

# TOOLS for the *New City Councilor*

## BUDGETING BASICS

The annual (or biennial) budget is one of the most important and informative documents city officials will use. In simple terms, the city's budget is a financial plan for one fiscal year. It shows the estimated costs of expenditures (items or services the city wishes to purchase in the coming fiscal year) and other budget requirements that must be planned for, but won't actually be spent. It also shows the resources that will be available to pay for those expenditures.

The budget authorizes the city to spend money and limits how much money can be spent. It also justifies the levy of property taxes. In order to levy taxes through a county assessor, cities must prepare a budget following a specific local budgeting process.

Cities in Oregon operate within a fiscal year that begins July 1 and concludes the following June 30, or some cities will use a biennial budget, which covers a 24-month period beginning July 1 of the first fiscal year and ending on June 30 of the second fiscal year.

### Oregon's Local Budget Laws

In Oregon, cities are required to adhere to the state's local budget law, a group of statutes that requires local governments to prepare and adopt annual or biennial budgets following a very specific process. Budget laws have been written to accomplish very specific objectives, including:

- Setting standard procedures for preparing, presenting and using budgets for cities and other Oregon local governments;
- Encouraging citizen involvement in the preparation of the budget;
- Giving a method for estimating expenses, resources and proposed taxes; and
- Offering a way of outlining the programs and services provided by the city, and the fiscal policies used to carry them out.

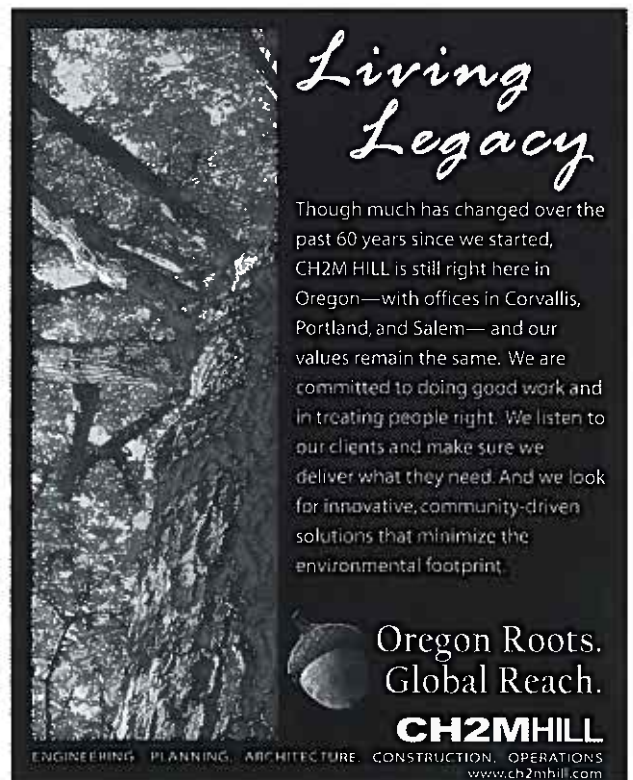
Preparing a budget allows a city to look at its needs in light of the funds available to meet those needs. In Oregon, all local governments must plan a balanced budget, meaning that the resources and requirements are equal. A city cannot plan to purchase more items or services than it has money to pay for them.

### A City's Budget Process

#### **Phase I: The Budget Officer Puts Together a Proposed Budget.**

Each city must designate a budget officer, who may be appointed by the governing body (the city council) or may be designated in the city's charter. The budget officer is responsible for preparing the budget or supervising its preparation.

The first step in the budget process is the development of the budget calendar, which maps out all the steps that must be followed for the legal adoption of the city budget. The calendar must allow enough time for the budget to be adopted by June 30, before a new fiscal year begins. After the budget calendar is set, the budget officer begins to develop the estimates of resources and requirements for the coming year. A sample budget calendar, including all of the required steps, is shown in the box on the next page.



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Sample Budget Calendar	Sample Dates	Your Dates
1. Appoint budget officer	December 7	
2. Appoint budget committee members	January 5	
3. Prepare proposed budget	February 28	
4. Print first notice of budget committee meeting (not more than 30 days before the meeting)	March 16	
5. Print second notice of budget committee meeting (at least 5 days after first notice, but not less than 5 days before the meeting)	March 24	
6. Budget committee meets	March 30	
7. Budget committee meets again, if needed	April 6	
8. Publish notice of budget hearing (5 to 30 days before the hearing)	April 19	
9. Hold budget hearing (governing body)	May 4	
10. Enact resolutions to: adopt budget, make appropriations, impose and categorize taxes	June 29	
11. Submit tax certification documents to the assessor by July 15	July 12	

A city budget is comprised of several funds, each with a specific purpose. The city budget should include enough different funds to clearly show what your local government is doing and how it is paying for things. However, you don't want too many funds which makes the budget harder to read and understand.

There are seven types of funds used in most city budgets:

- **General Fund** – records expenditures needed to run the daily operations of the local government and the money that is estimated to be available to pay for these general needs.
- **Special Revenue Fund** – accounts for money that must be used for a specific purpose and the expenditures that are made for that purpose.
- **Capital Project Fund** – records the money and expenses used to build or acquire capital facilities, such as land or buildings. This is a type of special revenue fund and is only used while a project is being done.
- **Debt Service Fund** – records the repayment of general obligation bonds. The expenditures in the fund are the bond principal and interest payments. Money dedicated to repay bonds cannot be used for any other purpose.
- **Trust and Agency Fund** – accounts for money for a specific purpose that you hold in trust for someone else. Example: investments or securities given to the city with provisions that the income be used to aid the library or park system.
- **Reserve Fund** – accumulates money to pay for any service, project, property, or equipment that the city can legally perform or acquire. It functions as a savings account. A special resolution or ordinance of the governing body is needed to set up a reserve fund.

- **Enterprise Fund** – records the resources and expenses of acquiring, operating, and maintaining a self-supporting facility of service, such as a city water or wastewater utility.

Oregon budget law requires that each year a city's budget provides a short history of each fund. To meet this requirement, the annual budget will include: the actual or audited resources and expenditures for the prior two years; the current year's budget; estimated actual resources and expenditures for the current year; the next year's budget as proposed by the budget officer (must balance); and columns for the budget approved by the budget committee and the final budget adopted by the council. The budget also includes a column for the descriptions of expenditures and resources. The box on page 16 illustrates typical resources and expenditures found in a city budget.

## Phase 2: The Budget Committee Approves the Budget.

As defined by statute, a budget committee is an advisory group, often comprised of the city council and an equal number of appointed members. If the city council cannot identify enough citizens willing to serve on the budget committee, then the committee is made up of the citizens who have volunteered to serve along with the entire city council.

The appointed members of the budget committee must be electors of the city, meaning they must be qualified voters who have the right to vote on the adoption of any measure. The members of the budget committee are appointed for staggered three-year terms, and cannot be employees, officers or agents of the city. No member of the budget committee can receive compensation for serving on the committee except reimbursement of expenses incurred while serving.

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## Budgeting Basics

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### The Budget Message

Among its many functions, the budget committee conducts public meetings to hear the budget message and review the budget proposed by the budget officer. One of its most important functions is to listen to comments and questions from interested citizens and consider their input while deliberating on the budget. The budget committee can revise the proposed budget to reflect changes it wants to make in the local government's fiscal policy. When the committee is satisfied, it approves the budget. (Note: the budget committee does not have the authority to negotiate employee salaries.)

The budget message is an explanation of information provided to the budget committee and the public to help them understand the proposed budget. The budget message is required by statute to contain a brief description of the financial policies reflected in a proposed budget and, in connection with the financial policies, explain the important features of the budget. The budget message must also explain proposed changes from the prior year's budget and explain any major changes in financial policies.

The budget message should be in writing so it can become part of the budget committee's records. It is delivered at the first meeting of the budget committee by the budget officer, the chief executive officer or the governing body chair.

### Budget Committee Meetings

A quorum, or more than half of the committee's membership, must be present in order for a budget committee to conduct an official meeting. Any action taken by the committee first requires the affirmative vote of the majority of the membership. In the event that only a quorum is present at a meeting, all members must vote in the affirmative for an action to be taken.

Local budget law requires that a budget committee hold at least one meeting for the purpose of receiving the budget message and the budget document; as well as to provide the public with an opportunity to ask questions about and comment on the budget. Prior public notice is required for the meeting(s) held for these two purposes. If the budget committee does not invite the public to comment during the first meeting, the committee must provide the opportunity in at least one subsequent meeting. The notice of the meeting(s) must tell the public at which meeting comments and questions will be taken.

*(continued on next page)*

## Common Resources & Expenditures in a City Budget

### Resources:

**Net Working Capital** – fund balance from previous year

**Taxes** – estimated taxes to be received during year

**Franchise Fees** – user fees charged by the city for use of public rights-of-way

**Fines and Forfeitures** – fines issued by city such as traffic fines, code enforcement fines, municipal court fines, drug enforcement forfeitures

**Charges for Services** – charges for services provided to individuals by the city such as water and sewer charges

**Interest Income** – interest earned by investing city funds

**Intergovernmental** – revenues received from other governments such as grants, shared revenues and gas taxes

**Transfers and Inter-fund Loans** – funds received through a transfer from another city fund

**Licenses, Fees and Permits** – revenues from the sale of municipal licenses such as business licenses, fees for services such as planning fees and park user fees, and permits issued by the city

**Miscellaneous Revenue** – revenues that do not fit within one of the other major categories

### Expenditures:

**Personal Services** – employee wages, insurance, workers compensation, retirement and other payroll benefits

**Materials and Services** – includes a wide range of expenses such as property and liability insurance, utilities, building rent, supplies, vehicle maintenance, gas, and professional services contracts

**Capital Outlay** – purchase of items that are considered to be capital assets. Defined either by a set amount in financial policies or based on useful life of the item. Capital outlay can include furniture, vehicles, buildings, land and other types of equipment.

**Debt Service** – principal and interest payments made on city loans and bonds

**Transfers Out** – transfers to another city fund to pay for expenditures or to repay an interfund loan

**Contingency** – money that is budgeted for use during the year to deal with unexpected operating situations

**Unappropriated** – money that is planned to be left in the fund at the end of the year for which you are budgeting. The purpose is to ensure that the city begins the following year with enough cash to operate until tax revenues are received. Cannot be spent during the year it is unappropriated except in emergency situations caused by a natural disaster or civil disturbance.

When approving the budget, the budget committee must also approve a property tax rate or the tax amounts that will be submitted to the county assessor. The budget committee should make a motion to approve the property tax so that the action is documented in the minutes of the committee.

Upon approval by the budget committee, the budget officer completes the budget column labeled "approved by budget committee," noting any changes from the original proposed budget. Upon completion, a summary of the approved budget is published with notice of a public hearing to adopt the budget no more than 30 days nor less than five days before the hearing.

### **Phase 3: The Budget is Adopted and Property Taxes Are Certified (When Appropriate).**

Conducted by a city council, the budget hearing includes a final review of the budget before adoption by the council. The hearing also includes deliberations on the budget approved by the budget committee and consideration of any additional public comments.

The city council can make any adjustments that it deems necessary (with some restrictions) to the approved budget before it is adopted prior to July 1. The types of changes the governing body may make are:

- Increasing expenditures in any fund up to \$5,000 or 10 percent, whichever is greater. If the increase needs to be greater than these limits, the council must republish the budget summary and hold a second public hearing (before July 1).
- Reducing expenditures of any fund—does not require republishing.
- Increasing the amount or rate of taxes to be imposed above what the budget committee approved—this can only be done if the budget is republished and a second budget hearing is held. However, the council cannot increase taxes above the permanent rate limit or legal, voter-approved local option tax rate/dollar amount.
- Reducing the tax rate or amount approved by the budget committee—does not require republishing.
- Adjusting the other resources in each fund—does not require republishing.

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## Budgeting Basics

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### Adoption of the Budget

Interestingly, it is not a requirement that the budget be adopted at the hearing. The council has the option to wait until closer to the end of the fiscal year to formally adopt the budget. By waiting, the budget can include a better estimate of resources. However, the budget must be adopted by June 30.

To adopt the budget, the city council enacts a resolution or ordinance. The resolution (or ordinance) formally adopts the budget for the coming fiscal year; makes appropriations and gives the city the authority to spend money and incur obligations (the schedule of appropriations also sets limits on the amount of money that can be spent in each category within the fund); and sets the amount of taxes to be imposed—up to the permanent rate limit or dollar amount. To accomplish this, cities do not have to pass multiple resolutions (or ordinances). All the resolution statements can be combined into one resolution which must be signed by the mayor before they are submitted to the county assessor's office.

By July 15 of each year, cities must submit two copies of the resolution (or ordinance) adopting the budget, making appropriations, and imposing and categorizing the tax to the county tax assessor. In addition, the notice of property tax certification (form LB-50) and successful ballot measures for local option taxes or permanent rate limits must be submitted.

In addition to the county tax assessor's copies, a copy of the resolutions required by ORS 221.770 must be submitted to the Oregon Department of Administrative Services by July 31. Finally, a copy of the completed budget document, including the publication and tax certification forms, must be submitted to the county clerk's office by September 30.

### Phase 4: Operating Under the Adopted Budget.

Once it is adopted, cities begin operating within that specific budget. While it is possible for changes to be made to an adopted budget once the fiscal year begins, this can only happen under certain circumstances. Two such examples are resolution transfers and supplemental budgets. These are actions that must be taken before more money is spent beyond what is appropriated in the adopted budget, or before money is spent for different purposes than what is appropriated in the adopted budget.

It is unlawful to spend public money in excess of the amounts budgeted or for a different purpose than budgeted. Public officials can be sued for such actions if the expenditure is found to be malfeasance in office or willful or wanton neglect of duty. Creating a supplemental budget or a resolution transfer after the expenditure is made does not protect the governing body members from a lawsuit. ■

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# Now that the Budget Has Been Adopted...



## Resolution Transfers and Supplemental Budgets

A resolution transfer is a way to move appropriations from one existing category to another, usually within the same fund, during a fiscal year. To transfer appropriations, and in some cases resources, a city council must pass a resolution stating the reason for the transfer, the purpose of the expenditure, and the amount to be transferred. A resolution transfer can be used to move appropriations from contingency to other appropriation categories within the same fund. Cities cannot use a resolution to transfer appropriations to move resources from a special revenue fund (all funds except the general fund) to the general fund. To make this type of transfer, a supplemental budget is required.

A supplemental budget is prepared during the fiscal year in order to modify the adopted budget. If a city needs to create a new appropriation category or spend additional money that was not included in the adopted budget, it will need to do a supplemental budget. These are also used when a city needs to pay expenses that were not included in the adopted budget or if it needs to receive money during the year that was not anticipated. Supplemental budgets, like the budgets they modify, are valid through June 30 of the fiscal year (or biennium) in which they are prepared. The appropriations created by the supplemental budget are also valid to the end of the fiscal year/biennium.

Supplemental budgets are used to create new appropriations for spending increased resources, transferring resources and appropriations from a special revenue fund to the general fund, and creating new appropriation categories within a fund. A supplemental budget may not be used to correct a situation that was known at the time the budget was adopted and the budget committee decided not to include the expenditure in the budget. It also can't be used to spend money in an unappropriated ending fund balance, except when needed because of a natural disaster, civil disturbance, or an involuntary conversion (property is unintentionally damaged or destroyed).

There are two types of supplemental budget processes, and choosing the appropriate process depends on how much of a change a city intends to make to the adopted budget. If a city intends to adjust a current budget fund by less than 10 percent of each of the funds' impacted expenditures, it may use a simple supplemental budget process. For a change of more than 10 percent of any fund's expenditures, the longer process must be used for any fund that meets this criteria. Expenditures, for the purpose of calculating the percentage for supplemental budgeting, include all amounts appropriated in the resolution making appropriations except interfund transfers, contingency amounts, and unappropriated ending fund balance.

The simple process for changes of less than 10 percent of expenditures is as follows:

1. Council adopts the supplemental budget in a regularly scheduled meeting—the budget committee is not required.
2. Notice of the regular council meeting at which the supplemental budget will be adopted is published not less than five days before the meeting and includes the names of the funds to be changed, and the amount of change to each fund's resources and expenditures.
3. At the meeting, a resolution adopting the supplemental budget and making appropriations is approved.

The longer process for changes of more than 10 percent in a fund is as follows:

1. A special hearing must be held to discuss and adopt the supplemental budget. The council holds the hearing—the budget committee is not required.
2. Five to 30 days before the hearing, a notice of the hearing and a summary of the supplemental budget are published.
3. The council enacts a resolution to adopt and appropriate the supplemental budget after the hearing.

If resources don't come in as planned during the fiscal year, cities must take action. Even with an appropriation, cities must always have a source of money before making an expenditure. Local budget law allows cities to loan money from one fund to another under certain conditions. Cities can also borrow internally, provided that the loans are authorized by a resolution or ordinance which states the fund from which the loan is made, the purpose of the loan, and the principal amount of the loan, and if and what interest will be charged.

The timeframe in which an interfund loan must be repaid depends on whether the loan is for operations or for a capital expenditure. If the loan is for operations, it must be repaid during the current fiscal year. An interfund loan for operations requires no action beyond the resolution approving the loan. An interfund loan for capital expenditures must be paid back, in full, within five years. A resolution or ordinance authorizing a capital loan must set forth a schedule under which the principal and interest are to be budgeted and repaid. It must also state the rate of interest. If the loan will be repaid in coming fiscal years, the loan repayment must be budgeted and a separate appropriation created for the repayment.

There are restrictions on which funds can make interfund loans. Loans cannot be made from a debt service fund, a fund that receives money which use is restricted by constitutional provisions (unless the purpose for the loan is a use allowed), or a debt service reserve fund.

**On the Web** – To read more on Oregon budget law, visit the A-Z Index on the LOC Web site at [www.orcities.org](http://www.orcities.org). Several resources are available under "Budget Laws and Procedures." ■