State and Local Government
Recommended Budget Practices

National Advisory Council on
State and Local Budgeting

Best Practices in Budgeting: Takeaways for San Diego
San Diego City Council GE&O Committee

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Presentation Overview:

- Describe the Budget Best Practices
- Provide immediate “takeaways” on current San Diego City budget challenges
- Recommendations to GE&O Members
Available on-line
GFOA’s Digital Finance Library

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Click here to download Budget Practices (excluding examples) in PDF.
Background

National Advisory Council on State and Local Budgeting (NACSLB)
- Developed in 1997 by 11 organizations with interest in this subject
- Represents the current state of the art
- Contains nearly 60 recommendations to enhance state and local government budget practices
- CD-Rom contains many examples of how many state and local governments are applying the practices

GFOA Recommended Practice on Performance Management
- Revised 1998 as a result of linkage to NACSLB
- Includes a broader approach to management effectiveness
- Also have composed recommended Financial Management Policies
Definition of a “Best” Budget Process

- Incorporates a long-term perspective,
- Establishes linkage to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication with stakeholders, and
- Provide incentives to government management and employees
Budget Best Practices - Process

1. Obtain Stakeholder Input
2. Set “broad goals”
3. Establish Program Policy Priorities
4. Develop / Review Financial Policies
5. Establish Implementation Objectives
6. Develop a Budget that Implements the Plan
7. Report and Evaluate Performance and Program Accomplishments
8. Make Adjustments as Needed

1. Obtain Stakeholder Input (it starts all over again!)
1. Stakeholder Input
2. Long Term Goals
3. Short-term goals
4. Direction to staff
5. Budget Impacts and options
6. Adopt budget
7. Monitor results
8. Adjust as necessary
Establish Broad Goals to Guide Government Decision Making
- A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.
Element 1 - Assess Community Needs, Priorities, Challenges and Opportunities

Practice
- 1.1 - Identify Stakeholder Concerns, Needs, and Priorities
- 1.2 - Evaluate Community Condition, External Factors, Opportunities, and Challenges
Element 2 - Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

- Practice
  - 2.1 - Assess Services and Programs, and Identify Issues, Opportunities, and Challenges
  - 2.2 - Assess Capital Assets, and Identify Issues, Opportunities, and Challenges
  - 2.3 - Assess Governmental Management Systems, and Identify Issues, Opportunities, and Challenges
Element 3 - Develop and Disseminate Broad Goals

- Practice
  - 3.1 - Identify Broad Goals
  - 3.2 - Disseminate Goals and Review with Stakeholders
Develop Approaches to Achieve Goals
- A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.
  - Financial Policies
  - Strategic Plan
Element 4 - Adopt Financial Policies

- Practice
  - 4.1 - Develop Policy on Stabilization Funds
  - 4.2 - Develop Policy on Fees and Charges
  - 4.3 - Develop Policy on Debt Issuance and Management
    - 4.3a - Develop Policy on Debt Level and Capacity
  - 4.4 - Develop Policy on Use of One-Time Revenues
    - 4.4a - Evaluate the Use of Unpredictable Revenues
  - 4.5 - Develop Policy on Balancing the Operating Budget
  - 4.6 - Develop Policy on Revenue Diversification
  - 4.7 - Develop Policy on Contingency Planning
Element 5 - Develop Programmatic, Operating and Capital Policies and Plans

Practice
- 5.1 - Prepare Policies and Plans to Guide the Design of Programs and Services
- 5.2 - Prepare Policies and Plans for Capital Asset Acquisition, Maintenance, Replacement, & Retirement
Element 6 -
Develop Programs and Services That are Consistent with Policies and Plans

Practice
- 6.1 - Develop Programs and Evaluate Delivery Mechanisms
- 6.2 - Develop Options for Meeting Capital Needs & Evaluate Acquisition Alternatives
- 6.3 - Identify Functions, Programs, and/or Activities of Organizational Units
- 6.4 - Develop Performance Measures
- 6.4a - Develop Performance Benchmarks
Element 7 - Develop Management Strategies

- Practice
  - 7.1 - Develop Strategies to Facilitate Attainment of Program and Financial Goals
  - 7.2 - Develop Mechanisms for Budgetary Compliance
  - 7.3 - Develop the Type, Presentation, and Time Period of the Budget
Develop a Budget Consistent with Approaches to Achieve Goals

- A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.
Element 8 - Develop a Process for Preparing and Adopting a Budget

Practice

- 8.1 - Develop a Budget Calendar
- 8.2 - Develop Budget Guidelines and Instructions
- 8.3 - Develop Mechanisms for Coordinating Budget Preparation and Review
- 8.4 - Develop Procedures to Facilitate Budget Review, Discussion, Modification, and Adoption
- 8.5 - Identify Opportunities for Stakeholder Input
Element 9 - Develop and Evaluate Financial Options

Practice
- 9.1 - Conduct Long-Range Financial Planning
- 9.2 - Prepare Revenue Projections
  - 9.2a - Analyze Major Revenues
  - 9.2b - Evaluate the Effect of Changes to Revenue Source Rates and Bases
  - 9.2c - Analyze Tax and Fee Exemptions
  - 9.2d - Achieve Consensus on a Revenue Forecast
- 9.3 - Document Revenue Sources in a Revenue Manual
- 9.4 - Prepare Expenditure Projections
- 9.5 - Evaluate Revenue and Expenditure Options
- 9.6 - Develop a Capital Improvement Plan
Element 10 - Make Choices Necessary to Adopt a Budget

- **Practice**
  - 10.1 - Prepare and Present a Recommended Budget
    - 10.1a - Describe Key Policies, Plans and Goals
    - 10.1b - Identify Key Issues
    - 10.1c - Provide a Financial Overview
    - 10.1d - Provide a Guide to Operations
    - 10.1e - Explain the Budgetary Basis of Accounting
    - 10.1f - Prepare a Budget Summary
    - 10.1g - Present the Budget in a Clear, Easy-to-Use Format
  - 10.2 - Adopt the Budget
NACSLB Principle 4

- Evaluate Performance and make Adjustments
  - Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.
Element 11 - Monitor, Measure, and Evaluate Performance

- Practice
  - 11.1 - Monitor, Measure, and Evaluate Program Performance
    - 11.1a - Monitor, Measure, and Evaluate Stakeholder Satisfaction
  - 11.2 - Monitor, Measure, and Evaluate Budgetary Performance
  - 11.3 - Monitor, Measure, and Evaluate Financial Condition
  - 11.4 - Monitor, Measure, and Evaluate External Factors
  - 11.5 - Monitor, Measure, and Evaluate Capital Program Implementation
Element 12 - Make Adjustments as Needed

Practice
- 12.1 - Adjust the Budget
- 12.2 - Adjust Policies, Plans, Programs and Management Strategies
- 12.3 - Adjust Broad Goals, If Appropriate
San Diego 2006 Budget: Immediate Takeaways

- **Focus too narrow**: focus on expenditures, little view of revenues and revenue options to date
- **Inadequate expenditure analysis** leads to cuts of services over infrastructure: cut G and A before basic programs
- **Analysis missing**: direct, indirect, capital (depreciation, debt service) expenditure breakouts
- **Missing expense**: depreciation. The reason the city will never have enough capital funds. BIG BILL!
- **Missing from departments**: outputs, outcomes, performance measures and benchmarks
- **No focus to budget execution**: is the budget worth it?
- **Missing**: cash budget
Takeaways, cont’d

- **Budget Calendar**: too tight (2 month review), too jammed, meetings late at night, inverted focus
- **Materials**: difficult to review, too many funds, confusing terminology
- **Comparisons missing**: current year projection, prior year actual, budget
- **Missing overall priorities**: Cutting programs and basic services, yet building new buildings: library example
- **2006 Budget Numbers don’t track**: to the recently released 5 Yr Plan: they must!
Recommendations

- Insist on **beginning** the proper budget approach, vote no as necessary
- **Strong Mayor** must **reengineer** financial/budget processes
- Insist on honesty
- Get a handle on the big number: **true** retirement liability and expense
- **Ask meaningful questions** of City Manager