
Section E

BUDGETING

Small Cities Assistance Program
For Category 2 Cities and Towns



Washington _____
State Auditor
_____ Brian Sonntag

Budgeting For Category 2 Cities And Towns

Copies of this and subsequent publications are being sent to all Category 2 cities and towns within the State of Washington.

For additional copies, please contact:

Washington State Auditor's Office
Local Government Support Team
Small Cities Assistance Program
PO Box 40031
Olympia, WA 98504-0031
(360) 725-5598
(509) 228-9447 Small Cities Specialist
nelsont@sao.wa.gov

This publication is also available electronically on our Web site.

<http://www.sao.wa.gov/LocalGovernment/SmallCityHandbook/Index.htm>



INTRODUCTION

This segment of the *Small City Handbook* covers the basic principles of creating and adopting an annual appropriations **budget** as required by Chapters 35.33 and 35A.33 RCW. The RCW sets the required calendar for creating and adopting the budget that starts September 1st and ends in December with the adoption of the annual budget.

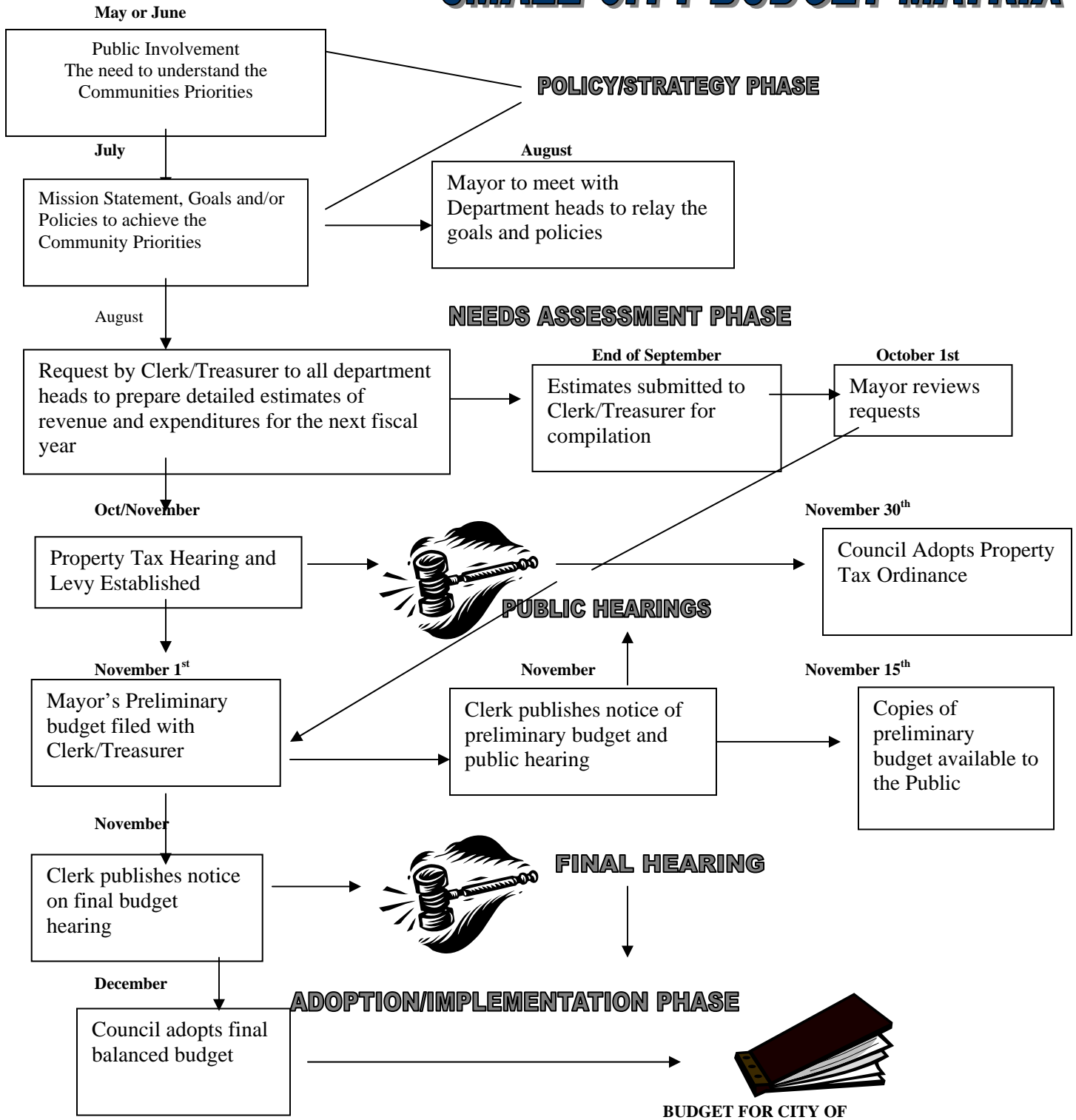
This publication should not be the only source of information regarding the creation and adoption of the annual budget. Municipal Research and Services Center (MRSC) provides a wide range of materials for use by municipalities. More particularly MRSC publishes *Budget Suggestions* each year during the summer to assist cities/towns in the development of their budgets. The *Budgeting, Accounting and Reporting System (BARS)* manual, devotes an entire chapter to budgeting and the Association of Washington Cities (AWC) jointly sponsors a budget workshop with the Washington Finance Officers Association (WFOA) each year.

In addition to the above referenced resources, the Small Cities Specialist, available through the State Auditor's Office, Team Local Government Support, is always ready to answer questions, share information or provide training.

TABLE OF CONTENTS

Small City Budget Matrix	E-1
Budgeting Basics	E-2
Budget Design	E-3
Essential Elements of the Budget Process.....	E-4
Budget Calendar	E-5
Planning and Development Process	E-7
Pre-Budget Process.....	E-7
Developing Budget Data.....	E-9
Revenue Forecasting.....	E-10
Enterprise (Utility) Funds	E-14
Presenting the Budget Document	E-21
Budget Adoption	E-23
Budget Monitoring	E-24
Budget Amendments and Adjustments	E-25
Appendices	E-26

SMALL CITY BUDGET MATRIX



BUDGETING BASICS

There are numerous types of budgets, but for the purpose of this publication we will concentrate on the typical “comprehensive” or city-wide budget. The comprehensive budget includes the forecast of all resources that the city expects to receive and everything the city intends to spend in the forthcoming fiscal year.

While the budget process is typically thought of as a financial activity done to satisfy state law, budgeting is also the process of planning for the future. A city/town can not implement any project, program or plan without a formally adopted budget ordinance that authorizes the appropriation (expenditure). No other planning document is as truly comprehensive as the budget.

The term “fixed” budget best describes the type of comprehensive budget typically adopted by small cities and towns. This form of budget sets an absolute maximum on the expenditures of a particular fund or department. The appropriated budget has historically been used to set the property tax levy, in anticipation of the projected expenditures. The fixed budget is also used to assure that expenses do not exceed revenues (also known as a “balanced” budget).

A formally adopted budget is an essential part of the financial planning and monitoring procedures of local government. The budget planning process determines the types and levels of services that can and will be provided by the city given the resources available. Consideration is given to the various departments, programs and services provided by your city/town and whether or not there are sufficient resources to continue, maintain, expand or reduce those services.

RCW 35.33/35A.33 provide both the authority and the requirement to adopt a comprehensive budget for the city/town prior to the start of each fiscal year (on or before December 31st). For cities/towns this adoption must be in the form of an ordinance. The comprehensive budget ordinance document represents maximum expenditure authorizations for each fund for the year, which **cannot be legally exceeded unless subsequent amendments are made** to the budget ordinance. It is because of this fact that it is important to monitor your budget throughout the year.

BUDGET DESIGN

Each city/town must prepare a comprehensive, city-wide budget of all anticipated resources and outlays for the fiscal year, including those funds for which appropriated budgets are not required and including estimates of the annual portion of continuing appropriations (e.g: debit service payments).

When designing the format of your budget, consideration should be given to the type of audience you are presenting it to. Budgets are a communication tool used both **internally** and **externally**. Some cities actually prepare two budget documents, one that reflects the line item detail wanted by staff and administration. Budget formats for internal use are usually more detail oriented and often use the line item print outs from computer systems. The other formats typically prepared is for external users such as the general public. This budget format identifies the community's goals and vision and then summarizes the budget's fiscal impact. The mayor's "budget message" will help to tell the budget story. The external type of budget format provides very little detailed expenditure information but categorizes expenditures by program, department or fund and gives a short narrative on each of these services.

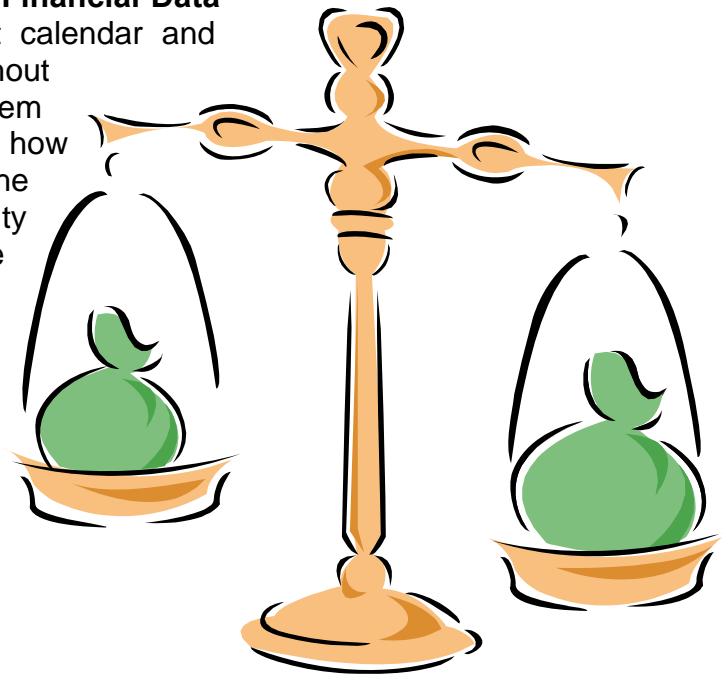
Your budget ordinance should be summarized by fund and may be adopted by broad categories of services (or departments, for example: Police and Fire) within a fund. This form of adoption is known as adopting at the "**department or fund**" level. Line item budgets are a common term but are not a recommended format for adopting your budget. Line item adoption limits the department's ability to operate and increases costs to the city/town for monitoring and budget amendment publication. It should be noted however, that adoption at the fund or department level does not preclude detailed budgets from being used by the mayor, clerk/treasurer or department heads as a tool for fiscal accountability.

The BARS manual and its prescribed chart of accounts should be used for the budget preparation. The use of the required BARS code numbers and fund systems will assure consistent transmittal of financial data from the planning phase of the budget, through the monitoring phase and finally in the reporting cycle at the end of the fiscal year when you must submit your annual financial report to the State Auditor's Office.

ESSENTIAL ELEMENTS OF THE BUDGET PROCESS

There are five elements of the budget process that are considered essential to the successful adoption and implementation of a city/town budget:

1. **Establish Budget Priorities (Goal/Vision statement)** - underlying budget policies, goals and community vision to provide a sense of direction.
2. **Determine Capital Needs (Capital Facilities Plan)** – annual updates to the city/town capital facilities plan provides both short term and long term budgeting strategies that are an essential element in the annual budget adoption process.
3. **Sound Resource/Revenue forecasting** – revenue forecasting based upon both qualitative and quantitative forecasting methods that use common sense tests, local resources and documentation as a basis for your forecast. Be sure to promote realistic estimates.
4. **Budget Proposals with Level of Service Objectives** – department requests and budget proposals that clearly reflect the priorities, goals and visions of the city/town is instrumental in demonstrating to both council and the public that their needs and concerns are being met.
5. **Timely Presentation of Plans and Financial Data**
- careful adherence to the budget calendar and transmittal of financial data throughout the year to council. In short, the system must allow decision makers to see how resources are being used to meet the goals and objectives of the community and that those objectives are balanced with the resources available to provide the required level of service.



BUDGET CALENDAR

The budget calendar has been created by statute. The requirements for second class cities and 4th class towns are listed in chapter 35.33 RCW. Code city requirements are given in chapter 35A.33 RCW. While the law does not require that you start the budget process until September it is recommended that you initiate the process earlier than that. You can find the statutory deadlines for the various steps of the budget calendar in both the “Budget Suggestions” publication by MRSC as well as in the BARS manual.

The calendar shown on the following page is a modified version of these publications in which the time frames have been expanded to allow more time for gathering accurate and fiscally sound budget data.

Whether you elect to follow the statutory deadline calendar or the expanded version provided on the following page, the budget should be prepared and submitted as outlined in the following chapters, with final approval and adoption by the city/town Council before the end of the year.



Note: A checklist has been provided (Appendix “A”) to assist in the budget development process.

BUDGET CALENDAR

BUDGET STEPS	STATE LAW TIME LIMITATIONS	RECOMMENDED START DATES
Council meets to set the goals, policies and/or mission statement of the City to provide direction	Not applicable	May or June
Council to hold public hearings on the Capital Facilities Plan Update- prior to budget process	Not applicable	July or August
Mayor to meet with Department heads to review the Council goals and priorities for ensuing year	Not applicable	First of August
Request by Clerk/Treasurer to all department heads to prepare detailed estimates of revenues and expenditures for the next fiscal year	On or before the second Monday in September	End of July, no later than August 1 st
Estimates from Department Heads are to be submitted to Clerk/Treasurer or Finance Director for compilation	On or before the fourth Monday in September	Mid September (as estimates are submitted begin to develop prelim)
Estimates are presented to the Mayor for review and potential revision. Clerk/Treasurer must submit to the Mayor the proposed preliminary budget showing the complete financial program for the city. It should reflect the expenditures requested by the departments and the sources of revenue to support each program proposed.	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1 st
Mayor provides the Council with Clerk/Treasurer's proposed preliminary budget reflecting the complete financial program for the city, showing expenditures requested by each department and sources of revenues to support each program proposed.	No later than the first Monday in October	October 1 st – 7 th depending upon the year
Council must hold a public hearing on property tax revenues for the coming year's budget, including possible increases.	Hearing must be held prior to Council voting on Ordinance	First half of October
Mayor prepares preliminary budget and budget message	At least 60 days before the ensuing fiscal year	November 1 st
Clerk publishes notice of public hearing on preliminary budget	No later than the first two weeks in November	November 1 st -15 th
Adopt Property Tax ordinance & resolutions	Nov. 15 th for cities Nov. 30 th for towns	First Council meeting in November
Council must schedule hearings on the budget	Prior to final hearing	Month of November
Copies of proposed budget available for the Public	No later than 6 weeks prior to Jan. 1	Mid-November
Final Public hearing on proposed budget	On or before the 1 st Monday of December	Recommend the end of November – or first Council meeting in December
Adoption of Budget Ordinance	Following the budget hearing and prior to beginning of the next fiscal year	May be adopted at the same Council meeting as the final public hearing
Copies of final budget to be transmitted to AWC	No requirement	Immediately after ordinance adoption

PLANNING AND DEVELOPMENT PROCESS

PRE-BUDGET PROCESS

As outlined in the five essential elements of budgeting, there are important activities that should take place prior to drafting the actual budget. Refer to the budget matrix on page 3 for the planning process. Some of these items are mandatory such as property tax levy setting and others are conceptual ideas that may be new to your city. If you do not currently have some of these programs in place, you can contact AWC or MRSC for information on developing and implementing these pre-budgeting tools in your community.

City Vision and Goals – Before you can create a budget, you should have a clear understanding of the goals and objectives of the city/town. The development of broad goals to guide city decision making plays a key role in the budget process. One of the most difficult tasks for local government is to decide how to distribute its limited financial resources amongst the many services for which it is responsible. Developing a vision and setting goals serves as a base for the development of policies and programs, including service levels that you will provide to the citizens in your city/town. There are workshops and information available on this topic if you have not already been through the process. The AWC in conjunction with WFOA provides an annual budget workshop that addresses these concepts.

Capital Facilities Plans – Your city/town has a Capital Facilities Plan (CFP), which typically requires an annual review and update process. The schedule for capital needs that is created during this process is an invaluable tool in the development of your budget. Incorporation of the CFP into the annual budget becomes a simple process when the review and public hearing schedules are held outside of the annual budget matrix. (**Appendix “B” for sample CFP resolution**) The CFP process should be held early in the budget season, July or August to provide clear and concise capital needs information to all individuals involved in the budget process.

Property Tax Levy Rate Setting – The city must undertake a number of actions regarding property taxes, forecasting being one of them. This will be discussed in more detail later in this publication. After the forecasting is complete you must then hold a public hearing on the proposed property tax levy that is to be set by the city for the ensuing year. In order to meet the required filing deadlines, it is recommended that you hold your public hearing sometime during the month of October.

After holding the required hearing(s) the city/town must adopt an ordinance and a resolution to levy property taxes for the forthcoming year. No property tax increase, other than that arising from new construction, increase in value of state assessed utility property or annexations, may be authorized without the adoption of an ordinance **and** resolution that states the increase in both dollars and percentage terms. State statute requires that an ordinance be adopted that actually sets the property tax levy, while Section 209 of Referendum 47 (RCW

34.55.120) requires that any tax increase be set out in both dollars and percentage increase and that a separate resolution be adopted aside from the property tax levy setting ordinance. Upon adoption of these documents, they must be filed with the county auditor's office along with a Levy Certification form by November 30th. The state *Department of Revenue Web site provides additional information and sample documents to meet the requirements of the RCW. <http://dor.va.gov/content/home>* The site provides a publication explaining many of the issues surrounding property taxes and the requirements associated with setting this tax each year. Be sure to check with your county auditor for county specific forms they may require.

Utility Rate Setting – The city/town will need to determine whether or not a rate increase is appropriate for its utility funds. Review of the capital needs of the utility plus debt service and ongoing maintenance and operations costs must be carefully considered each year to determine whether or not sufficient revenues are being generated to meet the needs of the fund. Good communication with the public works director and city engineer will determine whether or not a rate increase is needed and if so, whether or not a public hearing is appropriate.

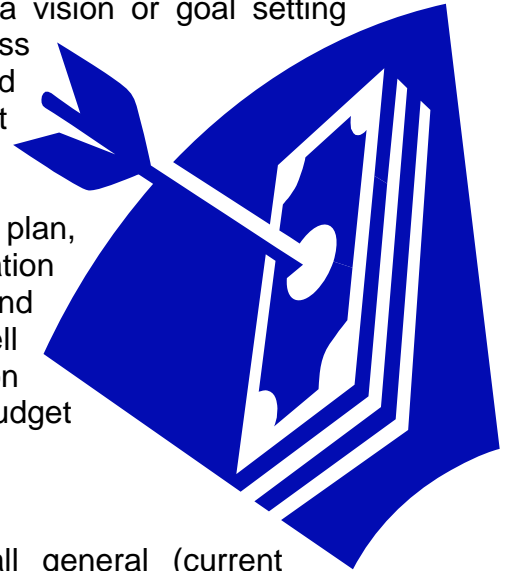
If your city or town is of such a size that you do not have either a city public works director or city engineer you will want to discuss this issue with the Mayor and Public Works Superintendent. While they are evaluating whether or not a rate increase is appropriate, consideration should be given to factors such as inflation, rising electrical rates and regulatory maintenance requirements. Small, annual increases in the utility rates are often better than one large increase every three or four years.

DEVELOPING BUDGET DATA

Budget Objectives – (Time Frame: May - August) If your Council and Mayor established the goals and objectives of the city/town, you will want to gather this information in anticipation of developing the preliminary budget. This will provide the base upon which the entire budget will be developed.

In the event that your city/town has not been through a vision or goal setting process, then set some time aside with the Mayor to discuss the objectives for the forthcoming year. Clearly defined goals and objectives will go a long way in the development and ultimate adoption of the budget for the city/town.

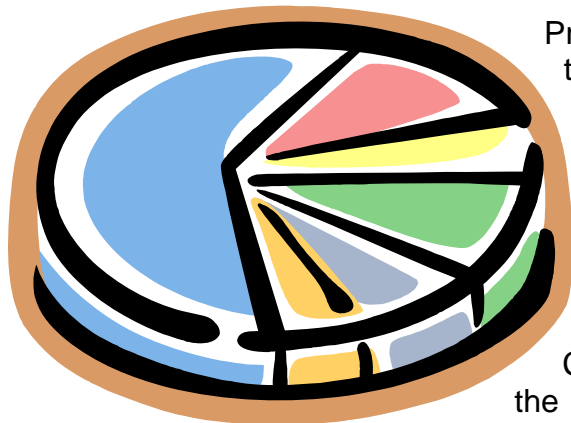
Whether your city/town has adopted a formal vision plan, budget goals or an informal budget objective, this information needs to be communicated to all department heads and personnel that are involved in the budget process. A well communicated budget objective will provide clear direction as the city/town prepares the preliminary draft of the budget document.



Which Funds Must Have Budgets? - Normally all general (current expense), special revenue funds (streets, hotel/motel tax, etc.), capital project and proprietary (utility) funds (water, sewer, garbage and electric utility) of the city/town must have an annually appropriated budget.

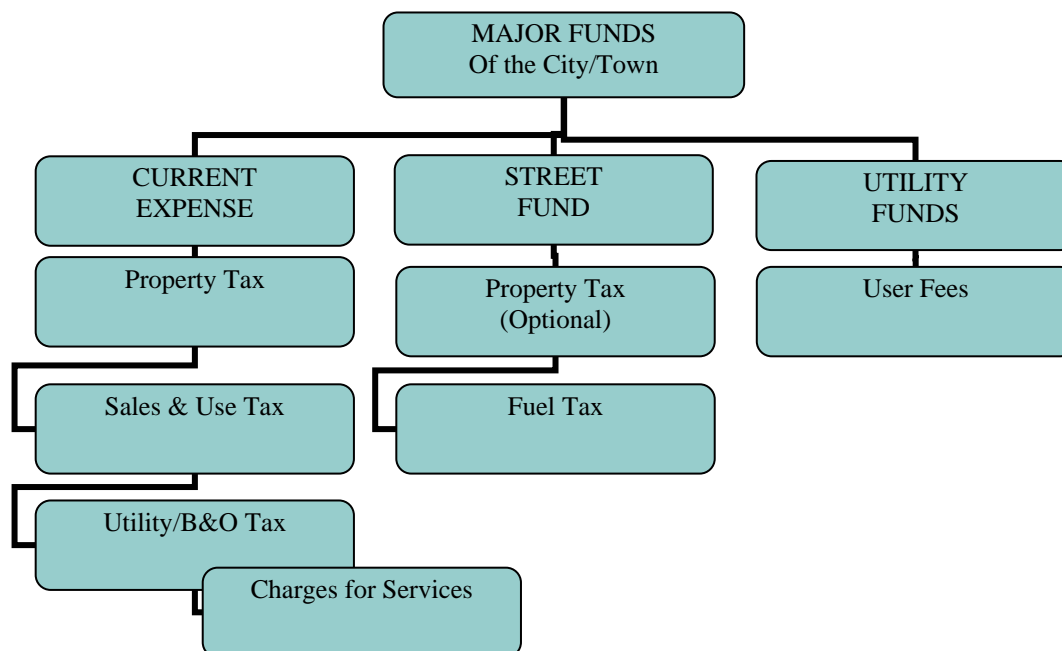
Debt service funds usually have a continuing appropriation clause contained in the original ordinance that authorized the debt. If you are unsure as to whether or not the debt service fund has a continuing appropriation it is recommended that you include these funds in the annual budget process.

REVENUE FORECASTING – (Time Frame: August - September)



Projecting the revenues for the city is the primary task of the Clerk/Treasurer. While the department heads have a pretty good idea of the costs associated with running their respective departments, they do not necessarily have a thorough understanding of how to develop the resources and revenues for them. The provisions of 35.33 and 35A.33 RCW requires that the Clerk present to the Chief Administrative Officer (Mayor) no later than the first business day in October, the proposed preliminary budget, showing the expenditure program requested by each department and the sources of revenue to finance them. The revenue section must show the prior year actual receipts, the estimated receipts for the current year (including year to date actual) and the estimated receipts for the forthcoming budget year. Depending upon your software system this reporting format is typically built in. In the event that your city/town records are kept manually, you will want to develop a computer generated spreadsheet for ease of providing this required data.

The 1st step in developing the revenue projections for the city/town is to understand what your revenue streams are and what fund they support. You will want to fully understand what the largest revenue sources are for each fund and then analyze the opportunities for developing new resources. Additionally, you will want to know what revenues are restricted. For an example, Hotel/Motel Taxes and Real Estate Excise Taxes are restricted resources that can only be used for the purposes stated in the statutes.



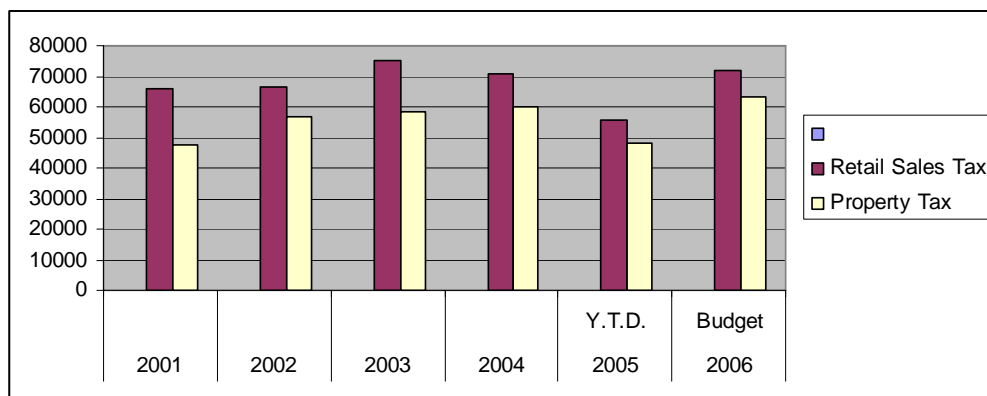
The 2nd - step in developing accurate revenue projections is to evaluate your city/town's unique characteristics. Is your community growing, shrinking or is it stable? Has a major industry or retailer either entered or left your community? Understanding these key issues will help as you try to forecast future resources.

The 3rd – step that often proves to be beneficial in developing revenue projections is the analysis of historical trends. Review of prior year revenue reports can reveal valuable information that will assist you in developing projections for the forthcoming fiscal year. This analysis coupled with the information from steps one and two should help the city/town develop revenue forecasts for the next year.

SAMPLE REVENUE ANALYSIS

Type of Revenue	2001	2002	2003	2004	2005 Y.T.D. (9/30)	2006 Budget
Retail Sales Tax	65,676.	66,359.	75,123.	70,926.	55,626.	72,000.
Property Tax	47,656.	56,636.	58,329.	60,236.	47,856.	63,000.

This example illustrates two of the most common revenue sources for cities/towns. During your analysis you will want to take into consideration the current economic conditions, whether or not those conditions are short term or long term. The MRSC publications on “Budget Suggestions” and “Revenue Guide” are great resource tools for forecasting revenues. If your revenue analysis has peaks and valleys in it, you may want to ask yourself whether or not there have been specific reasons associated with these peaks (ex. building construction or special one-time event). If your revenues seem to have a steady climb over a 5 year period you may wish to factor this increase into your revenue projections. The reverse could be factored in if your revenue source has been declining over a long period of time.



The important part of forecasting your **primary** revenue sources is to obtain accurate data and then analyze the data from a realistic and conservative point of view. Conservative revenue projections have less of an impact on the city/town operations than being overly optimistic and having to cut budgets mid-year because revenues are not coming in as originally projected.

Major Revenue Sources

General Fund:

Property Tax – (including EMS and bonds) Historically, this has been the largest single revenue source for small cities/towns in the general fund (current expense). Forecasting property tax revenues is relatively consistent unless your community is experiencing rapid growth. The total assessed valuation of the city/town will only increase due to new construction, annexations and re-assessments. For smaller cities/towns, you can determine the new construction values by utilizing the records kept in the building department. All construction completed and submitted to the county assessors office prior to July 1st will be reflected on the ensuing years assessed valuation. In the event that your city is experiencing some rapid growth and development, be sure to talk with your city planner and building official to try a make as accurate a forecast as possible.

It is important to note that property taxes can be levied for more than just the regular levy of the city/town general or current expense fund. There can additionally be levies for EMS (Emergency Medical Services) or an excess levy for a voted general obligation bond. Be sure to check what type of property tax levies are collected in your city to assure that the appropriate hearing is held and the requisite documentation is adopted (see discussion on pages 8 and 9).

The way we calculate and forecast this revenue source has seen some rather dramatic changes over the past few years. Keeping abreast of current legislation that affects this revenue source is the most important factor in estimating the property tax for the forthcoming year. MRSC provides an annual publication for budgeting that is an invaluable resource for the most recent legislation or initiatives that may affect your projections.

Currently, cities/towns (and all other taxing jurisdictions) are allowed to increase their property tax levy by one percent each year, without a vote of the people, as long as levying taxes in this amount does not push the tax rate over the statutory maximum. Taxes from new construction, annexations, and changes in state-assessed utility valuations may be added on to this amount. (The MRSC publication, “A Revenue Guide for Washington Cities and Towns”, provides detail on the calculation of this tax). Your county assessor and auditor can often provide information that will assist you in developing accurate property tax projections.

Retail Sales and Use Tax – depending upon the economic base in your city/town this tax may be the largest revenue source for the general fund. In those communities with several retail establishments, or that serve outlying areas, the retail sales tax revenue can be substantial. Forecasting retail sales within your city/town requires a good understanding of your community. There are numerous factors that can affect retail trade, such as economic conditions for your city/town, region, or the nation. Interest rates or stock market conditions can also effect how the consumer spends its dollar. Observe the types of retail establishments that are located within your community and determine whether or not outside factors can have an impact on their sales patterns. Analytical review

and a good connection with your community will help you to know whether or not there are new businesses coming to town or special events that may generate additional retail sales tax revenue. On the opposite side of the coin is whether or not you have a business that will be closing its doors. An anchor establishment that is either closing or moving out of the area can have mitigating effects on the remaining retail establishments. Discuss these types of questions with your Mayor, as he or she will be closely connected to the community and may very well know the answers to your revenue projection questions.

Utility Taxes – if you are one of the cities/towns that impose a utility tax, this has become an important revenue source. When you are forecasting this resource, determine whether or not the utilities will be increasing their rates. If your city is supplying utilities, have there been any expansions of the service area, or will any be forthcoming during the next budget year? Another factor to consider is the public's reaction to utility rate increases. Many times the reaction to an increase results in a reduction of revenues for a 1-2 year period of time, especially if the consumption of the utility is within the customer's control. For example, water use or electricity.

Other Taxes – Real estate excise tax, hotel/motel tax, gambling tax, and leasehold excise tax. Each one of these forms of taxation can be imposed by your city/town. Be sure to research whether or not your community has implemented any of these taxing mechanisms. The most common are real estate excise tax and hotel/motel tax. Some of these taxing resources are restricted in how they may be spent (appropriated).

State Shared Revenues – State collected revenues that are shared with cities/towns are derived from two main sources: liquor receipts (profits and excise taxes) and gasoline taxes. Cities/towns receive a fixed amount that is based upon a per capita allocation. The Office of Financial Management (OFM) determines the population for each city and town as of the 1st of April each year and these population figures are used to distribute the state shared revenues for the ensuing year.

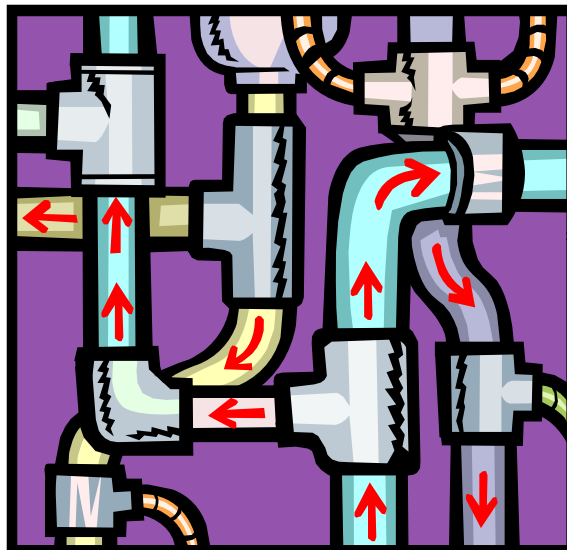
Over the past several years, there has been a steady decline in the amount of state shared revenues distributed to cities/towns. Citizen initiatives have made significant changes in which taxes are collected and redistributed. Most recently legislation has redistributed a portion of the Public Works Trust Fund revenues, under the heading of "City Assistance" to some of the smaller cities/towns. It is important to note that you will need the latest legislative updates to understand what if any impact they may have on revenue forecasting for the forthcoming budget period. MRSC provides the per capita rates for each of these state shared revenues each year within their "Budget Suggestions" publication. Additionally, both MRSC and the AWC provide the latest legislative updates that may impact these resources. Be sure to refer to their Web sites for information. (www.mrsc.org or www.awcnet.org)

Licenses and Permits–The types of revenue projections that are usually made in this category of revenues are: Business licenses, Building permits,

Development fees, Animal licenses, Recreation fees (Pools, R.V. Parks) and Airport hanger lease fees. In each case, historical trend analysis and fiscally conservative projections from department heads will help you with developing these estimates. For example the number of building permits to be issued in the forthcoming year may well depend upon whether or not a subdivision is approved, or the number of users at the pool may be effected by a planned remodel project.

Enterprise (Utility) funds:

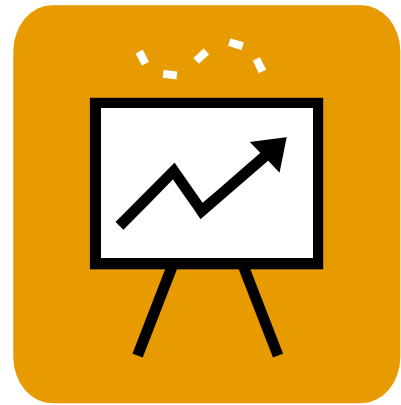
Charges for Goods and Services - More commonly known as utility fees. Utility service fees associated with a separate utility fund represent the revenue base for these funds. These are charges for a service or good that is provided to the public, such as water or sewer services. Forecasting the revenues for these services can be as simple as multiplying the established rate by the number of service connections. Or, it can be a more complicated process such as water meter readings or the service area is growing (large annexation). Discuss with your public works superintendent or the engineer whether or not changes or expansion of the utility is anticipated. If your water utility is metered you will need to evaluate the historical trends. Weather is often a factor and is difficult to predict. Conservative projections are the best way to avoid budget problems in the future.



Revenue Presentation:



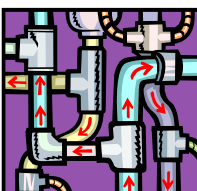
Revenue projections have more components in it than simply increasing last year's revenue by 5%. After you have developed the revenue projections for all sources you will want to present this information in an easy to understand format. Display your revenue sources by title and name not by BARS code number. Your automated system will supply an endless stream of BARS codes and revenue data, but be careful of supplying too many numbers as it becomes overwhelming.

Categorizing the revenue sources into types of revenue instead of individual revenue sources will help to reduce the confusion. Display your revenue forecasts for all sources of income, by fund and by type, totaling each fund so that your audience will know exactly what the anticipated total revenue will be for each fund (*see condensed sample below*).



The budget process is number driven and therefore often dull to many individuals, including the very ones to whom you need to present this data. Keep this in mind as you prepare your revenue projections. Providing an interesting and informative layout that includes charts and graphs will help you present a clear budget picture.

REVENUE PROJECTIONS AND COMPARISONS

FUND NAME	TYPE OF REVENUE	PRIOR YR	CURRENT YR	BUDGET	PROJECTIONS
		ACTUAL	Y.T.D.	CURRENT YR	
		2004	2005	2005	2006
	GENERAL FUND				
	BEGINNING BALANCE	21,250.00	25,252.00	25,000.00	28,000.00
	TAXES	295,295.00	276,380.00	321,000.00	335,000.00
	LICENSES & PERMITS	15,725.00	15,826.00	15,750.00	16,000.00
	GRANTS	0.00	25,000.00	25,000.00	0.00
	STATE SHARED REVENUES	7,500.00	6,500.00	8,000.00	25,000.00
	CHARGES FOR SERVICES	15,525.00	15,125.00	17,000.00	20,000.00
	FINES & FORFEITURES	45,125.00	53,125.00	60,000.00	75,000.00
	MISCELLANEOUS REVENUES	5,150.00	2,375.00	5,000.00	5,000.00
	OTHER SOURCES	10,000.00	5,000.00	5,000.00	0.00
	TOTAL FUND	415,570.00	424,583.00	481,750.00	504,000.00
	STREET FUND				
	BEGINNING BALANCE	29,825.00	31,253.00	30,000.00	35,000.00
	TAXES	63,185.00	46,376.00	65,000.00	68,000.00
	MISCELLANEOUS REVENUES	5,150.00	4,475.00	5,000.00	5,000.00
	OTHER SOURCES-GRANTS	0.00	350,000.00	350,000.00	0.00
	TOTAL FUND	98,160.00	432,104.00	450,000.00	108,000.00
	WATER/SEWER				
	BEGINNING BALANCE	76,825.00	77,852.00	75,000.00	80,000.00
	CHARGES FOR SERVICES	292,565.00	278,675.00	300,000.00	350,000.00
	MISCELLANEOUS REVENUES	3,325.00	2,325.00	3,500.00	3,500.00
	TOTAL FUND	372,715.00	358,852.00	378,500.00	433,500.00

EXPENDITURE PROJECTIONS – (Time frame: August - September)

When a budget is adopted by ordinance, it provides not only the right to spend but it sets a limitation on the amount to be spent as well. These allocations and limitations are used by the administration and finance directors such as yourself as tools to assure fiscal accountability.



Department Budget Requests (Call Letter) - (Time frame: August – 2nd Monday in September) 35.33.031 and 35A.33 RCW requires that the Clerk shall notify the head of each department, in writing, that they are to file with the clerk a detailed estimate of the probable revenue (other than property tax) and of all expenditures required by his/her department for the forthcoming budget year. The request should be accompanied by the appropriate form required by the clerk's office to complete this task. The clerk is responsible for preparing the estimates for debt service, but it is the department heads responsibility to prepare their own department budgets. Often in smaller cities there are no department heads other than the Public Works Superintendent or perhaps a Police Chief. These individuals are well versed in the day to day operations of their departments but may not understand the financing aspects. These department heads will turn to you for assistance and historical data to help them develop their budget requests. Be sure to provide them with past and present expenditure reports, along with any guidelines on the policy direction to be followed, and any limitations on expenditure requests. Salary projections, along with benefit costs should be developed by the budget team (usually the Mayor and Clerk/Treasurer) and provided to the department heads for incorporation into their budget proposals. If your city has union contracts you will want to consider whether or not they expire in the forthcoming year. Contractual obligations such as professional service agreements should also be provided to the department heads for inclusion in their budget proposals.

The department heads need a sufficient amount of time to prepare their budget proposal therefore it is recommended that the call letter be presented earlier than the RCW requires (2nd Monday in September). This will help to assure adequate time to draft both a timely and accurate proposal. The date that you choose to send out the call letter will be up to you but the recommendation is to send in early August. You should discuss with the budget team (Mayor, Finance Committee & Clerk) and coordinate the release of the call letter with the Mayor communicating the goals and objectives of the forthcoming budget to staff. Communication is the key element to gathering the information that will be needed for the preliminary draft.



Debt Service – Department heads are required to provide budget estimates for their respective departments, but it is the responsibility of the Clerk to estimate interest and debt redemption requirements. Just like your personal finances you must pay for loans and debt prior to paying for anything else. Debt service requirements are most common

in the utility funds. These obligations consist of utility revenue loans and bonds that are repaid through the sale of water or sewer services. However, the city could additionally have debt obligations within the general fund. This type of debt is called “General Obligation” debt, also known as G.O. debt. G.O. debt can be in two different forms. The first and most common is, “councilmanic” or “non-voted” G.O. debt which is often used to purchase police vehicles, street sweepers or emergency trucks. The second form of G.O. debt is “voted” G.O. debt that covers larger capital projects such as building fire halls and requires a vote of the public.

Since these debt obligations can represent a substantial amount of the overall expenses of the city, it is important to get an accurate and complete schedule of all loan and bond obligations that the city may have. This schedule should include the name of the fund or funds that are responsible for repaying these obligations. If you are new to your city, refer to Schedule 09, of the annual financial report. This schedule should list all of the debt service obligations of the city and if it has been audited within the past year or two you should be able to rely on its accuracy. The debt schedule (Schedule 09) will additionally tell you what year the debt was first incurred which will assist you in locating the ordinance that officially authorized the debt. Take a look at the ordinance as it will have an amortization schedule (a schedule of loan payments) showing the interest and principal payment amounts and when they are due. It is from these schedules that you can gather the necessary budget expenditure data.

Be sure to budget the loan payment from the appropriate fund. Many times the loan documents require that the loan payment be made from a separate debt redemption fund. If this is the case in your city you will need to budget for the expense from not only the debt redemption fund but from the Utility/General fund as well (in the form of a transfer out to the redemption fund).

Employee Salaries and Benefits – The single largest expense in the budget is often payroll and its associated benefit costs. It may also be one of the most challenging expenses to forecast. It is always a good idea to have the issue of pay increases (or not) and benefit levels resolved prior to the call letter being released. Communication is a key component of the budget process and is needed more in this area than any other. Open communication with all department heads will help keep the anxiety level down. Payroll projections should be prepared and provided to the department heads along with the call letter so they can simply insert the costs into their budget requests. If this issue has not been resolved prior to the budget estimates being submitted, be sure to sit down with your Mayor and discuss what projections or estimates are expected. AWC has a valuable resource entitled “Salary and Benefit Survey” which is released each year. This publication provides statistics on all positions common to local government and compares them by population size.

Whether your department heads submit individual salary requests or you and the Mayor decide to propose salary rates for the city as a whole, you will want to develop some type of Excel spreadsheet to assist you in the process. Each position should be budgeted when developing payroll data. The listing of individual names within the position is often considered too personal and frequently left out of the data worksheet. Each position should reflect the gross salary and/or wage and the benefit costs. Some benefit costs are associated with the position and hiring date such as medical benefits

and retirement, while other benefits are a factor of the gross salary/wage. These include FICA, Medicare, and retirement costs. Others are a factor of the number of hours worked, such as labor and industries insurance. Annualized costs for all positions and benefits should be developed and presented on the worksheet. The worksheet will later become an integral part of the budget document or salary ordinance depending upon the format your city chooses to adopt.

An additional factor to consider when developing the salary and benefit worksheet is the cost allocation of multiple functions from the same employee. Most small cities/towns have limited staff. These individuals have multiple tasks. These tasks are in several different funds within the city. These multi function positions should be identified and the distribution of these costs should be clearly demonstrated in the worksheet. For example, the Public Works Superintendent performs duties associated with the Water Utility fund, Wastewater Utility and Street fund. After analysis by the city staff it has been determined that the Superintendents time is devoted on average to Water 40%, Sewer 40% and Streets 20%. The payroll costs in the budget proposal would be distributed based upon this analysis and appropriately reflected on the payroll budget worksheet.

Capital Requests – All cities/towns have capital needs, wants and wishes. The capital facilities plan that was discussed earlier in this section is intended to eliminate the wishes and wants and to establish a needs approach. From the capital facilities schedule, you should incorporate those projects that are scheduled for the forthcoming budget year. If the capital project is to be funded by grants or loans you will want to evaluate the status of those revenue sources to offset the cost.

It is at this stage of the budget process that you will want to determine the likelihood of receiving these resources. If the likelihood is great then incorporation into the budget is appropriate, however if there is no funding source for your project you will need to address this issue as well. Budget amendments can always be adopted later in the year if funding is found. A word of caution with regards to capital projects, if incorporated into your budget you will want to carefully monitor the budget throughout the year to ensure that the resources meet the expense. The expense of a capital project prior to securing the funding could have significant impacts on the cash flow needs, as well as the budget for the city.

The monitoring of a capital project that has been budgeted within the regular maintenance and operation funds of the city can be difficult. Projects within your general fund or utility funds can go unnoticed unless due diligence is taken to isolate and monitor the project. It is often easier to budget capital projects in separate capital funds.



Distribution of Shared Expenses – Whether a city/town is small or large they all have expenses that are shared by multiple departments and/or funds. The allocation of these costs should be reviewed and analyzed annually. Often you will hear individuals say

that the distribution of costs “has always been done this way”. If you find yourself making this statement, it is time to re-evaluate your method for distributing shared expenses. Much like our discussion under salaries and benefits in the prior chapter, you will want to evaluate those costs and distribute to the appropriate fund.

City hall serves as a focal point that is used by the utility department, the police department, clerk’s office, and planning and building to name a few. All of these have common expenses such as lights, heat, telecommunications, internet service, and insurance costs. These costs are often paid by the general fund. However, they should be identified and distributed proportionately to all funds and departments. Review of these costs on an annual basis will assure that each fund is properly reflecting its actual costs and that no one fund is unduly bearing the costs of another. The distribution of all shared expenses, including personnel costs should become an integral part of the overall budget process.

Ending Fund Balance - fund balances are a frequently confusing projection. What are they? Do we need them? If so, how much should they be? These are questions commonly asked by newly elected officials and members of the public who participate in the budget review process.

Whether fund balances are referred to as “beginning” cash and investments or “ending” fund balance, the general premise is the same. Fund balances represent the net cash after all revenues have been deposited and all expenses have been paid. Just like your checkbook at home at the end of the month, it represents how much you have in the fund. Whether those future needs are cash flow considerations to pay expenses, savings for capital projects or simply reserves for a rainy day, the fact is that fund balances are a necessity.

The most important reason to have an adequate fund balance is “cash flow”. Your revenues are cyclic in nature. Property taxes are due from the taxpayer on April 30 and October 30, and the revenue is realized by the city/town in May and November. To meet your financial obligations throughout the year you must maintain a certain level of fund balance. The same cash flow scenario is often true of your water utility where increased revenues come from the summer irrigation season. Without sufficient cash flow reserves, cities would be forced to borrow operating cash.

Reserves for capital projects or contingency can also be a part of the ending/beginning fund balance. The city/town must reserve enough cash before they can start a capital project. This reserve is often included within the fund balance, although a separate reserve fund or contingency fund is a better approach. Understanding what portion of the fund balance represents cash flow and what portion represents reserves for a capital project will help you understand how much fund balance is enough. Contingency or rainy day reserves for those cities/towns that have a heavy reliance on a single source of revenue is prudent. Natural disasters such as forest fires could stop all tourist activity for the summer months, or a major retailer could pull out of your community and substantially reduce the amount of revenue received from retail sales tax. A contingency would help to reduce the effect of these types of financial disasters.

So how much fund balance is enough? Several different methodologies may be used to calculate this number. The Government Finance Officers Association has developed a “recommended practice” for fund balance levels. It generally suggests a minimum of 15 percent, but many issues come into play when making this determination. Keep in mind your city/town has numerous factors that make it unique. Try to evaluate all of these factors, along with consideration for capital reserves and cash flow needs when deciding what the ending fund balance number should be.

If you budget actual revenues to actual expenditures instead of using a portion of your beginning and ending cash to balance the budget, over time you will be able to build reserves for cash flow, capital projects and contingency.

PRESENTING THE BUDGET DOCUMENT



RCW 35.33/35A.33, states that on or before the first business day in the month of October, you (Clerk/Treasurer) must present a proposed preliminary budget to the Mayor. This preliminary budget must reflect the complete financial program of the city/town, showing the expenditure (budget) request made by each department and the sources of revenues that each program is proposed to be funded by. **(See appendix “F” for sample format)**

The RCW goes on to state that both the revenue and expenditure sections must be presented in comparative form for each fund and each department within the fund. The revenue section must show the prior year actual receipts, the current year estimates anticipated to be received by year end and the estimates for next year’s budget. In addition, the revenue projections must include estimates of ending fund balances for each fund.

The expenditure section must also be presented in the same format. Last year’s actual expenditures for each fund and every department operating within the fund, the current year budget amount and estimated actual expenditures as of year end, plus the proposed expenses for the forthcoming budget year. Salaries and benefits must be shown separately within the department figures providing that a salary schedule is attached showing salaries by position and is made a part of the overall budget document. The preliminary budget format provides extensive data both past, present and future and while it is primarily intended for the Mayor, it often becomes the base for the preliminary draft that will be presented to the council and ultimately the public.

Preliminary Budget Review – the preliminary budget is given to the Mayor. Depending upon the procedures or policies in your city/town this step in the budget process may vary. Per the RCW the review of the budget proposals, drafting of the preliminary budget and presentation to the public is the responsibility of the Mayor. However, this authority can be delegated by the Mayor to the Council, a finance committee or under their direction, to city staff.

The review process provides the opportunity to evaluate whether or not the budget proposals meet the goals and objectives of the city/town. **It is also the time to assess whether available resources are sufficient to meet budget requests. RCW 35.33.075 and RCW 35A.33.075 (final adoption) require appropriations to be limited to the total estimated resources.** The review process is the time to assure that a **balanced preliminary budget document** has been prepared and will be presented.

Throughout this important phase of the budget development process, the Mayor often works closely with the Clerk/Treasurer to review, modify and prepare the preliminary budget document that will be presented to the Council and the public. It is at this time when you pull all of the pieces together utilizing the revenue projections that you have formulated and blend them with the expenditure requests presented by the department heads (and modified by the Mayor) into one balanced document.

Budget Document – the budget document shall be prepared in detail, making any revisions or additions to the reports of the department heads deemed advisable by the Mayor. RCW 35.33.055 and 35A.33.053 requires the presentation of this document to the Council by the 1st of November, with subsequent availability to the public no later than six (6) weeks before the beginning of the next fiscal year (approximately November 15th).

This document should summarize by department the broad categories of services being provided and how they tie into the goals and objectives of the city/town. It is important to note that the budget document must clearly reflect the overall budget picture of the city/town. The budget should be developed in such a manner that the public and council can easily understand the budget appropriations (limits) being proposed and the offsetting revenues to these proposals.

A sufficient number of the budget document should be prepared in order to provide a copy to each of your council members, department heads, local newspaper and public requests that you anticipate. It is often difficult to determine how many copies should be available for the public to purchase and with the high cost in preparation and copying you will want to be prudent. Refer to prior year records of sales receipts to gather this historical data or if the city has a particularly hot topic on the budget agenda you may wish to increase your number over the prior year.

Budget Message - The Mayor is to prepare (or may delegate) a budget message to be submitted as part of the preliminary budget document. The budget message should include an explanation of the budget document, an outline of the programs of the city/town for the forthcoming year, a statement of the relationship between the budget requests and the various programs of the city, a statement of reason for changes over the previous year and an explanation of any major changes in financial policy of the city/town. (RCW 35.33.057 and 35A.33.055 require budget messages for cities/towns.) **See appendix “C” for sample “Budget Message”.**

Budget Hearings – You must hold at least two hearings on the preliminary budget in addition to a final budget hearing. The hearings on the preliminary budget (or parts thereof) may be held anytime after the council has received the preliminary budget document. It is recommended that these hearings be held either in October or the first part of November to assure that the requirements and deadlines of the budget process as outlined in RCW 35.33/35A.33 are met. The final budget hearing must be held following the preliminary hearings and prior to the first Monday in December (RCW 35.33.061 and 35A.33.059).

As with all public hearings, you must publish official notice in the newspaper used by the city/town for all official publications. The final budget hearing however has an additional requirement in the publication process in that it must be published once a week for two consecutive weeks. All publication notices must state that the preliminary budget has been filed with the Clerk’s office and is available to the public upon request. The notices must state the date, time, and place of the preliminary and/or final budget hearings and must be published in the “official” newspaper of your city/town.

BUDGET ADOPTION

Following the conclusion of the final budget hearing, and prior to the end of the year (December 31st) the council must adopt the budget by ordinance. The adoption of this ordinance may be done on the same night as the final hearing. Very often cities/towns adopt the budget ordinance immediately following the final public hearing, barring any unforeseen changes. The holiday season may present quorum issues for city/town councils. To avoid these potential problems it is recommended that you adopt your budget ordinance as soon after the final hearing as possible but no later than December 31st (35.33.075/35A.33.075 RCW)

Budget Ordinance - Up to this point, the entire budget process has most likely revolved around line item detail. The Mayor and Council often like to see this level of detail in the preliminary budget process however the final adoption should be done at the fund and/or department level. If you adopt at the fund level, then the combined total expenditures for the fund becomes the legal appropriation. The general fund (current expense) has numerous departments within its fund and depending upon whether you adopt at the department level or fund level will determine what the maximum authorized appropriation will be. Many cities/towns find it beneficial to adopt at the department level in the general fund (current expense) to provide an extra level of expenditure control. The RCW provides flexibility in this area.

RCW 35.33.075 (35A for code cities) also provides the opportunity for cities to adopt and publish the budget by reference. The ordinance therefore sets in summary form the totals of revenues and appropriations (expenditures) for each fund/department separately with an aggregate total of all funds combined shown (**see appendix "D" for a sample ordinance**).

When the city/town adopts its final budget it must also include a salary/wage schedule within the comprehensive budget document or you may adopt a separate salary/wage and benefit ordinance. Whether you adopt separately or include within the comprehensive budget document you must show the appropriated salary and/or wage by position for the forthcoming year (**see appendix "E" for sample format**). This schedule should also indicate whether the position is full or part time and if part time, the number of worker hours being budgeted. The schedule should show the benefits being provided to the employees and the contribution rate if applicable.

BUDGET MONITORING

Budget documents are like all documents of the city/town, they are planned estimates of revenues to be received and expenditures that will be made in the forthcoming year. Like all plans, on an occasion they do not turn out as anticipated or in this case as estimated. Revenues and/or expenditures may fail to meet projections.

The careful monitoring of the budget to compare the estimated budget figures to those actually received or expended becomes an integral part of the monthly financial review by the Clerk/Treasurer's office. The State legislature anticipated this necessary step when it adopted RCW 35.33.141(35A.33.140 for code cities) which requires a report of revenues and expenditures showing budget estimates and appropriations against actual revenues received and expenditures made. The RCW additionally requires that the unexpended balance remaining for each appropriation be shown. This report must be provided to the Mayor and Council no less than once each quarter. However, the Clerk/Treasurer should be monitoring the budget on a monthly basis to assure that revenues are meeting estimates and that fund budgets are not being exceeded.

Monitoring the budget should focus on comparing the budget appropriations to the actual expenditure as well as revenue projections to actual revenues received. The budget ordinance adopted each year is based upon projections of revenue sufficient to cover appropriations as well as providing limitations on the amount to be spent. In smaller cities/towns there is a delicate balance between revenues received and expenditures made. It is because of this delicate balance, that monitoring becomes a critical part of the ongoing financial review. If revenues are failing to meet projections, it may sometimes be necessary to take short term measures to meet these cash flow needs or revenue shortfalls, but without the proper monitoring of your budget there is a strong likelihood that you would miss the early warning signs until it is too late.

As part of the monitoring process it is also a good idea to provide the department heads with a monthly expenditure report. This will assure open communication and proper financial management of their department. In the event that the department/fund is going to exceed its budget appropriation, there are a number of possible solutions that can be taken to avoid this legal compliance issue. For example, a budget adjustment or amendment may be the necessary solution. It should however be understood by all city officials and employees that knowingly exceeding the budget appropriation is not an option.

RCW 35.33.125 (35A.33.125) states that no warrant shall be approved for payment in excess of the total amount appropriated unless it is for one of the specifically listed emergencies and that any liabilities incurred by any officer or employee in excess of the budget shall not be the liability of the city/town. RCW 42.24.110 also provides that: Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation for the amount so paid or for three hundred dollars whichever is the greater.

Frequent and thorough monitoring of the budget is the best safeguard against these types of legal compliance issues.

BUDGET AMENDMENTS AND ADJUSTMENTS

Budget amendments or adjustments are common place. It is difficult to anticipate every possible financial scenario within a fiscal year. Capital projects that were only dreamed about last year may in fact become a reality this year through the successful receipt of a grant or loan. Other possible scenarios may be the elimination or early completion of a project that now provides an opportunity to move resources from one department to another. Other possibilities may include a major retailer suddenly pulling out of your city, leaving a large shortfall in revenues or perhaps revenues simply are not coming in as projected or unanticipated expenditures. Each of these situations is different and must be evaluated by the financial officer (Clerk/Treasurer) and/or Mayor.

Amendment - When do we need an amendment and when do we need an adjustment? The RCW requires that an amendment to the original budget ordinance must be made if the authorized appropriation is going to be exceeded. For example, if your city/town was awarded a grant that was not anticipated in the original budget document and if you know that the expenditures associated with this grant will more than exceed the original budget appropriation, then it would be necessary to adopt a budget amendment ordinance. If your budget was adopted at the fund level, you have the ability to adjust appropriations within the fund as long as the total “fund” appropriation is not exceeded. There is however an exception to this rule that if there are any changes to the wages, hours, and conditions of employment of any or all employees (RCW 35.33.107 & 35A.33.105) the legislative body shall do so by ordinance. If you increase the wages of an employee or the number of hours or add a new position then a budget amendment would be required.

A budget amendment ordinance does not require a public hearing, but your city/town may have financial policies or procedures that speak to this situation. You should discuss with the Mayor and determine whether or not this would be appropriate or required in your city/town. The ordinance amending the budget for code cities and towns may be adopted at either a regularly scheduled council meeting or a special meeting. Second class cities, however, may only adopt the ordinance at a regular meeting. All cities must publish their ordinances as required by law.

The budget amendment must meet the same requirements as the original budget in that the revenues and expenditures should represent a balanced fund budget. In addition the amendment ordinance should show the new appropriated fund total and not just the new line item that the city/town wants to include in its budget as the original budget adopted at the first of the year was most likely adopted at the “fund” level.

Adjustment – A budget adjustment does not require a formal adoption procedure. RCW 35.33.121 (35A.33.120) authorizes the Mayor to transfer appropriations within the same fund subject to any regulations, if any, that may be imposed by the council. An example of such an adjustment would be the transfer from one line item to another within the same fund. If your city adopts the general fund budget at the fund level then a budget adjustment from one department to another is authorized, however any such adjustments should be agreed to by the respective department heads. The exception to this rule is to wage adjustments. All adjustments or changes to the wages, hours and conditions of employment must be made with a budget amendment.

APPENDICES

Appendix "A" BUDGET PREPARATION CHECKLIST

Time Frame ¹	Description	Date Completed <input checked="" type="checkbox"/>
July/August	Prepare budget calendar, set public hearing dates. (approval by Mayor and Council)	
July/August	Update Capital Facilities plan. Council to set budget priorities (goals and objectives).	
August	Mayor meets with Department heads to communicate budget priorities.	
July/August	Clerk sends request (call letter) to department heads for budget proposals.	
August/Sept	Preliminary revenue estimates are developed by the Clerk/Treasurer or Finance Officer. Estimates from department heads are received by Clerk/Treasurer (by 4 th Monday in September)	
September/October	Estimates are presented to Mayor. (Due 1 st business day in October). Must include expenditures requested by department heads and the sources of revenue to support each program proposed.	
September/October	Mayor to provide Council with preliminary proposed estimates of revenue and expenditure requests by each department. (due 1 st Monday in October) Council to receive current year revenue/expenditure reports with estimates for remainder of the year.	
September/October	Public hearing on Property Tax levies	
September/October	Mayor and Clerk/Treasurer meet with department heads to make any additions and/or cuts to preliminary budget	
October/November	Mayor presents the preliminary budget and budget message to Council (due Nov. 1 st)	
October/November	Council adopts Property Tax Ordinance/resolution Clerk files Levy certification and preliminary budget with County Clerk.(due Nov. 30 th) Clerk publishes notice of filing of preliminary budget and public hearings	
November	Public hearings on proposed preliminary budget. Property Tax ordinance/resolution submitted to the County	
November/December	Final hearing on proposed budget (prior to 1 st Monday in December)	
November/December	Adoption of Budget ordinance (no later than last day of December)	

¹ - Do not confuse these dates with the statutory requirements outlined throughout this chapter. This document is intended as a checklist to assure that all requirements have been met and does not represent the drop dead dates provided in the RCW's.

Appendix "B"
Capital Facilities Plan Resolution

Resolution No. _____

A RESOLUTION of the TOWN COUNCIL of the TOWN OF _____,
adopting the SIX YEAR CAPITAL FACILITIES PLAN for the PERIOD 2006 - 2012.

WHEREAS, Capital Facilities plans are helpful in planning for capital expenditures and for the construction of public facilities; and,

WHEREAS, a Capital Facilities plan aids the Town in developing the needed financing for capital expenditures and the construction of public facilities and in the application for grants and loans from state and federal programs; and,

WHEREAS, the Town Council of the Town of _____, Washington, being the legislative body of said Town, did hold a public hearing on the review of the 2005 - 2011 Capital Facilities plan on the _____ day of _____, 20__; and,

WHEREAS, all comments to the 2005 – 2011 Capital Facilities Plan as prepared by the Town of _____, Washington, for capital expenditures and construction of public facilities within its jurisdictional boundaries were considered.

NOW, THEREFORE, BE IT RESOLVED by the Town Council of the Town of _____, Washington, that the revised and extended Six Year Capital Facilities plan for the ensuing six calendar years, **2006** through **2012**, is hereby adopted.

PASSED by the Town Council at a regular Town Council meeting held on the ____ day of _____, 20__.

APPROVED:

Mayor

ATTEST:

Town Clerk/Treasurer

Part 1 of 2 CFP YEAR 2006

Department	Project Title	Cost	Funding Source(s)
Sewer	Raise manholes to surface level (Part of 5 yr. Program)	3,000	Sewer revenue
Sewer	Program to Clean Sewer Mains (10 Yr. Program)	2,500	Sewer revenue
Water	Computer - Upgrade (Handheld)	5,000	Water Revenues
Police	Patrol Car	15,000	Current Expense
Park & Rec	Airport- Develop Sports Park-	60,000	I.A.C. Grant(50%)/ Donation/Current Expense
Park & Rec	Town Commons - Phase 2	25,000	Donation/Grant
Park & Rec	Pedestrian Trails- HWY Corridor Construction	75,000	T21/WSDOT-NCRTPO
Park & Rec	Pool Renovation Project completion of 2004 project	500,000	IAC(50%)/Donation (50%)
City Hall	Remodel - Design Phase	5,000	Building Fund Reserve

CFP YEAR 2007

Department	Project Title	Cost	Funding Source(s)
Sewer	Raise manholes to surface level (Part of 5 yr. Program)	3,500	Sewer revenue
Sewer	Program to Clean Sewer Mains (10 Yr. Program)	2,500	Sewer revenue
Water	Vibration Testing Well Pump	2,000	Water revenue
Police	Patrol Car	15,000	Current Expense
Park & Rec	Airport –Sports Park- Restroom/concession facility	60,000	Grant/C.E./Donation
Park & Rec	Pedestrian Trails & Ways- continued construction	75,000	T21/IAC/DOT
City Hall	Remodel-Construction Begins	250,000	Loan/Current Expense
Streets	Street Sweeper	10,000	Public Works EQ Reserve

Part 2 of 2

CFP YEAR 2008

Department	Project Title	Cost	Funding Source(s)
Sewer	Raise manholes to surface level (Part of 5 yr. Program)	3,500	Sewer revenue
Sewer	Program to Clean Sewer Mains (10 Yr. Program)	2,500	Sewer revenue
Police	Patrol Car	15,000	Current Expense
Park & Rec	Airport –Sports Park- Restroom/concession facility	60,000	Grant/C.E./Donation
Park & Rec	Pedestrian Trails & Ways- continued construction	75,000	T21/IAC/DOT
Streets	“Easy Street” project	150,000	Street Reserve/TIB/WSDOT

CFP YEAR 2009

Department	Project Title	Cost	Funding Source(s)
Sewer	Raise manholes to surface level (Part of 5 yr. Program)	3,500	Sewer revenue
Sewer	Program to Clean Sewer Mains (10 Yr. Program)	2,500	Sewer revenue
Police	Patrol Car	15,000	Current Expense
City Hall/Utilities	Computer Upgrades, hardware and software to include server	50,000	Current Expense/Water/Sewer revenues
Streets	“Main Street Sidewalk ” project	50,000	Street Reserve/TIB/WSDOT

CFP YEAR 2010

Department	Project Title	Cost	Funding Source(s)
Sewer	Raise manholes to surface level (Part of 5 yr. Program)	3,500	Sewer revenue
Sewer	Program to Clean Sewer Mains (10 Yr. Program)	2,500	Sewer revenue
Park & Rec	Park – restroom renovation	75,000	Park reserves/IAC grant
Streets	“Bridge replacement” project	150,000	TIB/WSDOT

Appendix "C"
BUDGET MESSAGE

TO: The Legislative Body

FROM: Budget Officer

SUBJECT: Budget Request - _____

I am pleased to submit for your consideration the 2006 proposed Annual Budget for the City of Example.

Proposed expenditures for 2006, stated on a comparative basis with 2005 and with actual expenditures for 2004 are as follows:

	Expenditures 2004	Budget 2005	Proposed 2006
Classified Proprietary Services	\$1,563,043	\$1,850,299	\$2,059,135
General Government Services	370,285	418,911	443,142
Public Safety	1,044,325	1,161,045	1,231,111
Utilities and Environment	285,636	296,211	288,968
Transportation	394,360	400,265	577,570
Economic Environment	11,000	11,000	12,500
Mental and Physical Health	12,588	17,600	13,700
Culture and Recreation	<u>287,675</u>	<u>303,865</u>	<u>332,987</u>
Total Appropriations	<u>\$3,968,912</u>	<u>\$4,459,126</u>	<u>\$4,959,113</u>
Estimated Other Financing Uses: Transfers Out	<u>793,968</u>	<u>754,358</u>	<u>765,310</u>
Total Estimated/Uses	<u>\$4,762,880</u>	<u>\$5,223,484</u>	<u>\$5,724,423</u>

The budget as proposed is approximately 9.6 percent higher than 2000 primarily due to increases in proposed expenditures for streets and proposed water, sewer and equipment rental capital expenditures.

The budget is balanced by a proposed levy of \$1,231,934 for general fund purposes, \$92,316 for ambulance and emergency aid and \$48,160 for general obligation debt service.

The estimated yield from retail sales and use taxes is \$271,000, only slightly higher than anticipated for 2001. It is difficult to predict sales tax revenue due to economic fluctuations and construction projects in process in the city.

Budgeted funds do not include any estimated balance to be carried over from the general fund from 2005.

Since Example, unlike other cities, does not utilize utility taxes other than natural gas and cable television, it is not anticipated there will be any significant increases in revenue from any source other than property tax in 2006.

Estimated revenues for 2006 compared to amounts received in 2004 and the latest estimates for 2005 are as follows:

	Actual 2004	Estimated 2005	Estimated 2006
Estimated Beginning Fund Balance	\$1,563,043	\$1,850,299	\$2,059,135
Taxes	1,044,325	1,161,045	1,231,111
Licenses and Permits	285,636	296,211	288,968
Intergovernmental Revenues	394,360	400,265	577,570
Charges for Goods and Services	11,000	11,000	12,500
Fines and Forfeits	12,588	17,600	13,700
Miscellaneous Revenues	<u>287,675</u>	<u>303,865</u>	<u>332,987</u>
Total Estimated Revenues	<u>\$3,968,912</u>	<u>\$4,459,126</u>	<u>\$4,959,113</u>
Total Other Estimated Financing Sources	<u>793,968</u>	<u>754,358</u>	<u>765,310</u>
Total All Estimated Resources	<u>\$4,762,880</u>	<u>\$5,223,484</u>	<u>\$5,724,423</u>

PERSONNEL

Personnel changes in the budget include an additional engineering technician for one-half year in the engineering budget, bringing this staff back to seven people. The ambulance and emergency aid budget includes five paramedics for the complete year

as compared to five for one-half year in 2005. The budget includes the position of public works maintenance superintendent, who is the field supervisor for all public works maintenance activities.

Union contracts are being negotiated with three union groups at the present time. The budget does not provide for any salary increase other than normal progressive step increases for those not presently at the top of their position class range.

LAW ENFORCEMENT, FIRE CONTROL AND COMMUNICATIONS

Total costs for law enforcement, fire control and communications are up 6.7 percent from \$925,596 to \$987,157. The primary increases are in the area of communications which include funds for radio equipment and replacing volunteer and regular firefighters monitor receiving equipment.

GENERAL

\$1,200 is appropriated for the city's contribution to the air pollution control authority, the same as 2005. \$4,000 is budgeted for general services of the regional planning commission. \$16,825 is appropriated for animal control compared to \$15,000 for 2005. \$13,700 is budgeted for public health and alcoholism programs.

EQUIPMENT RENTAL

Appropriations for the equipment rental operation are \$445,506. \$206,318 was appropriated for 2005. Several pieces of equipment are in need of being replaced including a 20-yard refuse compactor truck, 1/2-ton pickup, 1-ton dump truck, tractor mower, two police vehicles and a utility trailer. A vacuum sewer cleaner vehicle may be purchased if funds are available.

Many desirable capital improvements such as storm sewer, street resurfacing and rebuilding, and park improvements are not included in the 2005 budget. Hopefully, an increase in the city's tax base for 2006 and beyond will permit the inclusion of some of these essential projects.

Very truly yours,

Mayor

Appendix "D"

SAMPLE BUDGET ORDINANCE

Ordinance No. _____

An ordinance adopting the budget for the City of Example, Washington, for the fiscal year ending December 31, 2006.

WHEREAS, the mayor of the City of Example, Washington completed and placed on file with the city clerk a proposed budget and estimate of the amount of the moneys required to meet the public expenses, bond retirement and interest, reserve funds and expenses of government of said city for the fiscal year ending December 31, 2006, and a notice was published that the council of said city would meet on the 3rd day of December, 2005 at the hour of 7:00 p.m., at the council chambers in the city hall of said city for the purpose of making and adopting a budget for said fiscal year and giving taxpayers within the limits of said city an opportunity to be heard upon said budget; and

WHEREAS, the said City Council did meet at said time and place and did then consider the matter of said proposed budget; and

WHEREAS, the said proposed budget does not exceed the lawful limit of taxation allowed by law to be levied on the property within the City of Example for the purposes set forth in said budget, and the estimated expenditures set forth in said budget being all necessary to carry on the government of said city for said year and being sufficient to meet the various needs of said city during said period.

NOW, THEREFORE, the City Council of the City of Example do ordain as follows:

Section 1. The budget for the City of Example, Washington, for the year 2006 is hereby adopted at the fund level in its final form and content as set forth in the document entitled (give exact title of your budget book), three copies of which are on file in the Office of the Clerk.

Section 2 Estimated resources for each separate fund of the City of Example, and aggregate expenditures for all such funds for the year 2006 are set forth in a summary form below, and are hereby appropriated for expenditure at the fund level during the year 2006 as set forth in the (give exact title of your budget book).

Fund ^{2/}	Estimated Revenues ^{2/}	Appropriations ^{2/}
General Fund	750,000.00	
General Government Services		150,000.00
Police Department		350,000.00
Fire Department		150,000.00
Park & Recreation		100,000.00
Total All Departments		750,000.00
City Street	225,000.00	225,000.00
Library	125,000.00	125,000.00
Emergency Rescue	75,000.00	75,000.00
Fire Equipment Cumulative Reserve	50,000.00	50,000.00
Water Fund	575,000.00	575,000.00
Wastewater Fund	350,000.00	350,000.00
Total All Funds ^{2/}	2,150,000.00	2,150,000.00

^{2/} This information is required

Section 3 The city clerk is directed to transmit a certified copy of the budget hereby adopted to the State Auditor's Office* and to the Association of Washington Cities.

Section 4 This ordinance shall be in force and take effect five (5) days after its publication according to law.

Passed by the council and approved by the mayor this 3rd day of December, _____.

Signed _____ Attest _____
 Mayor Clerk

Approved as to Form:

 City Attorney

*Not all cities/towns are required to submit annual budgets to the State Auditor's Office. Please review your authorizing statutes.

**Appendix “E”
SALARY SCHEDULE**

2006 SALARY SCHEDULE

CLASSIFICATION	WAGE/SALARY
Public Works Superintendent **	\$35,000.00
Wastewater Treatment Plant Technician**	\$28,393.00
Water Meter Reader/Park Maintenance **	\$25,295.00
Clerk/Treasurer **	\$35,000.00
Deputy Clerk/Utility Clerk **	\$20,835.00
Police Chief	\$35,000.00
Police Chief	\$35,000.00
Police Sergeant	\$27,918.00
Police – Entry Level 2	\$26,806.00
Police – Entry Level 1	\$25,000.00
Police Clerk (part-time)	\$13,260.00 (30 hrs @ wk @ \$8.50 a hr)
Fire Chief (Volunteer)	\$1,200.00 (\$100.00 @ mo)
Asst. Fire Chief (Volunteer)	\$ 600.00 (\$50.00 @ mo)

CITY PAID BENEFITS	EMPLOYEE CLASS
Medical - 100%	All Full Time employees
Dental - 100%	All Full Time employees
Vision – 100%	All Full time Employees
Dependent Medical & Dental – 50%	All Full Time Employees

** Distribution of Payroll & Benefits to multiple funds as follows:

Public Works Superintendent: Water/Sewer Fund #401 – 70%, Street Fund #101 – 30%
 Wastewater Treatment Plant Tech: Water/Sewer Fund #401 – 80%, Street Fund #101 – 20%
 Water Meter Reader/Park Maintenance: Water/Sewer Fund #401 – 60%, Park Fund #001 – 40%
 Clerk/Treasurer: General Fund #001–50%, Street Fund #101- 5%, Water/Sewer Fund #401–45%

APPENDIX "F"
PRELIMINARY BUDGET

Fund/Department	Expenditures				Revenues (funding source)			Revenue Source
	2004	2005	2005	2006	2004	2005	2006	
General Fund	Actual	Budget	Est. Actual					
Legislative (Council)	1,965.00	2,000.00	1,975.00	2,025.00				General Fund
Salaries/Benefits	2,000.00	2,000.00	2,000.00	2,000.00				
DEPT TOTAL	3,965.00	4,000.00	3,975.00	4,025.00				
Administration(Mayor)	2,170.00	7,200.00	7,325.00	7,400.00				General Fund
Salaries/Benefits	5,000.00	5,000.00	5,000.00	5,000.00				
DEPT TOTAL	7,170.00	12,200.00	12,325.00	12,400.00				
Clerks Office	60,600.00	61,000.00	60,500.00	60,000.00				General Fund
Salaries/Benefits	30,000.00	30,000.00	30,000.00	32,000.00				
DEPT TOTAL	90,600.00	91,000.00	90,500.00	92,000.00				
Police Department	70,925.00	70,000.00	70,500.00	69,000.00	43,403.00	76,250.00	80,500.00	CJ-Sales Tax & Grants
Salaries/Benefits	145,000.00	150,000.00	150,000.00	152,000.00				
DEPT TOTAL	215,925.00	220,000.00	220,500.00	221,000.00				
Fire/EMS Department	42,235.00	44,000.00	44,500.00	45,000.00	18,000.00	18,500.00	19,000.00	EMS Levy
Salaries/Benefits	10,000.00	10,000.00	10,000.00	10,000.00				
DEPT TOTAL	52,235.00	54,000.00	54,500.00	55,000.00				
Building/Planning	2,450.00	3,000.00	2,975.00	2,500.00	15,500.00	15,750.00	17,000.00	General Fund
Salaries/Benefits	25,000.00	25,000.00	25,000.00	26,000.00				
DEPT TOTAL	27,450.00	28,000.00	27,975.00	28,500.00				
Park & Pool	29,928.00	25,000.00	24,500.00	25,000.00	30,450.00	35,750.00	40,000.00	General Fund
Salaries/Benefits	20,000.00	25,000.00	25,000.00	25,000.00				
DEPT TOTAL	49,928.00	50,000.00	49,500.00	50,000.00				
Airport	4,864.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	Hanger Leases Library District Rents
Library	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	
Total	454,137.00	465,700.00	465,775.00	469,425.00				
Property Taxes					91,300.00	95,400.00	97,000.00	Property Taxes
All Other Revenues					251,250.00	255,000.00	260,000.00	
Total General Fund Revenues					456,403.00	503,150.00	520,000.00	
Ending Fund Balance					2,266.00	37,450.00	54,225.00	

Budgeting

E-1

September 2006