



Budget Process Overview

By Jon Rheinhardt, Administrator/CFO, Wharton Borough; 1st Vice President, Government Finance Officers of New Jersey

The development and adoption of a municipal budget is one of the elected official's most important responsibilities. The budget is the funding tool for the various operations of a town. It is representative of the public policies of the town as a whole and how they are funded. In addition to operations, the budget document is the first step in laying out a capital program for the maintenance and expansion of the town's infrastructure and equipment. All of these funding sources are put into place balanced with the tax burden in mind. The last thing an elected official wants to do is raise taxes. However, in most cases a reasonable budget requires some form of a tax increase to keep up with other costs going up around us.

Utility costs, union contracts, non-union labor costs, health benefits, pension obligations, State-imposed costs, and many more costs all come into play when formulating the budget. Balancing these demands along with requests from your residents for additional services and the services already in place becomes a daunting task. Keep in mind that it is impossible to make everyone happy—it is part of a balancing act.

Taxes are traditionally the revenue of last resort. This means that we know what our expenses are, we know what other revenues are available to pay for those expenses, and the final funding portion is taxes.

Never-Ending Budgeting Process

The budget process is not one that begins or ends at a specific time. The budget process should be never-ending and evolves with time and information. Even though you may be done with this year's budget, you are still looking back at last year's budget to see what happened and also looking ahead to plan for what may be coming. Most towns have established a budget calendar to highlight when they hope to achieve certain things. For example, budget letters to departments requesting them to submit their budget requests could go out in August with an expected return sometime in September. These requests, along with non-departmental budgets for items such as debt, capital, health benefits, pension obligations, etc., are completed as the information becomes available. Generally all of these items should be known

around late October to Early November. The proposed budget is generally known as you enter the month of December.

The final component of the budget is the revenue portion, which is dependent upon the final amounts realized against last year's budget. The reason for this is that we can anticipate revenue up to the amount that was received in the prior year. In some cases we won't know that final amount until we have closed out the books for the year. However, there is nothing to prevent you from estimating the amount for purposes of a preliminary budget.

Temporary Budgeting

I am asked all the time why we can't have a budget done before the year starts—and what is this thing called a temporary budget. We essentially budget on a cash basis and have to know what the final numbers of the preceding year are before introducing and adopting our budgets. Fund Balance (Surplus) is an important component of our budget. This number is not known until we close out the finances for the year. The amount used to support the next budget, for the most part, represents cash. The creation of a temporary budget allows for the statutory process of introducing and adopting the municipal budget. The temporary budget also allows the municipality to meet its required obligations, such as payroll, debt service, and other expenses, until such time as a budget is adopted.

The Annual Financial Statements (Unaudited) and the Annual Debt Statements are required to be filed no later than February 10 and January 31, respectively. These documents become the basis for reviewing the proposed budget and the financial obligations and requirements that they disclose. I stated earlier that the budget could be introduced as early as January 1. In order to introduce that early these financial statements would be required to have been filed with the state before you could introduce your budget.

The above calendar assumes that the State Aid numbers are available and that the State has not issued a Local Finance Notice modifying the calendar for submission. I have intentionally stayed away from departmental budget hearings and when they occur. This is contingent upon your form of government and tradition of town. Some are done by the full governing body, finance committee only, town manager, etc.

Understanding Impacts

You may be thinking that once that budget has been adopted

Creating a Budget Calendar (Calendar Year Municipalities)

The budget can be introduced as early as **January 1**

But not later than **February 10** (or the date set by the Director of Division of Local Government Services).

This assumes that all of the financial information needed for the budget is available and filed with the state. The budget hearing and adoption occurs at least 28 days after the introduction but should not be later than **March 20** (or the date set by the Director of the Division of Local Government Services).

The 28-day waiting period allows the public to digest the budget and ask questions. The public hearing is the appropriate time and place for these questions to be asked and answered. That is not to say that the public cannot ask these questions during the waiting period.

and you have survived the public hearing that you are done. That is the furthest thing from reality. Any decision that a governing body makes with financial implications has the ability to affect the current year budget, as well as many future budgets. Passing a Bond Ordinance has future financing requirements that need to be factored into future budgets.

The Elected Perspective

As elected officials you are not required to perform these functions; that is what you have professional staff for. The Finance Officer in conjunction with the Administrator/Manager or other administrative professional staff should be looking at these impacts and advising you accordingly. Your responsibility is to understand that these decisions have

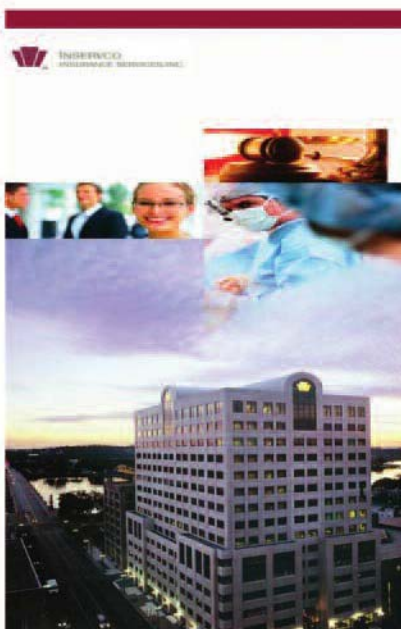
a future impact. This is not intended to scare you away from voting in favor of a bond ordinance. As you may have seen in recent news, failure to maintain municipal infrastructure has its own set of financial pitfalls that can amass quickly if not addressed.

The timing of when you adopt bond ordinances and issue debt is important when looking at your budget process. How much debt can your tax base actually afford in the current year budget is a key question. Is your debt service driving your potential tax dollars needed to balance your budget? As part of your budget cycle and planning, a good capital and debt management plan is key.

An important factor to keep in mind is that all budget and financial decisions made today will have an impact on your community tomorrow. Making sound decisions and understanding the budget process will impact your community's ongoing financial viability. ↴

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