

SHERWOOD CITY COUNCIL
02-03 BUDGET COMMITTEE WORK SESSION
MARCH 27, 2002
YMCA MEETING ROOM

1. The work session began at 6 p.m.
2. Roll Call: Budget Committee members from the Council: Mayor Mark Cottle, Council President Keith Mays, Councilors Sterling Fox, Angela Weeks, Dennis Durrell and Thomas Claus. Councilor Dave Heironimus called ahead to say he would be late and arrived at 6:42 p.m. Budget Committee members from the Citizen Finance Committee: Susan Claus, Mitch Wash, and Mike Schoen. Citizen Finance Committee members Steve Munsterman, Paul Stecher and Dave Luman were absent. Newly appointed member Justin Denton was introduced to the committee members. Present for staff were Finance Director Chris Robuck and City Recorder Chris Wiley. City Manager Ross Schultz was in Welches, Oregon, attending the annual City Manager conference.
3. Meeting Hand-outs (included with these minutes):
 - a. Workshop Agenda
 - b. Local Budgeting in Oregon Book, 1999 edition
 - c. City of Sherwood Budget Committee Handbook
4. Susan Claus announced her resignation and left at the beginning of the meeting.

Summary of Topics Discussed

1. At its first meeting, the Budget Committee will select a President and Vice President from its membership who will hold the positions for the duration of the budget season.
2. The Budget Committee is required to hold at least one meeting to allow for citizen input. That is scheduled to take place at the first Budget Committee meeting scheduled for April 17.
3. Please call staff ahead of time to let us know if you'll be absent from any of the Budget meetings.
4. Committee responsibilities were reviewed (see pg 4 of meeting Handout #3)
5. Any questions the Committee has during the review process should go to City Finance Director Chris Robuck.
6. Budget committee members will receive the budget by delivery to their homes.
7. Most of the discussion was about the features and uses of the new accounting software the City just acquired which will be fully activated to manage the 03-04 Budget when the new fiscal year begins on July 1.
8. All future budget meetings for this year will take place at the Hite house.
9. The Budget Committee work session adjourned at approximately 7:20 p.m.

CITY OF SHERWOOD 2002-03 BUDGET COMMITTEE PRELIMINARY MEETING

March 27, 6 – 8 pm, YMCA

1. Introductions
2. Purpose
3. Budget Process
4. 2002-03 Budget Document
5. Future Agendas

1. Introductions

2. Purpose

Logistical worksession. Not a noticed public meeting, so we cannot:

- deliberate toward a decision – that is, discuss budget amounts
- elect a presiding officer

3. Budget Process

Budget handbook
DOR handout

4. 2002-03 Budget Document

Fund structure

The number of funds has been substantially reduced in this year's budget, per the following:

"It is recommended that local governments maintain only those funds required to meet legal and operating requirements. Unnecessary funds complicate budgets." (Oregon Department of Revenue, *Local Budgeting Manual*, 1999.)

"Only the minimum number of funds consistent with legal and operating requirements should be established, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." (Government Finance Officers Association, *Governmental Accounting, Auditing, and Financial Reporting*, 1988.)

Eleven funds which previously accounted for resources restricted for capital projects were integrated into the appropriate enterprise funds. Unrestricted resources in the former Public Works Fund have been moved to the General Fund. The Capital Equipment Fund has been closed; the new Asset Depreciation Fund is defined broadly enough to encompass the purposes of the former Capital Equipment and Building Depreciation Funds (please see detailed staff report in Appendix A). Two funds which previously accounted for general purpose capital projects were combined. The Debt Service Fund is renamed (please see staff report in Appendix A). Restricted resources will be segregated within the new funds using revenue source codes in the accounting system. Specific changes are:

Fund in 2002-03

General Fund 10

Asset Depreciation Fund 20

General Purpose Capital
Projects Fund 30

Debt Service
and Reserve Fund 40

Water Fund 70

Sanitary Fund 71

Storm Fund 72

Street Fund 73

Budget Format

Fund in 2001-02

General Fund 001
Public Works Fund 002
Capital Equipment Fund 061

Building Depreciation Fund 065

Parks and Open Spaces SIF Fund 020
Bond Construction Fund 027

Debt Service Fund 014

City Water Improvement SDC Fund 022
Water System Replacement Reserve Fund 023
City Water Reimbursement SDC Fund 029
Water Utility Fund 051

City Sewer Improvement SDC Fund 021
Regional Sewer Improvement SDC Fund 025
City Sewer Reimbursement SDC Fund 028
Regional Sewer Reimbursement SDC Fund 030
Sewer Utility Fund 055

Storm Sewer Fund 004
City Storm Water Improvement SDC Fund 026
Regional Storm Water Improvement SDC Fund 032

Street Fund 003
City Minor Collector SDC Fund 024
Regional Street Improvement SIF Fund 031

With the reduced number of funds, all can be displayed on a single page, as follows.

City of Sherwood, Oregon
2002-03 Budget
All Funds - Summary

1999-00	2000-01	2001-02		General	Asset Depre- ciation	Debt Service and Reserve	General Purpose Capital Projects	Enterprise Funds				Total
Actual	Actual	Projected						Water	Sanitary	Storm	Street	
			RESOURCES									
			Beginning fund balance									
			Revenue									
			Transfers in									
			Total resources									
			USES									
			Expenditures									
			Personal services									
			Materials and services									
			Capital outlay									
			Debt service									
			Total expenditures before special payments									
			Special payments									
			Labor on capital projects	x			x	x	x	x	x	
			Labor on URD activities	x								
			Labor on enterprise fund activities	x				x	x	x	x	
			Administrative costs	x					x	x	x	
			Engineering overhead for capital projects	x			x	x	x	x	x	
			Public works operations costs	x					x	x	x	
			Total special payments									
			Total expenditures after special payments									
			Transfers out									
			Contingency									
			Total uses									
			Ending fund balance									

Special Payments

The City budgets and records personnel expenditures and other expenditures not directly attributable to a specific department, capital project, or enterprise fund in the appropriate General Fund department. This treatment allows for reports to managers of the expenditures for which they are responsible. Periodically, funds and departments which benefit from certain expenditures are charged for the accumulated totals. The charges are recorded as special payments. Special payments reduce total expenditures in a given General Fund department and increase total expenditures in other funds or departments. Special payments are of two types: reimbursements are for actual costs incurred, while allocations charge other funds and departments for a proportionate share of costs based on allocation formulas. Details are in Appendix B.

Contingency v. Unappropriated Fund Balance

The General Fund needs to begin each fiscal year on July 1 with sufficient cash to pay expenditures until the first installment of property taxes are received in November. The City's financial advisors recommend ending fund balance equivalent to 10% of budgeted revenue for the subsequent fiscal year; lesser amounts are a red flag for bond rating agencies and lenders.

One way to allow sufficient cash with which to begin the following fiscal year is to budget unappropriated fund balance. This amount is not appropriated and cannot be spent during the year budgeted, except in an emergency created by civil disturbance or natural disaster. It would ensure an adequate ending fund balance, but affords no flexibility.

A second way to provide for ending fund balance is to budget, but not spend, contingency. This approach suffices only if contingency is regarded as an amount to preserve for the succeeding year, rather than an amount that will be spent as opportunities arise.

The 2002-03 budget includes contingency in the amount needed to cover expenditures early in the succeeding year. ~~A draft policy on use of contingency is attached as Appendix C.~~

Budget v. Appropriations

The budget is a document for managerial control and accountability. Appropriations are the legal authority to spend. The City budgets by account, but appropriates by department in the General Fund and by account type in all other funds. For example, the budget in each fund and department includes amounts for regular salaries and wages, printing and advertising, and fees and dues. Appropriations in the General Fund are for total expenditures for Administration, Police, Library, and each of the other departments. Appropriations for other funds are for totals by account type: i.e., Personal Services, Materials and Services, Capital Outlay, Special Payments, Transfers, and Contingency. It may be helpful in focusing time and effort to put amounts in perspective by considering expenditures at the level of appropriations; an expenditure account of \$10,000 is just .3% of the proposed appropriation for the Police Department.

5. Future Agendas

April 17, 6 – 8 pm, YMCA

Elect presiding officer
Receive budget message
Overview
 Revenue
 Expenditures
 Special payments
 Personnel
Take public comment

April 24, 6 – 8 pm, YMCA

Capital projects (general purpose & enterprise)
URA
Public works engineering

May 1, 6 – 8 pm, YMCA

Angela absent.

Public works operations
Police
Library

May 8, 6 – 8 pm, YMCA

Planning and building
Council
Administration
Finance
Community services

May 15, 6 – 8 pm, YMCA

Reserved, if needed

Appendix A

**Debt Service and Reserve Fund
Asset Depreciation Fund**

TO: Sherwood City Council

FROM: Chris Robuck, Finance Director

SUBJECT: Debt service fund for 2002-03 budget

ISSUE: How should debt service be accounted for?

BACKGROUND:

Debt service funds are used in governmental accounting for resources legally restricted to payment of debt. For the City of Sherwood, legally restricted resources are property taxes levied for debt service on the two general obligation bonds, and interest earned on those taxes. Debt service on Sherwood's loans is provided by resources that are not legally restricted, so the most straightforward accounting is to make payments directly from the fund that provides the resources. The General Fund provides the cash for the City Hall loan payments, and receives rent from the YMCA for debt service on the refunding portion of the 2001 YMCA loan; parks SDCs will pay for expansion portion of the 2001 YMCA loan.

FINDINGS:

In the past, the Debt Service Fund 014 has been used to account for all debt service. Several transfers of unrestricted resources from the General Fund to Debt Service have been made since 1996, presumably to provide for required reserves and cash flow requirements. Since the 2001 refunding eliminated the \$150,000 reserve requirement on the YMCA loan, the City has only one required reserve, \$37,000 for the City Hall loan. As to cash flow requirements, the first debt payment on GO bonds, in December, can be made with taxes received in November.

Debt service funds, like bond proceeds, are subject to arbitrage. Essentially, certain interest attributable to property taxes levied for GO bonds must be paid to the federal government. To minimize the amount, as well as to comply with statutes, it is important to demonstrate that debt service funds periodically zero out; i.e., all taxes and related interest were used for debt service on GO bonds. Unrestricted, excess resources should not be carried in the debt service fund.

RECOMMENDATIONS:

Staff proposes that effective 7-1-02 the debt service fund account only for GO bonds and legally required reserves. All accumulated resources not attributable to GO bonds and required reserves will be transferred from debt service to the general fund. The Department of Revenue, which administers Oregon's budget law, recommends that the change be made by formally establishing a new debt service fund. A resolution doing so accompanies this staff report.



Resolution No. 2002-

A RESOLUTION ESTABLISHING THE DEBT SERVICE AND RESERVE FUND

WHEREAS, a debt service fund is needed to account for resources legally restricted for general obligation bonds and required reserves; and

WHEREAS, the Debt Service Fund 014 currently accounts for additional debt service activity that can better be accounted for in other funds; and

WHEREAS, the Debt Service Fund 014 currently contains unrestricted resources in excess of required reserves;

NOW, THEREFORE, THE CITY RESOLVES AS FOLLOWS:

Section 1. Effective July 1, 2002, there is established the Debt Service and Reserve Fund, to account for resources legally restricted for general obligation bonds and reserves.

Section 2. Effective June 30, 2002, the Debt Service Fund 014 is closed. Residual equity attributable to interest earned on past property taxes levied for general obligation bond debt service and the reserves required by loan agreements are transferred to the Debt Service and Reserve Fund established in Section 1. Residual equity attributable to unrestricted resources is transferred to the General Fund.

Duly passed by the City Council this day of , 2002.

Mark O. Cottle, Mayor

ATTEST:

C.L. Wiley, City Recorder

TO: Sherwood City Council

FROM: Chris Robuck, Finance Director

SUBJECT: Reserve funds for 2002-03 budget

ISSUE: Should the City maintain just one reserve fund?

BACKGROUND AND FINDINGS:

Oregon budget law states that "the choice of fund structure is a fiscal policy decision of the local government." These choices are confirmed in the annual budget and do not necessarily require additional ordinances or resolutions, with the exception of reserve funds. The City currently has two reserve funds, Capital Equipment and Building Depreciation.

Capital Equipment / Equipment Rental Fund

The Capital Equipment Fund, titled the Equipment Rental Fund prior to the 2001-02 budget, is described in Municipal Code chapter 3.08 as an internal service fund. Internal service funds are fairly common in large cities, where central motor pools lease vehicles and equipment to multiple organizational units and other governmental entities. The organizational units rent the vehicles, thereby recording their full cost of operations; the internal service fund depreciates and replaces the vehicles.

Although categorized as an internal service fund in annual reports prior to 6-30-01, the Capital Equipment Fund has never been accounted for as such; it has never recorded revenue for vehicle rent. Instead, it has merely received transfers from unrestricted funds and used that money to purchase vehicles and equipment.

The Capital Equipment Fund is unnecessary, both as envisioned and as currently used. The sophistication and complexity of internal service funds is not warranted, and purchase of vehicles can be systematically planned and paid directly from the fund providing the resources. Staff proposes the elimination of this fund for the 2002-03 budget year.

Code section 3.08 could be interpreted as *requiring* that an equipment internal service fund be maintained; it states that "all mobile vehicular equipment owned by the City...are transferred without charge to the equipment rental fund." Consequently, staff will propose deleting this section in the next revision of the Code.

Building Depreciation Fund

Reserve funds are essentially savings accounts, designed to accumulate money for financing the costs of future serves, projects, property or equipment. At least every ten years, the City Council must review reserve funds to decide if they should be continued or abolished. The Building Depreciation fund was established in fiscal year 1992-93 as the Building Rental Fund. While the title and past accounting treatment are analogous to the Capital Equipment (Equipment Rental) Fund, the Building Depreciation is not described in the municipal code.

Staff proposes one reserve fund for the 2002-03 budget year. Named the Asset Depreciation Fund, it will be defined broadly enough to provide for major improvement and repair of general purpose buildings, and acquisition and repair of equipment.

RECOMMENDATIONS:

Staff recommends approval of the accompanying resolution.



Resolution No. 2002-

A RESOLUTION ESTABLISHING THE ASSET DEPRECIATION FUND

WHEREAS, Oregon budget law allows a local government to set up a reserve fund to accumulate money for the cost of any service, project, property or equipment that the district can legally perform or acquire, and;

WHEREAS, major repairs and improvements to buildings and major repairs or replacement of equipment can have a significant budgetary impact in the year they occur, and;

WHEREAS, given the number and age of the City's buildings and equipment, it is prudent to provide for unexpected major repairs and improvements;

NOW, THEREFORE, THE CITY RESOLVES AS FOLLOWS:

Section 1. The Asset Depreciation Fund is established. The Fund may expend for major capital asset purchases, improvements, and repairs, other than those funded by restricted resources.

Duly passed by the City Council this day of , 2002.

Mark O. Cottle, Mayor

ATTEST:

C.L. Wiley, City Recorder

Special payments, by account number, are as follows:

9900 Reimburse the General Fund for direct labor on capital projects. Direct labor for planning, design, and management of capital projects is recorded in the public works engineering department in the General Fund. The General Fund is subsequently reimbursed by the funds accounting for capital projects, and by the City of Sherwood Urban Renewal District.

9901 Reimburse the City General Fund for direct labor on City of Sherwood Urban Renewal District (URD) activities other than capital projects. City staff do URD work; the URD has no employees of its own. The General Fund is reimbursed for the costs of direct labor for activities of the URD.

9902 Reimburse City general fund for direct labor by departments other than public works operations for enterprise fund activities. Occasionally, departments other than public works operations may work on activities accounting for by enterprise funds. The general fund is reimbursed for those costs.

9920 Allocate administrative costs to user funds and departments. The City Council and Recorder, Administration, and Finance (accounting and reception only) departments provide support services to all other functions. In addition, indirect cost such as City Hall utilities and liability insurance are charged to the administration department as incurred. Total administrative costs are allocated to user funds and departments based on relative salaries and wages.

9921 Allocate engineering department overhead to capital projects. The engineering department works on City capital projects, URD capital projects, and on private development activities. Engineering overhead is allocated to capital projects based on relative direct labor so that restricted resources are charged for indirect costs incurred.

9922 Reimburse City general fund for direct labor by public works operations and allocate public works operations overhead to user funds and departments. Public works operations incurs costs for the enterprise funds and for General Fund departments. Operations also records indirect materials and capital outlay which benefit all enterprise funds. Costs are allocated to user funds and departments, based on relative direct labor incurred.

March 27 2002 Budget Workshop
Meeting Handout #2

Local Budgeting in Oregon

1999 edition





For additional copies, write to:

Publications
Oregon Department of Revenue
955 Center St NE
Salem OR 97310

150-504-400 (Rev. 12-99)



Local Budgeting in Oregon

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Local Budgeting in Oregon is a supplement to the *Local Budgeting Manual* (hereafter called the *Manual*). This booklet will introduce you to the requirements of Oregon's Local Budget Law, but it is not a substitute for the *Manual*. Before you take any formal action in the budget process, consult the *Manual*.

First, the basics

What's the law?

Most local governments in Oregon, from the smallest cemetery district to the largest city, must prepare and adopt an annual budget. (The only exceptions are local governments specifically exempted.) Schools, counties, cities, ports, rural fire protection districts, water districts, urban renewal agencies, and special districts are all subject to the same budget provisions.

This is not unusual. Many states have specific laws which require units of local government to prepare and adopt annual operating budgets. Yet, Oregon's budgeting system is considered one of the most progressive in the nation. Why?

Look at Oregon's Local Budget Law. (You'll find it in Chapter 294 of the Oregon Revised Statutes.) The law does two important things:

1. It establishes standard procedures for preparing, presenting, and administering the budget.
2. It requires citizen involvement in the preparation of the budget, and public disclosure of the budget before its formal adoption.

Many people rely on you, as an elected or appointed official, to see that the annual budget is prepared correctly. State officials check to see that the budget is prepared and administered according to law, and citizens in your district check to see that programs they want and need are adequately funded. This makes budgeting in Oregon a joint effort between the people affected by the budget and the appointed and elected officials responsible for providing the services.

To give the public ample opportunity to participate in the budgeting process, Local Budget Law requires that a budget officer be appointed and a budget committee be formed. The

budget officer draws together necessary information and prepares the first draft of the budget. The budget committee then reviews and revises the proposed budget before it is formally approved. Notices are published, budgets are made available for public review, and at least two opportunities for public comment are provided. These requirements encourage public participation in the budget-making process and give public exposure to budgeted programs and fiscal policies before their adoption.

Naturally, citizen involvement varies from one community to the next. If the patrons in your district are active and involved, you may find citizens asking for information not specifically required under Local Budget Law. It is up to your local government to prepare a budget that clearly outlines its fiscal policies and is satisfactory to the voters of the district. If you can make your budget clear and concise, you'll find that taxpayers have a better understanding of the purposes

for which their tax dollars are spent. You may also find the citizen input informative and beneficial.

What is a budget?

A budget is a financial plan containing estimates of expenditures and revenues for a single fiscal year (July 1 through June 30). Besides outlining programs for the coming year, it controls the local government's spending authority. Since the budgeting process encourages citizen input, the budget is also a vehicle for obtaining public opinion about proposed programs and fiscal policies of your district.

The content and detail of each budget will vary substantially because of differences in the purpose, size and complexity of local governments.

Who is on the budget committee?

The budget committee consists of the members of the local governing body (such as county commissioners or

school board members) and an equal number of citizens at large. The citizens are appointed by the governing body and serve terms of three years. Terms are staggered so that about one-third of the appointed terms end each year.

Note: For most of the districts in Multnomah County, because the Tax Supervising and Conservation Commission (TSCC) holds the budget hearing, the governing body is the budget committee and there are no appointive members. These districts should consult with the TSCC about their processes. This publication addresses the budget committee process for all other districts in the state.



The budget cycle

The nine steps

Budgeting is not something you do once a year. It's a continuous operation, and it takes 12 months to complete a cycle. The budgeting process is actually in three parts: The budget is prepared, approved, and finally adopted. Your budget must be prepared far enough in advance so that it can be adopted before June 30. After adopting the budget, the governing body will make the necessary appropriations and certify the tax levy to the county assessor.

To simplify this rather complex process, we've divided budgeting into nine steps.

Preparing the budget

1. **Budget officer appointed.** Each local government must have a

budget officer, either appointed by the governing body or designated in the local government's charter. The budget officer is under the supervision of either the executive officer or the governing body.

2. **Proposed budget prepared.** The budget officer is responsible for preparing or supervising the preparation of the proposed budget for presentation to the budget committee.

Approving the budget

3. **Budget officer publishes notice.** When the budget officer is ready to present the budget and the budget message is to be delivered, the budget officer publishes a "Notice of Budget Committee Meeting." If notice is published in a newspaper of general circulation, it must be published at least twice, five to 30 days before the scheduled budget committee meeting date, separated by at least five days. If notice is hand delivered or mailed, only

one notice is required not later than 10 days prior to the meeting.

4. **Budget committee meets.** At least one meeting must be held to (1) receive the budget message and budget document, and (2) hear the public. At any time before the budget committee meeting, the budget officer may provide a copy of the proposed budget to each member of the budget committee. The budget is a public record at this point. The budget officer may choose to distribute the proposed budget at the noticed budget committee meeting, rather than earlier.

At the budget committee meeting, the budget message is delivered. The budget message explains the proposed budget and significant changes in the local government's financial position. At this meeting, the budget committee may provide members of the public the opportunity to ask questions about or comment on the budget.

If public comment is not allowed at this meeting, the budget committee must provide the public with the opportunity at subsequent meetings. After the initial meeting, the budget committee may meet as many times as needed to revise and complete the budget. If two or more meetings are held to take comment from the public, the first meeting to do so must meet the publication requirements explained in step three. Notice of additional meetings for this purpose may be provided in the same time frame and manner as notices of meetings of the governing body, or by using the method outlined in step three. Notice of other meetings of the budget committee must be provided as required by Oregon public meeting law. All meetings are open to the public.

5. **Committee approves budget.** When the budget committee is satisfied with the proposed budget,

including any additions to or deletions from the one prepared by the budget officer, it is approved. If the budget requires an ad valorem tax to be in balance, **the budget committee must approve an amount or rate of total ad valorem property taxes to be certified for collection.**

Advertising and holding hearings

6. **Budget summary and notice of budget hearing published.** After the budget is approved, a budget hearing must be held by the governing body. The governing body must publish a summary of the budget approved by the budget committee and notice of budget hearing five to 30 days before the scheduled hearing. This information must either appear in a newspaper of general circulation, be mailed, or hand delivered.

If no newspaper is published in your district and estimated expenditures

for the ensuing year do not exceed \$50,000, you may provide the budget summary and notice of budget hearing by posting it in three conspicuous places within the district for at least 20 days prior to the date of the hearing.

If the district posts the budget summary and notice of budget hearing, then five to 30 days before the scheduled hearing, a second notice of budget hearing must be published in a newspaper of general circulation, mailed, or hand delivered. The second notice need not contain the summarized financial information found in the first notice. It should briefly repeat significant information about the scheduled budget hearing, and indicate where the complete budget document is available for inspection.

See the *Manual* for details on publication requirements.

7. **Budget hearing held.** The budget hearing must be held by the

governing body on the date specified on the public notices.

The purpose of the hearing is to receive citizens' testimony on the budget approved by the budget committee. Additional hearings may be held. All hearings are open to the public.

Adopting the budget

8. **Budget adopted, appropriations made, tax levy declared and categorized.** By law, the governing body may make changes in the approved budget before or after it is adopted, but no later than the beginning of the fiscal year to which the budget relates. However, there are limitations:
- Taxes may not be increased over the amount approved by the budget committee, and
 - Estimated expenditures in a fund may not be increased by more than \$5,000 or 10 percent,

whichever is greater, without first publishing a revised budget summary and holding another budget hearing.

After the budget hearing, and after considering relevant testimony, the governing body adopts the budget. **It should not be formally adopted until the latter part of June** so last-minute revisions to revenue or expenditure estimates can be incorporated.

The governing body must prepare a resolution or ordinance to (1) formally adopt the budget, (2) make appropriations, and if needed, (3) levy and (4) categorize any tax. The budget is the basis for making appropriations and certifying the tax levy. The resolution or ordinance must be adopted no later than June 30. See the *Manual* for the format of the resolution or ordinance.

9. **Budget filed and levy certified.** The final step in the budget cycle

is to certify any necessary property tax levy.

Districts levying a property tax must submit to the county assessor's office on or before July 15:

- two copies of notice of levy and the categorization certification, and
- two copies of the four resolutions.

At the same time, one copy of the complete budget should go to the county clerk. School districts also submit a copy of the budget to the county Education Service District office and to the Oregon Department of Education.

Each local government which does not levy a property tax must send a copy of the resolution adopting its budget and making appropriations to the Department of Revenue on or before July 15. A copy of the complete budget should also be sent to the county clerk.



The budget document

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All budgets must meet certain minimum requirements, outlined here. For specific examples consult the *Manual*.

Under Local Budget Law the budget must follow a basic format. Expenditures generally are broken down first by fund, then by organizational unit or program, and then, more specifically, by object classification and object. Revenues are broken down at least by fund.

What is a fund?

A fund is a fiscal and accounting entity with self-balancing accounts set aside to carry on a specific activity or to meet certain objectives in accordance with a specific regulation. The requirements and resources of a fund must always balance. Every budget has at least one fund (commonly

called the General Fund) which is used for everyday operation of the local government.

Depending on the size and complexity of your local government and the services it provides, your district may also have a number of special funds. The most common reason for establishing a special fund is to account for a revenue source whose use is limited to a particular kind of expenditure. Examples include: debt service funds, construction funds, reserve funds, street funds, water funds, and sewer funds.

What is an organizational unit?

Some funds are broken down to account for one or more organizational units or activities, which are merely subdivisions of a fund. An organizational unit might be a department, office or division. What you call these units is up to your local government.

What is a program?

Budget requirements may be prepared by program. Programs are

groups of activities to accomplish a major service or function. Schools use programs in budgeting.

Budget format

Your budget estimate sheets for expenditures and revenues must show in parallel columns:

1. Actual expenditures and revenues for two years preceding the current year.
2. Budgeted expenditures and revenues for the current year.
3. Estimated expenditures and revenues for the coming fiscal year. Upcoming fiscal year estimates should be broken into three columns: proposed, approved, and adopted, showing estimated amounts as they are considered through each step of the budget process.

Information in each column must be itemized to show all estimated or incurred expenditures and revenues.

Revenues

Budget revenues are divided into two types: ensuing year property tax and nonproperty tax revenues. Property taxes shown in your budget will not be the same as the property tax “levy” you submit to the assessor.

There are three reasons for this. First, not all taxpayers pay their taxes in the year billed. Second, discounts are given for timely property tax payments. Third, the Oregon Constitution sets a limit on the amount of taxes that can be collected from an individual property.

You must estimate the amount of taxes to be lost because of the “constitutional limits” and “discounts allowed and other uncollected amount.”

The total of these amounts plus estimated taxes to be received cannot exceed your district’s taxing authority which includes its rate limit, voter approved local option levies, and levies to repay bonded debt. This total is the

amount of tax levy that is certified to the assessor.

The amount estimated as “loss due to constitutional limit” will vary from district to district. Late in October or early November each year the tax collector sends the district a report on the amount of taxes that will actually be billed for the district. This is called the taxes imposed.

“Discounts allowed, other uncollected amounts” normally will represent only a small percentage of the property tax levy. Contact your County Tax Collector for help in determining this percentage.

You next need to calculate how much tax revenue can be raised using the district’s permanent rate limit.

rate limit

times

estimated district assessed value

equals

amount raised by rate limit

This amount plus any local option taxes or bond levies, less the estimate of taxes to be lost, is the amount of tax revenue estimated to be received. If this amount is less than the amount needed for the budget, requirements must be reduced, other sources of revenue found, or additional taxing authority approved by voters.

Expenditures: by fund

Under the law, budget expenditures must be itemized to show all estimated expenses. The estimates may be prepared either by program or organizational unit. Within any fund each expenditure must be detailed and identified, arranged by organizational unit if applicable, and put into one of these major object classifications:

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1. **Personal services** includes all salaries, fringe benefits and miscellaneous costs associated with salary expenditures.

2. **Materials and services** includes contractual and other services

(example: audit or legal services), materials, supplies and other charges.

3. **Capital outlay** includes acquisition of land, buildings, improvements, machinery, and equipment.

Some special expenditures do not fit logically into one of these three object classifications. These are put in special categories. The most common special categories are:

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1. **Debt service** includes repayment of principal and interest on bonds, interest-bearing warrants and short term loans.
2. **Transfers.** An amount to be given as a resource to another fund in the budget.
3. **General operating contingencies.** A special amount set aside in the upcoming year for unforeseen expenses.

4. **Unappropriated ending fund balance.** A special amount set aside in a budget for use as a resource in the beginning of the next fiscal year after it was budgeted.

Expenditures: program budgets

Program budgets are prepared differently. Detailed estimates for each program must be arranged by activity and put into separate object classifications, as already described. Program budgets also must include a fund summary. The summary must cross-reference estimates for programs to fund appropriations.



Taxes and budgeting

Many local governments rely heavily on property taxes to finance services they offer. In some cases, services are paid for entirely by property taxes.

The amount and type of tax a local government may levy is limited by the Oregon Constitution and Oregon law. The constitution allows a local government to levy annually the amount that would be raised by its permanent rate limit without further authorization from the voters. Revenue from the permanent rate limited levy can be used for any purpose.

When a local government has no permanent rate limit or when the rate limit does not provide enough revenue to meet estimated expenditures, the government may request a local option levy from the voters. These levies are in excess of the rate limit and require voter approval. Such approval requires a "double majority." That means that

at least 50 percent of the registered voters must vote and a majority of those voting approve the levy. Currently, ESD's can not use the local option tax. Schools and community colleges can use the local option tax, but the amount they may request is limited.

A local option can be used for general purposes or a specific activity. The levy may be stated as a total dollar amount or rate to be levied uniformly for a period. If the levy is for an operating purpose, the period can not exceed five years. If the levy is for capital projects, the period can not exceed the lesser of the useful life of the project, or 10 years.

A debt service levy is used only to pay principal and interest on bonds. The constitution does not require voters to approve this type of levy each year. That's because voter approval of a bond issue is considered approval of levies necessary to repay bond interest and principal.

By law, some local governments are limited on the total amount of tax they may levy. These limits are computed

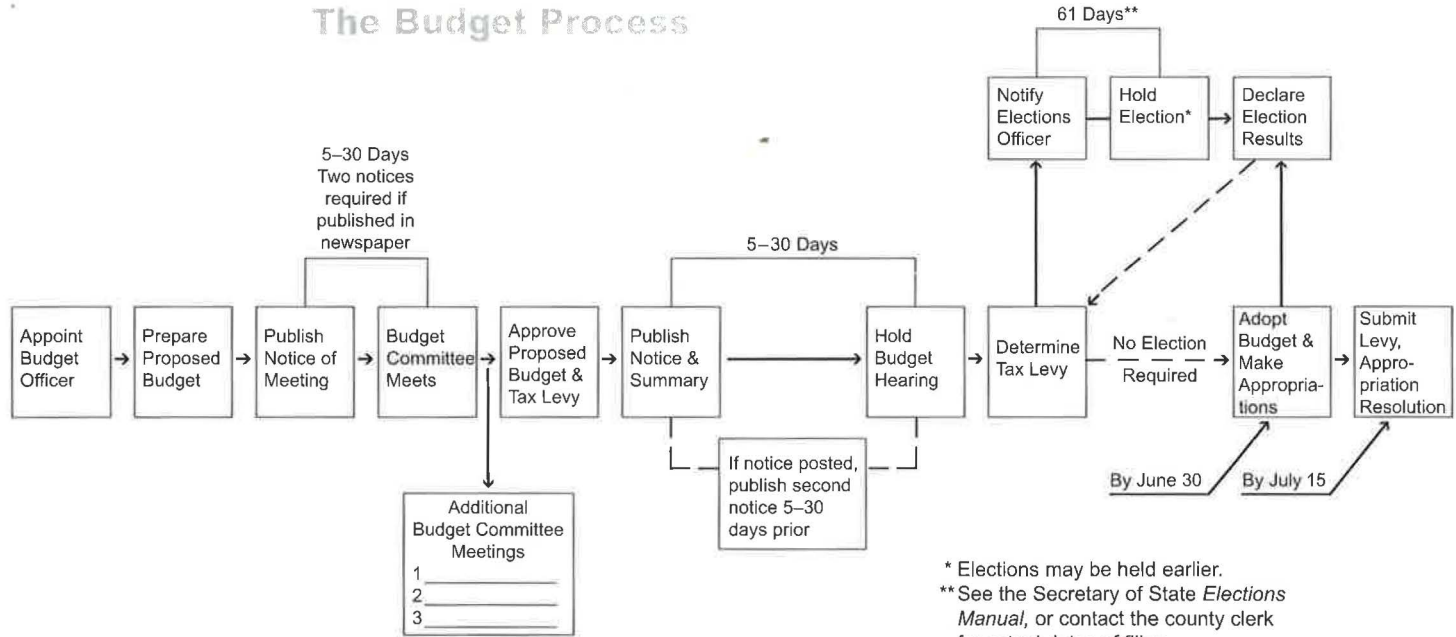
as a percentage of a local government's property value. For specific examples, consult the *Manual* or the Department of Revenue, Finance and Taxation Unit.

Tax levies not made according to law may be voided by an appeal to the Oregon Tax Court. Appeals can be made by the county assessor, county court, board of commissioners, Oregon Department of Revenue, Tax Supervising and Conservation Commission, or 10 or more interested taxpayers. An appeal must be submitted within 30 days after the local government certifies the tax levy to the county assessor.

In addition, since 1991, the Oregon Constitution has limited the amount of taxes that may be imposed on any property. For any property, the maximum amount of taxes to support the public school system is \$5.00 per thousand of real market value. The maximum amount of taxes to support other government operations is \$10.00 per thousand of real market value. Certain types of taxes may not be subject to the limit. See the *Manual* for further information.

The Budget Process

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* Elections may be held earlier.

** See the Secretary of State *Elections Manual*, or contact the county clerk for actual dates of filing.



Elections and budgeting

Election dates

- Fourth Tuesday in March
- Third Tuesday in May
- Third Tuesday in September
- First Tuesday after the first Monday in November

Many local governments find that available revenues, including revenue from the permanent rate limit levies, are not enough to finance proposed expenditures. In this case, there are two alternatives. Either lower proposed expenditures to equal available revenues or schedule a tax levy election to obtain voter approval to levy a local option tax.

All local governments that decide to schedule a levy election are limited to four election dates each year. The levy election must be on one of these dates.

See your county elections officer for more information. The county elections officer publishes election notices, sample ballots, and a list of polling places.

If the voters have not approved the tax levy before the end of the fiscal year, the governing body must adopt the budget and make appropriations by June 30 to lawfully spend public funds in the new fiscal year. When the district is planning on a tax levy election in September, it must request in writing from the county tax assessor an extension to certify its tax levy. When the tax levy is finally determined, the governing body prepares the resolution to levy taxes and submits its final levy certification to the assessor. If the late levy election failed, the governing body must reduce its budget appropriations to reflect the amount of taxes it actually has authority to levy.

Tax levy ballot language sometimes must contain certain wording or statements required by law or must not exceed other limits. For more details, see the *Manual*.



Appropriations and their use

When the nine budget steps are completed and the new fiscal year begins, the governing body works from appropriations. Amounts listed in the appropriation resolution provide authority to spend public funds in the next 12 months. However, appropriations may be made in broader categories than the detail presented in the budget.

District spending is limited to the schedule of appropriations. But what if it is necessary to exceed original appropriations? This may be done after transferring appropriations or preparing a supplemental budget. There are special provisions for exceeding appropriations due to civil disturbance, fire, flood, earthquake, or other calamity.

Appropriation transfers

The governing body's spending authority in existing appropriations may be changed by (1) transferring amounts among appropriations in the same fund, or (2) transferring from an appropriation in the general fund to an appropriation category in another fund.

Appropriation transfers cannot be made between special funds or from a special fund to the general fund.

Whenever you need to transfer an appropriation, the governing body must enact a resolution or ordinance providing for the transfer. This enactment must be made before any overexpenditure is incurred. Once a transfer is authorized, the expenditures can be made.

Supplemental budgets

By transferring appropriations, a governing body usually has enough flexibility to carry out the programs prescribed in an adopted budget. But

there will be times when an adopted budget gives no authority to make certain expenditures or when revenues are received for which the governing body had no previous knowledge. In these cases it is possible to use a supplemental budget to authorize expenditures or spend additional revenues in a current fiscal year. (There are a few special revenues which may be spent without a supplemental budget.) Supplemental budgets cannot be used to authorize a tax levy.

Local Budget Law does not contemplate the involvement of the budget committee in adopting supplemental budgets. The governing body may adopt a supplemental budget at a regular public meeting if the expenditures in the supplemental budget are **less** than 10 percent of the budget fund being adjusted. If the expenditures are more, the governing body must publish the supplemental budget and hold a special hearing.

For more details, see Oregon Revised Statute 294.480 or the *Manual*.



Audits

The final phase in the budgeting cycle is an audit of the previous fiscal year. This usually is done soon after a new fiscal year begins. Most local governments are subject to Oregon's Local Budget Law. Most of these governments are required to have their accounts and fiscal affairs audited and examined annually.

An audit must be done by the Secretary of State or an auditor certified by the Oregon State Board of Accountancy to conduct municipal audits. The auditor examines financial statements, books, records, and other financial data of your local government. The auditor also will look at any activities that relate to collection, receipt, custody, handling, expenditure or disbursement of public funds.

An audit report prepared by the auditor will include:

1. Financial statements with appropriate notes.
2. Auditor's opinion of the financial statements.
3. Auditor's comments about your local government's financial affairs and its compliance with legal requirements.

Transactions reflected in financial statements are the direct responsibility of your governing body. Naturally, the number of accounts and manner of recording transactions within accounts varies among local governments. Regardless of the system used, it is essential that the governing body adopt sound accounting procedures, maintain an adequate and effective system of accounts for safeguarding assets and devise a good system of internal control. Public officials who spend money unlawfully, in excess of authorized amounts or for purposes

not provided by law, are civilly liable. The district attorney or a taxpayer may file suit for return of the money.



Questions and Answers

What is a budget committee?

The budget committee is the district's fiscal planning advisory committee. The committee consists of the elected governing body members and an equal number of qualified district voters appointed by the governing body.

Who can serve on a budget committee?

Any qualified voter of the district appointed by the governing body except officers, agents or employees of the district.

Are budget committee members paid for their work?

Budget committee members cannot receive any compensation for serving as committee members. They may be

eligible to receive reimbursement for travel or meal expenses that are incurred as a result of meetings or other authorized committee functions.

How long do members serve?

Citizen budget committee members are appointed by the governing body for three-year terms. Terms are staggered so that approximately one-third of the terms expire each year. Members may be re-appointed for successive terms. If a member resigns, becomes ineligible, or is unable to serve out his or her term of office, the governing body appoints a replacement to complete the term.

What if no one will serve on the budget committee?

If the governing body is unable to appoint qualified individuals to vacant positions, the budget committee may function with a reduced number of members. For example, if a five-member governing body, after making a

good faith effort to seek qualified citizen members, can fill only three of the appointed positions, the budget committee can function with eight members rather than ten. A majority would then be five instead of six. The membership may not be reduced because governing body positions are currently vacant.

Who are the budget committee officers?

Only a presiding officer position is required by law. The presiding officer's duties are to chair budget committee meetings. The chair can be either an elected or appointed member. Some districts may elect a vice chair to conduct meetings in the presiding officer's absence. The committee should also designate someone to be responsible for keeping an official record of its proceedings. All members of the budget committee have the same degree of authority and responsibility.

What is the budget committee's main function?

In a series of public meetings the budget committee meets to review, discuss, make additions or deletions and approve the proposed budget presented by the local government's budget officer. Upon completion of its deliberations, the committee approves the budget and sets the tax rate or amount needed to balance the budget.

What are the rules about budget committee meetings?

Budget committee meetings are open to the public. A quorum is required to conduct committee business. A majority of the budget committee membership is required to approve any motion.

Minutes of each meeting are kept. The minutes are the official record of budget committee meetings. It is important that minutes are accurate. The budget process is required by law and districts may need to document that

the process was in compliance with state statutes. The approval of the final budget document and the rate or amount of tax to be imposed, in particular, should be in the form of motions with the votes recorded in the minutes.

What happens at the first budget committee meeting?

Generally, the budget committee elects a chair and other officers, receives the budget message, hears patrons, sets dates for future meetings and adopts rules of order. These rules should establish an operating procedure for the budget review process. The committee may adopt Robert's Rules of Order or establish its own. In any event, the budget committee needs to discuss and agree upon a procedure. The committee may not adopt any rule which would allow it to take official action with approval of less than a majority of its members in agreement.

What happens at subsequent budget meetings?

Generally, the second and other subsequent meetings take place at least one week after the first meeting. This practice allows budget committee members to review the proposed budget document. Budget committee members may wish to make arrangements with the district administrator and/or budget officer to visit district operations during this week, make inquiries about specific budget items, request additional information or indicate areas of interest they believe should be highlighted at future meetings. In subsequent meetings the entire budget is reviewed fund by fund and/or section by section.

At least one meeting must provide the opportunity for the public to ask questions and make comments about the budget. Notification of the first budget committee meeting in which public questions and comments will be heard is required in a newspaper of

general circulation, by mailing by first class mail to every street address in the district or by hand delivery to every street address. See chapter 8 of the *Local Budgeting Manual* for more detail on publication requirements.

How many meetings are required?

The number of meetings required varies from year to year and with the unit of government. Some districts meet only once, others may need to meet several times. Factors such as the detail in the budget documents, size of the district, number of funds, presentation of the budget and the personalities of individual budget committee members will result in various numbers of meetings.

When will I get a copy of the budget?

The budget officer provides copies of the proposed budget at or before the first budget committee meeting, when the budget message is presented by the executive officer.

What other information is available to the budget committee?

The budget committee may request any information required during consideration of the proposed budget from any district officer or employee. The budget committee may also require attendance of staff members at budget committee meetings. Such requests by the budget committee should be made through the chief administrative officer of the local government and/or budget officer.

How is the material that is presented by the budget officer at the first meeting prepared?

The budgeting process is a continuous cycle that generally begins long before the budget committee meets. Each district has its own procedures for budget review and development. In larger districts, each part of the organization may have its own budget preparation process, in which funding requests for the upcoming fiscal year

are developed and then “rolled up” into the total agency budget requirements. By the time the budget committee receives the budget message and budget document, many hours of work have been put into budget development. The budget officer coordinates these efforts with district staff and other administrators.

What is a quorum? What happens if we don’t have a quorum at a budget committee meeting?

A quorum is one more than half the total number of the members. If a quorum is not present, the members who are present may discuss committee business, but no action may be taken.

What if we have a quorum, but cannot get a majority of the members of the budget committee to approve the budget?

Any action by the budget committee requires approval by a majority of the

entire committee. For example, if the budget committee has ten members, six are present at a meeting (a quorum), but only five of the six present agree with a motion to approve the proposed budget, then the motion does not pass. It is up to the budget committee to negotiate a budget and tax that is acceptable to a majority of its members.

May I ask questions other than at budget committee meetings?

It could be very helpful and a courtesy to other budget committee members if inquiries are not restricted just to committee meetings. Checking with the administrator and/or budget officer between meetings allows members to explore budget items of interest in greater detail than might be practical during committee meetings. Questioning also assists the administration/budget officer by giving an indication of concerns, making it possible to highlight issues which may be of interest to the entire budget committee.

Can I consult with other budget committee members about details in the budget other than at budget committee meetings?

This is a tricky question. The answer is a qualified yes, as long as you do not have a quorum. If you have quorum, you would be in violation of public meeting law if you had not given public notice of the meeting. Formal discussions of the budget committee must always take place in the forum of a public meeting. One of the reasons Oregon uses the budget committee process is to insure free public input and full disclosure of budget deliberations. To circumvent local budget law puts your district and its property tax levy at risk. It is much better to abide by the spirit of the law and hold *all* discussions at budget committee meetings.

Can the budget committee establish or delete programs or services?

Generally, the budget committee's role is not to directly establish or

eliminate specific programs or services. Standards and budget parameters established by the governing body give the budget officer and administrative staff general guidelines for budget development. The budget officer then prepares a budget which reflects the governing body's parameters. It is this proposed budget which the budget committee considers during its meetings. Budget committee influence on programs and services is most often exerted at a higher level, when it approves the overall budget and establishes the tax levy.

Having said all that, if a majority of the budget committee agrees, it can add or delete funding for specific services. Public participation at budget committee meetings may influence budget committee decisions in either direction. However, final authority for administration of the district rests with the governing body. The governing body can make changes after the budget committee has approved the budget, although they may have to re-publish the budget and hold another public hearing to do so.

Can the budget committee determine how much an employee is paid?

The budget committee does not approve new personnel, employee contracts or salary schedules, nor does it negotiate salary contracts*. However, the adopted salary schedules, negotiated contracts and other materials which have a fiscal impact on the budget document may be requested for review by the budget committee. Through its authority the budget committee may direct the administration to make dollar adjustments (increases or decreases) in the proposed budget.

*Note: ORS 204.126 says the county budget committee or TSCC approves changes in the salary of elected county officials.

What happens after all the sections of the budget are presented?

After all presentations are made, all patron input received and all other

related issues discussed, the budget committee approves the budget. The approved budget recommends a level of spending for the year. The approved budget document also specifies the full amount of the property tax levy authority which may be certified to the tax assessor. The governing body may reduce the levy, but the rate or amount of the levy approved by the budget committee cannot be increased without republishing the financial summaries. Approval of the tax levy and the budget should be in the form of a formal motion, with the vote recorded in the minutes of the meeting.

Does the budget committee have any other duties?

At the final meeting the budget is approved, the tax levy rate or amount is established and the committee's work is finished as far as local budget law is concerned. Local charters may have additional duties. Frequently, budget committee members express a desire

to assist the governing body and administration in any public meetings or appearances concerning the budget. The budget committee may be reconvened by the governing body at a later date in the event the financial conditions in the district change. A meeting for this reason is called at the discretion of the governing body and is not a requirement of the local budget law.

After the budget is approved by the budget committee and recommended to the governing body, what action does the governing body take?

The governing body must publish a financial summary of the budget that was approved by the budget committee. The notice of the budget hearing is also published with the financial summary. At the public hearing the governing body hears any citizen input on the approved budget. The governing body may make additional adjustments to the budget that was

approved by the budget committee. Following the hearing and no later than June 30, the governing body must adopt the budget, make appropriations, and set the property tax levy rate or amount. If a property tax is required, the governing body must certify the tax to the county assessor no later than July 15.

What if the governing body changes the budget that was approved by the budget committee in ways that the budget committee disapproves of?

The governing body has that right. However, the amount of the estimated expenditure for each fund may not be increased more than 10 percent and the total property tax to be levied may not exceed the amount or rate shown in the budget as approved by the budget committee and published with the notice of the budget hearing unless a summary of the revised budget is again published and another public

hearing is held. Of course, budget committee members are free to attend that hearing and voice their opinions of the changes made by the governing body.

What is a supplemental budget?

Districts may find it necessary to prepare a supplemental budget at some point during the fiscal year. Circumstances under which a supplemental budget is authorized are:

- ✓ An occurrence, condition or need arises which was not known at the time the budget was adopted.
- ✓ Additional funds are made available after the budget was adopted.

Although the budget committee is usually not involved with supplemental budgeting, the procedures for supplemental budgets are similar to those for the annual budget. If estimated expenditures are being changed by more than 10 percent, these procedures include a public

hearing and publishing a notice and budget summary five to 30 days prior to the hearing.

Where can I find the law that governs the creation and operation of the budget committees?

Budget committees are required in Oregon's Local Budget Law. This law is found in the Oregon Revised Statutes (ORS) beginning at ORS 294.305.

These statutes as well as additional information can be found on the Department of Revenue Web site at www.dor.state.or.us.

Where can I direct my questions regarding budget committees?

Oregon Department of Revenue
Finance and Taxation
955 Center St NE
Salem OR 97310

Phone: 503-945-8293
Fax: 503-945-8737

Budget Committee Checklist

- ✓ At first meeting, elect presiding officer (required) and vice chair (optional).
- ✓ At first meeting, establish budget committee procedural rules.
- ✓ At first meeting, receive budget message and proposed budget.
- ✓ Establish a meeting calendar.
- ✓ Request information.
- ✓ Make budget documents available to any person.
- ✓ Provide opportunities for citizens to ask questions.
- ✓ Approve motion setting the rate or amount of taxes necessary to balance budget.
- ✓ Approve budget and recommend to the governing body.

Administration Checklist

- ✓ Gather budget requests.
- ✓ Evaluate budget requests and develop proposed budget.
- ✓ Develop estimates of revenue.
- ✓ Prepare budget proposal.
- ✓ Estimate ad valorem taxes in budget document.
- ✓ Prepare budget message.
- ✓ Publish required notices and budget summary.
- ✓ Provide citizens with information about approved budget.

Glossary

Here are some terms you should be familiar with as you work on your budget.

Adopted budget. The financial plan adopted by the governing body which forms a basis for appropriations.

Ad valorem tax. A property tax computed as a percentage of the value of taxable property. See "Assessed value."

Appropriation. Based on an adopted budget, an authorization for spending specific amounts of money for specific purposes during specific periods of time. Presented in a resolution or ordinance adopted by the governing body.

Assessed Value. The portion of value of real or personal property which is taxable. It is the lesser of the property's real market value or the constitutional value limit (maximum assessed value—MAV). The value

limit may increase 3 percent annually unless qualifying improvements or changes are made to the property. These improvements or changes allow the value limit to increase by more than 3 percent.

Budget. Written report showing the local government's comprehensive financial plan for one fiscal year. Must include a balanced statement of actual revenues and expenditures during each of the last two years, estimated revenues and expenditures for the current and upcoming year.

Budget committee. Fiscal planning board of a local government, consisting of the governing body plus an equal number of legal voters from the district.

Budget message. An explanation of the budget and local government's financial priorities. Prepared by or under the direction of the executive officer or presiding officer of the governing body.

Budget officer. Person appointed by the governing body to assemble budget material and information and to prepare the proposed budget.

Capital outlay. Items which generally have a useful life of one or more years, such as machinery, land, furniture, equipment or buildings.

County elections officer. County clerk or registrar of elections.

District. See "Local government."

Expenditures. Decreases in net financial resources if accounts are kept on an accrual or modified accrual basis; total amount paid if accounts are kept on a cash basis.

Fiscal year. Twelve-month period beginning July 1 and ending June 30.

Fund. A division in a budget segregating independent fiscal and accounting requirements. An entity within a government's financial plan designated to carry on specific activities or to reach certain objectives.

Governing body. County court, board of commissioners, city council, school board, board of trustees, board of directors or other governing board of a local government.

Line-item budget. The traditional form of budgeting, where proposed expenditures are based on individual objects of expense within a department or division.

Local government. Any city, county, port, school district, public or quasi-public corporation (including a municipal utility or dock commission) operated by a separate board or commission.

Municipality. See “Local government.”

Ordinance. Written directive or act of a governing body. Has the full force and effect of law within the local government’s boundaries, provided it does not conflict with a state statute or constitutional provision. See “Resolution.”

Organizational unit. Any administrative subdivision of a local government, especially one charged with carrying on one or more specific functions (such as a department, office or division).

Payroll expenses. Health and accident insurance premiums, Social Security and retirement contributions, and civil service assessments, for example.

Permanent rate limit. A district’s permanent ad valorem property tax rate for operating purposes. This rate levied against the assessed value of property raises taxes for general operations. Permanent tax rate limits were either computed by the Department of Revenue for districts existing prior to 1997–1998 or are voter-approved for districts formed in 1997–1998 and later.

Program. A group of related activities to accomplish a major service or function for which the local government is responsible.

Property taxes. Amounts imposed on taxable property by a local government within its operating rate limit, levied under local option authority, or levied to repay bonded debt.

Proposed budget. Financial and operating plan prepared by the budget officer, submitted to the public and budget committee for review.

Real market value. Value at which a property would be sold by an informed seller to an informed buyer on the appraisal date. Value set on real and personal property as a basis for testing the (Measure 5) constitutional limits.

Reserve fund. Established to accumulate money from one fiscal year to another for a specific purpose.

Resolution. An order of a governing body. Requires less legal formality and has lower legal status than an ordinance. Statutes or charter will specify which actions must be by ordinance and which may be by resolution. (For

cities, revenue raising measures such as taxes, special assessments and service charges always require ordinances.) See "Ordinance."

Resources. Estimated beginning fund balances on hand at the beginning of the fiscal year, plus all anticipated revenues.

Revenues. Monies received or anticipated by a local government from either tax or nontax sources.

Supplemental budget. Prepared to meet unexpected needs or to spend revenues not anticipated at the time the regular budget was adopted. Cannot be used to increase a tax levy.

Tax levy. Taxes imposed by a local government unit through a rate or amount.

Transfers. Amounts distributed from one fund to finance activities in another fund. Shown as a requirement in the originating fund and a revenue in the receiving fund.

Unappropriated ending fund balance. Amount set aside in the budget to be used as a cash carryover to the next year's budget, to provide the local government with a needed cash flow until other money is received. This amount cannot be transferred by resolution or used through a supplemental budget during the fiscal year it is budgeted, unless there is a significant calamity or natural disaster.

Where to get help with budget preparation

The Finance and Taxation Unit of the Oregon Department of Revenue is available if you need help at 503-945-8293.

Each January, the Department of Revenue sends districts which certified a tax or filed resolutions in the prior year a packet containing forms and instructions. Be sure to use the most current version of all forms. The county assessor will not accept Form LB-50 or ED-50 from past years.

If your district is new or has been inactive, forms for preparing your budget, publishing the notices and financial

summary, and certifying your tax levy to the county assessor can be obtained by contacting the Finance and Taxation Unit, Oregon Department of Revenue, 955 Center Street NE, Salem OR 97310 or the department's Web site at www.dor.state.or.us. These forms give the minimum requirements of Local Budget Law. They are free of charge.

Your district may computer generate the budget detail and publication forms.



City of Sherwood Budget Committee Handbook

March 27 2002 Budget Workshop
Meeting Handout #3

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Introduction

Budgeting in Oregon is established by state law known as Oregon Revised Statutes (ORS). It is a citizen based process that is unique. It is a joint effort between the people affected by the budget and the appointed and elected officials responsible for providing services. State law also establishes standardized procedures and provides an opportunity for public input.

This manual is to help the Budget Committee understand the process and define their role in the process. The manual also reviews the property tax system and its constitutional limits, reviews different types of budgets, the accounting system and debt management. Budget Committee members should feel free to contact the City Manager or Financial Director/Budget Officer for clarification or additional information.

The Committee

ORS 294.336 requires that each local government establish a Budget Committee. The committee is made up of the elected officials (City Council) and an equal number of qualified electors. Budget Committee members may not receive compensation for serving in this capacity.

Membership

All members of the Budget Committee have the same degree of authority and responsibility. The Committee may establish their own operating procedures. However, a majority of the members is required to pass a motion, not a majority of the members present. A majority of the committee is one more than half the total membership. (ORS 174.130)

Appointment

To be eligible, the candidate (1) must reside inside the City limit, (2) may not be an officer or employee of the City, and (3) must be a qualified voter of the City.

Term of Office

Appointed members of the committee are appointed by the City Council for three year, staggered terms. Members may be re-appointed. If any appointed member is unable to serve the term for which they were appointed, or an appointed member resigns or becomes ineligible prior to the completion of the term for which s/he was appointed, the City Council shall fill the vacancy for the remainder of the unexpired term.

Officers

The Budget Committee must elect a chair from among any of its members. Sherwood also has a vice chair to serve as chair in the chair's absence. Generally, these positions are elected at the first meeting of the calendar year and are for one year.

Meetings

All meetings of the Budget Committee are subject to the Open Meetings Law. When convened, only business of the Budget Committee may be transacted. The Budget Committee must have a majority of the total membership present in order to hold a meeting. A majority of the Budget Committee is required to approve any motion.

All meetings shall have a posted agenda and a written record. Citizens may be allowed to speak if the Committee agrees to it. However, while the meeting is open to the public, it is not a meeting of the public. ORS 294.401 requires at least one public hearing before the Budget Committee prior to the committee approving the budget for Council adoption. The City is required to publish a notice stating the date of this hearing.

Committee members may not discuss or deliberate on the budget outside of a public meeting.

Duties and Responsibilities

Budget Committee Responsibilities

The Budget Committee:

- 1) receives the budget message from the Budget Officer,
- 2) reviews the proposed budget,
- 3) hears public questions and comments,
- 4) approves the budget for Council adoption and
- 5) recommends the property tax amount or rate of property taxation.

As provided in state law, the Budget Committee may receive the budget document before the first meeting reviewing the proposed budget. The Budget Committee may request any information it requires for review of the budget document from the staff. Generally, these requests are directed to the Budget Officer or a department head.

The Budget Committee does not approve new personnel, employment contracts or salary schedules. However, these items are part of the proposed budget and have a fiscal impact. While the Budget Committee cannot negotiate contracts, it can adjust the dollar amount in the proposed budget that is available for these expenditures. These

adjustments would affect staffing or service levels. The Budget Committee can also review capital expenditures and make adjustments to them.

Staff Responsibilities

The staff has a number of responsibilities. Beginning in January, the staff begins to prepare the line item detail and program summaries of the proposed budget, both revenues and expenditures. In March and April, the City Manager writes his budget message. Also in April, notices are sent to the Tualatin Times regarding the pending Budget Committee meetings.

After the budget is adopted by the City Council, the staff must file the appropriate papers with the County Assessor and County Clerk by June 30th. This becomes the official record of the budget.

City Council Responsibilities

The City Council is the governing body of the City and has the ultimate responsibility for its operations. The Council's financial duties and responsibilities encompass a wide range of topics, including, but not limited to:

- Set policy
- Determine service levels
- Appoint Budget Committee members (ORS 294.336)
- Appoint a Budget Officer
- Adopt the next fiscal year's budget by June 30 of each year
- Approve changes to the budget during the year
- Review any auditor comments about compliance with various statutes

Budgeting

Budget Cycle

There are four distinct stages in the budget cycle.

The **formulation stage** begins when the staff develops long range financial projections, presents budget assumptions to the Budget Committee, and begins to estimate revenues and expenditures and compiles them into a **proposed budget**.

The **approval stage** involves the budget committee receiving the proposed budget, holding a public hearing and recommending the **approved budget** for council **adoption** of the final budget. The council has the final authority to change the approved budget. However, if the

change increases the property tax levy or increases a fund's approved expenditure by more than 10%, the budget must be referred back to the budget committee and notices must be published again.



The **implementation stage** begins on July 1 (the first day of the fiscal year). Subsequent to July 1, the budget may need to be adjusted. The City Council has the authority to amend the budget through a resolution. Appropriations may be moved from one department to another by a transfer resolution. Recognition of unanticipated revenues, such as grants, gifts or bond proceeds, may also be appropriated through a resolution adopted by the council.

It is important to note that appropriations give the right to spend what has been approved by the council, but not spend additional revenues received. Any amount of revenue may be received without changing the budget. However, if there is a need to spend additional revenue during the fiscal year, a supplemental budget must be adopted. Under certain circumstances, the supplemental budget will resemble the budget process. State law defines which supplemental budget process must be used.

The final stage, **evaluation stage**, is conducted at the close of the fiscal year. This results in the preparation of the annual audit and financial report.

State Budget Required Preparation Steps

State law includes a number of requirements. Minimum requirements are:

1. Staff prepared Proposed Budget (ORS 294.331)
2. Publish 1st Notice of Budget Committee meeting (ORS 294.401)*
3. Publish 2nd Notice of Budget Committee meeting (ORS 294.401)*
4. Budget Committee meets (ORS 294.401)
5. Budget Committee approves the budget and tax rate/levy (ORS 294.406)
6. Staff publishes Budget Summary & Notice of Budget Hearing (ORS 294.421)
7. City Council holds Budget hearing (ORS 294.430)
8. City Council adopts Budget, Makes Appropriation, Imposes & Categorizes Property Tax (ORS 294.435)
9. Staff submits Tax Certification documents to Assessor (ORS 294.555)

*Meeting notices do not have to be published after the first meeting as long as the next meeting date is announced at each meeting.

Budget Type

Sherwood budget uses a line item budget format. It lists how much will be spent for every account item, by fund and department. Expenditures are broken into several categories: personal services (salaries and benefits), materials and services, capital outlay/projects and nondepartmental (transfers, reserves, contingencies, unappropriated fund balances). The line item budget is considered the simplest form of budget. It is basically used as a financial control tool.

Property Tax System

Most local governments in Oregon rely on the local property tax system to finance their basic services. Sherwood is no exception.

The Oregon property tax system has undergone a number of changes during the 1990's. Two measures are important to understand: Ballot Measure 5, passed in 1990 and Ballot Measure 50, which passed in 1997.

Ballot Measure 50

Article XI, Section 11 limits the property value that may be taxed by local governments. In the first year, the taxable value of property was the 1995 value less 10%. Thereafter, the assessed value of property is allowed to grow by no more than 3%, with some exceptions. This is called the **Maximum Assessed Value**. Each year the property tax bill is based on the lower of the property's real market value or the Maximum Assessed Value. The lower value is called the **Taxable Assessed Value**. Generally, the real market value exceeds the Taxable Assessed Value.

Example:

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98*</u>	<u>1998-99</u>	<u>1999-00</u>
Real Market Value	\$80,000	\$88,000	\$92,000	\$95,000	\$100,000
Max Assessed Value	\$80,000	\$88,000	\$72,000	\$74,160	\$ 76,384

* First year of Ballot Measure 50.

In 1997-98, the maximum assessed value became the 1995-96 value less 10%. In 1998-99 and subsequent years, the value has grown by 3%.

A local government's tax rate, which is charged per \$1,000 of maximum assessed value was determined by the state in 1997. Sherwood's permanent rate is 3.2975 per \$1,000. Applying the permanent rate, the owner of a home assessed at \$200,000 would pay \$659.50 in City property taxes. No action of the City can increase the permanent tax rate.

Ballot Measure 5

Article XI Section 11b limits the amount of taxes which can be imposed on a piece of property. The total maximum tax rate that can be applied to a property (excluding general obligation bond payments) is \$15.00 RMV and is broken down as follows: the educational limit is \$5.00 per \$1,000 of **real market value** and the general government limit is \$10.00 per \$1,000 of **real market value**. The tax rate of each taxing district in which property is located is added together and may not exceed the \$15.00 tax rate limit. While there may be authority to tax more, the assessor must review each taxable piece of property and compress the rate so that the tax rate is no more than \$15.00/\$1,000 for that property.

Other Tax Levies

The City may determine through the budget process that it needs additional funds to operate. State law allows a local government to levy additional property taxes in the form of local options taxes, either for specific or general purposes. The City can also levy a property tax for general obligation bonds which have been voter approved. Capital levies are restricted to a maximum of 10 years or the useful life of the capital asset being purchased, whichever is less.

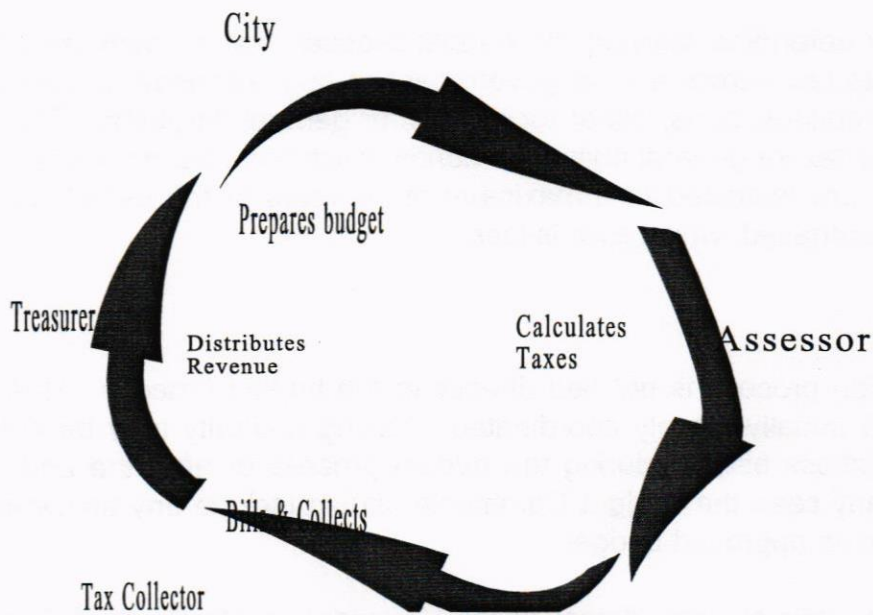
Tax Elections

The tax election process is not tied directly to the budget process. However, the two processes are usually closely coordinated. Taxing authority may be voted on before the budget process begins, during the budget process or after the end of the budget process. In any case the Budget Committee should include any anticipated additional tax authority in its approved budget.

There are only four election dates: second Tuesday in March, third Tuesday in May, third Tuesday in September and the November general election. There are election rules and hearing requirements regarding tax levy election and there are special guidelines on how money measures are stated. All these elections require a double majority except the November General Election (held in even numbered years). A double majority means that at least 50% of the registered voters must vote and 50% of those voting must vote 'yes'.

Property Tax Cycle

The following graph illustrates the property tax cycle. It begins with the City preparing the annual budget and calculating the property taxes to be collected. Once the City Council adopts the budget and property taxes, the County Assessor does the final tax calculations. The County Tax Collector bills and collects the property tax bill in the fall (October and November). The County Treasurer distributes the money to the taxing jurisdictions monthly. The City's biggest tax payments come in November, March and May.



Accounting System

Governmental accounting consists of recording financial transactions and reporting them back to management, the governing body and the public. Governmental agencies, including the City, must comply with generally accepted accounting principals (GAAP), as promulgated by the Government Accounting Standards Board (GASB).

A unique aspect of governmental accounting is its structure. Governmental accounting is based on a **fund** structure, which makes it different from private sector accounting. Funds reflect restrictions on the use of resources. Money from one fund generally is not available as a resource to another unrelated fund. For example, charges for water

service, which are a resource to the Water Fund, do not pay for streets. This would require special consideration and probably public involvement.

The City uses five types of funds:

The *General Fund* accounts for all financial resources except those accounted for in other funds.

The Asset Depreciation is a *Special Revenue Fund*. It accumulates resources for acquisition of major capital asset purchases, improvements, and repairs, other than those funded by restricted resources.

The General Purpose *Capital Projects Fund* accounts for resources used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds. Enterprise funds record their own capital projects.

The *Debt Service* and Reserve Fund accounts for resources restricted for principle and interest on general obligation bonds and for reserves required by loan agreements.

Enterprise funds are used for operations that are similar to business enterprises, where the intent is that costs be recovered primarily through user charges or where determination of net income or loss is useful for public policy. The Water, Sanitary and Storm Funds charge users for services; the Street Fund has resources restricted to street maintenance and construction.

The City's account code structure is explained in Appendix A.

Basis of Accounting

In addition to being aware of the fund structure, it is important to know that there are different ways of recording transactions. This is called the basis of accounting. Oregon local governments use either the full accrual, modified accrual or cash basis of accounting, or a combination of the three. In Sherwood, enterprise funds use full accrual accounting; the other funds use modified accrual. Modified accrual accounting recognizes revenues when they are measurable and available and expenditures when they are incurred, except for interest on long term debt which is recognized when due. Accrual accounting records revenue when earned and expenditures when a liability is incurred, even though part or all of the payment may be made in another accounting period.

Internal Controls

The City is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the city are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that (1) the cost of the control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Annually, the auditor reviews the City's internal control system.

Annual Financial Report and Audit

Oregon law requires an annual independent audit. The required audit must be prepared by the Secretary of State or by an independent accountant who is licensed as a municipal auditor by the State Board of Accountancy. The Secretary of State's office has extensive supervisory powers over implementation of audit findings, including the power to withhold certain state payments until compliance is achieved.

Debt Management

Most cities find it necessary to borrow money from time to time. The need may arise from time to time to buy a building or build a new building. Bonds may be sold competitively or negotiated, rated and not rated. Official statements must be prepared in addition to numerous legal documents (notices, opinions, notes, etc.). Because the bond market is very complicated and involves many legal considerations, it is important that the city consults with appropriate financial advisors and bond attorneys.


There are many different types of debt instruments. These include:

General obligation bonds pledge the "full faith and credit" of the city and are voter approved. (GO bonds are outstanding for the YMCA and Police Station).

Revenue bonds are secured by a pledge of a specific revenue source or tax source and do not necessarily require voter approval. (None)

Certificates of participation (sometimes referred to as COPs) whose annual debt service payments are subject to annual appropriation. (None)

General Fund obligations, or limited tax obligations, which are similar to COPs but are a binding obligation payable from all resources of the general fund rather than subject to annual appropriation. (None)

 Bancroft Bonds or special assessment bonds are used to finance local improvement districts and the resource for the annual debt service payment is from benefited property owners. (None)

Lease-purchase agreements are commonly used to purchase equipment and the terms are generally from three to five years. These agreements are also subject to annual appropriation. (Police Cars)

Tax anticipation notes (TANs) are short-term instruments sold in anticipation of tax receipts and assist in cash flow needs between July and November when property tax payments are received. (None)

Bond anticipation notes (BANs) similar to TANs but are sold in anticipation of selling a bond and provides interim funds for financing the project. (None)

Bank Note Based on Good Faith and credit of citizens of Sherwood. (YMCA and City Hall).

Debt Limits

There is no statutory restriction in Oregon on the issuance of revenue bonds for financing municipal water systems, sewers, sewage disposal facilities, hospitals, infirmaries, gas, power or light systems, or off-street parking facilities. The amount of bonds that may be issued for other general purposes is limited to three (3) percent of the City's taxable true cash value.

The amount of bonds that may be issued under the Bancroft Bond Act is separately limited to three (3) percent of the true cash value, regardless of other outstanding indebtedness, or nine (9) percent of the taxable true cash value less the city's net bonded indebtedness for general purposes (that which is not supported by other sources) and for municipal utilities which were not self-supporting during the preceding year.

The annual financial statements include tables showing the debt limitations for the City.

APPENDIX A: Account Code Structure

Each transaction is recorded in the City's accounting system using the appropriate account code. The account code has multiple segments, as follows:

Fund

Funds are represented by a 2 digit code. For example, fund 73 is the Street Fund.

Department

Within the General Fund, departments are designated by a 2 digit segment. For example, department 50 is the Police Department.

Appropriations for the General Fund are by department. For all other funds, appropriations are by account group.

Certain departments have subdepartments. Administration, for example, has subdepartments for City-Wide Expenditures, City Manager, Information Technology, and Human Resources. Subdepartments exist for managerial purposes only; appropriations are not made at the subdepartment level.

Revenue source

Revenue source codes are used to segregate restricted resources, uses of those resources, and the remaining cash balances. It is an efficient alternative to establishing separate funds for each resource. Revenue source codes may be perpetual (as for individual SDCs), or be disabled after defined lives (as for cost-reimbursable grants). Revenue sources are an internal mechanism for demonstrating compliance with legal restrictions. Appropriations are not made by revenue source.

Account

Accounts are general ledger accounts, i.e., assets, liabilities, fund balance/fund equity, revenue, and expenditures/expenses. These five types of accounts are common to all accounting systems. Appropriations are made for expenditure account groups (for example, total materials and services) in all funds except the General Fund.

Job

The City maintains a job cost system which sorts revenue and expenditures by job for capital projects and for other activities. Capital project information is provided in the budget document. Appropriations are not specified directly for individual capital project; rather, expenditures are budgeted for each project and total expenditures are appropriated by account group (i.e., capital outlay).

APPENDIX B

Budget Staff

Ross Schultz	City Manager	503-625-4200
Kristen Carey	Community Services Manager	503-625-4210
Terry Keyes	Public Works Director/City Engineer	503-625-4235
Amanda Klock	Human Resources Manager	503-625-4224
Bill Middleton	Police Chief	503-625-5523
Chris Robuck	Finance Director & Budget Officer	503-625-4236
Ann Roseberry	Library Director	503-625-3059
Dave Wechner	Planning Director	503-625-4205
Chris Wiley	City Recorder	503-625-4246