

NACO PRESENTATION

MARCH 9, 2016

***HOW THE COUNTY BUDGETING
PROCESS WORKS***

COUNTY BUDGET PROCESS

Basic Elements of a Budget Process

- Departments make budget requests
 - new staffing
 - line item expenditures
- Revenue and fund balance projections completed to determine available resources (should be done first...but can't due to timing)
 - these are best estimates only, **actual results may vary**
- Budget requests reduced (if needed) to match available resources
- Board of Commissioners approves balanced budgets

Different Counties Have Variations of Process

- Board involvement varies anywhere from 30,000 feet...down to ground level
 - Some Boards have the County Manager and/or Comptroller present an overview of a staff-balanced budget and then approve
 - Some Boards meet with individual departments to go over requested budgets
 - Some Boards go over every individual line item in the requested budgets

Revenues

Revenue Projections – Property Taxes

- Property (ad valorem) taxes
 - Projected by Department of Taxation
 - Budget must match state projections
 - Usually very, very close to actual results
 - Received very late in the budget process...final figures on March 25

Revenue Projections – Consolidated and Gas Taxes

- Consolidated taxes and gas taxes
 - Projected by Department of Taxation.
 - Difficult to project due to fluctuations in the economy
 - Actual results may be significantly different (up or down)
 - Budget not required to match state projections
 - If you don't match, make sure that you aren't "going out on a limb"
 - Preliminary estimate on February 15 and final estimate on March 15
- Internet Sales Tax Freedom Act decreases future consolidated tax revenues

Revenue Projections – Charges for Services, Fines & Forfeitures, Other

- Charges for services, fines & forfeitures, other revenues
 - Projected by County
 - Usually fairly similar from year-to-year...no dramatic swings up or down
 - Can be projected prior to the start of the budget process

Expenditures

Boards Set Priorities Through Budgeting Expenditures

- Budgeting expenditures is where the “rubber meets the road.”
- Boards determine which departments or programs receive increased or decreased funding for personnel and/or supplies.
- Budgets are one of the critical methods where the Board governs appointed and elected departments.
 - County code
 - Budget
 - Policies

Legislature and Other Agencies Impose Additional Budget Requirements

- NRS mandates funding of certain departments/expenditures...some examples:
 - Assessor
 - Clerk/Treasurer
 - Courts
 - District Attorney
 - Indigent care
 - Recorder/Auditor
 - Sheriff (Jail and investigating felonies)
 - Roads

Legislature and Other Agencies Impose Additional Budget Requirements (Continued)

- Certain revenues can only be spent for specific purposes...examples:
 - Park construction tax
 - Road construction tax
 - Gas taxes
 - Impact fees
 - Assessor technology fees
 - Recorder technology fees
 - Various District Court and Justice Court fees
 - Jail phones and jail commissary
 - Federal and state grants

Balancing the Budget

- Expenditure requests frequently exceed revenues
 - Increase revenues
 - Say “no” to requested increases
 - Further reductions require budget cuts

Popular Methods for Budgets Cuts

- Equal percentage budget cuts for all departments
- Zero-based budgeting
- Non-mandated services
- Strategic Cuts (best method – my opinion)

Equal Percentage Budget Cuts for All Departments

- Pros
 - Simple and easy to calculate and impose
- Cons
 - Rewards departments with budget “slush” already
 - Punishes departments that have been conservative
 - Critical departments may not be able to function at all
 - Departments may have mandated expenditures that can’t be reduced
 - May lead to disparate treatment of employees depending on department (illegal)
 - i.e. – departments with a single employee may need to reduce a single employee’s salary, which isn’t done for like positions in other departments.

Zero-Based Budgeting

- All budgets start at zero and line items justified in detail
- Pros
 - Requires departments to examine what they are spending
 - Boards get an indepth understanding of what is being spent
- Cons
 - Extremely time-intensive for both departments and Boards
 - Important purchases may be neglected as they are not considered / remembered...until after the budget is adopted, which is too late

Budget Cuts to Non-Mandated Services

- Services that are non-mandated are cut and entirely eliminated first...i.e. – parks, libraries, senior services
- Pros
 - Mandated services are still able to operate without being starved
- Cons
 - Some non-mandated services will have increased costs
 - i.e. – long-term care costs for indigents that used to have senior services
 - Very political...lots of citizens become active in the budget process
 - May save money in short run and cost significantly more in the long run
 - i.e. – replacing turf in parks that has died
 - Some mandated services may still have slush in their budgets

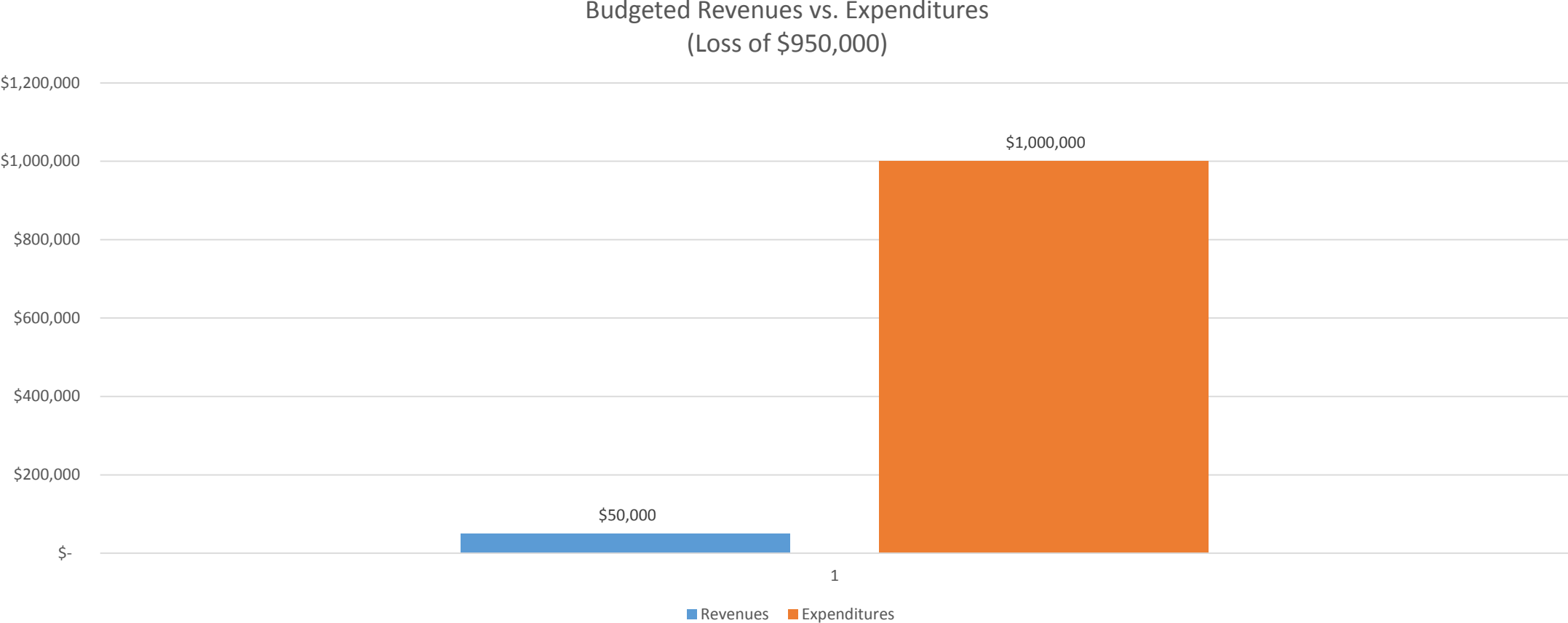
Strategic Cuts

- Boards reduce specific line items / departments strategically.
 - This requires management and the Board to identify where the “slush” is in the budget.
- Pros
 - Right-sized cuts
 - Departments able to operate properly after cuts
 - Eliminates slush throughout the budget
- Cons
 - Some cuts may go too deep in certain departments
 - Very political process
 - elected department heads at odds with management and the board

NRS 354.598(5) - Requires Budgeted Appropriations Not to Exceed Budget Resources

- Commonly called a “balanced budget,” this is a misnomer....
- Balanced budget doesn’t really mean “balanced.”
 - Can budget significantly **more** in expenditures than revenues...if there is enough beginning fund balance.
 - Just can’t budget to have a deficit fund balance.

This Can Be a Balanced Budget Under NRS... If There is Sufficient Beginning Fund Balance



What is Fund Balance?

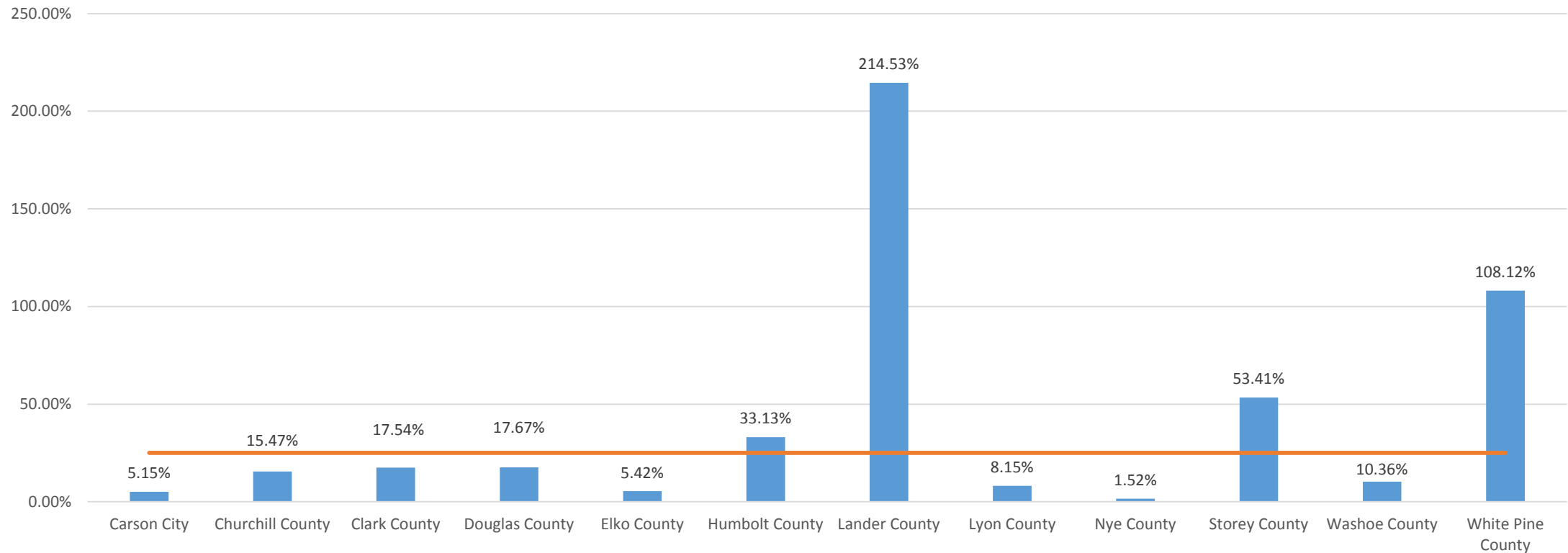
- Fund Balance
 - Cash on hand,
 - Plus what other owe us (receivables),
 - Less what we owe others (payables)

Reasons for the Ending Fund Balance

- Cash Flow Purposes
 - Property tax bills go out in July...collections lag
 - 30% of Lyon County General Fund budgeted revenues
 - Consolidated taxes are received two months in arrears
 - 45% of Lyon County General Fund budgeted revenues
- Protect Against Economic Downturns
 - Provides governments flexibility during downturns
 - Revenues lag expenditures by months
- **Nevada Legislature Increased the Budgeted Ending General Fund Balance Exempt from Negotiations to 25% Effective Upon the Governor's Signature on June 9, 2015.**

Budgeted Ending Fund Balance Fiscal Year 2016

Budgeted General Ending Fund Balance
as a Percentage of Budgeted Expenditures Less Capital Outlay



NRS 354.596 - Tentative Budget Requirements

- Filing requirement of April 15 (on or before)
 - with county auditor (or comptroller, where one is appointed),
 - with Department of Taxation,
 - with clerk or secretary of Board,
 - and with county clerk
- Tentative budget on forms prescribed by Department of Taxation
- Time and place of public hearing on tentative budget determined
 - must be held between the third Monday in May and the end of May
 - notice of date, time, and location Information on front page of budget
 - advertisement in newspaper of general circulation not more than 14 days and not less than 7 days prior to hearing

NRS 354.598 – Final Budget Requirements

- Public Hearing Held on Tentative Budget as Advertised
 - Any Changes Between Tentative and Final Budget Indicated
- Final Budget Adopted by June 1
 - Certified By Majority of all Member of Governing Board
 - Signatures of Individual Commissioners Required on Front Page of Budget
- Filed By June 1
 - With Department of Taxation
 - Includes Affidavit of Proof of Publication of Public Hearing

Once You Have Adopted the Final Budget...

- Everyone must live within their established budget, including the Board
- Any Board actions for spending throughout the year should designate funding sources.
 - Existing budget
 - Contingency
 - Augmentations to the budget

Law Requires Staying Within Budget

NRS 354.626 Unlawful expenditure of money in excess of amount appropriated; penalties; exceptions.

1. No governing body or member thereof, officer, office, department or agency may, during any fiscal year, expend or contract to expend any money or incur any liability, or enter into any contract which by its terms involves the expenditure of money, in excess of the amounts appropriated for that function, other than bond repayments, medium-term obligation repayments and any other long-term contract expressly authorized by law. Any officer or employee of a local government who **willfully violates** NRS 354.470 to 354.626, inclusive, **is guilty of a misdemeanor** and upon conviction thereof **ceases to hold his or her office or employment**. Prosecution for any violation of this section may be conducted by the Attorney General or, in the case of incorporated cities, school districts or special districts, by the district attorney.

(Bold done for emphasis)

Good Luck on Your Budget Process!