

Council Budget Process

Background: This is being brought forward by the Office of the Mayor:

Over the past two years questions and requests regarding the budget process have been brought forward by members of Council. I feel Council should address these questions in a manner that will allow our administration time to provide input and implement any requested changes. Depending on the scope of this request administration and Council may require considerable time to evaluate the consequences of our decision to either continue with existing Council budget practices or implement an alternative approach.

Questions include, but may not be limited to:

1. What information should Council receive from administration regarding the budget.
 - a. Currently the policy reads that administration will increase the annual budget 1% per year, but this amount will be reviewed annually.
 - i. With this direction it is the responsibility of Administration to bring this forward annually for council consideration in a prebudget meeting.
 - ii. From the prebudget meeting Departments through their Director work together to meet and prepare a budget based on current service levels that administration feels have been directed by Council throughout the year. Many adjustments are made during this administrative budget development process and changes can be made to department's original budget request to enable administration to meet Council's requested goal.

This practise, which Council endorses is very efficient, but may create an experience that prevents Council from being involved in the total discussion. When the proposed budget is brought before Council administration has already decided what will and will not be included. During the Budgetary meeting Councillors review the budget and based on their experience and concerns provide feedback on what they feel should be increased or decreased as well as make decisions on items that the budget team has brought forward as possible inclusions, but they have not been part of the discussion of the budget development.

- iii. Is there a better way that Council can direct administration to present their budget?

2. Does our current Operational budget process accurately reflect Council's priorities?
 - a. For example: is Community Services more important than Infrastructure & Services and to dig deeper, how important is the All-Star park operation compared to Street Cleaning? Does Council feel that we need to have this have the budget in a more quantifiable form that reviews each service and its % of the budget. Currently this % is provided in a comprehensive graph at the beginning of the budget but Council does not have the time to relate this to what we feel our Council's priorities are.
 - b. In addition, CSD has additional citizen oversight and support through the Recreation and Culture and the FCSS boards that we do not have for our I.S. or Corporate Services department. The overriding question is does Council feel we should take a more active role in the operating budget process as a method of implementing Council priorities?

3. Included in our budget discussion is our ten-year Capital Plan and review of Reserves and off site levies.
 - a. Capital expense and planning Process: I feel our Town Council currently has a good description of the projects that are anticipated by administration in the upcoming year and for the next ten years. This presentation made at Budget time is complete and provides a comprehensive summary of projects that are being requested during the upcoming year. While some unanticipated projects may occur, most of the projects presented are based on concrete data that our Town is very conscientious about obtaining to explain the need and timing for projects to move forward.
 - b. One area that may require greater consideration is how, when it comes to our capital budget, do we identify and decide if new proposed projects should be brought back for review based on changing circumstances. While Administration is respectful of any requests from Council to review projects the only review of this plan is done

c. **Budget process' that we could consider in the future:**

Please See attachment.

Administration has offered to walk us through the advantages and disadvantages of each of these methods and possibly other methods as well and may be the only action Council wishes. This approach is reflected in the RFD below.

Questions moving forward.

1. Is Council satisfied with how we have decided budgets in the past?
2. Does Council wish to investigate different budgetary processes and if so develop a method for Council to do so including the following factors as well as those suggested during the discussion period.
 - a. Costs of our proposed investigation needs to include staff support/time and paperwork.
 - b. Councillor time. I assume that the any meetings during this process would be in a committee form and therefore would not qualify for Council remuneration.

The above information is intended to provide background for the following request. I don't feel any ownership for any of the following alternatives but felt that it was important for Council to consider alternatives while we still have time to begin implementation of them before the formal budget process starts.

Request for direction

Alternative 1:

"I move that Council consider investigating alternative Budgetary development processes that may allow Council to more comprehensively evaluate service levels and expenditures during the budget development process. For this to be effective Council will develop directions and timelines to administration to clarify their input.

Alternative 2:

Request that administration provide a training session for Council regarding the pros and Cons of different budgetary approaches. No further action contemplated.

Alternative 3.

Accept for information.

A handwritten signature in blue ink that reads "Richard Poole". The signature is written in a cursive style with a small dot above the 'i' in "Richard".

Mayor Richard Poole

BUDGET FORMATS

By presenting selected information in particular ways, budget documents focus attention on certain questions, relationships, and developments. Because budget formats “establish the rules by which the budgeting game is played (the decision rules)” and also “create the standards by which success is measured (rules of evidence),” formats are important to public budgeting.

“When we speak of budgeting formats, we are talking about the way in which budgeting information is structured, the kind of information that is required to justify budget requests, and what kind of questions are asked during the budget review process” (Morgan, 2002, p. 71).

There are four general types of approaches: line-item, performance, program, and zero-based, plus hybrids. Table 1 compares them and the following discussion describes them in detail.

Table 1. Budget Formats

	Purpose? Central Question? Problem to be Solved?	Chief Characteristics	Central Actors	Conditions for Success	Strengths
Line Item/ Object Code/ Incrementalism	Financial accountability Is the money being spent according to intention? Preventing mis- appropriation of funds.	Focus is on past, with last year as the “base” Use of formulas, like “fair share” to balance the budget	Accountants and central office budget managers interested in balancing the budget. Constituency advocates in the legislature	Minimum amount of staff time and expertise is needed to create and track the budget	Works well when time is short, there is considerable complexity, multiple stakeholders, and high potential for conflict
Program Budgeting (PPBS)	Program accountability Is the program achieving its goals and objectives? Program effectiveness	Focus is on program plans, goals and objectives. Requires budgeting to a plan	Program managers & program analysts	Requires the resources necessary to develop program plans, goals and objectives	Provides clear linkage between program activities and budget allocation Links parts to whole and present to future

Table 1, continued

	Purpose? Central Question? Problem to be Solved?	Chief Characteristics	Central Actors	Conditions for Success	Strengths
Performance Budgeting	<p>Program efficiency/ effectiveness</p> <p>Is the program cost-effective? Is the program effective?</p> <p>Measures of what is being accomplished</p>	<p>Measurements are created for workload activities, efficiency of resource allocation and effectiveness</p>	<p>First line supervisors and street-level bureaucrats</p>	<p>Requires considerable resources to develop reliable measures</p> <p>Requires time to develop confidence of those needed to create performance measures</p>	<p>Provides objective ways of documenting accomplishments</p>
Zero-Based Budgeting (ZBB)	<p>Priority and appropriateness of what is and should be done</p> <p>What should we be doing? Are we giving appropriate priority to current programs/ activities?</p> <p>Deciding whether to continue doing what has been done in the past</p>	<p>Systematic re-examination of some portion of current program activities from the ground up.</p>	<p>Depending on the primary locus of authority, ZBB can be done at any and all levels of the organization.</p>	<p>Requires considerable time and resources to re-examine activities from the ground up.</p> <p>Requires self-confident staff & managers</p>	<p>Provides opportunity for existing assumptions and activities to be re-examined.</p> <p>Provides opportunity to reallocate resources</p>

Reprinted by permission. Morgan, Douglas, with the assistance of Kent Robinson and support of Drew Barden and Dennis Strachota, 2002. *Handbook on Public Budgeting*. Portland State University, Hatfield School of Government, State of Oregon edition, Table 7-6, pp. 162–163, <http://eli.pdx.edu/erc/morgan/handbook6.doc>.

Alternative Methods of Budgeting

Line-Item Budgeting

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

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

DEPARTMENT: Public Works

Expenditure Classification	Previous Fiscal Year 1996-97: Actual	Current Fiscal Year 1997-98: Budgeted	Next Fiscal Year 1998-99: Request
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$

The major deficiency of line-item budgeting is that the laundry-list format of the system provides no method of determining the amount of a particular city service produced by a given level of

spending. Also, the broad expenditure categories used in a line-item budget make it difficult to set service priorities because there is no way to calculate the quantity or quality of services that would result from various expenditure levels.

Program Budgeting

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

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

DEPARTMENT: Public Works

PROGRAM: Street Sweeping

Expenditure Classification	Previous Fiscal Year 1996-97: Actual	Current Fiscal Year 1997-98: Budgeted	Next Fiscal Year 1998-99: Request
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$

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

Performance Budgeting

Performance budgeting is the same as program budgeting, except that one additional component—performance—is included to tie expenditures for each program to specific goals established for that program. For example, the amount budgeted for street sweeping would be

tied to an expected level of performance, such as sweeping “X” number miles of streets during the fiscal year.

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

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

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

Zero-Based Budgeting

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

For each program, the department must show: the various levels of service that could be provided with different levels of funding—including zero funding; alternative courses of action; and the consequences of funding the service at different levels, or not funding it at all.

In the decision package below, the head of the public works department is required to show what would happen if the amount budgeted next fiscal year for street sweeping were reduced by 25 percent. Similar decision packages would have to be prepared to show the effects of maintaining the funding at the current level, of increasing and of reducing expenditures by various percentages, or abolishing the program altogether.

DEPARTMENT: Public Works

PROGRAM: Street Sweeping

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

Program Costs	Continuation of the Current Level of Funding	Assuming a 10% Reduction in Funding	Assuming a 25% Reduction in Funding
Personal Services	\$	\$	\$
Supplies	\$	\$	\$
Contractual Services	\$	\$	\$
Capital Outlays	\$	\$	\$
TOTALS	\$	\$	\$
Please describe the desired results of this program:			
Please list any alternatives and describe them:			
How and when will the results be accomplished:			
For each level of service, please clearly identify the results of operating at that level of funding:			
What would be the result of totally eliminating this program?			

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

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

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

Source: Susan Combs (Texas Comptroller of Public Accounts). "Budget Manual, Appendix C, 2003." At <http://www.window.state.tx.us/lga/budget/apdxc.html>, accessed July 31, 2007.

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