

Multiyear Capital Planning and Budgeting

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The Budget

The budget is a plan of the services we want to provide to our taxpayers, and the funding sources to pay for the services.

- Lifespan of beginning of the Fiscal Year, to the end of the Fiscal Year only.
- Budgets should include some considerations for future events beyond the end of the Fiscal Year
 - Easy to get tunnel vision worrying about this year only.
 - Difficult to justify fund balance amounts without future plans.
 - Ex. Reserves- Why do we have them? When will we use them? When will they be sufficiently funded?



Level of Responsibility

Who is responsible for submitting initial budget estimates to Budget Officer?

Department Heads

Who is responsible for preparing the tentative budget numbers?

Budget Officer

Who is responsible for carefully analyzing, understanding, making amendments to and adopting the official budget?

The Board

Who is fiscally responsible for ensuring the adopted budget is adhered to, and appropriations are never overspent?

The Board



Tools to be Used in Budgeting

- OSC Local Government Management Guides
- Prior and Current Year Budgets & Actuals (Modified)
- Open Book NY: <http://www.openbooknewyork.com/>
- Communication with Department Heads
- Board adopted Fund Balance Policy
- Multiyear Financial Plan
- Multiyear Capital Plan



What is a Multiyear Plan?

It is a plan which allows decision-makers to set long-term priorities and work toward goals, rather than making choices based only on the needs and politics of the moment.

- Types of Plans:
 - Multiyear Financial Plan
 - Multiyear Capital Plan



Multiyear Financial Plan

A Multiyear financial plan projects revenues and expenditures for several years into the future.

- **A Budget:** authorizes spending limitations through appropriations.
- **A Multiyear financial plan:** illustrates what will happen to a government's ability to pay for and provide services, given a set of policy and economic assumptions.

“Can we continue on the path we are on?”

“What might be the impact of our decision to...?”

- Schedules out Anticipated Future Financial Position, based on a set of criteria, supported by management analysis, and includes impact of Capital decisions contained in a **Multiyear Capital Plan**.



Multiyear Capital Plan



Multiyear Capital Plan

A Multiyear Capital Plan identifies all capital and major equipment needs, incorporates a process for prioritizing projects, and includes a maintenance cycle to sustain current capital assets.

- What assets do we currently own?
- What are our local government's capital investment needs?
- How have we prioritized these needs?
- How much will they cost to build and maintain?
- What is our fiscal capacity to support capital spending over time?
- What is the best way to finance these capital investments?
- How can we effectively manage these projects?
- How much will they cost to operate once constructed?



Multiyear Capital Plan

Management Analysis

1. Identify what types of assets and expenditures will be included in the capital plan.
2. Decide how long a period of time the capital plan should encompass.
3. Develop data and information requirements for decision making and recordkeeping purposes.
4. Develop a specific timetable for creating and reviewing the capital plan.



Multiyear Capital Plan

Management Analysis (contd.)

5. Determine who will be participating in the planning process (elected officials, department heads, etc.), and at what points in the process.
6. Decide when public meetings or hearings will be held to elicit public participation.
7. Finally, be sure to formally approve the plan annually and make sure it is evaluated regularly in future years.



Multiyear Capital Plan

Start with a Capital Inventory

The inventory should include but need not be limited to:

- Utility and sanitation assets, including sewer and water systems, solid waste facilities, and municipal electric and lighting systems.
- Highways, roads and bridges.
- Public buildings.
- Certain equipment, vehicles and furnishings.
- Land or rights to land.
- Certain improvements to land other than buildings.



Multiyear Capital Plan

Start with a Capital Inventory (contd.)

The inventory should include:

1. A brief description of the asset (or group of assets)
2. Its location
3. Its estimated useful life
4. Its remaining useful life
5. Its current condition
6. Its estimated replacement value.

Can start with your Insurance Provider



Multiyear Capital Plan

Assess Budgetary Impact (contd.)

- **Current and Future Debt Service Costs** – Large capital projects often must be funded with the issuance of debt. Estimates should be prepared on the principal and interest costs associated with issuing bonds for these types of projects.
- **Lease- or Installment-Purchase Contracts** – These costs for purchases of equipment, machinery and apparatus are similar in some respects to purchases made with debt proceeds, in that they are funded over a period of more than one year, subject to certain terms and conditions.

Multiyear Capital Plan

Assess Budgetary Impact (contd.)

- **Pay-As-You-Go Costs** – Some capital expenditures may be paid for out of current appropriations in the year acquired.
- **Reserve Funds** – Through formal resolution, the local government can establish reserve funds, earmarking resources for the future acquisition and repair of essential capital assets.
- **Future Operating Costs** – To the extent possible, future operating costs necessary to utilize the capital asset should be estimated.

Multiyear Capital Plan

Assess Budgetary Impact (contd.)

- **Impact on Revenues** – Certain capital expenditures need to be financed with increased fees or user charges.
- **New Costs and/or Savings Associated with New Capital Assets** – While the construction of new capital assets often result in new operating costs, it can also produce savings if the investment improves efficiency.

Multiyear Capital Plan

Adoption

- The local government should seek public input on the proposed capital plan. This will allow public interest groups, business leaders, and community residents to review program priorities and to voice any concerns.
- Governing board approval of the multiyear capital program does not generally extend beyond the first year of the capital program and should be renewed each year.



Multiyear Capital Plan

Monitoring

- A plan is only as good as the results it produces.
- Follow-up is essential to determine if capital program goals are being met.
- Routine monitoring of approved capital projects helps to ensure that projects remain on schedule and within budget.
- Amend when necessary!



Resources

- OSC Website
- Capital Planning and Budgeting Tutorial
 - Local Government Management Guides
 - Capital Planning Tool [.xls]

<http://www.osc.state.ny.us/localgov/planbudget/index.htm>



Implementation Into the Budget

Budget Formula

Appropriations- Authorization to Spend

- These are the programs, services and cost of operations.

Less: Non Property Tax Revenues:

- PILOTS, Sales Tax, State Aid, Clerk's Fees, Grants, Sale of Land, Sale of Equipment, etc.
- Reserved Fund Balance Appropriated to Fund Appropriations this year
- Unassigned/Assigned Fund Balance Appropriated for this year

= Difference: What goes here?

- Real Property Taxes

Results of Budgeting

Tax Rates May Need to Increase

- If you have identified the "Need Now", "Need Soon", "Would Like to Have" appropriations, and nothing can be cut.
- If you have honestly estimated all non property tax revenue sources.
- If you are unwilling or unable to use fund balance

Tax rates may need to increase, or you may be depriving your taxpayers of services they expect.

Structurally Balanced Budget

Balanced vs. Structurally Balanced

Balanced:

Appropriations = Financing Sources

Structurally Balanced:

One shot Revenues = One Shot Appropriations

Reoccurring Revenues = Reoccurring Appropriations

Reserves = Proper Appropriations

Proper use of Contingencies

Planned Use of Fund Balance

