. Short- or long-term debt service payments should be calculated as budget expenditures. While they do not need to be classified by department, each bond issue or debt must be listed separately.

The Budget Summary

The budget summary should detail each department's expenses. By glancing at the summary, the reader can gain a quick understanding of the overall city budget picture for the next fiscal year, including anticipated revenue, sources of revenue, necessary/obligated expenses, and expenditure proposals. The budget officer should group all of the detailed revenue and expenditure data into summary accounts (**Exhibit 1**).

Exhibit 1: Sample Line – Item Budget – Budget Summary

City of Great Expectations – Fiscal 2010–11 Budget Summary

	General Fund	Water Fund	Wastewater Fund	Total All Funds
Beginning Balance	\$	\$	\$	\$
REVENUES				
Taxes				
Property Taxes	\$	\$	\$	\$
Sales Taxes	\$	\$	\$	\$
Other Taxes	\$	\$	\$	\$
Franchise Fees	\$	\$	\$	\$
Charges for Services	\$	\$	\$	\$
Licenses & Permits	\$	\$	\$	\$
Fines & Forfeitures	\$	\$	\$	\$
Contracts with Agencies	\$	\$	\$	\$
Contributions from Individuals	\$	\$	\$	\$
Interest Income	\$	\$	\$	\$
Water User Fees	\$	\$	\$	\$
Wastewater User Fees	\$	\$	\$	\$
Wastewater Tap Fees	\$	\$	\$	\$
Other Revenue	\$	\$	\$	\$
Miscellaneous	\$	\$	\$	\$
Total Revenues	\$	\$	\$	\$
Total Available*	\$	\$	\$	\$
EXPENDITURES				
Personnel Services	\$	\$	\$	\$
Supplies	\$	\$	\$	\$
Benefits				
Operating Expense				
Contracted Services	\$	\$	\$	\$
Capital Outlay	\$	\$	\$	\$
Debt Service Payments	\$	\$	\$	\$
Total Expenditures	\$	\$	\$	\$
Contingency Allocation**	\$	\$	\$	\$
Ending Balance	\$	\$	\$	\$

* Total Available equals Revenues plus Beginning Balance.

** While some advocate the use of the Contingency Allocation as the Ending Balance, it is preferable to use the Ending Balance in addition to the Contingency Allocation that is available for minor emergencies or cost overruns that may arise during the course of the year. The Ending Balance should not be viewed as a surplus.

The number of funds varies according to the complexity of the city's operations, but the general fund should always be included. If the city operates a utility such as water and wastewater, then separate water and wastewater funds should be maintained. When a municipality operates an electric or gas system, separate funds should be set up for each system. Each fund should include a beginning balance, which is the amount of money minus outstanding encumbrances left over from the previous fiscal year.

Various sources of revenue to be collected during the course of the fiscal year are included. A list of other common sources of revenue follows.

- **Property Tax.** All property tax revenues, including delinquent tax payments, penalties and interest.
- **City Sales Tax.** Receipts from the local sales and use tax were originally established at 1 percent. The city may, however, elect to levy an additional amount to reduce property taxes, for a special purpose district, for economic development purposes, street maintenance, and other purposes. The combined local sales tax rate for all purposes cannot exceed 2 percent.
- **Other Taxes.** Revenue from hotel-motel occupation tax and mixed beverage tax receipts among others.
- **Franchise Fees.** Revenues from fees imposed on investor-owned electric or gas utilities, telecommunication, cable, taxicab companies and other private corporations using the city's streets and other rights-of-way. These fees are in addition to and separate from the property taxes levied against such companies.
- **License and Permit Fees.** Revenue generated from building permits and animal licenses among others.
- **Fines and Forfeitures.** Funds received from payments of traffic fines and other fines for violations of city laws or ordinances.
- **Interest on Investments.** Income from interest paid on deposits of idle city funds.
- **Rentals.** Receipts realized from rental of city-owned buildings, land or other city resources.
- **Intergovernmental Revenue.** State and federal grant funds and payments that provide city services to the county, school districts and other jurisdictions.
- **Utility Charges.** Service charges paid by customers to various utility providers.
- **Other Revenue.** Miscellaneous revenue.

The summary should include the total estimated revenue that will be collected during the fiscal year or carried forward from the previous year.

Another section lists budgeted expenditures by classification. The expenditure classes could include the following:

- **Personnel Services.** The cost of salaries, wages and fringe benefits for city employees.
- **Benefits.** Employee health insurance payments, unemployment compensation benefits, and workers' compensation benefit payments.
- **Operating Expenses.** Items such as utilities and telecommunication charges, motor vehicle rentals and leases, and printing and reproduction costs.
- **Supplies.** The cost of fuel, tires, office supplies, small items of equipment, tools and clothing.
- **Contracted Services.** Travel, office space rentals, purchased utilities, and professional services provided by attorneys, consulting engineers, architects, accountants, and other outside firms on a contractual basis. This category should not be confused with purchases of supplies and equipment for which the city enters into contracts on a competitive bid basis.

- **Capital Outlays.** The cost of major equipment, vehicles and other items, which have a useful life of several years.
- **Debt service.** Payments of principal and interest on general obligation (tax) bonds, revenue bonds, certificates of obligation and other debts that could be incurred by the city. Lease purchase payments that represent obligations only for the budget year should be included in the account, which is appropriate for the item being leased.

The total appropriation line, which represents total expenditures authorized, is toward the bottom of the Budget Summary form. This amount represents funds the city council has appropriated for the fiscal year.

An amount set aside for a “rainy day” — such as emergencies and other contingencies — is designated as a contingency allocation. To spend any money set aside in the contingency allocation, the council should adopt an amendment to the budget.

The ending balance becomes the beginning balance for the next year’s budget calculations.

The Revenue Summary

The revenue summary lists all revenue funds available to the city. It includes a column for funds that were collected during the previous year as well as columns for funds that are budgeted for collection during the current fiscal year and funds projected to be collected during the current fiscal year. A fourth column summarizes funds that are proposed to be collected during the next fiscal year (**Exhibit 2**).

Exhibit 2: Sample Line-Item Budget – Revenue Summary

City of Great Expectations – Fiscal 2010–11 Revenue Summary

	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
General Fund Revenues				
Taxes				
Property Taxes	\$	\$	\$	\$
Sales Taxes	\$	\$	\$	\$
Other Taxes	\$	\$	\$	\$
Franchise Fees	\$	\$	\$	\$
Charges for Services	\$	\$	\$	\$
Licenses & Permits	\$	\$	\$	\$
Fines & Forfeitures	\$	\$	\$	\$
Contracts with Agencies	\$	\$	\$	\$
Grants	\$	\$	\$	\$
Interest Income	\$	\$	\$	\$
Other	\$	\$	\$	\$
Subtotal	\$	\$	\$	\$
Water Fund Revenues	\$	\$	\$	\$
Water User Fees	\$	\$	\$	\$
Water Tap Fees	\$	\$	\$	\$

Exhibit 2 (cont.)

	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
Other	\$	\$	\$	\$
Subtotal	\$	\$	\$	\$
Wastewater Fund Revenues				
Wastewater User Fees	\$	\$	\$	\$
Wastewater Tap Fees	\$	\$	\$	\$
Other	\$	\$	\$	\$
Subtotal	\$	\$	\$	\$
Miscellaneous Revenues	\$	\$	\$	\$
Grand Total Revenues	\$	\$	\$	\$

A glance at the revenue summary form offers the reader a ready understanding of the city's current revenue picture, revenue trends over three years (previous, current and upcoming fiscal years) and any indication of problems collecting revenue.

It should be noted that the revenue sources listed in the left-hand column of the revenue summary are classified exactly the same as revenue sources in the budget summary. Using the same classifications throughout the budget is essential for consistency and clarity.

Budget preparation for the next fiscal year generally begins six months before the end of the current fiscal year. To project revenue the city expects to collect during the current fiscal year, the budget officer determines collections to date and adds to this figure the amount the city can reasonably expect to collect during the remaining months of the current fiscal year. For revenue estimating purposes, the later the city waits to estimate revenue the more accurate the figures will be for projecting next year's revenue. As a practical matter, however, the city should not delay beyond the reasonable time needed for adequate budget preparation.

The Departmental Expenditure Summary

The departmental expenditure summary provides the information necessary to compare total departmental budgets for the prior year, the current year and the budget year (**Exhibit 3**). The reader can tell at a glance which departments have increased or decreased overall spending. Presentation of this information provides the reader a basis for determining which departments deserve careful consideration because of increased or decreased expenditures. It also provides a useful comparison between budgeted and actual expenditures for the current year.

Exhibit 3: Sample Line – Item Budget – Department Expenditure Summary

City of Great Expectations – Fiscal 2010–11 Department Expenditure Summary

	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
Department				
General Government	\$	\$	\$	\$
Public Safety	\$	\$	\$	\$
Sanitation	\$	\$	\$	\$
Health and Welfare	\$	\$	\$	\$
Streets	\$	\$	\$	\$
Culture & Recreation	\$	\$	\$	\$
Water	\$	\$	\$	\$
Wastewater	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
Other	\$	\$	\$	\$
Total Expenditures	\$	\$	\$	\$
Contingency Appropriation	\$	\$	\$	\$
Grand Total of Expenditures	\$	\$	\$	\$

The Departmental Budget

A separate departmental budget is prepared for each city department, including the solid waste department, street department, police department, water and wastewater (sewer) department, and others. The city should budget for each expenditure group classification that is reported separately in the accounting records (**Exhibit 4**). The expenditures of each department are listed to show actual expenditures of the department or activity during the previous fiscal year, budgeted expenditures for the current fiscal year, projected actual expenditures for the current fiscal year, and budgeted expenditures for the next fiscal year.

By using uniform expenditure classifications in the budget for each department, corresponding items in all of the departmental budgets can be added together to arrive at expenditure totals in the budget summary. The expenditure classifications will be drawn from the city's accounting system.

Spaces are provided at the bottom of the departmental budget form for a description of the functions of the department and its accomplishments during the year. Space is also provided for a description of changes the department head proposes to implement during the next fiscal year and the specific ways those changes will improve the services provided by the department.

Exhibit 4 : Sample Line – Item Budget – Department Budget*

City of Great Expectations – Fiscal 2010-11 Department Budget

Department: _____ Fund: _____

Expenditure Classification	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
Personnel Services	\$	\$	\$	\$
Benefits	\$	\$	\$	\$
Operating Expenses	\$	\$	\$	\$
Supplies	\$	\$	\$	\$
Contracted Services	\$	\$	\$	\$
Capital Outlay	\$	\$	\$	\$
Debt Service Payments				
Total Expenditures	\$	\$	\$	\$

Describe the department's functions and responsibilities:

Describe accomplishments during the year and major changes or improvements that will be made during the next fiscal year:

**On this form, and others if needed, describe the functions and responsibilities of this department. This description should be brief, but as complete as possible, with an explanation of the services to be provided under this account. The description should show details, depending upon the department being described, such as gallons of water treated and delivered to customers, number of water main breaks or leaks repaired, feet of new water lines to be installed, tons of refuse picked up and disposed, blocks of streets to be resurfaced, blocks or miles of streets to be swept, number of responses to fire calls, number of accidents investigated, traffic tickets issued, number of incidents investigated, etc.*

In addition, there should be a summary of major changes or improvements that will be made in each department during the next fiscal year. Explain how this will affect the public. This information should be provided in addition to the Departmental Change-In-Service Form shown in Exhibit 13.

Following this summary page will be a detailed listing of the various items budgeted under each of the classifications. A sample detailed listing of the Departmental Expenditure Budget is shown in Exhibit 3.

The Schedule of Outstanding Bonded Debt

The schedule of outstanding bonded debt lists each of the city's long-term debts, including general obligation bonds, revenue bonds, leases, etc. The schedule should include a description of the debt issued and the purposes for which the debt was issued; the issue and maturity dates; the amounts outstanding at the end of the current fiscal year (this is the same amount that will be outstanding at the beginning of the first day of the upcoming fiscal year); the amounts of principal and interest payments that must be made during the upcoming fiscal year; and total cost of debt retirement (**Exhibit 5**).

Many budget officers will show the amount of principal and interest that will be required not only for the upcoming fiscal year, but also for each succeeding fiscal year until the bonds are retired. This information is important to the city's long-range financial planning.

Funding capital assets and projects can be provided through debt, capital leases, grants, donations, taxes or budgeting capital funds. The latter method is akin to setting aside money for a car each month so that there is sufficient money in that account to buy the car when it is needed. This capital budgeting technique can be used for funding multiple projects through a capital fund, and it spreads the cost of assets over a period of years. Purchasing long-term assets through the use of debt also spreads the cost over many years but adds interest to the cost. The alternative is to make the current taxpayers, ratepayers or users foot the entire bill for long-term assets in the current year or consider the city might lease or purchase agreements.

Although each method of funding capital assets has its merits and pitfalls, a city should be particularly cautious about issuing too much debt. The danger is that debt could outlast the asset itself. This could leave the next council with the prospect of paying for the old asset while at the same time paying to replace it. Taxpayers in future years would be paying for an asset that was used by previous taxpayers. In either case, a city should have a long-term capital plan to develop its annual budget properly. Determining the best way to pay for projects is a local decision that should be based on reasonable long-term economic expectations rather than short-term political expediency.

CHAPTER 3

The Budget Preparation Process

Preparing a budget requires:

- establishing a set of goals and objectives to guide decision-making;
- assessing community needs, priorities, challenges and opportunities;
- providing an administrative plan of who does what;
- creating a budget calendar to specify when each task is to be done;
- accurately estimating revenue expected during the coming year; and
- understanding of each cash flow on the anticipated revenues.

Goals and Objectives

The first step in budgeting is to establish the city's goals and objectives for the coming year. They must be tailored to fit the individual community and clearly conveyed to the staff and budget officer.

Some of the questions that could be addressed include:

- Does the city need a new infrastructure, such as a computer system?
- Does the city need to make major improvements to maintain streets and bridges?
- Where does the city need to strengthen programs and services?
- Does city hall need to be reroofed?
- What needs immediate attention, and what can wait?

Assessing Community Needs

Cities must assess and regularly reexamine their needs and priorities to adjust to changing conditions. It is important for a city to spend time planning and evaluating its procedures, personnel needs and priorities. The budget officer will be required to estimate revenue and expenditures to provide information about meeting the costs of all programs and services.

The Administrative Plan

The administrative plan describes the various steps involved in the budget process and the persons to whom these responsibilities are assigned (**Exhibit 7**). It is a statement of policy usually adopted by the city council in the form of a resolution. It documents the actions that must be completed in the course of the budget preparation process and the sequence of these actions. It also designates the city officials responsible for each action. A sound administrative plan is essential to ensure orderliness and accountability in the budget process.

Exhibit 7: Components of an Administrative Plan

(This chart is for illustration purpose only. Steps and responsibilities may differ with each city.)

City of Great Expectations – Budget Administrative Plan

Step	Responsible party	Additional notes
1. Budget officer begins budget preparation process.	Budget officer (The mayor, or the city manager if the city has a city manager form of government, serves as the budget officer for general-law cities. In home rule cities, the budget officer is designated in the city's charter.)	The budget officer will be responsible for overseeing the complete budget process. The budget officer may require any municipal officer or board to furnish necessary information and may delegate certain tasks to other city officers or employees.
2. Prepare a budget calendar listing all steps to be taken and target dates for the budget process.	Budget officer	It is important to follow the calendar and complete each step according to the schedule. The budget officer will need to communicate with the department heads throughout the budget preparation process and to monitor all the steps.
3. Send the budget memo to all department heads.	Budget officer	The budget memo should state the governing body's mission and guidelines.
4. Prepare and distribute budget request forms and information packets to all departments.	Budget officer	Budget forms need to be completed by the department heads.
5. Meet with department heads and assist them with completion of their budget requests.	Budget officer	Most cities find that it is advisable to provide help to department staff to guide them through the budget preparation process.
6. Department heads complete and return budget request forms to the budget officer.	Department heads	Assistance should be requested as needed. It is important that department heads are involved in the budget process so they will have ownership of the final budget.
7. Prepare revenue estimates.	Budget officer	Estimating revenue is a critical step requiring accuracy.
8. Complete the proposed budget.	Budget officer and chief administrative officer	The department budget requests are reviewed and any necessary adjustments are made.
9. Send proposed budget to city council with the following support information for each fund: <ul style="list-style-type: none"> • budget message; • budget summary; • summary of revenue sources; and • summary of department expenditures. 	Chief administrative officer	It is helpful to provide a description of each department's request. Offer enough information to justify all budget requests.
10. The city council reviews the proposed budget and makes any necessary changes.	City council	This is a public meeting that should be announced as a "budget workshop." Department heads are encouraged to participate in the review process. The city council makes final decision on what is included in the budget.

Exhibit 7 (cont.)

Step	Responsible party	Additional notes
11. When the city council completes its review of the proposed budget, a notice is published for the required public hearing.	City secretary	The notice of the public hearing must be published not earlier than the 30th or later than the 10th day before the date of the hearing.
12. A public hearing is held on the proposed budget. There must be a separate public hearing held on the proposed property tax rate if the proposed tax rate exceeds the lower of the rollback rate or 103 percent of the effective tax rate.	City council and the public	The hearing(s) must be held not sooner than 16 days after the budget is filed with the city secretary. The city council should listen attentively to any suggestions from the public and may make appropriate changes to the budget.
13. The city council adopts the budget by ordinance.	City council	If the city council wishes to make changes requested at the public hearing, it could table a vote on the budget until it has time to consider those requests.
14. The adopted budget is filed with the municipal clerk and put online if the city maintains a website.	Chief administrative officer, municipal clerk	State law requires the budget to be filed on or before the first day of the fiscal year.
15. The budget is entered into the city's accounting system.	Budget or finance officer	It is imperative that the budget corresponds exactly with the accounting records.
16. Copies of the budget are distributed to department heads, city staff, news media and other interested parties who request it. In the case of a large budget document, it might be useful to include copies of the detailed summary.	City secretary, budget officer	The budget is an open record document available to all interested parties who request it. It is the public's money, and people need to know how their tax dollars are spent.

Budget Calendar

The budget calendar establishes procedural deadlines. In some cities, the budget officer receives all of the budget requests from the department heads and submits them essentially unchanged to the city council for its action. In other cities, the budget officer assembles the departments' budget requests and uses them to prepare a preliminary budget. This proposed budget will be given to the city council for review and revision.

Regardless of the person designated to serve as the budget officer, a clearly defined framework should be established to ensure the city council and all department heads know who is responsible for each function. Moreover, the city council should adopt a written policy for the budget officer that clearly outlines the city's goals and objectives for the coming year.

The budget calendar lists the steps and suggested timelines for completion of the various phases of budget development (**Exhibit 8**). The purpose of the calendar is to alert city officials and staff to the expected completion of each stage of the budget process.

Exhibit 8: Sample Budget Calendar*

City of Great Expectations – Budget Calendar (The fiscal year for this calendar begins Oct. 1)

Date required	Action	Responsible party
April	Establish budget policy. Prepare budget calendar. Develop budget formats.	City council
May	Distribute budget information packets to department heads. Contact appraisal district to obtain the city's estimated property values. Contact the Comptroller's office for sales tax allocation figures. Prepare preliminary revenue estimates.	Budget officer
May–June	Assist department heads with completion of budget forms.	Budget officer
June	Submit completed budget request forms to the budget officer. Review budget requests, make necessary adjustments and submit the proposed budget draft to the chief administrative officer.	Department heads
July	Receive the proposed budget draft, make needed adjustments and submit the recommended budget to the city council.	Chief administrative officer
July–August	Receive certified appraisal roll from the appraisal district, along with the effective tax rate. City council holds public workshop sessions with the chief administrative officer, the budget officer and the department heads to ensure the budget is in conformance with their established policy.	Chief administrative officer, City council, chief administrative officer, budget officer, department heads
August	The city council completes the proposed budget document and publishes notices for public hearings.	City council
August– September	Separate public hearings must be held for the budget and for any increase in tax rates. The final budget is approved and is filed with the municipal clerk and with the county clerk(s). Taxes are levied in accordance with the budget.	City council

* Each of the dates shown in the sample will have to be adjusted to the city's schedule of holidays, city council meeting times and other local factors. It is important to ensure all personnel involved in the budget processes understand the deadlines and exert every effort to meet the timelines established.

The length of time required to complete each procedure in the budget process will depend on several factors, such as the complexity of the city organizational structure, the experience and expertise of the city staff, the intensity of the debate over the proposed budget, and the time consumed by the city council in reviewing and adopting it. In smaller cities, three months is sufficient to complete the budget cycle; a medium-sized city may need four months or more.

Estimating Revenue

A detailed description on estimating expected revenues is found in Chapter 5.

CHAPTER 4

Departmental Requests

It is essential for the department heads to be involved in the budget process. Department heads are the best source of information on the city's financial history and are most qualified to identify both service needs and opportunities for budget cutbacks. From the perspective of the department heads, the budget process is a useful way to advise the governing body about their accomplishments, propose alternatives for improving the quality of services and highlight special problems facing their departments.

Budget Information Packet

Approximately three months prior to the last day of the current fiscal year, the budget officer should furnish each department head an information packet. This packet will be used to prepare the departments' budget requests and should include the following:

- a statement of the city's budget policy;
- cost factor guidelines such as pay increase levels and inflation factors appropriate for the budget period;
- price lists and websites the city uses for the purchase of commonly used supplies and equipment;
- a set of departmental budget request forms, along with detailed instructions for completing the forms and the budget estimates; and
- revenue and expenditure guidelines to follow when preparing the budget request forms.

In larger cities, it may be necessary to begin this process earlier in the year.

Budget Policy Statement

The budget officer should draft a budget policy statement for adoption by the city council (**Exhibit 9**). Often this policy statement is developed at a council retreat or workshop when the city council outlines its goals, objectives and priorities for the coming year. This retreat or workshop must comply with the notice requirements of the Texas Open Meetings law, and it must be open to the public. A side benefit for the public is the council is financial transparent with taxpayers.

The budget policy statement should include:

1. the financial outlook for the city for the next fiscal year and a description of major factors that contribute to that outlook;
2. the budget officer's recommendations on the overall budget policy;
3. an itemization of known budget priorities for the next fiscal year; and
4. a description of the guidelines the city council should require department heads to follow in preparing their budget requests for the next fiscal year.

The budget policy statement should be distributed to all department heads and others who will participate in the preparation of the budget for the next fiscal year.

Remember it is important to involve the city staff in the budget process, particularly the supervisors and the operators of machinery or equipment. These individuals are the most familiar in the city with needed equipment repairs or replacements and required upgrades. Work with the individuals who have knowledge of street and water meter conditions because they can provide you invaluable planning insights.

Exhibit 9: Sample Budget Policy Statement

City of Great Expectations MEMORANDUM

FROM: Mayor and City Council
TO: All Department Heads
DATE: May 21, 2010
SUBJECT: City Budget for 2010-11

The budget season has arrived, and it is time once again to begin the process of setting the city's spending priorities for the coming fiscal year, which begins Oct. 1, 2010.

As you are well aware, preparation of the annual budget is one of our most important responsibilities. The budgetary process determines what services the city will provide, the level of these services and how funds will be provided to finance them. Recognizing the importance of these decisions, the city council has adopted the following statements, which reflect the principles and priorities that should be followed by department heads in preparing their fiscal 2010–11 budget requests.

General Budget Policy

Consistent with national patterns, our economy suffers from job losses and falling revenues. Unemployment rates of 6.5 percent to more than 8.5 percent make it a struggle for local businesses to survive. The local economic picture may not improve much during the next fiscal year.

At the same time, however, the population of the city — which increased by 3 percent during the past 12 months — is expected to increase by another 2.5 percent during the coming fiscal year, thus creating the need for expanded municipal services. Also, the number of our elderly residents, which increased by about 200 during the past year, is expected to increase by another 150 during the coming fiscal year, which will increase the use of city parks and other facilities and services (especially the services at the senior citizens center).

While there has been an increase in population, information from the Central Appraisal District indicates there has not been a corresponding increase in taxable property values.

Preliminary projections of city revenue sources indicate a modest increase in the total available funds. The ending balance for the current fiscal year is projected at \$35,000, primarily because of sales tax receipts that came in above estimates and greater savings in departmental expenditures — made possible through your careful management.

Unfortunately, very little of our increased income can be spent for desirable expansions in municipal services other than those required to accommodate population growth. Next year, we must provide salary increases for existing personnel and pay more for goods and services as a result of the 4 percent inflation expected during fiscal 2010-11.

Also, more than \$120,000 must be spent to replace two waste removal trucks that have reached the end of their useful lives. We are optimistic that the current study of refuse collections methods will yield a new approach to operations in this vital area.

It has always been the city's goal to provide the best services possible in return for tax dollars collected. Especially in view of the hard economic times now facing our citizens in the upcoming fiscal year, we desire that city employees redouble their past efforts and give top priority to the following principles:

Exhibit 9 (cont.)

- a) Local funds should be stretched whenever possible by aggressively seeking outside funding sources to meet the city's needs. Of particular concern, is recovering the cost of fire protection and other city services provided to county residents, for which the county currently pays little in relation to the actual cost of these services.
- b) We must continue to hold the line on new employee hiring. Additional personnel should be recommended only after needs have been thoroughly documented and it is substantiated that the new employees will result in more revenue or an expenditure reduction for the city.
- c) High priority should be given to expenditures that will reduce future operating costs — such as better use of technology and equipment and better business methods.
- d) Productivity improvement programs should be initiated in all labor-intensive departments.

Public Safety

Public safety has always been a priority concern of the council. In this area, we should seek the accomplishment of the following objectives during fiscal 2010-11:

- a) Complete necessary improvements in fire services to lower our residents' insurance premiums.
- b) Reduce the incidence of crime through special policing methods.
- c) Make specific productivity improvements in police and fire departments.

Public Works

During fiscal 2010-11, we would like to see the following objectives achieved by the public works department:

- a) Continue to keep the refuse collection and disposal services on a self-supporting basis. We are hopeful that the collection study provides attractive alternatives.
- b) Continue a daily program of street cleaning in the downtown area.
- c) Continue efforts to increase use of recreational facilities by organized groups and to shift some of the direct costs of such usage to those groups.

Prepare long-range maintenance and development plans for streets, drainage, and parks and recreation. Undertake productivity improvement projects in all public service areas.

Institute cost reduction projects, specifically by conserving energy in the areas of streetlights, parks, recreation centers, and transportation.

Water and Wastewater Utilities

Federal and state standards continue as the most significant challenges to the city's water and wastewater operations. In order to avoid problems in the future, the following should be accomplished during fiscal 2010–11:

- a) Continue to produce a high quality water supply that meets federal and state requirements.
- b) Continue to produce a quantity of water sufficient to meet daily demands and maintain required storage for fire flow requirements with adequate reserve for future growth and expansion.
- c) Treat all wastewater in a manner consistent with federal and state standards and continue efforts to prepare our treatment facilities to meet all future standards and to accommodate expansion and future growth.
- d) Continue studies and research on conservation measures that could reduce water consumption.

Conclusion

The budget is an exercise that helps determine the cost of necessary work required to maintain the facilities and services necessary for public conveniences, health, safety and welfare. Please include narrative statements of your accomplishments of the previous year, the current year and proposed work programs for the next year. These statements should reflect the planned expenditures, which makes municipal government as transparent as possible for the public, the city council and taxpayers. Budgeting is at the top of the list of important jobs that we collectively perform each year.

Departmental Request Forms

To save time and to arrive at a consensus, the budget officer might hold a meeting of all department heads hand out the budget information packets and conduct a page-by-page review of the material. The packet should include instructions directing department heads to compile and submit to the budget officer estimates of their budget needs for the next fiscal year. These estimates should be returned to the budget officer at least 60 days before the close of the current fiscal year and should be set forth in five standardized forms.

Departmental Workload Form

The departmental workload form summarizes the departments' accomplishments during the current year; explains proposed changes or improvements for the next fiscal year; and provides workload statistics, such as tons of solid waste collected per employee per year, number of gallons of water delivered each year, number of blocks of streets to be resurfaced or seal coated and number of miles of streets patrolled by the police department (**Exhibit 10**).

Departmental Budget Request Form

The departmental budget request form shows the amount actually spent by the departments during the prior fiscal year, the amount budgeted for the current fiscal year, the projected expenditures for the current fiscal year, and the amount the department heads propose to spend during the next fiscal year (**Exhibit 11**).

Departmental Personnel Request Form

This form is used to describe salary and related costs of personnel presently employed and proposed to be employed by the departments. It describes salary and related costs of current personnel and proposed future personnel. For smaller cities, the name and job title of individual employees should be listed. For larger cities, the data can be presented for classes or groups of employees (**Exhibit 12**).

Departmental Change-In-Service Form

The departmental change-in-service form shows proposed service changes, the cost of these changes and the number and type of additional personnel required to perform the service (**Exhibit 13**).

Departmental Capital Outlay Form

The departmental capital equipment outlay form is used to list the acquisition of or addition to fixed assets of significant value, such as vehicles and equipment (**Exhibit 14**).

These examples are meant as a basic guideline. Additional forms can be added to generate other information needed by the budget officer. Department heads should be encouraged to request all proposed budget needs for staffing, materials and equipment, leases, fleet, maintenance, and program needs. Cutbacks may have to be made in budget requests. Some important needs might never come to light unless the department heads are given an opportunity to fully explain their positions. This approach offers the advantage of generating more options and alternatives from which the governing body may select.

Exhibit 10: Departmental Budget Request Form

City of Great Expectations – Department Workload Report Fiscal 2010-11

Fund: _____ Department: _____

1. Describe the major accomplishments of your department during the past fiscal year.

2. Describe the major accomplishments of your department during the current fiscal year.

3. Describe the changes and improvements that you propose to make in the operations of your department during the next fiscal year.

4. Enter the workload statistics for your department in the spaces provided.

Describe the Workload Measure and the Method of Determining The Measure	Workload Statistics for the Previous Fiscal Year (2008–09)	Workload Statistics for the Current Fiscal Year (2009–10)	Statistics for the Next Fiscal Year (2010–11)

Exhibit 11: Summary Departmental Budget Request Form

City of Great Expectations – Department Budget Request Form
Fiscal 2010-11

Fund: _____ Department: _____

Object Code	Title of Account		A Actual Expenditures for Previous Fiscal (2008–09)	B Expenditures Budgeted for Current Fiscal (2009–10)	C Expenditures Projected for Current Fiscal (2009–10)
	Personnel Services		\$	\$	\$
		Subtotals:	\$	\$	\$
	Benefits		\$	\$	\$
		Subtotals:	\$	\$	\$
	Operating Expenses		\$	\$	\$
		Subtotals:	\$	\$	\$
	Supplies		\$	\$	\$
		Subtotals:	\$	\$	\$
	Contracted Services		\$	\$	\$
		Subtotals:	\$	\$	\$
	Capital Outlay		\$	\$	\$
		Subtotals:	\$	\$	\$
	Debt Service Payments		\$	\$	\$
		Subtotals:	\$	\$	\$
		TOTALS	\$	\$	\$
	Requested Number of Personnel				

Exhibit 11 (cont.)

City of Great Expectations – Department Budget Request Form Fiscal 2010–11

Fund: _____ Department: _____

Object Code	Title of Account		D Proposed Expenditures for Next Fiscal Year to Maintain Current Level of Services	E Additional Amount of Expenditures for Next Fiscal Year Necessary to Fund Changes in Current Level of Services	F Total Proposed for Next Fiscal Year (Total of Column D + Column E)
	Personnel Services		\$	\$	\$
		Subtotals:	\$	\$	\$
	Benefits		\$	\$	\$
		Subtotals:	\$	\$	\$
	Operating Expenses		\$	\$	\$
		Subtotals:	\$	\$	\$
	Supplies		\$	\$	\$
		Subtotals:	\$	\$	\$
	Contracted Services		\$	\$	\$
		Subtotals:	\$	\$	\$
	Capital Outlay		\$	\$	\$
		Subtotals:	\$	\$	\$
	Debt Service Payments		\$	\$	\$
		Subtotals:	\$	\$	\$
		TOTALS	\$	\$	\$
	Requested Number of Personnel				

Exhibit 12: Departmental Personnel Request Form

City of Great Expectations – Department Budget Request Form Fiscal Year 2010–11

Fund: _____ Department: _____

Name and Title	Current Fiscal 2009-10		Next Fiscal 2010–11		
	Hourly or Monthly Pay Rate	Annual Salary	Hourly or Monthly Pay Rate	Calculation of Salary Increase (to be Completed by Budget Officer)	Annual Salary and Benefits
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$
				Total:	\$

	Basis for Calculation*	Calculations	
Social Security			\$
Retirement			\$
Life Insurance			\$
Health Insurance			\$
Unemployment Insurance			\$
Workers Compensation			\$
Overtime			\$
Longevity			\$
Other			\$
		Grand Total:	\$

*Percent of salary, flat rate per employee (i.e., insurance premium), etc.

Exhibit 13: Departmental Change-in-Service Form

City of Great Expectations – Departmental Change in Service Form Fiscal 2010–11

Fund: _____ Department: _____
Briefly explain and justify each proposed change in service. Use a separate form for each proposed service change.

Additional Personnel

	Cost of Program	Position	Number in This Position	Monthly or Hourly Pay Rate	Annual Salary and Benefits
Personnel Services	\$			\$	\$
Benefits	\$			\$	\$
Operating Expenses	\$			\$	\$
Supplies	\$			\$	\$
Contracted Services	\$			\$	\$
Capital Outlays (Attach separate form for each capital outlay)	\$			\$	\$
Debt Service Payments	\$			\$	\$
TOTAL	\$*	TOTALS			\$*

**Enter these amounts in Column E of the Department Budget Request Form.*

Exhibit 14: Capital Outlay Form

City of Great Expectations – Department Capital Outlay Form Fiscal 2010–11

Fund: _____ Department: _____

1. Describe the asset, vehicle or piece of equipment to be purchased during the next fiscal year. Include land, software and hardware.

2. Explain the necessity for this asset, vehicle or equipment and the benefit that the city will derive from purchasing it.

3. If this is a new acquisition (rather than a replacement for an existing vehicle or piece of equipment), enter the following:
 - a) Cost of fuel to operate the vehicle/equipment during the next fiscal year:
\$ _____
 - b) Cost of additional employees needed to operate the vehicle/equipment next fiscal year:
\$ _____
 - c) Cost of insurance and other items next fiscal year: \$ _____

4. Will the acquisition on this vehicle/equipment: Reduce personnel Increase personnel
 No Change

5. Enter the following:
 - d) Estimated purchase price \$ _____ c) Approximate date of purchase: _____
 - e) Less trade-in (if any) \$ _____ d) Estimated useful life: _____
(months or years)

Net Costs \$ _____
(enter this amount in Column F
of the Department Budget Request Form)

NOTE: USE SEPARATE SHEET FOR EACH PROPOSED CAPITAL PURCHASE.

Review of Departmental Requests

A separate budget is prepared for each department and the budget officer should carefully examine each set of departmental budget request forms to ensure completeness and accuracy. The information from these forms will be included in the city budget as a departmental expenditure summary and will provide the information necessary to determine what departmental expenses have increased or decreased. Detailed summaries are included from each department to provide readers the information needed to make accurate budgeting decisions. The summary also will provide a useful comparison between budgeted and actual expenditures for the current year.

In the course of reviewing the departmental budget requests, the budget officer should bear in mind the following questions:

- Do the proposed performance and service levels justify the budget request? Could the requested funds be put to better use in another department? Are certain budget requests totally without justification or merit?
- Are the spending requests credible? Are they padded or based on false assumptions?
- Is the proposed approach to a particular service the best way to achieve the stated objective? Based on the department's previous track record, is reaching each stated objective likely? Should a funding increase proposed by one department be approved, or rejected, so that an increase may be given to another department that has a better performance record?
- If choices must be made between competing budget requests, what is the relative importance or value to the community of the spending programs proposed by the various departments? If cutbacks in existing services are necessary, which services should be eliminated first? Which services could be scaled back? Which services, if scaled back, would be unproductive?
- By spending more on a particular service during the next fiscal year, will the city save money in the long run?
- What consideration has the department head given to reducing the cost of existing programs through better personnel management, improved work methods and automation?
- Is there duplication of work between departments? Can services be improved or costs reduced by changing staffing patterns or other revisions?
- Is the level of financing adequate for each service? Have inflation and changes in the cost of various items been taken into account?
- Are the proposed capital outlays for equipment with a long, useful life consistent with the city's long-term goals? Will the proposed capital outlays increase or decrease operational costs next year and beyond? Which outlays have the highest priority?
- Will the estimated revenue that will be available to the city during the next fiscal year be sufficient to fund key services at an acceptable level? Should the city consider increasing revenue?
- Is the amount of the reserve fund — the amount of uncommitted money to be left over at the end of the next fiscal year — adequate? Should additional funds be set aside for emergencies such as litigation, environmental fines, natural disasters, floods or droughts? This is especially important for cities that do not have a legal department. It is a good practice to maintain at least 10 percent of the annual budget for each fund as the ending balance for that fund.
- Will evaluating cashflow of anticipated revenues help to determine if capital expenditures should be made at certain times or even push into the following year?

After completing a review of departmental budget requests, the budget officer should compile this information and add it to revenue estimates and other data in the form of a preliminary budget. The document should tie together proposed revenues and expenditures into a comprehensive municipal plan to be submitted to the city council as the proposed budget for the coming year.

CHAPTER 5

Forecasting/Estimating Revenues

Local governments face difficult choices as they consider increasing revenue, creating new revenue sources and reducing services and personnel levels. Public officials depend on the budget officer to complete the critical task of preparing revenue estimates and then preparing a proposed budget based on those estimates.

To make an accurate estimate of city revenue for the next fiscal year, the budget officer should have a working knowledge of the dynamics of local revenue sources and the economic factors that can cause them to vary over time.

The Local Economy

The local economy plays a key role in creating the budget. All of the revenues available to fund the city's operations depend to a large degree on the condition of the local economy. What drives the city's economy? What are its economic and political strengths and weaknesses? Decisions about employee salaries should be made in line with community standards. The Texas Municipal League (TML) offers surveys of city employee salary and benefits. This information is available on TML's website, www.tml.org.

Relevant economic data may not always be available, yet some useful information can be gleaned from the community. Local merchants, bankers and other citizens can supply valuable insights into municipal planning from an overall perspective and from the perspective of their own businesses. This information can serve as a valuable guide to help budget officers accurately estimate revenue.

In evaluating the extent to which the local economy will affect the city's revenues during the next fiscal year, the budget officer should explore the following questions:

- During the next fiscal year, will the local business climate improve or weaken?
- How will economic conditions in nearby cities affect the local economy?
- What is the outlook for employment and industry growth? Will the personal income level of local citizens increase or remain the same during the next fiscal year? How will these factors affect city revenues?
- Will the population of the city increase, decrease or remain the same? What effect will changes in age brackets or in the socioeconomic composition of the city's population have on municipal services or on revenue sources?
- What changes are expected in residential and commercial development? What impact will the construction industry have on the budget?
- How does the past and current rate of inflation compare with a projected future rate of inflation? How will this projected change affect revenue?
- How will trends in property values affect the city's property tax collections?

During recent years, the importance of accurate revenue estimates has increased, along with the pressure on city officials to increase revenue. In most cities, automatic yearly revenue increases resulting from increased property appraisals have disappeared. One of the first steps in preparing a budget is

making a reasonable estimate of how much money will be available for the municipality to spend in the next fiscal year. At an early point in the budget cycle, the budget officer should prepare forecasts of the basic financial factors that will affect the city's spending and revenue plans for the next fiscal year.

These forecasts should include the following: the city's ending balance for the current year; known expenditures that must be built into the budget during the next year, such as payments that will be due on outstanding debts; and the city's estimated revenue and revenue sources for the next year. Each of the procedures required to make these estimates is described below.

Determining the Ending Balance for the Current Fiscal Year

State law requires a clear comparison between expenditures included in the proposed budget and actual expenditures for the same or similar purposes made in the preceding year.¹ The budget for the next fiscal year must show:

- Current debts payable during the current fiscal year;
- Projected revenues and expenditures for the current fiscal year; and
- Amount of available cash on hand that will be left in each budget fund at the end of the current fiscal year.

These three items, in combination with the ending balance from the most recent month prior to the beginning of budget preparations, will allow the budget officer to calculate the balance at the end of the current fiscal year. The current fiscal year's ending balance becomes the beginning balance for the next fiscal year.

The equation for computing the ending balance for the current fiscal year is as follows:

Cash balance at the end of the most recent month before budget preparations start.	\$ _____
Plus (+) estimated revenues for the remaining of the current fiscal year.	\$ _____
Minus (-) estimated expenditures for the remaining of the current fiscal year (including debt payments due the current fiscal year and not yet made).	\$ _____
Equals (=) ending balance.	\$ _____

In making these calculations, emphasis should be placed on a conservative approach. Projections made on the basis of guesswork or wishful thinking may produce an unreliable forecast and cause problems.

Estimating Known Expenditures for the Next Fiscal Year

When estimating the city's minimum essential expenditures for the upcoming year, the budget officer should take the following factors into account.

- The amount needed to pay interest and principal on the city's outstanding revenue bonds, general obligation bonds, certificates of obligation, leases and any other debts.
- The financial impact of newly completed city facilities, including additional operating costs and salaries of added personnel.
- The cost of extraordinary maintenance requirements to city facilities, i.e. repairs to city buildings.
- The cost of rentals and leases.
- Changes in state or federal legislation, which may impose new financial requirements.
- The cost of the payroll for the next fiscal year, using salary levels for the current fiscal year and incorporating any known salary changes for the upcoming fiscal year.

- Reductions for the cost of any discontinued programs or services.
- Increases in expenditures due to increases in grant or contract revenue.
- The cost of any legal judgments pending against the city.
- Maintenance on capital assets per asset maintenance schedules.

Estimating Revenue and Revenue Sources for the Next Fiscal Year

The task of forecasting how much money will be available to accommodate growing community needs falls to the budget officer and the finance staff. Since forecasting is not an exact science, projections must be as accurate as possible. Overly optimistic revenue estimation will obligate the city to provide services it cannot realistically fund. Conservative projections may limit development.

To estimate revenue accurately, an inventory must be made of the various tax and revenue sources available to the municipality. This may be a good time to diversify the revenue base and avoid over-reliance on one main revenue source, such as the property tax. For example, the municipality may want to adopt an economic development sales tax to help the community's development efforts or may choose to impose a special purpose district tax.² As long as the total local sales tax rate does not go beyond the 2 percent local statutory cap in any part of the city, the city can vote to increase the local sales and use tax.

It also will be necessary to evaluate the cost of providing fee-supported services, such as golf course fees. During a period of rising costs, expenses may be higher than the fee income. Examine and adjust such fees periodically to recover the costs of the services they are intended to support.

This revenue analysis also should focus on the level of federal and state grant revenue received. Consultation with state and federal agencies and with other cities that use grant funds may be helpful in locating additional grant revenue.

Some grants require matching funds — sometimes called “maintenance of effort” or cited as “match requirements” — from the grant recipients. Such match requirements for existing grants must be carefully included in budget documents, much like debt service.

Historical Revenue Trends

The first step in making a revenue estimate for the next fiscal year is to compile a five-year historical record for each individual revenue source. This compilation should include the initial rate at which a tax or fee was imposed, the dates of each effective tax rate change, a month-by-month record of the amount of revenue generated by the tax or fee, and notations of significant events, such as a recession or changes in the consumer price index that may have caused fluctuations in the amounts collected.

Another issue concerns the calculation of sales tax revenue. The person estimating the revenue must be aware of tax base changes. For example, if changes in the law increase or decrease the number of taxable items or services, the amount of collections will be affected. An historical perspective provides a logical starting point and a basis for comparisons.

Revenue Sources

Since the greatest source of funds for the budget year is normally revenue collected that year, the preparation of reliable revenue estimates is critical. To make reliable estimates, it is necessary to understand the principal revenues upon which the municipality relies and the factors affecting receipt of those revenues (**Exhibit 15**).

Exhibit 15: Revenue Sources

Taxes	Licenses, Fees, and Permits	Enterprise Funds
real estate	building permits	solid waste
personal property	building licenses	water
businesses	rental fees	wastewater
sales and use taxes	recreation facilities	airport
	franchise fees	electric/gas utilities

Grant, contract revenue and bond proceeds also must be estimated. These amounts are not always known at the time of budget preparation and adoption, particularly when the granting agency has a different fiscal year. The budget officer must communicate with granting agencies to determine a projected amount. A separate contingency budget should be prepared for each grant, contract or bond proposal that has not been approved by the time the city's budget is adopted.

These contingency budgets should be flexible to show how funds will be spent contingent on certain ranges of funding. Although state law requires budgets to be as detailed as possible for comparison with prior years, this unknown source of funding must be included or the city won't be able to spend the revenue until the next budget cycle, and that may be too late.

The majority of municipal revenues are drawn from the local economy. Some revenues are based on existing assets, such as property taxes; some are based on business income, such as the sales tax; some are based on use privilege, such as business licenses and permits; and some are based on the revenue from water and utility bills.

Property Tax

The property tax is an annual tax assessed, levied and administered exclusively by local governments on the values of all taxable real and personal property. Property taxes are levied to finance the expenditures of a particular budget period. Property taxes related to a given levy should not be recognized as revenue prior to the budgetary period the levy was intended to finance. Property taxes, along with the sales tax, are the most important source of local tax revenue. City officials should be aware of what other taxing entities are doing that may affect the city's ability to tax. The county, school and special districts all assess property taxes, and they each can influence the burden taxpayers can and will absorb.

Appraised property values should be obtained from the county appraisal district. If a figure is not available, then an estimate can be made with trend analysis until the certified data is available. Property taxes can be estimated with a considerable degree of accuracy (**Exhibit 16**). The Property Tax Division of the Texas Comptroller of Public Accounts can provide cities additional information concerning property tax laws.

Exhibit 16: Estimating Property Tax Revenue

Property tax receipts are relatively easy to estimate, because the factors affecting the revenue can be established with a considerable degree of accuracy. Below is a brief, simplified summary of the collection process.

1. The county appraisal district certifies the appraisal roll.
2. The city council approves the budget on which the tax rate is established.
3. The city council establishes tax rate; discounts for early payment may be allowed.
4. Tax statements are mailed on or about Oct 1.
5. Tax payments are due on or before Jan. 31. They may be collected beginning Oct. 1. Discounts may be allowed as follows: 3 percent for payment in October, 2 percent for payment in November, and 1 percent for payment in December. There is no discount for payment in January.
6. Cash, check or credit cards can be used to make payments. The city council may, by ordinance, authorize split payments with the first half made before Dec. 1 of the tax year and the second half due by July 1 without penalty or interest.
7. Other than taxes having been approved for split payments, penalties and interest are assessed beginning Feb. 1.

Fortunately, tax collection patterns are usually consistent from year to year. About the same percentage of the levy is collected over the same period of time each year. For example, a city may have had the following average collection experience over the past 20 years.

Collection Experience Table

Month(s) of Collection	Percent of Total Levy Collected	Cumulative Percent of Total Levy
October	12	12
November	18	30
December	29	59
January	25	84
February–June	9	93
July to the end of the fiscal year collected in the current fiscal year	2	95
Collections of prior year's delinquent taxes	3.5	98.5 (in the current year)
Discounts and taxes considered uncollectable	1.5	1.5 (never collected)

Unless there is reason to believe otherwise (for example, a severe recession), these same percentages may be used to budget for the next fiscal year, which is discussed below.

Estimating Total Annual Property Taxes

The basic formula for estimating property taxes is:

- Tax roll (as certified by the county appraisal district) divided by \$100 x adopted tax rate.
- Assuming that the tax roll is \$12,450,000 and the city has set its tax rate at 65¢ per \$100 of valuation.
- $(\$12,450,000 \text{ divided by } \$100) \times .65 = \$80,925$ taxes levied.

Exhibit 16 (cont.)

Estimating Property Tax Receipts for the Next Fiscal Year

1. Use the basic formula to figure the total levy.
2. From (1), subtract, using past experiences as a guide (unless there are good reasons to modify past experience, such as a severe recession):
 - a) estimated discounts that will be taken;
 - b) estimated delinquencies (taxes from the next levy that won't be collected until after June 30 of the next fiscal year); and
 - c) estimated amount that is uncollectable.

If the tax roll has not yet been finalized and certified, estimates of total taxable assessed value must be used.

Until the budget is adopted by the city council and taxes levied, the exact tax rate and tax receipts will remain unknown. The tax rate to be adopted depends upon the level of budgeted expenditures. But, at the same time, expenditure levels may depend upon the tax rate. The budget officer can provide assistance by providing estimated receipts at various tax rates and by offering reasonable evaluations of spending alternatives.

Delinquent Taxes

There are two components to estimating the amount of delinquent taxes that will be collected in the next fiscal year.

1. Taxes due in years prior to the current budget year that will be collected in the current budget year.
2. Taxes that will be due in the next budget year but will not be collected until after Jan. 31 of that year.

Past experience is the best guide for estimating these amounts. A tax "Collection Experience Table" similar to the one illustrated above can be helpful.

Penalties and Interest

Penalties and interest are frequently a relatively constant percentage of total delinquent taxes outstanding. This amount should be checked for your city, using several prior years — at least five, preferably 10 to 20. If no relationship can be found, then a reasonable guess must be made. Penalties and interest are normally a small amount, so the impact of even a large error is usually negligible.

City Sales and Use Tax

The sales tax became available to Texas cities in January 1968. This cooperative tax, shared with the state, is quickly becoming one of the largest revenue sources for cities. Collected at the point of sale and remitted by the merchant to the Comptroller's office, the cities' share is returned each month by the Comptroller.

The revenue is allocated to the city 60 days after the date of collection by the state. Cities should confirm they are receiving the appropriate sales tax due from all of the businesses located within the city limits. The Comptroller's office can help cities determine the community businesses that collect the city sales and use tax.

A five-year record of sales tax collections will enable the city to project future revenue patterns. Sales tax is a volatile tax and is subject to economic shifts. The city budget should be planned on a contingency basis to allow for possible changes. Officials should monitor significant business conditions in the community, such as the opening or closing of a major retail facility or areas of

annexation. Monitor legislative actions such as the recent sales tax holiday for school supplies that may add or exempt items of merchandise and service providers from sales taxes. The sales tax has been broadened in recent years to include many services. At the same time, the Legislature has added a number of exempt items, such as over-the-counter medicines. Such changes will affect the city's income and may affect services the city must provide. A report of the city's historical sales tax allocation is available from the Comptroller's office upon request or from the Window on State Government Web site, www.window.state.tx.us.

Interest Income

Interest income can be predicted by estimating the city's remaining unused cash balances at various times during the next fiscal year. These balances are likely to be highest from October through March, during the time that most property taxes are collected and before they are spent.

A city's spending and tax collections usually peak at about the same time each year. Close attention should be paid to interest rate trends. When rates are high, they produce a healthy income. But when rates drop, so do the yields. It is also important to seek interest-bearing avenues that will yield income when cash is needed. For example, if idle cash is placed in a 90-day certificate of deposit, the exact date the funds will be available is known. Interest earnings can be controlled through a city's treasury management program.

According to the Public Funds Investment Act, a city government shall adopt by rule, order, ordinance or resolution a written investment policy regarding the investment of its funds. The governing body should designate one or more officers or employees as the city's investment officer(s) who will be responsible for investing its funds.³ Another alternative is to contract with a registered investment management firm.⁴

Other Revenue Sources

Franchise fees are referred to as "street rental fees" by Texas law because they are assessed for the city to gain back a portion of costs for the wear and tear on its streets, alleys and utility operations' rights-of-way.

These fees are placed on public, private or investor-owned utilities such as telephone, electric, natural gas, telecommunications, and cable television. State law typically allows a maximum of 2 percent of gross receipts for these charges, except on telecommunications, which are calculated on the number of access lines.⁵ To forecast the future impact, cities should monitor the duration of their franchise contracts, the fee amounts assessed and the fee bases.

Some cities operate water and wastewater utilities and impose fees for water and wastewater services as well as solid waste collection service. Other user fees can be assessed for admission to swimming pools and park facilities. User fees are assessed on individual service users rather than on the community as a whole.

The city should make an effort to perform cost of service analysis over a long-range planning period in order to assure that the proper amounts are charged for its services.

Ordinarily, it costs more to provide service out of the city limits than to customers inside the city limits. While large users of utility services have historically been given price breaks, a cost of service analysis may reveal that the cost per unit is actually higher for a customer who may consume a large volume. This analysis also may find that the large volume occurs at peak times, which requires the utility department to gear up the system to meet the peak demand only to find inefficient delivery capability the rest of the time.

These activity fees are recorded as enterprise funds. Rates are established to cover the cost of operations and the repayment of debt, while allowing available working capital and adequate resources.

Estimating Revenues by Trend Analysis

Estimating revenues can be performed with a variety of accounting measurements ranging from the very simple to the very complex. Complicated econometric models and cost of services studies can be performed. At times a city may need to acquire the expertise of a consultant. For most cities, trend analysis serves as a user-friendly model for revenue estimating.

This is the technique commonly used to estimate revenue. It uses historical data as the basis for predicting future revenue.

While trend analysis can be applied to such revenue sources as business licenses, building permits and sales tax, it is a useful tool for estimating future revenues for any source that grows at a reasonably steady pace. The first step is to gather information on the total revenue realized for the past several years. Calculate changes from year to year to identify a trend. This process is best accomplished by measuring the change in the revenue base.

It may not be possible to estimate revenue by projecting the revenue base and then applying the rate. There may not be sufficient data on the revenue base to make a projection. Instead of developing historical trend data on the revenue base, a trend can be computed directly from actual revenue collected each year. An average rate of change is established and multiplied by current year revenue to obtain the budget year estimates (**Exhibit 17**).

Exhibit 17: Projected Revenue Sample

The budget officer wishes to project the city's revenue from swimming pool admission fees for the next fiscal year. According to the city's records, the following admission fee revenues were collected during the years indicated:

<u>Fiscal Year</u>	<u>Amount</u>
2005-06.....	\$ 900
2006-07.....	1,100
2007-08.....	1,350
2008-09.....	1,650
2009-10.....	2,000
2010-11.....	?

The budget officer calculates the percentage differences in the amount of admission fees collected for each year, as follows:

1. Change from FY 2005-06 to 2006-07 +22.2 percent
2. Change from FY 2006-07 to 2007-08 +22.7 percent
3. Change from FY 2007-08 to 2008-09 +22.2 percent
4. Change from FY 2008-09 to 2009-10 +21.2 percent

The rates of change are added to obtain a total and an average rate is computed as follows:

$$\begin{array}{r}
 22.2 \text{ percent} \\
 +22.7 \text{ percent} \\
 +22.2 \text{ percent} \\
 +\underline{21.2} \text{ percent} \\
 +88.3 \text{ percent, divided by } 4 = 22.1 \text{ percent (average)}
 \end{array}$$

The last year's revenue is multiplied by the average rate of change to arrive at the projected revenue increase for the current fiscal year, as follows:

$$\begin{array}{r}
 \$2,000 \\
 \times \underline{.221} \\
 \hline
 442
 \end{array}
 = \text{projected revenue increase}$$

The projected revenue increase is added to the amount of revenue for the current fiscal year:

$$\begin{array}{r}
 \$2,000 \\
 + \underline{\$442} \\
 \hline
 = \$2,442
 \end{array}$$

This is the swimming pool admission fee revenue estimate for the next fiscal year.

This example of trend analysis is based on several assumptions:

- No change was made in the rate of the admission fee during the period covered by the analysis, and no rate change is planned for the next fiscal year.
- The number of admissions has steadily increased over the years and will continue to increase at the same or higher rates.
- The operating hours of the pool remained the same during the previous year covered by the analysis and will remain the same during the next fiscal year.
- The pool was at no time closed because of mechanical breakdown, nor is it likely that the pool will have to be shut down during the next fiscal year.

If any of these assumptions are not valid, the revenue estimate will have to be modified accordingly. The budget officer may want to take a conservative approach and project a slightly lower figure than indicated in the trend analysis.

Revenue Estimate Worksheet

After the budget officer has assembled historical data for each revenue source and examined economic trends that will affect the city's revenue in the future, the information can be used to estimate the city's revenue for the next fiscal year (**Exhibit 18**).

In making the revenue estimate, the budget officer should bear in mind that each revenue source may require different techniques to obtain reliable forecasts. Some sources produce practically the same amounts from year to year, while others fluctuate widely. In any event, no revenue estimate should be calculated solely on collections from the previous year. Some revenues are more stable than others, but it is important to consider all of the city's options and avoid the mistake of estimating revenue without the proper research.

Exhibit 18: Revenue Estimate Form

City of Great Expectations – Revenue Estimate Form Fiscal Year 2010–11

Revenue Source: _____ Revenue Pledged? If “yes,” describe: _____

Accounting Code: _____ Economic Indicators: _____

Fiscal Year	Amount Collected	Percent Change from Previous Fiscal Year	Reasons for Change in Amount Collected
20__	\$	percent	
20__	\$	percent	
20__	\$	percent	
20__	\$	percent	
Current Fiscal Year	\$	percent	
Next Fiscal Year (Projected)	\$	percent	

Fiscal Year	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Totals
20__	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
20__	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
20__	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
20__	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Current Year	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Next Fiscal Year	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Explanation of Revenue Estimate Form

The upper left hand of the form provides spaces for entering historical data and other information about the revenue source during the past four fiscal years, the current fiscal year and the upcoming fiscal year. Terms used include the following:

Revenue Source – Self-explanatory.

Accounting Code – The number assigned to this revenue source in the city’s accounting system.

Revenue Pledged – Has the revenue from this particular source been pledged or otherwise committed for a particular purpose? For example, have revenues from the city’s water system been pledged to pay waterworks revenue bonds? Has a portion of the revenues from the hotel-motel tax been promised to the chamber of commerce?

Economic Indicators – Enter notations concerning trends in levels of local retail sales, building permits, population statistics or other information that will help explain fluctuations that have occurred in various revenue sources.

Fiscal Year and Amount Collected – Enter revenues for collections from the revenue source during the previous fiscal years, the current fiscal year and the upcoming fiscal year.

Percent Change From The Previous Fiscal Year – The rate of percentage increase or decrease in the amount of revenue received from one year to the next. The lower half of the form provides spaces for entering the monthly receipts from the revenue source for four previous fiscal years, the current fiscal year and the next fiscal year.

Endnotes

- ¹ V.T.C.A., Local Government Code, §102.003.
- ² V.T.C.A., Tax Code § Subtitle C, Chapter 322.
- ³ V.T.C.A., Government Code, §2256.005.
- ⁴ V.T.C.A., Government Code, §2256.003.
- ⁵ V.T.C.A., Tax Code §182.025, Title 2, Subtitle G.

CHAPTER 6

City Council Action on the Budget

The budget officer presents the first draft of the proposed budget to the city council and files a copy with the municipal clerk. From this point on, the budget process is in the hands of the city council, which will have to accept responsibility for the final results. After changes are made to the budget, council members should answer any concerns of local citizens and respond if problems develop.

The city council should hold budget workshop sessions so the entire governing body can review each department's budget request. Informal budget work sessions can be held among department heads. The final budget workshop should be held in an open council meeting. All department heads should be notified of the date and time their budget requests will be reviewed, and they should be required to attend.

All council workshop sessions must be posted for public notice at least 72 hours before the scheduled time of the meeting. Written notice of the date, hour, place and subject of the meeting must be posted on a conveniently placed bulletin board (accessible to the public 24 hours a day) at city hall. When the council is satisfied with the budget document, direction is given to the city secretary to post notice of the required public hearing(s).

The city council should be concerned with these basic budget issues:

1. Does the budget meet the needs of the community as adequately as available finances will permit?
2. Are there some services that should be reduced or eliminated to provide funds for more important programs?
3. Does the budget provide a proper balance between essential and less necessary services?
4. Are administrative controls in place to ensure that adequate results will be produced and proper standards of service maintained?
5. Is the proposed budget sound and honest?
6. Do revenue estimates appear to be realistic?
7. Have all expenditures and foreseeable contingencies been included?
8. Is the budget economical in all respects and oriented to obtaining the greatest value per dollar spent?
9. Is the budget consistent with the ability and willingness of the citizens to support it?
10. Is it consistent with the city's long-term policies for community development?

If the budget document is properly prepared, it will provide the answers to most of these questions. To the degree that it does not, the council can require the budget officer to supply additional data to justify the recommended proposals.

When completed, the budget document is presented to the city council in three main parts. The first part is the budget message and summary overview of revenue and expenditures. The second part is the budget itself with all the detailed supporting data, including revenue estimates, pro-

posed departmental expenditure levels and planned capital outlays. The final part is made up of proposed ordinances to be approved by the city council.

The Budget Message

The budget officer's message is important. In too many cases, the budget message is merely a formal letter of transmittal, but it can and should be much more (**Exhibit 19**). The budget officer should take advantage of the opportunity to explain the city's financial position to the city council and to the public. This is also an opportunity to substantiate recommendations for changes. The budget officer worked hard at compiling the data and is in the best position to discuss the needs of the city and the strengths and weaknesses of the services it provides.

The budget message should outline a financial policy for the council to follow during the coming fiscal year and list the methods and assumptions used to compile the revenue and expenditure estimates in the budget. Recommendations should be made concerning departmental program service levels, costs, revenue and financial trends.

The budget message should answer such questions as:

- Are the quantity and quality of current city services adequate, average or substandard?
- What is the condition of the municipal buildings, equipment, land and roads?
- Where is the city headed financially?
- Is there likely to be a surplus or a reduced balance at the end of the current fiscal year?
- Is the city well off, moderately well off or in financial trouble? Is it in a stronger or weaker position than a year ago and in the preceding years? What factors account for the trend?
- If adopted, what effect will the proposed budget have on these conditions?

It is particularly important that the budget message emphasize the relationship between costs and the programs upon which the budget is based. It can be a reminder to the city council that any changes in revenue or expenditures will require corresponding changes in services, or vice versa.

To the extent that certain aspects of the budget involve policy issues that are the sole domain of the city council or the city manager, the budget officer may not consider it appropriate to offer recommendations. The issues, however, should be addressed, outlining alternative courses of action and supplying the facts needed by the council to reach decisions.

Exhibit 19: Sample Budget Message

Honorable City Council City of Great Expectations

Members of the City Council:

Enclosed is the proposed budget for the fiscal year beginning Oct. 1, 2010, and ending Sept. 30, 2011.

The proposed budget, which does not call for a tax increase, reflects a continuation of efforts to maintain an adequate level of services while improving the quality of public facilities. The budget includes \$150,000 in carryover funds to cover projects authorized during fiscal 2009–10, which will not be completed until after the start of fiscal 2010–11.

The largest portion of the carryover (\$60,000) is for the completion of improvements to West Avenue D, which should be completed by December of this year. A total of \$50,000 is being carried over for water improvements to the Sunnybrook area, which should be completed by February 2010. In addition, \$40,000 for the expansion of the Central Fire Station, which was authorized during fiscal 2009–10, is being carried over for completion during the coming fiscal year.

The proposed 2010–11 budget calls for a 16 percent increase in solid waste collection fees. This is necessary to put sanitation and landfill operations on a self-supporting basis. Last year's rate increase, had it been in effect the full year, would have recovered the cost of operations but would not have amortized the cost of landfill development or equipment replacement. The cost of developing and operating landfills has increased dramatically due to the more stringent state and federal regulations, inflation and the nonexistence of economical sites suitable for landfill operations.

The proposed 2010–11 budget proposes a significant increase in funding for the Street Department. In 2009–10, steps were taken to upgrade the department's equipment as the first step to improving the city's ability to maintain the streets. The 2010–11 budget provides an increase in Street Department personnel and funds for maintenance materials. The increased funding of the department is necessary to maintain and begin to upgrade existing streets. More attention to these matters in the past would have reduced the city's cost.

The Water and Wastewater Fund budget proposed for fiscal 2010–11 will require a 25 percent water rate increase and a 21 percent wastewater rate increase. In 2009–10, we were able to balance the water and wastewater fund budget by a reduction in personnel and by funding portions of the water and wastewater operations from the general fund balance. This is not a recommended practice. While increasing tax rates or utility rates are never enjoyable, alternatives are limited.

While improved productivity and management have allowed us to continue to operate and maintain the utility system at the previous year's level, we had a decrease in personnel, which reduced our standards of efficiency. Preventive maintenance can substantially lessen service interruptions, but historically our utility operations have provided little preventive maintenance. To continue as we have in the past will only serve to compound the problems with our water and wastewater systems. To continue to subsidize the water and wastewater operation from other revenue sources is not only inequitable, but will eventually lead to even larger rate increases.

Exhibit 19 (cont.)

In fiscal 2009–10, through the use of Community Development Block Grant funds from the Texas Department of Rural Affairs and a fund balance in the utility fund, we have been able to reconstruct water mains in several areas of the city. In fiscal 2010–11, we anticipate completing water improvements to the Brookhollow area as well as rehabilitating the sanitation sewer trunk line. In addition, we have budgeted \$50,000 for water improvements without designating a specific location for those improvements. This designation will be provided at a later date based upon completion of the Water System Master Plan.

During fiscal year 2010–11, our primary goals will be to:

1. Complete the Public Works projects initiated in 2009–10.
2. Continue the Comprehensive Plan work to upgrade and revise the city's zoning and subdivision ordinances.
3. Continue our efforts to upgrade the street and utility systems.
4. Continue providing an adequate level of police, fire and ambulance services.
5. Continue analysis of refuse collection practices, landfill alternatives and productivity measures.

Sincerely,

Mayor (or Budget Officer)

Budget and Supporting Data

The budget document shows a clear comparison between expenditures included in the proposed budget and actual expenditures for the same or similar purposes the preceding year. The budget must show each of the projects for which expenditures are set up plus the estimated amount of money needed for each project. The budget must also contain a complete financial statement of the municipality.¹

In addition to the budget itself and the accompanying exhibits described in Chapter 2, the following supplemental data can be included:

- An organizational chart of the structure of the city government and its departments;
- Projections of local population, employment and economic trends;
- Trends in specific city services, such as increases in the number of persons using city services and facilities;
- Graphic illustrations of municipal expenditures and revenue over a multi-year period; and
- Comparisons of city tax rates, utility charges and other user fees with those of other cities.

Budget and Other Ordinances

To adopt the budget, the city council must appropriate the funds in the budget. Ordinances may also be necessary to establish charges and fees or utility rates necessary to provide the funds to

support the adopted budget. If the council chooses to change any of the rate structures, appropriate ordinances will be needed.

Throughout the council's budget discussions, the focus should be on standards of service, the volume of work to be performed and the cost of each proposed change. Full consideration of the relationships between services and expenditures should bring about a better understanding among the council, the budget officer, department heads and the public. Performance based budgeting, which includes programs' operating goals and strategies, is particularly helpful for measuring expenditures effect on services.

As the council discusses the budget, it needs to determine if the proposed tax rate and spending plan meets the city's needs. City officials should inform citizens about municipal issues. Public hearings, newspaper announcements, radio programs, speeches by city officials and printed budget summaries are all useful when notifying the community and helpful when attempting to obtain feedback on budget actions.

Budget Ordinance

After the public hearings on the budget and proposed tax rate or fee increases, the city council carefully considers suggestions expressed by local citizens and, as appropriate, amends the proposed budget. The statutes require "at the conclusion of the public hearing, the governing body of the municipality shall take action on the proposed budget."² While this directive appears to require the city council to make any needed changes and adopt the budget as soon as the hearing is over, the council's "action" could be to postpone a final vote to allow time to consider the public's suggestions. To initiate this delay, the city's attorney may suggest that the council recess the hearing until the following day. The hearing could be reconvened the next day, and the council could then vote on the budget. If the delay will be for more than one day, the council must post a new meeting notice consistent with the Texas Open Meetings Act. The council then takes final action upon the budget and tax ordinances (**Exhibit 20**).

Exhibit 20: Sample Ordinance Adopting the Budget

AN ORDINANCE MAKING APPROPRIATIONS FOR THE SUPPORT OF THE CITY OF GREAT EXPECTATIONS FOR THE FISCAL YEAR BEGINNING OCTOBER 1, 2010, AND ENDING SEPTEMBER 30, 2011; APPROPRIATING MONEY TO A SINKING FUND TO PAY INTEREST AND PRINCIPAL ON THE CITY'S INDEBTEDNESS; AND ADOPTING THE ANNUAL BUDGET OF THE CITY OF GREAT EXPECTATIONS FOR THE 2010-11 FISCAL YEAR.

Whereas, the budget, appended here as Exhibit A, for the fiscal year beginning October 1, 2010, and ending September 30, 2011, was duly presented to the City Council by (chief executive officer) and a public hearing was ordered by the City Council and a public notice of said hearing was caused to be given by the City Council and said notice was published in the (newspaper name) and said public hearing was held according to said notice; now therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF GREAT EXPECTATIONS:

SECTION 1. That the appropriations for the fiscal year beginning October 1, 2010, and ending September 30, 2011, for the support of the general government of the City of Great Expectations, Texas be fixed and determined for said terms in accordance with the expenditures shown in the City's Fiscal Year 2010-11 Budget, a copy of which is appended hereto as Exhibit A;

SECTION 2. That the Budget, as shown in words and figures in Exhibit A, is hereby approved in all respects and adopted as the City's Budget for the fiscal year beginning October 1, 2010, and ending September 30, 2011.

SECTION 3. That there is hereby appropriated the amount shown in said budget necessary to provide for a sinking fund for the payment of the principal and interest and the retirement of the bonded debt requirements of Fiscal 2010-11 of the City of Great Expectations.

PASSED AND APPROVED this, the _____ day of _____, 2010.

APPROVED:

_____/s/_____
Mayor

ATTEST:

_____/S/_____
City Secretary

APPROVED AS TO FORM:

_____/S/_____
City Attorney

Property Tax Levy

Most cities in Texas rely on the property tax as an important source of revenue. If a city has a property tax, it must be adopted after the budget is approved. It may be done in the same meeting but after the budget is adopted. The tax levy should provide only the revenues needed to accomplish the budget's requirements.

The city council must adopt a tax rate and notify the tax assessor of the rate adopted before the later of Sept. 30 or the 60th day after the date the certified appraisal roll is received by the city. If the tax levy is not adopted by the later of these dates, the tax rate is set by law at the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the city for the preceding tax year. The budget may be affected by that levy.

A city in which the total tax rate proposed for the current tax year is 50 cents or less per \$100 of taxable value, and that would impose taxes of \$500,000 or less when applied to the current total value for the city, is exempt from the notice and publication requirements. Instead, the city may provide public notice of its proposed tax rate in either of the following methods not later than the seventh day before the date on which the tax rate is adopted:

- mailing a notice of the proposed tax rate to each owner of taxable property in the taxing unit; or
- publishing a notice of the proposed tax rate in the legal notices section of a newspaper having general circulation in the taxing unit.

This public notice must specify:

- the tax rate that the governing body proposes to adopt;
- the date, time and location of the meeting of the governing body of the taxing unit at which the governing body will consider adopting the proposed tax rate; and
- if the proposed tax rate for the taxing unit exceeds the unit's effective tax rate, a statement substantially identical to the following: "The proposed tax rate would increase total taxes in (*name of city*) by (*percentage by which the proposed tax rate exceeds the effective tax rate*)."

The city may not adopt a tax rate that exceeds the rate set out in the notice unless the taxing unit provides additional public notice of the higher rate.³

The tax rate must be set by ordinance (**Exhibit 21**). The vote on the ordinance setting the tax rate must be separate from the vote adopting the budget.

Exhibit 21: Sample Ordinance Setting Tax Rate

AN ORDINANCE LEVYING AD VALOREM TAXES FOR USE AND SUPPORT OF THE MUNICIPAL GOVERNMENT OF THE CITY OF GREAT EXPECTATIONS, TEXAS FOR THE 2010–11 FISCAL YEAR; PROVIDING FOR APPORTIONING EACH LEVY FOR SPECIFIC PURPOSES; AND, PROVIDING WHEN TAXES SHALL BECOME DUE AND WHEN SAME SHALL BECOME DELINQUENT IF NOT PAID.

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF GREAT EXPECTATIONS:

SECTION 1. That there is hereby levied and there shall be collected for the use and support of the municipal government of the City of Great Expectations, and to provide an Interest and Sinking fund for the 2010–11 Fiscal Year, upon all property, real, personal, and mixed, within the corporate limits of said City subject to taxation, a tax of \$ (rate) on each \$100 valuation of property, said tax being so levied and apportioned to the specific purposes here set forth:

1. For the maintenance and support of general government (General Fund), \$ (rate) on each \$100 valuation of property; and
2. For the interest and sinking fund, \$ (rate) on each \$100 valuation of property.

SECTION 2. That taxes levied under this ordinance shall be due October 1, 2010, and if not paid on or before January 31, 2011, shall immediately become delinquent.

SECTION 3. All taxes shall become a lien upon the property against which assessed, and the city tax collector of the City of Great Expectations is hereby authorized and empowered to enforce the collection of such taxes according to the Constitution and laws of the State of Texas and ordinances of the City of Great Expectations and shall, by virtue of the tax rolls, fix and establish a lien by levying upon such property, whether real or personal, for the payment of said taxes, penalty and interest, and, the interest and penalty collected from such delinquent taxes shall be apportioned to the general fund of the City of Great Expectations. All delinquent taxes shall bear interest from date of delinquency at the rate as prescribed by state law.

SECTION 4. This ordinance shall take effect and be in force from the date after its passage.

PASSED this ____ day of _____, 2010, at a regular meeting of the City Council of the City of Great Expectations, there being a quorum present, by _____ yeas and _____ nays and approved by the Mayor on the date above set out.

APPROVED:

_____/s/_____
Mayor

ATTEST:

_____/S/_____
City Secretary

APPROVED AS TO FORM:

_____/S/_____
City Attorney

Notice of Public Tax Rate Hearing

If the proposed tax rate is more than the effective rate or the rollback rate, the city must have two public hearings on the proposed tax increase. The first hearing may not be held before the seventh day after the date the notice of the public hearing on the proposed tax increase is given. The second hearing may not be held earlier than the third day after the date of the first hearing. The hearings must be on a weekday that is not a public holiday. The hearings must be held inside the city limits in a publicly owned building or, if a suitable publicly owned building is not available, in a suitable building to which the public normally has access. At the hearing, the city council must afford adequate opportunity for proponents and opponents of the tax increase to present their views.

A notice of a public hearing must be published before the hearing. The notice may be delivered by mail to each property owner in the city, or it may be published in a newspaper. If the notice is published in a newspaper, it may not be in the part of the paper in which legal notices and classified advertisements appear. If the city operates an Internet website, the notice must be posted on the website from the date the notice is first published until the second hearing is concluded.

The notice may not be smaller than one-quarter page of a standard-size or a tabloid-size newspaper, and the headline on the notice must be in 24-point or larger type. A sample notice for the public hearing follows. (**Exhibit 22**).

Exhibit 22: Notice of Public Hearing on Tax Increase*

Comptroller of Public Accounts Form 50-197 (Rev. 08-09/13)

Notice of Public Hearing on Tax Increase

The _____ (name of taxing unit) will hold two public hearings on a proposal to increase total tax revenues from properties on the tax roll in the preceding tax year by _____ percent (percentage by which proposed tax rate exceeds lower of rollback tax rate or effective tax calculated under Chapter 26, Tax Code). Your individual taxes may increase at a greater or lesser rate, or even decrease, depending on the change in the taxable value of your property in relation to the change in taxable value of all other property and the tax rate that is adopted.

The first public hearing will be held on _____ (date and time) at _____ (meeting place).

The second public hearing will be held on _____ (date and time) at _____ (meeting place).

The members of the governing body voted on the proposal to consider the tax increase as follows:

- FOR:
- AGAINST:
- PRESENT and not voting:
- ABSENT:

The average taxable value of a residence homestead in _____ last year was \$ _____ (average taxable value of a residence homestead in the taxing unit for the preceding tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older). Based on last year's tax rate of \$ _____ (preceding year's adopted tax rate) per \$100 of taxable value, the amount of taxes imposed last year on the average home was \$ _____ (tax on average taxable value of a residence homestead in the taxing unit for the preceding tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

The average taxable value of a residence homestead in _____ this year is \$ _____ (average taxable value of a residence homestead in the taxing unit for the current tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older). If the governing body adopts the effective tax rate for this year of \$ _____ per \$100 of taxable value, the amount of taxes imposed this year on the average home would be \$ _____ (tax on average taxable value of a residence homestead in the taxing unit for the current tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

If the governing body adopts the proposed tax rate of \$ _____ per \$100 of taxable value, the amount of taxes imposed this year on the average home would be \$ _____ (tax on the average taxable value of a residence homestead in the taxing unit for the current tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

Members of the public are encouraged to attend the hearings and express their views.

Special Provisions if Applicable

Criminal Justice Mandate (use for counties, if applicable):

The _____ County Auditor certifies that _____ County has spent \$ _____ in the previous 12 months beginning _____, _____, for the maintenance and operations cost of keeping inmates sentenced to the Texas Department of Criminal Justice. _____ County Sheriff has provided information on these costs, minus the state revenues received for reimbursement of such costs.

Enhanced Indigent Health Care Expenditures (use if applicable):

The _____ spent \$ _____ from _____ to _____ on enhanced indigent health care at the increased minimum eligibility standards, less the amount of state assistance. For the current tax year, the amount of increase above last year's enhanced indigent health care expenditures is _____.

* This form is available from the Comptroller of Public Accounts. Ask for Form #50-197. You can also download this form from the Comptroller's Web site at <http://window.state.tx.us/taxinfo/taxforms/02-form14.html>.

If the city owns, operates, or controls an Internet website, the city shall post notice of the public hearing on the website continuously for at least seven days immediately before the public hearing on the proposed tax rate increase and at least seven days immediately before the date of the vote proposing the increase in the tax rate. If the city has free access to a television channel, it must request that the station carry a 60-second notice of the public hearing at least five times a day between the hours of 7 a.m. and 9 p.m. for at least seven days immediately before the public hearing on the proposed tax rate increase and at least seven days immediately before the date of the vote proposing the increase in the tax rate.⁴

Notice of Vote on Tax Revenue Increase

At the public hearing, the city council shall announce the date, time, and place of the meeting at which it will vote on the proposed tax rate. After the hearing, the governing body shall give notice of the meeting at which it will vote on the proposed tax rate. This notice must be in the same form as the notice announcing the public hearing on the proposed tax increase, except that it must state “NOTICE OF VOTE ON TAX REVENUE INCREASE” (**Exhibit 23**). The meeting to vote on the tax rate must be held no earlier than three days or later than 14 days after the public hearing.

Exhibit 23: Notice of Vote on Tax Rate*



Property Tax
Form 50-198

NOTICE OF TAX REVENUE INCREASE

The _____
(name of taxing unit)
conducted public hearings on _____ and _____ on a proposal to increase
(date of first hearing) *(date of second hearing)*
the total tax revenues of the _____
(name of taxing unit)
from properties on the tax roll in the preceding year by _____ percent.
(percentage by which proposed tax rate exceeds lower of rollback rate or effective tax rate calculated under this chapter)

The total tax revenue proposed to be raised last year at last year's tax rate of _____
(insert tax rate for the preceding year)
for each \$100 of taxable value was _____.
(insert total amount of taxes imposed for the preceding year)

The total tax revenue proposed to be raised this year at the proposed tax rate of _____
(insert proposed tax rate)
for each \$100 of taxable value, excluding tax revenue to be raised from new property added to the tax roll this year, is _____.
(insert amount computed by multiplying proposed tax rate by the difference between current total value and new property value.)

The total tax revenue proposed to be raised this year at the proposed tax rate of _____
(insert proposed tax rate)
for each \$100 of taxable value, including tax revenue to be raised from new property added to the tax roll this year, is _____.
(insert amount computed by multiplying proposed tax rate by current total value.)

The _____ is scheduled to vote on the tax
(governing body of the taxing unit)
rate that will result in that tax increase at a public meeting to be held on _____
(date of meeting)
at _____
(location of meeting, including mailing address)
at _____.
(time of meeting)

The Property Tax Assistance Division at the Texas Comptroller of Public Accounts provides property tax information and resources for taxpayers, local taxing entities, appraisal districts and appraisal review boards.

For more information, visit our Web site:
www.window.state.tx.us/taxinfo/proptax

50-198 • 3-10/7

* This form is available from the Comptroller of Public Accounts. Ask for Form #50-198. You can also download this form from the Comptroller's Web site at <http://window.state.tx.us/taxinfo/taxforms/02-form14.html>.

Final Budget Requirements

The council is required to file the approved budget document with the municipal clerk. If the city maintains an Internet site, it must post the budget on the website.

Endnotes

¹ V.T.C.A., Local Government Code §102.003.

² V.T.C.A., Local Government Code §102.007.

³ V.T.C.A., Tax Code §26.052.

⁴ V.T.C.A., Tax Code §26.065.

CHAPTER 7

Operating with the Budget

Once the budget is adopted, it will serve as the city's financial guide for the upcoming fiscal year. All fiscal and accounting decisions should be based on this document.

Budgetary Control

The budget document is used to plan, control and report on the collection of revenues and the expenditure of city funds. In the budget document, the council should make a clear distinction between what is the level of control and what is merely needed for information. For example, the city council may wish to know whether a department is within its budget regarding salaries but may not be concerned with the detail of how those salaries are applied. They may want to assure that the Police Department is not overspending in salaries but may allow the Police Chief the latitude to use his salary budget for overtime pay to existing officers or for part-time help rather than hiring permanent officers if none are available. While the council would like the information on how salaries are being spent, the level of control applied would be whether the department is adhering to the overall salary budget.

The level of detail will vary from city to city. Some cities make their budgeted line items so detailed that they eliminate any flexibility. This approach may cause city staff to overspend the budgeted line items without first obtaining council's approval. If, for example, the Police Department budget provides for a specific control line item for part-time help, the Police Chief could hire someone that was needed on an emergency and over expend the line item without getting council approval for a budget amendment. If the line item, on the other hand, is not a control line item, then funds from another line item within the salary budget could be transferred to cover this expenditure without requiring prior council approval. Spending items not in the budget is a violation of state law.

The council should adopt an official budget document that summarizes expenditures by department in categories such as "salaries and wages," "general operations," and "capital outlay." For example, the budget document for the administrative department might list a dozen anticipated purchases of equipment under its request for "capital outlay." The council could adopt a budget that groups all of these purchases together under the summary category for capital outlay. This would allow the department head to use unspent budget money for a piece of equipment that costs more than anticipated.

After the council adopts the budget, the administrator should set up summary budgetary accounts on the computer to use as control accounts against spending. The city should maintain more detailed information in the accounting system for reporting purposes and in order to respond to inquiries from the mayor, the city council, and the public.

Encumbrance Accounting/Reporting Control

Encumbrances are purchase orders or other commitments for goods that have not been provided or for services that have not been performed, or for an invoice that has not been received. Encumbrances become liabilities only when goods are actually provided or services are performed. A municipal encumbrance system should be in place to track outstanding purchase orders.

In encumbrance accounting, encumbrances are formally recorded in the ledger as reductions to the budgetary accounts at the point of ordering a good/service or entering into a contract for service. Budgetary accounting combined with encumbrance accounting helps to ensure that total actual expenditures plus related commitments do not exceed appropriations. For example, this system may alert local officials that a particular purchase order for equipment or other expenditure would result in the over-commitment of a particular line item. Without encumbering these funds, subsequent purchases could result in overspending funds in an account. Encumbrance accounting facilitates effective cash planning and budget control.

Department heads and officials should be supplied copies of the approved budget, and throughout the fiscal year, they should be provided monthly reports, showing budgeted amounts for each line item, expenditures in the last month, total expenditures year-to-date, encumbrances such as outstanding purchase orders or invoices not yet received and the remaining balance in each line item.

It is also possible — in smaller municipalities — to exercise budgetary control using a simple file of unfilled or unbilled purchase orders and contracts. When a particular purchase is proposed, this file is checked to determine whether the total outstanding purchase orders would cause any appropriation to be overspent. If so, no commitment can be made unless the unencumbered balance is sufficient to cover the proposed purchase. It is critical to maintain appropriate budgetary control over all government expenditures.

Amending the Budget

Budget law requires the city council to levy taxes and spend municipal funds in strict compliance with the budget, except in an emergency. The council, however, is not prevented from making changes in the budget for municipal purposes.¹ These changes may take the form of transfers between budgeted line items, new line items or increases to existing line items that increase the overall budget. Each requires city council action before expenditure.

Trying to plan budget revenue and expenditures accurately is difficult in the best of times. A city's budget will probably need to be changed at some time during the year. City councils should amend the projected revenue budget for significant shortfalls from the estimates or for expenditures that would exceed the appropriations. Formally amending the budget for major revenue shortfalls or increased expenditures will help prevent cash shortages and protect a city's ability to pay its bills and employees.

Texas law provides for two kinds of expenditure budget amendments. If the proposed amendment results in a transfer between existing line items, with no increase in total spending, the governing body must pass a resolution or an ordinance to amend the budget. The city clerk only needs to file this with the regular council minutes.

If the amendment will create a new line item, or increase total overall spending, the governing body must declare an emergency before passing the order to amend the budget.² The emergency ordinance should explain the emergency and show the revenue or expenditure items affected.

The municipal clerk should file the ordinance with the original budget document and file a copy with the county clerk(s).

Although it has been common practice, the budget should never be amended at the end of the year merely to make all budgeted amounts equal actual expenditures. This gives a false picture of revenue and expenditures. It makes the budget document useless as a tool for planning, control and evaluation. It can mislead the taxpayers and the city council. Under GASB 34 standards,

governments are required to continue to provide budgetary comparison information in their annual reports. There is a requirement to add the government's original budget to that comparison. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budget in addition to their revised budget adds a new analytical dimension and increases usefulness of the budgetary comparison.

Budgetary changes are not, by their nature, undesirable. However, the information will be important — in the interest of accountability — to those who are aware of, and perhaps made decisions based on, the original budget. It will also allow users to assess the government's ability to estimate and manage its general resources. Showing budgetary compliance is an important component of government's accountability. It is important because compliance assists in maintaining a municipality's debt rating.

Budgeting for Surpluses and Contingencies

In 1985, some city taxpayers challenged their city's tax levy because they believed the city's reserve fund was large enough to preclude the city from collecting its planned tax levy. A Texas appeals court disagreed. The appeals court reasoned that "Texas law places the power to levy taxes within the discretion of the city's governing body, and because the power to maintain a reasonable budget surplus may be reasonably implied from the Texas Constitution and the City's charter, we find no abuse of discretion in maintaining that surplus."³ Although the city involved in this case was a home rule city, since the court mentioned the Texas Constitution, one can surmise it applies to general-law cities as well.

Although beginning cash balances must be reported, the council is not obligated to reduce the amount of tax levy for the coming year by this amount. It is within the discretion of the council to determine what is a reasonable surplus and to set the tax rate accordingly.

Cities may legally budget contingency appropriations. The courts consider "contingency" and "surplus" to have separate meanings and have ruled that a city's charter limitation on contingency appropriations does not apply to the fund surplus.⁴ By not ruling against contingency appropriations, the court has indirectly approved such practices, at least for charter cities. As a practical matter, however, councils should limit the use of contingency appropriations.

Disposition of Budget Balances

Unspent amounts left in budget line items at the end of the year become part of the fund balance, subject to disposition by the city council or disposition as specified in the city charter. These funds do not automatically carry over into next year's budget in the same line item.

A city, however, may set aside encumbered funds committed to a capital construction project and show these funds as a part of the ending balance. These encumbered funds should be included in the next year's budget in the appropriate capital expenditure line item.

Budget Balancing Techniques: How to Do More with Less

There are different ways to arrive at a balanced budget.

1. **Trim Expenditures:** This action may take the form of an across-the-board reduction, such as "cut travel expense by 20 percent" or "reduce all departmental budgets by 5 percent." This approach may not be a good solution, because it may not result in a large amount of savings. It also ignores managerial responsibility to shift resources from the less needed programs to the more important ones. For example, an automatic cut of 15 percent in everything, or even in just one account, ignores differences in departments and programs.

One office may already be operating with minimum staff and equipment and would be substantially hindered, while another office may have excess resources.

2. **Reduce Programs:** An example would be to reduce library hours in the evenings. The services are still available, but would require less personnel cost.
3. **Eliminate Programs:** Such a strategy seeks to evaluate those areas that have diminished in importance, have accomplished their intended purpose, no longer serve the targeted population, or are duplicative. By eliminating programs or services, the municipality may yield the most savings.
4. **Use Reserves:** This tact should only be used as a temporary balancing measure, because using reserves may only delay a tax increase or other balancing action for a year or two, but could create major problems later.
5. **Defer Expenditures:** This approach is a popular balancing method but should be used cautiously. Many financial crises are the result of deferring needed vehicles and capital infrastructure replacements. This deferral can amass a large liability for future budgets.
6. **Eliminate the Fat:** This suggestion may sound good, but experience has shown there is not really as much “fat” in municipal governments as outsiders may believe.
7. **Improve Productivity:** The popular concept of “doing more with less” should be part of management’s program to look for better ways to provide services through improved methods and increased use of automation. It may be difficult, however, to budget the amount necessary to pay the initial expense of consultation, internal research and developing technology.
8. **Expand Revenue Base:** Increasing fees and expanding the sales tax base through annexation can expand the revenue base. This method does not always produce significant income, and there may be a backlash from the public for raising fees such as those assessed on users of the local parks and swimming pools.
9. **Increase Property Tax:** As unpopular as this budget balancing approach may be, it is frequently used, but also may produce fewer backlashes than a reduction or elimination of services.
10. **Seek grants**

Endnotes

- ¹ V.T.C.A., Local Government Code §102.010.
- ² V.T.C.A., Local Government Code §102.009.
- ³ Kyle v. Stone, 699 S.W.2d 578, 1985 Tex. App.
- ⁴ Ibid.

APPENDIX A

Local Government Code: Municipal Budget

Section 102.001. Budget Officer

- (a) The mayor of a municipality serves as the budget officer for the governing body of the municipality except as provided by Subsection (b).
- (b) If the municipality has the city manager form of government, the city manager serves as the budget officer.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.002. Annual Budget Required

The budget officer shall prepare each year a municipal budget to cover the proposed expenditures of the municipal government for the succeeding year.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.003. Itemized Budget; Contents

- (a) The budget officer shall itemize the budget to allow as clear a comparison as practicable between expenditures included in the proposed budget and actual expenditures for the same or similar purposes made for the preceding year. The budget must show as definitely as possible each of the projects for which expenditures are set up in the budget and the estimated amount of money carried in the budget for each project.
- (b) The budget must contain a complete financial statement of the municipality that shows:
 - (1) the outstanding obligations of the municipality;
 - (2) the cash on hand to the credit of each fund;
 - (3) the funds received from all sources during the preceding year;
 - (4) the funds available from all sources during the ensuing year;
 - (5) the estimated revenue available to cover the proposed budget; and
 - (6) the estimated tax required to cover the proposed budget.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.004. Information Furnished by Municipal Officers and Boards

In preparing the budget, the budget officer may require any municipal officer or board to furnish information necessary for the budget officer to properly prepare the budget.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.005. Proposed Budget Filed With Municipal Clerk; Public Inspection

- (a) The budget officer shall file the proposed budget with the municipal clerk before the 30th day before the date the governing body of the municipality makes its tax levy for the fiscal year.
- (b) A proposed budget that will require raising more revenue from property taxes than in the previous year must contain a cover page with the following statement in 18-point or larger type: "This budget will raise more total property taxes than last year's budget by (insert total dollar amount of increase and percentage increase), and of that amount (insert amount

computed by multiplying the proposed tax rate by the value of new property added to the roll) is tax revenue to be raised from new property added to the tax roll this year.”

- (c) The proposed budget shall be available for inspection by any person. If the municipality maintains an Internet website, the municipal clerk shall take action to ensure that the proposed budget is posted on the website.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by: Acts 2007, 80th Leg., R.S., ch. 924, Sec. 2, eff. September 1, 2007.

Section 102.006. Public Hearing on Proposed Budget

- (a) The governing body of a municipality shall hold a public hearing on the proposed budget. Any person may attend and may participate in the hearing.
- (b) The governing body shall set the hearing for a date occurring after the 15th day after the date the proposed budget is filed with the municipal clerk but before the date the governing body makes its tax levy.
- (c) The governing body shall provide for public notice of the date, time, and location of the hearing. The notice must include, in type of a size at least equal to the type used for other items in the notice, any statement required to be included in the proposed budget under Section 102.005(b).

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by: Acts 2007, 80th Leg., R.S., ch. 924, Sec. 3, eff. September 1, 2007.

Section 102.0065. Special Notice by Publication for Budget Hearing

- (a) The governing body of a municipality shall publish notice before a public hearing relating to a budget in at least one newspaper of general circulation in the county in which the municipality is located.
- (b) Notice published under this section is in addition to notice required by other law, except that if another law requires the governing body to give notice, by publication, of a hearing on a budget this section does not apply.
- (c) Notice under this section shall be published not earlier than the 30th or later than the 10th day before the date of the hearing.
- (d) Notice under this section must include, in type of a size at least equal to the type used for other items in the notice, any statement required to be included in the proposed budget under Section 102.005(b).

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 24, eff. Sept. 1, 1993. Amended by Acts 2001, 77th Leg., ch. 402, Sec. 9, eff. Sept. 1, 2001. Amended by: Acts 2007, 80th Leg., R.S., Ch. 924, Sec. 3, eff. September 1, 2007

Section 102.007. Adoption of Budget

- (a) At the conclusion of the public hearing, the governing body of the municipality shall take action on the proposed budget.
- (b) The governing body may make any changes in the budget that it considers warranted by the law or by the best interest of the municipal taxpayers.
- (c) Adoption of a budget that will require raising more revenue from property taxes than in the previous year requires a separate vote of the governing body to ratify the property tax increase reflected in the budget. A vote under this subsection is in addition to and separate from the vote to adopt the budget or a vote to set the tax rate required by Chapter 26, Tax Code, or other law.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by: Acts 2007, 80th Leg., R.S., Ch. 924, Sec. 4, eff. September 1, 2007.

Section 102.008. Approved Budget Filed With Municipal Clerk; Posting on Internet

On final approval of the budget by the governing body of the municipality, the governing body shall:

- (1) file the budget with the municipal clerk; and
- (2) if the municipality maintains an Internet website, take action to ensure that a copy of the budget is posted on the website.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by: Acts 2007, 80th Leg., R.S., Ch. 924, Sec. 5, eff. September 1, 2007.

Section 102.009. Levy of Taxes and Expenditure of Funds Under Budget; Emergency Expenditure

- (a) The governing body of the municipality may levy taxes only in accordance with the budget.
- (b) After final approval of the budget, the governing body may spend municipal funds only in strict compliance with the budget, except in an emergency.
- (c) The governing body may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention. If the governing body amends the original budget to meet an emergency, the governing body shall file a copy of its order or resolution amending the budget with the municipal clerk, and the clerk shall attach the copy to the original budget.
- (d) After adoption of the budget or a budget amendment, the budget officer shall provide for the filing a true copy of the approved budget or amendment in the office of the county clerk of the county in which the municipality is located.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.010. Changes in Budget for Municipal Purposes

This chapter does not prevent the governing body of the municipality from making changes in the budget for municipal purposes.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Section 102.011. Circumstances Under Which Charter Provisions Control

If a municipality has already adopted charter provisions that require the preparation of an annual budget covering all municipal expenditures and if the municipality conducts a public hearing on the budget as provided by Section 102.006 and otherwise complies with the provisions of this chapter relating to property tax increases, the charter provisions control. After the budget has been finally prepared and approved, a copy of the budget and the amendments to the budget shall be filed with the county clerk, as required for other budgets under this chapter.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by: Acts 2007, 80th Leg., R.S., Ch. 924, Sec. 6, eff. September 1, 2007

APPENDIX B

Tax Code: Assessment

Section 26.05. Tax Rate

- (a) The governing body of each taxing unit, before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, shall adopt a tax rate for the current tax year and shall notify the assessor for the unit of the rate adopted. The tax rate consists of two components, each of which must be approved separately. The components are:
- (1) for a taxing unit other than a school district, the rate that, if applied to the total taxable value, will impose the total amount published under Section 26.04(e)(3)(C), less any amount of additional sales and use tax revenue that will be used to pay debt service, or, for a school district, the rate published under Section 44.004(c)(5)(A)(ii)(b), Education Code; and
 - (2) the rate that, if applied to the total taxable value, will impose the amount of taxes needed to fund maintenance and operation expenditures of the unit for the next year.
- (b) A taxing unit may not impose property taxes in any year until the governing body has adopted a tax rate for that year, and the annual tax rate must be set by ordinance, resolution, or order, depending on the method prescribed by law for adoption of a law by the governing body. The vote on the ordinance, resolution, or order setting the tax rate must be separate from the vote adopting the budget. The vote on the ordinance, resolution, or order setting a tax rate that exceeds the effective tax rate must be a record vote. A motion to adopt an ordinance, resolution, or order setting a tax rate that exceeds the effective tax rate must be made in the following form: “I move that the property tax rate be increased by the adoption of a tax rate of (specify tax rate), which is effectively a (insert percentage by which the proposed tax rate exceeds the effective tax rate) percent increase in the tax rate.” If the ordinance, resolution, or order sets a tax rate that, if applied to the total taxable value, will impose an amount of taxes to fund maintenance and operation expenditures of the taxing unit that exceeds the amount of taxes imposed for that purpose in the preceding year, the taxing unit must:
- (1) include in the ordinance, resolution, or order in type larger than the type used in any other portion of the document:
 - (A) the following statement: “THIS TAX RATE WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR’S TAX RATE.”; and
 - (B) if the tax rate exceeds the effective maintenance and operations rate, the following statement: “THE TAX RATE WILL EFFECTIVELY BE RAISED BY (INSERT PERCENTAGE BY WHICH THE TAX RATE EXCEEDS THE EFFECTIVE MAINTENANCE AND OPERATIONS RATE) AND PERCENT AND WILL RAISE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 HOME BY APPROXIMATELY \$(Insert amount).”; and
 - (2) include on the home page of any Internet website operated by the unit:
 - (A) the following statement: “(Insert name of unit) ADOPTED A TAX RATE THAT WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR’S TAX RATE”; and
 - (B) if the tax rate exceeds the effective maintenance and operations rate, the following statement: “THE TAX RATE WILL EFFECTIVELY BE RAISED BY (INSERT

PERCENTAGE BY WHICH THE TAX RATE EXCEEDS THE EFFECTIVE MAINTENANCE AND OPERATIONS RATE) AND PERCENT AND WILL RAISE TAXES FOR MAINTENANCE AND OPERATIONS ON A \$100,000 HOME BY APPROXIMATELY \$(Insert amount).”

- (c) If the governing body of a taxing unit does not adopt a tax rate before the date required by Subsection (a), the tax rate for the taxing unit for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. A tax rate established by this subsection is treated as an adopted tax rate. Before the fifth day after the establishment of a tax rate by this subsection, the governing body of the taxing unit must ratify the applicable tax rate in the manner required by Subsection (b).
- (d) The governing body of a taxing unit other than a school district may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate calculated as provided by this chapter until the governing body has held two public hearings on the proposed tax rate and has otherwise complied with Section 26.06 and Section 26.065. The governing body of a taxing unit shall reduce a tax rate set by law or by vote of the electorate to the lower of the rollback tax rate or the effective tax rate and may not adopt a higher rate unless it first complies with Section 26.06.
- (e) A person who owns taxable property is entitled to an injunction restraining the collection of taxes by a taxing unit in which the property is taxable if the taxing unit has not complied with the requirements of this section and the failure to comply was not in good faith. An action to enjoin the collection of taxes must be filed prior to the date a taxing unit delivers substantially all of its tax bills.
- (f) Except as required by the law under which an obligation was created, the governing body may not apply any tax revenues generated by the rate described in Subsection (a)(1) of this section for any purpose other than the retirement of debt.
- (g) Notwithstanding Subsection (a), the governing body of a school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll for the school district if the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district as provided by Section 26.01(e). If a school district adopts a tax rate under this subsection, the effective tax rate and the rollback tax rate of the district shall be calculated based on the certified estimate of taxable value.

Acts 1979, 66th Leg., p. 2268, ch. 841, Sec. 1, eff. Jan. 1, 1982. Amended by Acts 1981, 67th Leg., 1st C.S., p. 164, ch. 13, Sec. 117, eff. Jan. 1, 1982; Acts 1985, 69th Leg., ch. 657, Sec. 3, eff. June 14, 1985; Acts 1987, 70th Leg., ch. 699, Sec. 2, eff. June 19, 1987; Acts 1987, 70th Leg., ch. 947, Sec. 7, eff. Jan. 1, 1988; Acts 1987, 70th Leg., ch. 988, Sec. 2, eff. June 18, 1987; Acts 1991, 72nd Leg., ch. 404, Sec. 1, eff. Jan. 1, 1992; Acts 1997, 75th Leg., ch. 165, Sec. 29.06, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1039, Sec. 27, eff. Jan. 1, 1998; Acts 1999, 76th Leg., ch. 398, Sec. 3, eff. Aug. 30, 1999; Acts 1999, 76th Leg., ch. 423, Sec. 1, eff. Jan. 1, 2000; Acts 1999, 76th Leg., ch. 1358, Sec. 2, eff. Jan. 1, 2000.

Amended by: Acts 2005, 79th Leg., Ch. 412, Sec. 13, eff. September 1, 2005. Acts 2005, 79th Leg., Ch. 1368, Sec. 1, eff. June 18, 2005. Acts 2007, 80th Leg., R.S., Ch. 921, Sec. 14.001, eff. September 1, 2007.

Section 26.051. Evidence of Unrecorded Tax Rate Adoption

- (a) If a taxing unit does not make a proper record of the adoption of a tax rate for a year but the tax rate can be determined by examining the tax rolls for that year, the governing body of the taxing unit may take testimony or make other inquiry to determine whether a tax rate was properly adopted for that year. If the governing body determines that a tax rate

was properly adopted, it may order that its official records for that year be amended nunc pro tunc to reflect the adoption of the rate.

- (b) An amendment of the official records made under Subsection (a) of this section is prima facie evidence that the tax rate entered into the records was properly and regularly adopted for that year. Stomach

Added by Acts 1989, 71st Leg., ch. 2, Sec. 14.01(a), eff. Aug. 28, 1989.

Section 26.052. Simplified Tax Rate Notice for Taxing Units With Low Tax Levies

- (a) This section applies only to a taxing unit for which the total tax rate proposed for the current tax year:
 - (1) is 50 cents or less per \$100 of taxable value; and
 - (2) would impose taxes of \$500,000 or less when applied to the current total value for the taxing unit.
- (b) A taxing unit to which this section applies is exempt from the notice and publication requirements of Section 26.04(e) and is not subject to an injunction under Section 26.04(g) for failure to comply with those requirements.
- (c) A taxing unit to which this section applies may provide public notice of its proposed tax rate in either of the following methods not later than the seventh day before the date on which the tax rate is adopted:
 - (1) mailing a notice of the proposed tax rate to each owner of taxable property in the taxing unit; or
 - (2) publishing notice of the proposed tax rate in the legal notices section of a newspaper having general circulation in the taxing unit.
- (d) A taxing unit that provides public notice of a proposed tax rate under Subsection (c) is exempt from Sections 26.05(d) and 26.06 and is not subject to an injunction under Section 26.05(e) for failure to comply with Section 26.05(d). A taxing unit that provides public notice of a proposed tax rate under Subsection (c) may not adopt a tax rate that exceeds the rate set out in the notice unless the taxing unit provides additional public notice under Subsection (c) of the higher rate or complies with Sections 26.05(d) and 26.06, as applicable, in adopting the higher rate.
- (e) Public notice provided under Subsection (c) must specify:
 - (1) the tax rate that the governing body proposes to adopt;
 - (2) the date, time, and location of the meeting of the governing body of the taxing unit at which the governing body will consider adopting the proposed tax rate; and
 - (3) if the proposed tax rate for the taxing unit exceeds the unit's effective tax rate calculated as provided by Section 26.04, a statement substantially identical to the following: "The proposed tax rate would increase total taxes in (name of taxing unit) by (percentage by which the proposed tax rate exceeds the effective tax rate)."

Added by Acts 1999, 76th Leg., ch. 255, Sec. 1, eff. May 28, 1999.

Section 26.06. Notice, Hearing, and Vote on Tax Increase

- (a) A public hearing required by Section 26.05 may not be held before the seventh day after the date the notice of the public hearing is given. The second hearing may not be held earlier than the third day after the date of the first hearing. Each hearing must be on a weekday that is not a public holiday. Each hearing must be held inside the boundaries of the unit in a publicly owned building or, if a suitable publicly owned building is not available, in a suitable building to which the public normally has access. At the hearings, the

governing body must afford adequate opportunity for proponents and opponents of the tax increase to present their views.

- (b) The notice of a public hearing may not be smaller than one-quarter page of a standard-size or a tabloid-size newspaper, and the headline on the notice must be in 24-point or larger type. The notice must contain a statement in the following form:

“NOTICE OF PUBLIC HEARING ON TAX INCREASE

“The (name of the taxing unit) will hold two public hearings on a proposal to increase total tax revenues from properties on the tax roll in the preceding tax year by (percentage by which proposed tax rate exceeds lower of rollback tax rate or effective tax rate calculated under this chapter) percent. Your individual taxes may increase at a greater or lesser rate, or even decrease, depending on the change in the taxable value of your property in relation to the change in taxable value of all other property and the tax rate that is adopted.

“The first public hearing will be held on (date and time) at (meeting place).

“The second public hearing will be held on (date and time) at (meeting place).

“(Names of all members of the governing body, showing how each voted on the proposal to consider the tax increase or, if one or more were absent, indicating the absences.)

“The average taxable value of a residence homestead in (name of taxing unit) last year was \$ (average taxable value of a residence homestead in the taxing unit for the preceding tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older). Based on last year’s tax rate of \$ (preceding year’s adopted tax rate) per \$100 of taxable value, the amount of taxes imposed last year on the average home was \$ (tax on average taxable value of a residence homestead in the taxing unit for the preceding tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

“The average taxable value of a residence homestead in (name of taxing unit) this year is \$ (average taxable value of a residence homestead in the taxing unit for the current tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older). If the governing body adopts the effective tax rate for this year of \$ (effective tax rate) per \$100 of taxable value, the amount of taxes imposed this year on the average home would be \$ (tax on average taxable value of a residence homestead in the taxing unit for the current tax year, disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

“If the governing body adopts the proposed tax rate of \$ (proposed tax rate) per \$100 of taxable value, the amount of taxes imposed this year on the average home would be \$ (tax on the average taxable value of a residence in the taxing unit for the current year disregarding residence homestead exemptions available only to disabled persons or persons 65 years of age or older).

“Members of the public are encouraged to attend the hearings and express their views.”

- (c) The notice of a public hearing under this section may be delivered by mail to each property owner in the unit, or may be published in a newspaper. If the notice is published in a newspaper, it may not be in the part of the paper in which legal notices and classified advertisements appear. If the taxing unit operates an Internet website, the notice must be posted on the website from the date the notice is first published until the second public hearing is concluded.
- (d) At the public hearings the governing body shall announce the date, time, and place of the meeting at which it will vote on the proposed tax rate. After each hearing the governing body shall give notice of the meeting at which it will vote on the proposed tax rate and the notice shall be in the same form as prescribed by Subsections (b) and (c), except that it must state the following:

“NOTICE OF TAX REVENUE INCREASE

“The (name of the taxing unit) conducted public hearings on (date of first hearing) and (date of second hearing) on a proposal to increase the total tax revenues of the (name of the taxing unit) from properties on the tax roll in the preceding year by (percentage by which proposed tax rate exceeds lower of rollback tax rate or effective tax rate calculated under this chapter) percent.

“The total tax revenue raised last year at last year’s tax rate of (insert tax rate for the preceding year) for each \$100 of taxable value was (insert total amount of taxes imposed in the preceding year).

“The total tax revenue proposed to be raised this year at the proposed tax rate of (insert proposed tax rate) for each \$100 of taxable value, excluding tax revenue to be raised from new property added to the tax roll this year, is (insert amount computed by multiplying proposed tax rate by the difference between current total value and new property value).

“The total tax revenue proposed to be raised this year at the proposed tax rate of (insert proposed tax rate) for each \$100 of taxable value, including tax revenue to be raised from new property added to the tax roll this year, is (insert amount computed by multiplying proposed tax rate by current total value).

“The (governing body of the taxing unit) is scheduled to vote on the tax rate that will result in that tax increase at a public meeting to be held on (date of meeting) at (location of meeting, including mailing address) at (time of meeting).”

- (e) The meeting to vote on the tax increase may not be earlier than the third day or later than the 14th day after the date of the second public hearing. The meeting must be held inside the boundaries of the taxing unit in a publicly owned building or, if a suitable publicly owned building is not available, in a suitable building to which the public normally has access. If the governing body does not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate by the 14th day, it must give a new notice under Subsection (d) before it may adopt a rate that exceeds the lower of the rollback tax rate or the effective tax rate.

(f) Repealed by Acts 2005, 79th Leg., Ch. 1368, Sec. 6, eff. June 18, 2005.

- (g) This section does not apply to a school district. A school district shall provide notice of a public hearing on a tax increase as required by Section 44.004, Education Code.

Acts 1979, 66th Leg., p. 2278, ch. 841, Sec. 1, eff. Jan. 1, 1982. Amended by Acts 1981, 67th Leg., 1st C.S., p. 164, ch. 13, Sec. 118, eff. Jan. 1, 1982; Acts 1983, 68th Leg., p. 5464, ch. 1029, Sec. 1, eff. Sept. 1, 1983; Acts 1985, 69th Leg., ch. 657, Sec. 4, eff. June 14, 1985; Acts 1985, 69th Leg., 1st C.S., ch. 1, Sec. 3, eff. Sept. 1, 1986; Acts 1987, 70th Leg., ch. 456, Sec. 1, eff. Aug. 31, 1987; Acts 1987, 70th Leg., ch. 947, Sec. 8, eff. Jan. 1, 1988; Acts 1989, 71st Leg., ch. 940, Sec. 1, eff. Sept. 1, 1989; Acts 1991, 72nd Leg., 2nd C.S., ch. 6, Sec. 46, eff. Sept. 1, 1991; Acts 1997, 75th Leg., ch. 165, Sec. 29.07, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1039, Sec. 28, 29, eff. Jan. 1, 1998; Acts 1999, 76th Leg., ch. 398, Sec. 4, eff. Aug. 30, 1999; Acts 1999, 76th Leg., ch. 1358, Sec. 3, eff. Jan. 1, 2000.

Amended by: Acts 2005, 79th Leg., Ch. 807, Sec. 1, eff. June 17, 2005. Acts 2005, 79th Leg., Ch. 1368, Sec. 2, eff. June 18, 2005. Acts 2005, 79th Leg., Ch. 1368, Sec. 6, eff. June 18, 2005. Acts 2007, 80th Leg., R.S., Ch. 1105, Sec. 1, eff. January 1, 2008. Acts 2007, 80th Leg., R.S., Ch. 1112, Sec. 5(a), eff. January 1, 2008. Acts 2007, 80th Leg., R.S., Ch. 1112, Sec. 5(b), eff. January 1, 2008. Acts 2007, 80th Leg., R.S., Ch. 1112, Sec. 5(c), eff. January 1, 2008.

Section 26.065. Supplemental Notice of Hearing on Tax Rate Increase

- (a) In addition to the notice required under Section 26.06, the governing body of a taxing unit required to hold a public hearing by Section 26.05(d) shall give notice of the hearing in the manner provided by this section.

- (b) If the taxing unit owns, operates, or controls an Internet Web site, the unit shall post notice of the public hearing on the Web site continuously for at least seven days immediately before the public hearing on the proposed tax rate increase and at least seven days immediately before the date of the vote proposing the increase in the tax rate.
- (c) If the taxing unit has free access to a television channel, the taxing unit shall request that the station carry a 60-second notice of the public hearing at least five times a day between the hours of 7 a.m. and 9 p.m. for at least seven days immediately before the public hearing on the proposed tax rate increase and at least seven days immediately before the date of the vote proposing the increase in the tax rate.
- (d) The notice of the public hearing required by Subsection (b) must contain a statement that is substantially the same as the statement required by Section 26.06(b).
- (e) This section does not apply to a taxing unit if the taxing unit:
 - (1) is unable to comply with the requirements of this section because of the failure of an electronic or mechanical device, including a computer or server; or
 - (2) is unable to comply with the requirements of this section due to other circumstances beyond its control.
- (f) A person who owns taxable property is not entitled to an injunction restraining the collection of taxes by a taxing unit in which the property is taxable if the taxing unit has, in good faith, attempted to comply with the requirements of this section.

Added by Acts 1999, 76th Leg., ch. 1358, Sec. 5, eff. Jan. 1, 2001. Amended by: Acts 2005, 79th Leg., Ch. 1368, Sec. 3, eff. June 18, 2005.

APPENDIX C

Alternative Methods of Budgeting

Line-item Budgeting

A line-item budget lists, in vertical columns, each of the city's revenue sources and each of the types — or classes — of items the city will purchase during the fiscal year. Included below is an example of how the line-item budgeting would be used in a small town public works department.

The line-item budget, which is the most widely used of all budgeting systems, offers many advantages. It is comparatively easy to prepare and doesn't require sophisticated financial skills. Also, the line-item budget is straightforward, simple to administer and readily understood by the city council, city employees and citizens. Moreover, the simplicity of the system makes it easier for the city council and administrator to monitor revenues and expenditures, which is important in this era of shrinking resources.

DEPARTMENT: Public Works

Expenditure Classification	Previous Fiscal Year 2008-2009: Actual	Current Fiscal Year 2009-2010: Budgeted	Next Fiscal Year 2010-11: Requested
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$

The major deficiency of line-item budgeting is that the laundry-list format of the system provides no method for determining the amount of a particular city service produced by a given level of spending. Also, the broad expenditure categories used in a line-item budget make it difficult to set service priorities because there is no way to calculate the quantity or quality of services that would result from various expenditure levels.

Program Budgeting

Unlike the line-item budget, which lists total departmental appropriations by items for which the city will spend funds, a program budget displays a series of "mini-budgets," which show the cost of each of the activities that city departments perform. In the case of the water department, for example, a separate mini-budget would be established for water production and distribution, water system repair and maintenance and meter reading.

The sample that follows shows the budget for the street sweeping program of a public works department. Each of the other programs conducted by the department — street repair, solid waste collection and inspection services — would have a similar, separate budget.

DEPARTMENT: Public Works
PROGRAM: Street Sweeping

Expenditure Classification	Prev. Fiscal Year 2008-09: Actual	Current Fiscal Year 2009-10: Budgeted	Next Fiscal Year 2010-11: Requested
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$

Program budgeting enables the city council and administrator to identify the total cost of each municipal service and set spending levels and priorities accordingly. The downside to the program budget approach is that considerable time is required to establish and maintain the system. Also, programs tend to overlap, both between departments and within the same departments, which can make collecting data difficult.

Performance Budgeting

Performance budgeting is the same as program budgeting, except that one additional component — performance — is included to tie expenditures for each program to specific goals established for that program. For example, the amount budgeted for street sweeping would be tied to an expected level of performance, such as sweeping “X” number miles of streets during the fiscal year.

If the city council chooses to increase the level of street sweeping to sweeping residential streets once every two weeks rather than once each month, the council can easily relate the cost of sweeping per mile and then multiply this figure by the additional miles that are to be added to the street sweeping program to determine the new budget figure.

Performance budgeting provides spending data that the city council and administrator can examine at the end of the fiscal year to identify the amount of service that each city department has actually produced. Additionally, by knowing the exact cost of each service, the council can determine its relative usefulness compared to the other spending priorities.

The negative aspect of performance budgeting is that it is difficult to develop measurable performance goals for simple programs, such as street sweeping. It is hard to set measurable goals for emergency medical services and other less-quantitative programs. Also, data collection can be difficult.

Zero-Based Budgeting

Zero-based budgeting is a system that requires all departments to defend their programs and justify their continuation each year. Instead of simply penciling in the amounts of the additional funds that are needed in each account, the department head must prepare a series of “decision packages” that describe — and justify — each of the department’s programs in detail.

For each program, the department must show:

- the various levels of service that could be provided with different levels of funding — including zero funding;
- alternative courses of action; and
- the consequences of funding the service at different levels, or not funding it at all.

In the decision package below, the head of the public works department is required to show what would happen if the amount budgeted next fiscal year for street sweeping were reduced by 25

percent. Similar decision packages would have to be prepared to show the effects of maintaining the funding at the current level, of increasing and of reducing expenditures by various percentages, or abolishing the program altogether.

DEPARTMENT: Public Works

PROGRAM: Street Sweeping

Instructions: Complete this decision package on the assumption of three different levels: continuation of the current funding level, a 10 percent reduction, and a 25 percent reduction.

Continuation Expenditure Classification	Continuation of the Current Level of Funding	Assuming a 10% Reduction in Funding	Assuming a 25% Reduction in Funding
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$

Please describe the desired results of this program: _____

Please list any alternatives and describe them: _____

How and when will the results be accomplished: _____

For each level of service, please clearly identify the results of operating at that level of funding:

What would be the result of totally eliminating this program? _____

Upon completing the decision packages for each program, the department head ranks each program's relative importance to the other programs within that department. This ranking enables the department head to express opinions on service priorities.

If cutbacks are deemed necessary, the council can begin by trimming the lowest priority service by the smallest amount of expenditure shown in the decision package for that program. The council can make further reductions by working upward through other higher-ranking programs. It is important that each department head follow closely the priorities established by the city council in the policy statement that was issued before the staff began working on the budget.

The most positive feature of zero-based budgeting is that it requires a thorough evaluation of all programs on a continuing basis and encourages proper funding for priority programs at the expense of less useful programs. The major drawback to zero-based budgeting is that it is extremely time-consuming, costly, and requires a level of staff expertise that is not often available in small cities.

APPENDIX D

Explanation of Budget and Accounting Categories and Terms

By John Clary, Texas Department of Housing and Community Affairs

The following are descriptions of various categories, line items and account numbers that may be used in the budgeting and accounting of local government funds. The descriptions have been designed for municipal budgets, but can be modified to include most other governmental operations such as rural fire prevention districts, small counties, etc.

The categories and descriptions are merely guides from which a city may pick and choose, add to or delete, modify or whatever, to develop descriptions that meet its needs. A larger organization may use most of the categories and even add more. A smaller organization may use only a few of the categories and may group several into one. The key is to develop adequate descriptions so that the bookkeeper, upon preparing receipts of funds or vouchers for payment, can readily identify the proper account to be credited or charged; a manager can easily keep track of budget accounts; or a council member can easily see where the funds come from and where they go.

The descriptions are separated into two groups. The first group is revenue accounts and is identified in the 800 and 900 series. The expenditure accounts are included in the 100 through 700 series. There is no magic to the numbering system or to the descriptions. Each entity is encouraged to work with its independent auditor to establish an accounting and account identification system that meets the needs of that entity.

Explanation of terms of all revenue accounts

I. GENERAL FUND ACCOUNTS

800 General Fund Revenue Accounts

To include all General Fund revenues and income from any source.

810 to 819 All Taxes

To include all receipts on revenues from taxes of any kind.

811 Ad Valorem Taxes

To include all revenue from ad valorem or property taxes on both real and personal properties within the taxing jurisdiction. Calculations to determine the expected revenue totals should delete from current collections that percentage of taxes that are anticipated to be delinquent during the course of the year.

812 Delinquent Taxes and Penalties

To include all taxes not paid within the statutory prescribed time. The account should also include any penalties, interests, etc.

813 Sales Taxes

To include sales and use taxes collected by the State Comptroller and remitted back to the city from which the city's share was collected.

814 Franchise Fee or Street Rentals

To include any gross receipt taxes, franchise fees or other payments for the privilege of using the city streets.

815 Bingo

To include taxes or receipts from bingo parlors or other receipts from the playing of bingo.

816 Liquor Taxes

To include the receipts from taxes collected from sales of liquor-by-the-drink.

817 Hotel/Motel Taxes

To include the receipts from the Hotel/Motel taxes.

818 Other Taxes

To include receipts from any other taxes that are levied or collected by the city

820 Charges for Services

To include revenues from any charges or receipts for services rendered by the city.

821 Refuse Collection and Disposal (If included in the General Fund)

To include all charges or fees levied against home owners and businesses to cover the cost of collecting and disposing of refuse. Many cities include Refuse Collection and Disposal within the Enterprise Accounts.

822 Emergency Medical Services or EMS Charges

To include receipts and charges for responding to emergencies such as Emergency Medical Services, first responder assistance, etc.

826 Building Rentals

To include any receipts from rentals of buildings, grounds, etc.

827 Swimming Pool or Other Recreation Fees

To include the revenues from fees charged for swimming, use of ball fields, participation in special recreation programs, etc.

828 Equipment Rentals

To include any receipts from rental of equipment such mowing private properties, smoke evacuators, generators, etc.

829 Other

To include receipts from any other charges for services rendered.

830 Licenses and Permits

To include receipts for issuing licenses or permit fees of various kinds.

832 Construction Licenses and Permits

To include receipts for building, electrical, plumbing, and other permits, etc.

834 Business Licenses

To include receipts from various business licenses as authorized by the state such as cigarette licenses.

836 Other Licenses and Permits

To include any other licenses or permit fees levied or assessed by the city.

840 Fines & Forfeits

To include receipts from fines levied or assessed for violations of city ordinances such as traffic violations, parking violations, etc.

842 Traffic Fines & Forfeits

To include any receipts from fines levied for violations or forfeits made by individuals or companies for traffic violations.

844 Parking Fines

To include fines for parking meter violations, illegal parking, etc.

850 Contracts

To include receipts from contractual arrangements or agreements requiring actual services.

851 Contractual Payments from Other Cities

To include grants, payments for contractual services, or other payments made by a city or cities.

852 Contractual Payments from Counties

To include grants, payments for contractual services, or other payments made by the county or other counties.

854 Contractual Payments from Schools

To include grants, payments for contractual services, or other payments made by schools or school districts.

856 Other Agency Contracts

To include grants or other contractual payments made by other public or private agencies.

860 Contributions

To include all contributions and donations to the city of cash or other assets from individuals or agencies, either public or private.

870 Interest And Income From Investments

To include all income from investments, savings accounts, interest earned on checking accounts, etc.

880 Miscellaneous

To include any other income, revenue or receipts that do not fit in the identified categories.

II. UTILITY REVENUE ACCOUNTS**900 Utility Fund Revenue Accounts**

To include all revenues and charges related to the Utility, Water and Sewer, Electric, Gas or other Enterprise or Proprietary operations.

910 Water Department Revenues

To include all revenues received from water operations

912 Residential Water sales

To include income from sale of water through metered sales, through bulk sales or any other type of sales to residential customers.

913 Commercial Water Sales

To include income from sale of water to commercial or industrial customers through metered sales, bulk sales or any other type of sales.

914 Water Tapping Fees

To include the charges to customers for the costs incurred in making a water tap to the city's mains.

916 Water Meter Deposits

To include the charges made to customers for a deposit to guarantee payment of accounts. Water deposits shall be placed in a special reserve account.

920 Sewer Department Revenues

To include all revenues received from sewer operations.

922 Residential Sewer Service Charges

To include all income from sewer service to residential customers.

923 Commercial Sewer Service Charges

To include all charges and income from commercial and industrial customers and will include monthly fees, contract fees, etc.

924 Sewer Tap Fees

To include all income from charges made for making sewer taps to the city's sewer mains.

926 Sewer Tap Deposits

To include any deposits required from customers prior to extending sewer service or before making sewer taps. As with the water deposits, these funds shall be kept in a separate account.

930 Sanitation Charges (If included in the Utility Fund, but many cities include Sanitation in the General Fund Accounts.)

To include all receipts and income from the operation of the Sanitation Department.

932 Residential Collection

To include all income from the residential collection service.

933 Commercial Collection

To include all income from commercial or industrial garbage or refuse collection including monthly charges or contract services.

934 Landfill Fees

To include all income or fees collected from the operation of the landfill.

936 Sanitation Tax

To include the income from the state mandated tax on material deposited in the landfill.

940 Leases and Rentals

To include any income from the lease of buildings, land, or equipment owned by the Utility Operations.

942 Lease of Land

To include any income from the lease of Utility Department Lands.

944 Lease of Buildings

To include any income from the lease of buildings owned by the Utility Department.

946 Lease of Equipment

To include the income from lease of Utility Department Equipment.

980 Interest

To include any interest earned on Utility funds or deposits.

982 Interest on Deposits

To include interest income on regular and non-dedicated deposits.

984 Interest of Meter deposits

To include any interest on meter deposits.

986 Interest on Dedicated Deposits

To include interest on any dedicated deposits.

990 Miscellaneous

To include income that does not fit in any category listed above and is not of such significance to warrant establishing a new category.

EXPENDITURE ACCOUNTS**100 - 200 Personnel Services**

To include personnel costs such as salaries, wages, fringe benefits, allowances, and similar costs associated with full and part time employees as well as volunteers if paid, given credits, or reimbursed for services. Never classify any employee as permanent.

110 Full-Time Employees

To include that portion of salaries of full time employees dedicated to this account.

120 Part-Time Employees

To include salaries of all employees who regularly work less than 40 hours per week and 52 weeks of the year under this account. Employees who work under more than one budget account should be listed here for each budget account involved.

130 Overtime

To include salary cost over and above the regular monthly or weekly salary, but excludes Fair Labor Standards Act time.

131 Fair Labor Standards Overtime

This includes all time by non-exempt employees over 40 hours during the designated work week. Keep in mind that fire and police personnel may be accounted differently based on different shift standards.

210 Social Security

To include the agency's share of the Social Security Tax. Do not include the employee share.

220 Retirement

To include the agency's share of contributions to the Firemen's Relief and Retirement Fund, the Texas Municipal Retirement Fund or other retirement or benefit fund.

230 Group Insurance

To cover the agency's share of group hospitalization insurance medical insurance, dental or any other personnel insurance for all covered employees.

240 Workmen's Compensation

To cover each full time, part time employee, or volunteer. The state office sets the rates annually.

250 Clothing Allowance

To include the cost of any allowances made to individuals in order that they may purchase their own clothing. Uniform or clothing purchases by the city are covered in 390.

260 Transportation Allowance

To include the monthly allowance that may be made to any employee for routine transportation costs, in lieu of providing an agency-owned vehicle.

270 Volunteer Response Service

To include any allowance, stipend, reimbursements, or other credits made to volunteers such as reimbursement for expenses incurred in attending meetings or responding to fire or other emergencies.

290 Unemployment Compensation

To cover the state assessed charges for all full and part-time employees.

300 Supplies And Materials

To include all non-capital materials, supplies, and other products necessary for the functioning of the agency. A number of line items are indicated, but these are neither inclusive nor exclusive. In the event there are recurring purchases of items that do not fit the listed categories, consult with the financial office to have the proper line item numbers assigned. There should also be a description prepared to more clearly identify the added item.

310 Office Supplies

To include supplies necessary for use in the operation of an office, such as pens, pencils, stationery, postage, printed forms, etc.

320 Janitorial Supplies

To include supplies necessary for cleaning offices and/or buildings such as brooms, mops, soaps, cleaning supplies, etc.

330 Minor Tools

To include hand tools and instruments which are subject to rapid depreciation, loss or theft such as shovels, axes, wrenches, ropes, etc. (Supervisors need to be very alert to the inventory of small tools for they have a habit of vanishing.)

340 Mechanical Supplies

To include bolts, nuts, filters, small parts, etc. which are necessary for maintenance of motor vehicles, generators, other equipment, etc.

345 Building Supplies

To include lumber, nails, paints, etc. to be used in building repair.

350 Motor Vehicle Fuel

To include gasoline, diesel fuel, butane for motor vehicles and will include fuel for stationary engines.

355 Oil and Lubricants

To include all types of oils, grease, and lubricants for use in various motor vehicles and other engines.

360 Chemical Supplies

To include all chemical supplies such as insecticides or chemicals, chlorine or other additives for the treatment of water or wastewater, but will not include additives, agents, or other suppressants which are mixed with water for fire suppression, nor for fertilizers, etc.

365 Fire Suppressant Supplies

To include any costs for water, carbon dioxide, wet water or other major agents used for fire suppression.

370 Botanical Supplies

To include grasses, plants and decorative materials used in connection with yard as well as interior beautification.

375 Fertilizers

To include all types of fertilizers or products to enhance plant growth.

380 Food or Ice

To include products for human or animal consumption such as ice, drinks, sandwiches, recharging air packs etc. Meals while on trips should be charged to 510-Travel. This should include food for zoo animals.

385 Educational Materials

To include materials acquired for in-house training as well as posters, films, pictures, newspaper ads, and materials for public education, but does not include advertisements of public hearings, etc. as these go under 575.

390 Clothing

To include all uniforms, caps, boots, jackets, gloves, and protective clothing such as worn in fighting fires, etc., police uniforms, or uniforms for public works, parks etc.

395 Other

All other items not indicated.

400 - 500 Services and Charges

To include the cost of labor performed by others, contracts, rentals, and services provided to the agency, and will include the cost of parts if included in the billing of services performed by others. Supplies or materials purchased separately will be charged under 300 Supplies and Materials. In the event that there are recurring purchases of services that do not fit the listed categories, consult with the financial office to have additional categories added.

410 Building Maintenance

To include costs of maintaining building such as janitorial contracts, plumbing services, repairs done by others, etc.

420 Motor Vehicle Maintenance

To include the costs of labor on motor vehicles and motorized equipment as well as services others perform.

430 Office Equipment Maintenance

To include the cost of services and service contracts for repair of office machines.

435 Other Equipment Maintenance

To include the cost of service or maintenance on equipment such as air packs, jaws of life, air compressors, pumps, electric motors, etc.

440 Street Maintenance

To include cost of labor and services to maintain streets, driveways, parking lots, yards and grounds.

445 Street Sign Maintenance

To include the cost of services or labor to maintain street signs, directional signs, etc., including straightening posts.

447 Traffic Signal Maintenance

To include the cost of labor and services to maintain traffic signal lights or other electronic traffic control devices.

450 Utility Line Maintenance

To include the cost of labor and services to maintain, repair or to replace utility lines, yard lines of all utilities, etc.

454 Meter And Tap Expense

To include the cost of labor or services to install, repair or to replace utility meters and taps.

455 Water Well Maintenance

To include specialized work to maintain and repair water wells.

456 Water Samples

To include the cost of taking and testing water samples in the water system, sewer system swimming pool or any other part of the city's operations.

460 Electric Service

To include the cost of electricity for all uses.

462 Water Service

To include the cost of routine water service to any facilities, but should not include the cost, if any, paid for water used for fire suppression. All water use should be metered.

463 Sewer Service

To include the cost of sewer services if the sewer is provided by a central system, or for maintenance of a septic or other on-site disposal systems.

464 Refuse Collection

To include the cost of refuse collection services billed to other city operations, but will not include any cost associated with cleaning or removal of debris after floods, fire loss, etc.

466 Natural Gas Service

To include the cost of natural gas or bottled gas for heating, cooking, etc., but will not include natural or bottled gas for motor vehicles, etc.

468 Telephone Service

To include all telephone service such as local service, long distance, leased lines for signal controls, etc.

470 Rental of Equipment

To include the cost of rentals of equipment, vehicles, tools, etc.

471 State Sales Tax on Sanitation Charges

To include the sales tax that is collected and remitted to the State Comptroller's Office and any related expenses other than postage.

472 Rental of Land

To include the cost of renting or leasing land, whether on short-term or long-term.

473 State Landfill Tax

To include the tax or charges that must be collected, tabulated, and remitted to the State of Texas as required by the Texas Commission on Environmental Quality and any expenses related to the recording, collection, and remitting of the tax to the State.

474 Rental of Buildings

To include the cost of renting buildings such as temporary storage or meeting space, long-term lease of buildings, etc., unless the lease is capitalized in which case the lease would be charged to capital expense.

475 Landfill Maintenance

To include any specialized cost of maintaining the Landfill, but does not include fuel, labor, or routine charges.

476 Water Well Lease

To include the cost of leasing water wells or sites for water wells, etc. and related costs of maintaining the leases.

480 General Liability Insurance

To include the cost of general liability insurance for protection against injury on the premises, injuries to others through the course of performance of duties, etc. This will include the umbrella coverage on auto liabilities.

482 Building Insurance

To include the cost of insuring buildings against loss caused by fire, hail, windstorm, flooding, etc.

484 Auto Insurance

To include collision, comprehensive, liability and other insurance on all motor vehicles but will not include any portion of the umbrella policy.

510 Travel

To include costs for travel out of the city for conferences, training, workshops, investigations, etc., but does not include travel allowance.

520 Training and Education

To include the costs of registration, tuition, and similar expenses associated with training employees, but will not include posters, books and other materials and supplies for public education.

530 Dues and Memberships

To include the costs of dues and memberships to organizations such as the Texas Municipal League, Regional Council, Water Association, Firemen's and Fire Marshal's Association, etc.

535 Postage

To include the cost of stamps, use of postage machines, specialized postal services, Federal Express, United Parcel Services etc.

540 Subscriptions

To include the cost of subscriptions to magazines, periodicals, newspapers, or similar material received on a regular basis.

550 Radio and/or Telephone Equipment Maintenance

To include the cost of maintenance of radios, telephones, pagers, or similar communication equipment.

555 Dog Pound

To include the costs of leasing, maintaining, and operating a dog pound but not including costs of food or labor unless the labor is included as part of the lease agreement.

560 Fire or Other Damage Cleanup

To include the costs, if any, for cleaning-up after floods, wind storm, fire or other occurrences that cause major damage to premises. This could be labor or contractual services, materials used to disperse or dilute chemical spills, hauling of debris, etc. and including landfill fees for materials cleaned up.

565 Inspection Fees

To include the cost of paying for inspections made by others and charged to the city. This will not include any expenses that the city incurs in conducting its own inspections.

570 Legal Services

To include the costs of attorney's fees for all purposes.

575 Advertisements

To include the expenses of placing advertisements in the newspapers or other publications. This will include notices of bids, notices of ordinances, notices of public hearings, notices of equipment or material to be sold by the city, etc.

580 Tax Collection

To cover the costs of the agency's share of tax appraisals as well as costs for tax collections done by others. This will include the cost of collection of delinquent taxes.

585 Tax on Fines

To include the cost of taxes on fines that the city must collect on all fines that may be levied by the city and remitted to the State of Texas and includes any costs borne by the city in collecting, tabulating, and remitting said fines to the State other than postage.

590 Other Services

To include any other non-recurring service or maintenance expenses.

595 Short-term Debt Payments

To include the cost of interest and principal payments on any short-term debt that the city may incur. This could include an advance from a bank to cover expenses pending receipt of tax payments. This will not include any lease-purchase payments that are being capitalized and charged to capital expenses.

700 Capital Outlay

Capital outlay accounts will be used for purchase of motor vehicles, machinery, equipment, land, buildings, major improvements to land or buildings, utility line installations, and similar major items that have life expectancy of greater than one year, or costs exceeding \$1,000. (The \$1,000 figure is an arbitrary figure. Each city may want to use a higher or lower figure.)

710 Land

To include the cost of land and or rights-of-way, etc. for public purposes. Costs of surveys, title searches, etc. may be charged here.

715 Improvements to Land

To include the cost of improving land such as installation of utility lines, street paving, sidewalks, driveways, fencing, etc. but not including buildings. Your city may want to separate the various categories and have separate account for each.

720 Buildings

To include the cost of purchase or construction of buildings, etc.

725 Improvements to Buildings

To include the cost of major additions to buildings such as adding insulation, building a new bay, etc. but does not include maintenance of buildings.

730 Machinery and Equipment

To include the cost of fire trucks, automobiles, heavy equipment, air compressors, jaws-of-life, air packs, fire hose, typewriters, computers, etc.

750 Other

To include the cost of any other capital items that do not fit into the above categories. As noted above, for these purposes, \$1,000 has been established as the cut-off point. Items costing less than \$1,000 are not capitalized, however the city still needs to keep careful track of all equipment, tools, and machinery even though it is not carried as capital equipment.

Texas Comptroller of Public Accounts
Publication #96-801
Printed October 2010

http://www.texasahead.org/lga/city_budget/

For questions, write:
Comptroller of Public Accounts
Local Government Assistance & Economic Development Division
111 E. 17th Street
Austin, Texas 78774-0100
or call
(800) 531-5441, ext. 34679