

# Finance Committee Meeting

## Topic: Budgeting Basics



City of Lockport, NY

July 27, 2022

# What Budgeted Funds Do We Have?

- General Fund
- Enterprise Funds
  - Water
  - Sewer
  - Refuse and Recycling
- Internal Service Funds
  - Health Insurance
  - Worker's Compensation



# Why are the funds separated?

- Conceptually, each type of fund is different in revenues and expenditures:
  - The General Fund is supported primarily by property taxes, sales tax, state aid, departmental fees, and supports all relevant costs for the majority of our programs and services.
  - Enterprise funds must each be supported by their own revenue sources (i.e., water charges, refuse fees, etc.) and can only house expenditures and departments associated to said function.
  - Internal Service funds must be supported by associated interfund transfers (i.e., city sponsored health insurance costs expensed during payroll, monthly Medicare transfers from each fund to health fund, etc. ) and can only be used for specific purposes.

# Components of Making a Budget – General Fund

## Step 1 – Revenue Estimates

- Ensure that revenue projections are sound and in line with past benchmarks and forecasts.
- Ensure that interfund revenue transfers (from debt service, for example) are supported by cash or expenditures in said accounts.
- The most flexible revenue source is going to be property taxes because the Council can choose the levy amount (and therefore the tax rate).  
Preemptively discuss what kind of rate you would like to experience and use as a placeholder.
- Also keep in mind that fund balance utilization will be recorded as a revenue. Be sure to refer to what costs this is being used for.

# Components of Making a Budget – General Fund

## Step 2 - Expenditures

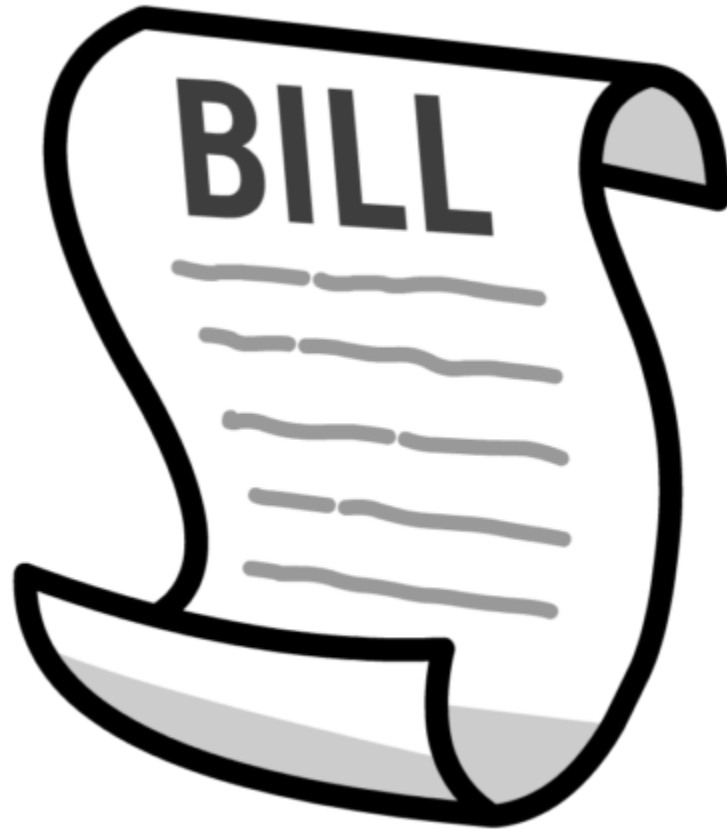
- Personal service obligations (which include wages, overtime and other related items) are typically derived from union contracts and cannot be changed.
- Employee benefits are also often provided by third party sources (NYS OSC, health insurance administrators) and cannot be altered.
- Contractual and equipment line items (which are supported by transaction reports) can be often analyzed to determine if items are required. At times, some may be mandated from other entities (such as training costs).
- Debt service funds are contractually obligated and cannot be changed.

# Components of Making a Budget – General Fund

## Step 3 – Making a Balanced Budget

- All budgets must be balanced in which revenues equal expenditures. Reductions may include changes in personnel or line item reductions.
- Other times, you may choose to designate one-time purchases in your expenditures as supported by fund balance, which will increase the revenues.
- A balanced budget also must maintain all requirements per financial policies, namely our fund balance policy which dictates the amount of fund balance that can be used as well as the minimum amount of contingency required to be budgeted.

# Components of Making a Budget – Enterprise Funds (Water, Sewer, Refuse)



- Similar to General fund with the exception that the most flexible revenue source will be water/sewer/refuse rates charges, as Council can alter the rates to be charged and therefore the revenues in the budget.
- Similar principles apply to expenditures lines as mentioned in slide 5.

# Components of Making a Budget – Internal Service Funds (Health, Worker’s Comp)

## Step 1 – Expenditures

- Internal Service funds are dissimilar to our other funds. Typically, each year, our administrators provide the City with total anticipated costs for the following year.
- These costs are just for our current employees. If we have changes to personnel in the budget, we will have to alter the projected costs as well. *For example, if we are hiring four new firefighters, we must assume our health insurance costs will go up next year by the cost of four health insurance plans.*



# Components of Making a Budget – Internal Service Funds (Health, Worker’s Comp)

## Step 1 – Expenditures (Continued)

- We then allocate these costs to each fund and then to each employee in the fund. The amount that is required per person is often referred to as the ‘premium.’



# Components of Making a Budget – Internal Service Funds (Health, Worker’s Comp)

## Step 2 – Revenues

- Premiums are budgeted as expenditures in each fund’s benefit line items. During each payroll, they are transferred to the internal service funds as revenue. (Also included in the transfers are employee sponsored premiums for health insurance).
- Total revenues in these departments must equal the amount of premiums budgeted for in the General and Enterprise Funds.
- In doing so, they equal the total expenditures that were projected for the funds as well.

# Components of Making a Budget – Internal Service Funds (Health, Worker’s Comp)

## Step 3 – Balanced Budget Note

- At times, we may accumulate a ‘fund balance’ in these fund where we collected premiums and revenue but expenses were not as high as projected.
- The City may opt to reduce the premiums that each fund is charged in order to utilize some of these excess funds. This was done in FY 2021 to help mitigate costs from COVID-19.
- Internal Service Funds must still abide by financial policy and minimum cash reserves.

# ~Budgeting Basics Takeaways~

- There are three primary types of funds that must be budgeted for each year:
  - General, which is supported by property taxes
  - Enterprise (water/sewer/refuse), which are supported by user fees
  - Internal Service (health/worker's compensation), which are supported by premiums
- Council's goal is to provide a balanced budget that abides by financial policies and recommendations.