Association of Indiana Counties
2013 Budget and Finance Webinar

Managing County Finances

April 19, 2013

Presented by: Paige E. Sansone, CPA

Overview

- Tax caps and declining resources are changing the way we budget
- Greater need to anticipate and identify budget deficits and cash flow shortages
- Taking a short-term approach to budgeting is no longer sufficient
- More emphasis on long-term fiscal planning and financial policies
- Financial projections are a necessary component of major policy decisions

Monthly Cash Flow

- Monthly projection of receipts and disbursements by fund
- Need to know timing of receipts and disbursements
  - Receipt - Property Tax: June and December
  - Disbursement - PERF payments: Quarterly
- Identifies potential cash flow shortages throughout the year
- Can develop a plan to manage shortfalls

Long-Term Fiscal Plan

- Used to develop a plan to maintain service levels when faced with declining resources
- Can be used as a model to analyze the affects of funding alternatives and policy decisions
- Provides a financial road map to accomplish priorities over the next several years while preserving a standard of fiscal and operations accountability

Long-Term Fiscal Plan

- Key Elements:
  - Revenue Forecasting
  - Operations Management
  - Debt Management
  - Capital Management
- Results:
  - Provides a baseline for future financial operations
  - Can be modified as different needs arise, priorities change, legislation changes, or to evaluate "what if" scenarios

Budget Management:

How much can we (should we) budget?

Budgeting Best Practices:

- Match spending plan with annual receipts
- Maintain at least minimum recommended cash reserves

Key Questions for Budget Development

- Are available revenue sources enough to fund operations and provide essential services?
- How much can we afford?
- What are our future plans/challenges?
- How do we eliminate deficits?

Steps of Budget Development

- Estimate Ending Cash Balance
  - What will be our financial position at the end of the year?
- Estimate Receipts
  - How much can we afford?
- Estimate Disbursements
  - What is the cost to provide essential services?
  - What do we want to accomplish next year?
- Develop a Plan to Eliminate Deficits
  - New revenue streams?
  - Cost saving options?
  - Permanent budget reductions?
  - Cash reserve policies

How much can we budget?

		2014
Beginning Cash	$	200,000
Plus Receipts		**700,000**
Total Funds Available	$	900,000

Example: Unfunded Budget

Est. beginning cash (01/01/14)	$200,000
Plus receipts (net of C.B. Credits)	**700,000**
Funds available	900,000
Minus disbursements	**(950,000)**
Est. ending cash (12/31/14)	$ (50,000)

*Recommended min. cash reserve = **$142,500** (15%*$950,000)*

UMBAUGH

Example: Budget Funded But Not Balanced

Est. beginning cash (01/01/14)	$200,000
Plus receipts (net of C.B. credits)	**700,000**
Funds available	900,000
Minus disbursements	**(900,000)**
Est. ending cash (12/31/14)	$ 0

Recommended min. cash reserve = ***$135,000*** *(15%*$900,000)*

Example: Balanced Budget

Est. beginning cash (01/01/13)	$200,000
Plus receipts (net of C.B. credits)	**700,000**
Funds available	900,000
Minus disbursements	**(700,000)**
Est. ending cash (12/31/13)	$200,000

Recommended min. cash reserve = ***$105,000***
(15%$700,000)*

Effects of Spending More than Annual Receipts

	Year 1		Year 2		Year 3	
Beginning Cash	$	200,000	$	100,000	$	15,000
Plus Receipts		**700,000**		**715,000**		**732,900**
Total Funds Available		900,000		815,000		747,900
Minus Disbursements		**(800,000)**		**(800,000)**		**(747,900)**
Ending Cash	$	100,000	$	15,000	$	-

UMI It's all about experience.

Common Myths

1. The budget (appropriations) need to be overstated to get the full maximum levy
2. The DLGF will cut our budget if the fund's operating balance exceeds 50%
3. The DLGF cut our budget this year because we under-spent our budget last year
4. We can afford to spend 100% of our budget because that is what the DLGF certified
5. We do not have any control over our budgets – the DLGF decides how much money we can get and how much we can spend

How do Circuit Breaker Tax Credits affect property tax revenue?

Circuit Breaker Tax Credit

- Limits the total property tax bill to a percentage of the gross assessed value of the taxpayer's property

Property Type	Circuit Breaker Cap
Residential homesteads	1%
Other residential and agricultural property	2%
Other real and personal property	3%

- Property taxes approved in a referendum process are not subject to the caps

How Property Tax Caps Work

- Computed property tax bill is compared to the “cap”
- Taxes over the cap are simply <u>not paid</u>
- The result is a shortfall in property taxes collected and distributed for use by the county
- Circuit breaker credits are allocated to taxing units based on the percentage the taxing unit’s tax rate is to the overall district tax rate

Sample Tax Bill

Residential Home Value	$100,000
Net Assessed Value (after deductions)	$30,000
Tax Bill with $4 Tax Rate	$1,200
Tax limit @ 1%	$1,000
Circuit Breaker Tax Credit	$ 200

How do circuit breaker credits affect your budget?

	Year 1		Year 2		Year 3	
Beginning Cash	$	200,000	$	100,000	$	-
Plus Receipts		**700,000**		**700,000**		**700,000**
Estimated Circuit Breaker Loss		**(100,000)**		**(100,000)**		**(100,000)**
Total Funds Available		800,000		700,000		600,000
Minus Disbursements		**(700,000)**		**(700,000)**		**(700,000)**
Ending Cash	$	100,000	$	-	$	(100,000)

UMBAUGH

It's all about experience.

Anticipating Deficits

Possible Causes of Funding Shortfalls

- Timing Issues (Temporary)
  - Primary revenue source received in June and December
  - Delayed tax rate certification and late mailing of tax bills
  - One tax settlement instead of two
  - Delinquencies (collection rates historically below 100%)
- Local Income Taxes
  - Anticipated decline due to economic downturn
- State Distributed Revenues
  - Declining over the past few years
- Erroneous Assessed Values
  - Certified A.V. substantially different from previous year
  - A.V. used to calculate tax bills much lower than certified A.V.

Other Possible Causes of Funding Shortfalls

- Taxpayer Refunds
  – Due to erroneous assessed values
  – Large number of assessment appeals settled in favor of the taxpayer
  – Abatements not applied
- Structural Budget Deficit
  – Disbursements exceed available revenue sources
- Circuit Breaker Credits
  – Reduction of property tax distribution

Anticipating Shortfalls

- Identify the "causes" that may affect your taxing unit
- Identify trends from historical activity
- Prepare monthly cash flow projections and continually monitor
- Understand the difference between a temporary cash flow shortage and a structural budget deficit

What's the difference between a cash flow shortage and a structural budget deficit?

Cash Flow Shortage or Budget Deficit?

	Jan - Mar	April - June	July - Sept	Oct - Dec	Totals
Receipts:					
Property Tax	$ -	$ -	$ -	$ 900,000	$ 900,000
Auto Excise, CVET, FIT	-	-	-	90,000	90,000
CAGIT/CAGIT PTRC	-	37,500	-	37,500	75,000
Other Misc. Revenues	13,500	13,500	13,500	13,500	54,000
Total Receipts	13,500	51,000	13,500	1,041,000	1,119,000
Disbursements:					
Personal Services	195,825	195,825	195,825	195,825	783,300
Supplies	22,380	22,380	22,380	22,380	89,520
Other Services and Charges	55,950	55,950	55,950	55,950	223,800
Capital Outlays	-	-	8,952	13,428	22,380
Total Disbursements	274,155	274,155	283,107	287,583	1,119,000
Net Cash Flow	(260,655)	(223,155)	(269,607)	753,417	-
Beginning Cash	263,800	3,145	(220,010)	(489,617)	263,800
Estimated Ending Cash	$ 3,145	$ (220,010)	$ (489,617)	$ 263,800	$ 263,800

Cash Flow Shortage or Budget Deficit?

	Jan - Mar	April - June	July - Sept	Oct - Dec	Totals
Receipts:					
Property Tax	$ -	$ -	$ -	$ 900,000	$ 900,000
Property Tax Shortfall				(36,000)	(36,000)
Circuit Breaker Tax Credit				(94,000)	(94,000)
Auto Excise, CVET, FIT	-	-	-	90,000	90,000
CAGIT/CAGIT PTRC		37,500		37,500	75,000
Other Misc. Revenues	13,500	13,500	13,500	13,500	54,000
Total Receipts	13,500	51,000	13,500	911,000	989,000
Disbursements:					
Personal Services	264,262	264,262	264,262	264,264	1,057,050
Supplies	22,375	22,375	22,375	22,375	89,500
Other Services and Charges	43,750	43,750	43,750	43,750	172,200
Capital Outlays	-	-	-	130,000	130,000
Total Disbursements	330,387	330,387	330,387	460,389	1,448,750
Net Cash Flow	(316,887)	(279,387)	(316,887)	450,611	(459,750)
Beginning Cash	329,750	12,863	(266,524)	(583,411)	329,750
					-
Estimated Ending Cash	$ 12,863	$ (266,524)	$ (583,411)	$ (132,800)	$ (130,000)

- Temporary Cash Flow Shortage
  - Typically caused by the timing of receipts (property tax received in June and December)

- Structural Budget Deficit
  - Annual disbursements exceed annual receipts

The Importance of Monitoring Cash Flows and Preparing Projections

- Identifies cash shortages and how to address
- Identifies money available to invest
- Estimates the availability of cash - timing
- Allows time to prepare contingency plans
- Contributes to better, more timely decision making and financial management
- Necessary to evaluate policy decisions

Forecasted Cash Flow Analysis

- Separate funds by the functions they support:
  - Operations
  - Debt Service
  - Capital Projects
  - Other
- Begin with historical analysis of past three years to identify trends in receipts and disbursements
- Determine whether past trends will continue
- Include future estimates of circuit breaker tax credits
- Consider changes in property tax appeals, uncollectible taxes, or tax base changes
- Make adjustments for declining revenues

Managing Deficits

Options for Managing Cash Flow Shortages

- Temporary cash transfers from other funds
- Defer non-essential spending (capital outlays)
- Tax anticipation warrants

Debt Financing – Short Term

- Tax Anticipation Warrants ("TAW's")
  - Temporary loans payable within 12 months from anticipated tax receipts
  - Provides funding for needed expenditures until property tax distributions are received

Options for Managing Budget Deficits

Temporary

- Sell assets
- Use cash reserves in operating funds
- Pay costs out of EDIT, Rainy Day, and Riverboat
- Institute hiring/wage freezes
- Declare inactive funds dormant and transfer remaining balance to General Fund

Permanent

- Consolidate service delivery with other units of government
- Consider modifying employee health plans (employer/employee contributions)
- Re-evaluate user fees, license costs and fines for ordinance violations
- Eliminate vacant positions
- Review allocation of salaries – cost sharing with other functions
- Reallocate maximum levy

Debt Financing - Long Term

- Property Tax General Obligation Bonds
  - Used for capital projects and improvements
  - Constitutional debt limit – generally 2% of assessed value, divided by three, except for some special taxing districts
  - Subject to petition / remonstrance process if in excess of $2 million and to referendum if over $12 million.

Debt Financing - Long Term Debt (cont'd)

- Lease rental obligations
  - Bonds issued by others (i.e.; building corporation, building authority, redevelopment authority, etc.)
  - Facility leased to county upon completion and lease rentals used to repay bonds
    - Lease rentals can be paid from property taxes, income taxes or any other available revenue
  - More costly than general obligation bonds
  - Not subject to debt limits

Why are Cash Reserves Important?

- May help to manage cash flow shortages without the need for external short-term borrowing
- Provides a funding source to respond to unforeseen events, emergencies or opportunities
- Demonstrates operational accountability and financial stability
- Suggested minimum reserve depends upon the need and circumstances (15% to 20%)

Minimum Fund Balance Policy

- Consider establishing a minimum fund balance policy
- What should you consider in determining a fund balance policy?
  - Claim payment cycle
  - Frequency and amount of tax collections
  - Uncertainty of revenues
  - Uncertainty of expenses
  - Capital plans

Financial Planning Case Study

Case Study Subject: Financially Distressed Unit

Major Issues

- Reliance on DLGF to make budget reductions
- Significant losses due to circuit breaker credits
- No plans or procedures in place to manage cash flow shortages
- No long-term fiscal planning
- Annual budgets did not match spending with receipts
- Dwindling cash reserves
- Ineffective communication

Funds That Support Operations

- The following funds were included in the fiscal plan:
  - **General Fund**
  - Highway Fund
  - Local Road and Street Fund
  - Health Fund

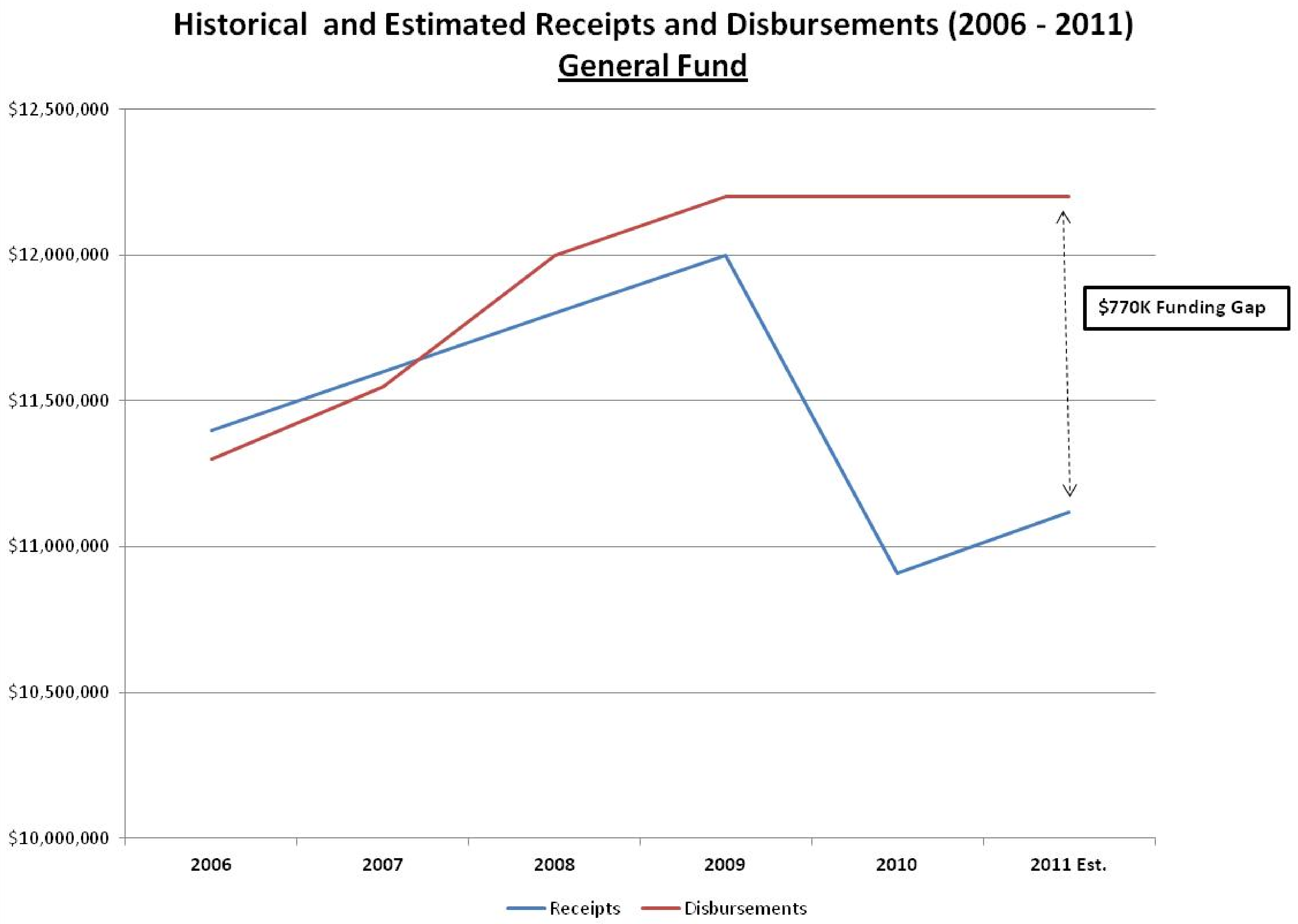
GENERAL FUND

Historical Analysis

- Revenues:
  - 20% of the Taxing Unit's levy is not collected due to Circuit Breaker credits (beginning in 2010)
- Disbursements:
  - Budget deficit prior to 2010 – overspending receipts by $200K
  - No budget adjustments were made in 2010

Distressed Unit Example

	2008	2009	2010	2011 Est.
Operating Receipts:				
Property Tax	$ 6,300,000	$ 6,500,000	$ 6,760,000	$ 7,024,000
Circuit Breaker Credits	-	-	(1,352,000)	(1,405,000)
COIT	2,500,000	2,500,000	2,500,000	2,500,000
Other Misc Receipts	3,000,000	3,000,000	3,000,000	3,000,000
Total Operating Receipts	**11,800,000**	**12,000,000**	**10,908,000**	**11,119,000**
Operating Disbursements	**12,000,000**	**12,200,000**	**12,200,000**	**12,200,000**
Increase/(Decrease) in Cash	(200,000)	(200,000)	(1,292,000)	(1,081,000)
Beginning Cash	2,000,000	1,800,000	1,600,000	308,000
Ending Cash	$ 1,800,000	$ 1,600,000	$ 308,000	$ (773,000)



Historical and Estimated Receipts and Disbursements (2006 - 2011)
General Fund
$12,500,000
$12,000,000
$11,500,000
$11,000,000
$10,500,000
$10,000,000
2006
2007
2008
2009
2010
2011 Est.
$770K Funding Gap
Receipts
Disbursements

General Fund

- Accounts for 90% of the planned revenue and spending for the operating funds in 2011
- The $770,000 shortfall is a **permanent** issue
  - Supported by reviewing historical trends
  - Must be addressed in order to preserve financial position
  - No cash reserves to:
    - Absorb shortfall
    - Delay implementation of solutions

Observations

- Shortfalls underscore the need for multi-year planning
- Alignment of costs with available revenues is critical
- Rainy Day Fund *can* be utilized
  - Temporary solution to permanent problem

UMBAUGH

It's all about experience.

Now What?

- Need to develop a long-term financial plan
- Funding issues may be addressed from both perspectives
  - Revenue increases
  - Spending decreases
- Primary area of focus is the General Fund
- Total 2011 General Fund budget gap is $770,000

Explore Funding Options

Combination of Increased Revenues and Decreased Spending

Increased Revenues:

- Charges for Services
  - Permits
  - Licensing
  - Fines
  - Accident reports
  - Funeral escorts
  - False alarms
- LOIT
- Rainy Day transfers (one-time fix)

Reduced Spending:

- Review health insurance options
  - Change employee contributions
  - Change provider
- Re-appropriate line items to other funds
- Evaluate services for process improvement and cost savings
- Explore outsourcing of services
- Eliminate services
- Reduce positions

REVENUE ALTERNATIVES:

Local Option Income Tax

- Establish a public safety LOIT
  - New revenue of **$500,000**

SPENDING REDUCTIONS:

Health Insurance

- Change plan administrator
  - Estimated savings - **$100,000**
- Increase employee contributions for health insurance
  - Will generate an estimated **$50,000**
- Could create additional savings by:
  - Updating coverage eligibility
  - Changing deductibles
  - Increasing co-pays

SPENDING REDUCTIONS:

Elimination of Positions

- Eliminate recently vacated positions
  - Savings of **$100,000**

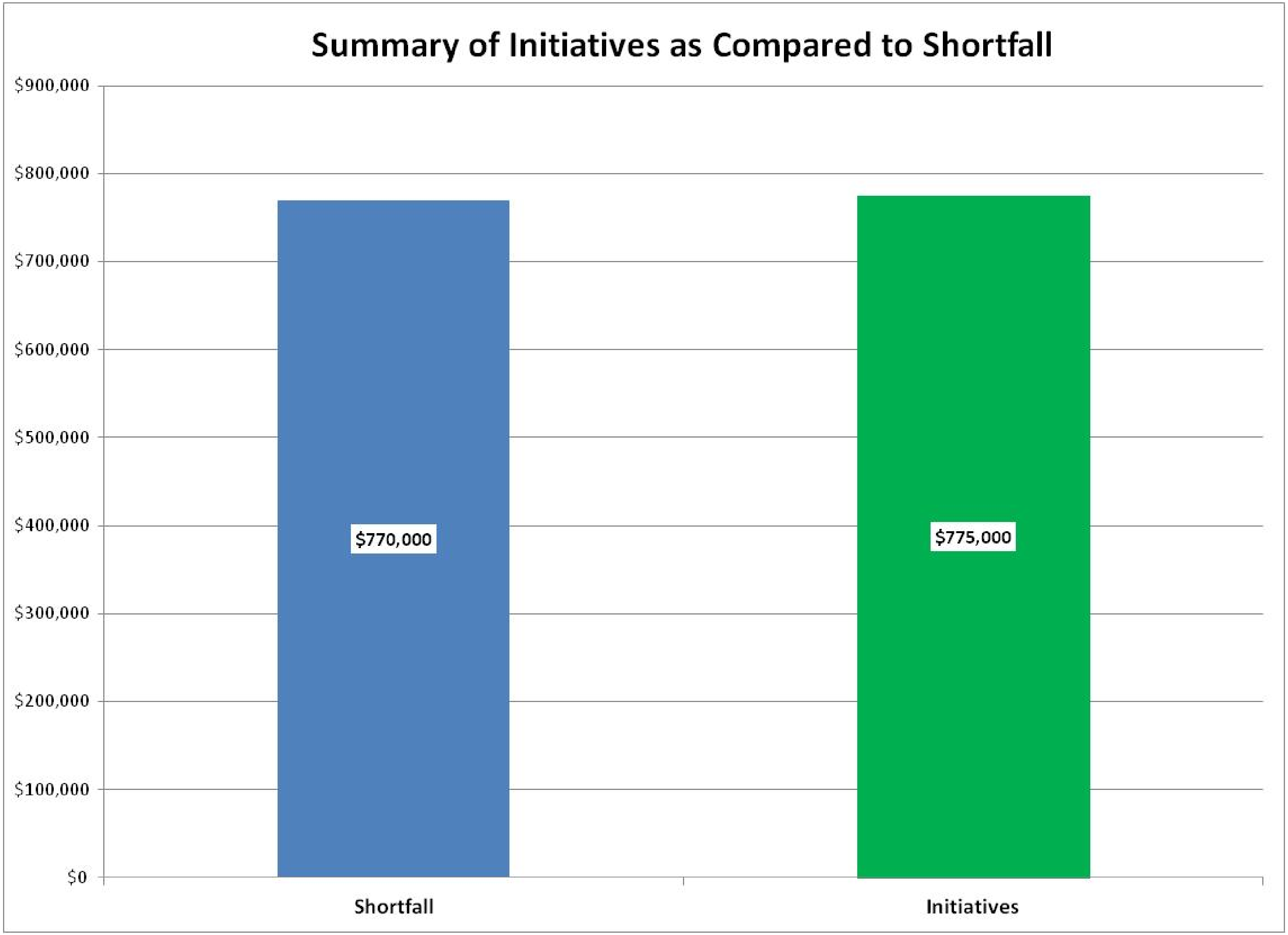
Re-appropriate Line Items

- Re-appropriate line items from General to other non-property tax supported funds
  - Savings of **$25,000**

SUMMARY OF ALTERNATIVES

Alternative	Estimated Impact
Adopt a Public Safety LOIT	$500,000
Re-appropriate line items from General to other funds	25,000
Change health insurance plan administrator	100,000
Increase employee contributions to health insurance	50,000
Eliminate vacant positions	100,000
Total	**$775,000**

It's all about experience.


Summary of Initiatives as Compared to Shortfall
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
$770,000
$775,000
Shortfall
Initiatives

Questions?

Contact Information

UMBAUGH

Paige Sansone, CPA
sansone@umbaugh.com

(317) 465-1500
www.umbaugh.com