4.106 The Budget Cycle

Municipal Officials Handbook, Pages 127-128

* See note at bottom of page.

Perhaps because the municipal budget is usually developed in May and June for final approved by early August, there is an understandable tendency to think of the budget primarily as a governmental “rite of spring”. In fact, the four stages of the annual budget cycle are (or at least should be) continuous throughout the year. Each of these four stages in the budget process is described briefly below.

1. ***Data Collection and Assembly***

This is usually thought of as the first step in producing the annual budget, even though it might also be usefully characterized as the continuation of the preceding year’s budget. In either case, the primary activity involved at this stage is the gathering of factual data and estimates *concerning proposed expenditures and anticipated revenues*. Typically, the heads of the operating departments (such as a city police department) are asked to provide their best estimates of the department’s resource needs and any anticipated revenues for the coming fiscal year. These departmental estimates are collected by the organization’s budget or finance officer who is most often the municipal clerk-treasurer. The budget officer then combines the departmental estimates with other financial data, such as anticipated tax revenues and carry-over fund balances from the preceding fiscal year, to assemble a working draft budget. The draft budget is then further developed, usually in direct consultation with the several department heads by the chief-executive officer, who may be the mayor or the city manager. The end product of this stage of the budget cycle is a *preliminary annual operating budget* for each of the governmental funds *(7-6-4020, MCA).*

2. ***Legislative Review, Modification and Adoption***

The process of reviewing, modifying and finally adopting the annual budget is primarily the business of the governing body and it is inherently an exercise in local government politics. As one of America’s earliest pioneers in the development of political theory would have observed, this step in the budget process is about answering the political question, “*Who gets how much of what?”* The ever increasing needs of the several departments usually exceed available resources and must be disciplined by the reality of too few dollars. The strongly felt imperative of the council or commission to assure the protection of the public’s health and safety is contradicted by a nagging concern for the electoral consequences of constituent discomfort with any increase in taxes or fees. And, the urgent need for repairs to the water system or the roof on the city hall must be balanced with a prudent concern for incurring too much debt that will limit the financial flexibility of the government for many years of uncertain future.

After a series of usually difficult internal meetings with department heads, followed by the required public hearing (that is seldom attended by the public), the municipal government's annual operating budgets, along with appropriations and tax levies, will be adopted by majority vote of the governing body no later than the second Monday of August or within 45 days of receipt of the taxable value from the Department of Revenue.

3. *Implementation*

Following commission or council approval, the departments of the executive branch have their *spending authority* for the new fiscal year. They may now set about managing the financial resources available to them to accomplish their respective plans of work. Hopefully, they will be mindful that it is *unlawful for them or any official in the government to authorize an expenditure of public funds in excess of the department appropriation* made by the governing body in the annual budget. However, should the need arise to augment a departmental budget, the governing body is free to do so by means of a formal *budget amendment*, which, like the original budget itself, requires a public hearing, and the affirmative vote of a majority of the governing body (7-6-4031, MCA).

4. *Monitoring*

Too often the budget/finance officer or clerk-treasurer is the only person in local government who seems to remember that a budget is based almost entirely upon *estimates of revenues and expenditures.* If a municipal government has based its planned expenditures on an estimate that it will receive $500,000 in non-tax revenue and, at the end of the year, discovers that it only received $400,000, there will be "trouble in River City". Clearly, the remedy for overly optimistic estimates is regular *monitoring of revenues and expenditures.* The governing body and certainly the executive simply must know whether projected revenues are on track during the year so that, if necessary, they can adjust actual expenditures downward, irrespective of the original appropriation, and do so in a timely manner. An additional precaution employed by prudent municipal officials is the maintenance of an ample cash reserve position (perhaps 25 percent) to buffer unexpected revenue shortfalls. For smaller units of local government, *quarterly monitoring of revenue and expenditure trends and reporting the trends to the council or commission is probably sufficient to head off unpleasant surprises*. However, modern and increasingly inexpensive computer technology has made *monthly monitoring and reporting relatively easy and certainly prudent*. Needless to say, the data collected in the process of monitoring execution of the annual budget will also provide the baseline data for next year's budget.

Additionally, the habit of periodically monitoring revenues and expenditures throughout the budget year will make it quite easy to construct longer term *financial trend indicators* so that local officials and the public can track changes in the financial health (structural balance) of the government. Financial trend monitoring can be as simple as graphing year-end fund balances (working capital balance for the enterprise funds), total revenues by source, total expenditures by fund type and perhaps the level of debt. The result is a snapshot of the financial condition of the government for a given year which will, in turn, provide an early warning of any significant changes from year to year that may need to be remedied. (See ATTACHMENT 4.3 at the end of this chapter for a simple model of a financial trend indicator.)

Note

Thanks goes out to Lowell Swenson for catching the change in law since the Handbook has been released. The highlighted section in the Municipal Officials Handbook (original email) was changed by the 2011 Legislature. The code now reads:

7-6-4036. Fixing tax levy. (1) The governing body shall fix the tax levy for each taxing jurisdiction within the county or municipality:
(a) by the later of the first Thursday in September or within 30 calendar days after receiving certified taxable values;
(b) after the approval and adoption of the final budget; and
(c) at levels that will balance the budgets as provided in 7-6-4034.
(2) Each levy:
(a) must be made in the manner provided by 15-10-201; and
(b) except for a judgment levy under 2-9-316 or 7-6-4015, is subject to 15-10-420.

History: En. Sec. 32, Ch. 278, L. 2001; amd. Sec. 1, Ch. 152, L. 2011.

Please make the appropriate notation on page 127 of your Handbook.

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