When making a request for operating expenditures, an agency has to indicate how these items will be used to meet the mission of the agency and any new activities that the executive or legislative body may have. The agency director submitting the budget should indicate in the budget transmittal letter how the requests are tied to the goals of the agency. In addition, data showing how expenditures are tied to programs and performance is very useful. Despite the inclusion of these items, operating budgets are not examined as much as personnel budgets. The few exceptions are training and travel.

There are three basic ways to present an operating budget proposal. The first is the incremental method. An *incremental operating budget* essentially shows a modest increase in the budget due to inflation and other naturally occurring economic factors. A lot of agencies tend to use this type of budget because it links spending directly to a service or item (see Exhibit 3.7 for an example).

Also, this budget is particularly useful when there have been no new requests in the personnel budget and when there is no indication of changes in the agency. In addition, it is easy to convey the budget in this manner when the agency can show that it has efficiently and effectively pursued the mission of the agency. The incremental operating budget has four main components: an object code, item/service, current year cost, and estimated cost for the upcoming fiscal year. Where appropriate, it may also be useful to indicate the number of items requested (for example, the number of adding machines).

Exhibit 3.7 Incremental Operating Budget Proposal

Object Code	Item	FY 2014 Cost (est.)	FY 2015 Cost (prop.)
2003	Travel	$5,000.00	$6,000.00
2004	Utilities	2,569.00	3,000.00
2005	Printing	12,904.00	15,000.00
2006	Misc. Supplies	459.00	600.00
2007	Pens	245.00	300.00
2008	Paper	2,349.00	3,600.00
2009	Adding Machine	299.00	150.00
2010	Telephone	1,349.00	2,800.00
TOTAL		$25,174.00	$31,450.00

The estimates in FY 2014 should be based on the appropriation. That is, the estimate would not exceed the appropriation, but could be less based on costs as of the date of budget preparation. The agency could add an additional column with FY 2013 actual spending to give the reviewer a better trend analysis.

This method is also good to use when there is a drastic change in the cost of an item. For example, let's assume the cost of telephone usage has increased by 5% each fiscal year for the last five years and the amount for FY 2014 is a 15%

increase over the previous year (Exhibit 3.8). This increase would require a justification since it does not follow the previous trend. The same would be true for the 2015 proposed budget. Ideally, the justification would indicate what policy change or other events precipitated the increase in phone service costs. Clear crisp explanations to changes expedite the approval process (Riley and Colby 1991).

Exhibit 3.8 Police Department Program Operating Budget Proposal

Program	Travel	Utilities & Fuel	Printing	Telephone	FY 2014 (est.)	FY 2015 Request
911 Service	$79,999	$3,985	$175	$10,785	$80,546	$94,944
DARE	1,459	350	100	150	1,643	2,059
Patrol	359,999	15,899	150	987	338,456	377,035
Annual Ball	450	600	1,200	100	1,789	2,350
TOTAL	$441,907	$20,834	$1,625	$12,022	$422,434	$476,388

Justifications:

A.) DARE Program: In harmony with the Mayor and City Council's mission to expand the program into every school, we have increased the number of officers who go into the schools and the amount of information that they disseminate.

B.) 911 Service: Due to the expansion of emergency services into the newly annexed suburbs of Mt. Vernon and Taylorville, we are requesting two new patrol officers and thus need to provide them with adequate training and other amenities.

The second and third types of operating budgets are *performance* and *program budgets*. A performance or program operating budget would link the operating expenditures to performance and programs (Riley and Colby 1991; Kelly and Rivenbark 2003). Exhibit 3.7 provides a partial example of a program budget. The budget examiner should be able to look at this budget along with the justification and see exactly where and what the funds are used for.[16]

Conclusion

Personal services and operating budgets appear to be more or less operational functions. However, there is still a degree of negotiation that takes place. Positions are not always guaranteed despite arguments indicating the need. Budget personnel officers should ensure that they are meticulous with their data entry skills. A computer is only as good as the operator. It is very easy to put in the wrong number and throw off the entire budget. Budgets must balance to the last dollar. Hence, rounding errors must be minimized.[17]

Important Terms and Phrases

Accrual Accounting
Budget Estimates
Budget Projections
Capital Budget
COLAs
Fringe Benefits
Full Time Employee
Grant
Health Insurance
Incremental Operating Budget
Life Insurance
Medicare
Operating Budget
Part Time Employee
Pension
Pension Board of Directors
Performance Operating Budget
Personal Services Budget
Program Operating Budget
Retirement
Salary Range Plan
Social Security

Chapter 3 Homework Exercises

Directions: Templates for answering questions 2-5 are found in the appendix. Use Excel formulas to calculate the answers. All of the responses should be completed and/or copied and pasted into a MS Word document. Email your Excel spreadsheet to your instructor and turn in the MS Word document in class.

1. Define each of the following terms:

A. Marginal Cost
B. Recurring Cost
C. Fixed Cost
D. Up Front Cost
E. One Time Cost
F. Operating Cost

2. The city council of Jefferson City decided to create a new Tourism Department in FY 2015. The department has a director, secretary, marketing director, two van drivers, and three tourism officers. As the budget officer for the city, your job is to create a personnel budget for the department using the information listed below. Only consider the items that are listed. Read each bullet prior to beginning the assignment (See Appendix 3A).

- Complete the FTE column.
- The department director has a salary of $85,000 and is a FTE.
- The secretary has a salary of $38,000 and is a FTE.
- The marketing director has a salary of $60,500 and is a FTE.
- Each driver has a salary of $40,000 and is a FTE.
- Each tourism officer has a salary of $20,000 and works part time (PTE). Although they each work 6 months out of the year, they are paid over a 12-month period.
- FICA is 12.4% and Medicare is 2.9% for all employees. Only consider employer contributions to FICA and Medicare.
- Health insurance costs are $3,000.00 per year for each FTE.
- Each tourism officer has a clothing budget of $500.
- Each driver has a clothing budget of $750.
- Each tourism officer is eligible for 50% of the fringe benefits (health insurance premium, life insurance and pension).
- Training costs associated with each tourism officer is $500.
- Training costs associated with each driver is $800.
- Life insurance premiums are $25.00 per month for each FTE.
- Pensions are 9.5% of salary for each FTE. The city pays the full amount.

3. Prepare a salary projection report for the Jefferson City Fire Department for FY 2015 using the actual budget for FY 2014 as a model along with a budget request for two new fire fighter (2a) positions. Use the following information in

your FY 2015 Salary Projections and budget requests (see Appendix 3B). Note that the budget has the number of employees in each position grade rather than listing each employee. Also, you should calculate the total cost of employment for each staff person.

- The salary of the chief increased 7% while everyone else received a 5% increase.
- FICA is 12.4% and Medicare is 2.9% for all employees. Only consider employer contributions to FICA and Medicare.
- The cost of health insurance increased 5%.
- The cost of uniforms increased 2%.
- The fire fighter's pay range is $30,000.00-$40,000.00. You will pay the new fire fighters (2a) $35,000.00
- The new fire fighters (2a) will receive the same benefits package as the other FY 2015 employees.
- Cost of training the new fire fighters is $2,000 per employee.
- The pension rate in FY 2015 is the same as it was in FY 2014.
- The clerical staff member works a half day schedule 12 months per year (.5 FTE).
- Complete the FTE column.

4. Three employees are retiring from Jefferson City. Your job as the human resource officer is to calculate their pension payments using the following information. Use the model in Exhibit 3.1 to assist you in completing this problem. Calculate: Total % value PP, Average Final Compensation, Annual Benefit, and Monthly Benefit. Turn in the short version Excel worksheet to your professor (See Appendix 3C).

Employee 1 Eboni Harris

- Has 31 years of service and is 63 years of age.
- 5 highest years of salary are: $18,904; $19,398; $20,198; $22,239; & $24,908.

Employee 2 Cortney Richardson

- Has 32 years of service and is 64 years of age.
- Five highest years of salary are: $28,504; $29,698; $30,798; $32,839; & $34,508.

Employee 3 Jordan Moore

- Has 34 years of service and is 69 years of age
- Five highest years of salary are: $47,904; $49,899; $53,678; $55,742; & $57,108.

5. As the budget officer for the Roan State Prison you have to prepare the FY 2015 Operating Budget projections for the Security Division based on the FY 2014 budget estimates. Below you will find one portion of the budget history for the prison. Here are a few facts that you should know about the prison when preparing the operating budget. First, there are thirty staff members in the division. Twenty-eight of the staff persons are equal in rank (guards). The warden, budget officer and secretary are the last three staff members. Other than what is stated, why do think these changes occurred (see Exhibit 3.5)? Be rational and creative in your responses and justify the changes. Use bullet points to relay your justifications. Round all of your projections to the nearest dollar amount. Hint: You can round numbers in Excel using the round function as well as the "Decrease Decimal" function in the "Home" tool bar.

- Ten of the guards need training. Thus, training cost will increase by 44%.
- Energy costs are expected to rise 20% due to changes in global oil and gas prices.
- The cost of printing, pens, and pencils decreases by 2% from FY 2014.
- The cost of paper will increase by 5%.
- Telephone costs are expected to increase 3%.
- No new adding machine, but we need a new printer which will cost $500.00.
- Miscellaneous supplies will increase 25%.

Roan State Prison Security Division
Operating Budget

Object Code	Item	FY 2013 (act.)	FY 2014 (est.)	FY 2015 (proj.)
2004	Training	$30,000.00	$34,500.00	
2005	Utilities	13,550.50	15,176.56	
2006	Printing	9,500.00	10,925.00	
2007	Misc. Supplies	960.00	1,200.00	
2008	Pens and Pencils	150.50	155.02	
2009	Paper	3,800.00	4,999.00	
2010	Adding Machine	376.00	189.50	
2011	Telephone	4,200.50	4,347.52	
2012	Printer	0.00	0.00	
TOTAL		$62,537.50	$71,492.60	

6. Optional In-Class Assignment: Defending Budget Justifications (45 minu exercise)

A. *Before Class Assignment*: Each student should address the follow proposal: The Warden of Roan State Prison wants to expand the number guards by five and create an assistant warden position within the prison. He requested that you, the prison budget officer, write the justifications for positions. Using the information in the chapter on "Justifying a New Position write a justification for the six positions. You should include a brief narrati describing the positions (guards are equal in rank) and their basic duties. The using at least five bullet points, describe why they are needed.

B. *In-Class*: Split the class into groups of four or five and have each pers summarize their justifications in no more than five minutes. Each student shou bring four additional copies of their response to distribute among the grou members. When all of the group members are finished, a group justificati should be created and presented to the class.

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Appendix 3A Jefferson City Tourism Department

Position	*FTE*	*Salary*	*SS*	*Medicare*	*Pension*	*Health*	*Life Ins*	*Training*	*Clothing*	*Grand Total*
Program Director										
Secretary										
Marketing Director										
Driver										
Tourism Officers										
Total										

Appendix 3B Jefferson City Fire Department
Personnel Services Budget

FY 2014

Position	FTE	Salary	SS	Health Ins.	Pension	Medicare	Uniforms	TOTAL
Chief	1	$87,000.00	$5,394.00	$2,160.00	$17,400.00	$1,261.50	$750.00	$113,965.50
Shift Commander	3	150,000.00	9,300.00	6,480.00	30,000.00	2,175.00	2,250.00	200,205.00
Fire Fighter 1a	12	420,000.00	26,040.00	25,920.00	84,000.00	6,090.00	9,000.00	571,050.00
Fire Fighter 1b	26	650,000.00	40,300.00	56,160.00	130,000.00	9,425.00	19,500.00	905,385.00
Clerical (PT)	0.5	45,000.00	2,790.00	0.00	9,000.00	652.50	0.00	57,442.50
TOTAL	42.5	$1,352,000.00	$83,824.00	$90,720.00	$270,400.00	$19,604.00	$31,500.00	$1,848,048.00

FY 2015

Position	FTE	Salary	SS	Health Ins.	Pension	Medicare	Uniforms	TOTAL
Chief								
Shift Commander								
Fire Fighter 1a								
Fire Fighter 1b								
Clerical (PT)								
TOTAL								

New Position
Budget Request

Position	FTE	Salary	SS	Health Ins.	Pension	Medicare	Uniforms	Training	TOTAL
Fire Fighter 2a									

GRAND TOTAL ALL POSITIONS **FY 2015**	**FTE**	**Salary**	**SS**	**Health Ins.**	**Pension**	**Medicare**	**Uniforms**	**Training**	**TOTAL**

Appendix 3C

Eboni Harris

Step 1: Creditable Services and Percentage Value

	% Value Per Years of Service	Total Years of Service	Total % Value Per Plan (TVVP)
Retirement up to age 62 or 30 years	1.60%		
Retirement up to age 63 or 31 years	1.63%		
Retirement up to age 64 or 32 years	1.65%		
Retirement up to age 65 or 33 years or more	1.68%		

Step 2: Average Final Compensation (AFC)

AFC =

Step 3: Monthly Benefit Calculation

AFC x TVPP = Annual Benefit

AFC x TVPP = Annual Benefit / 12 = Monthly Benefit

Chapter 2

Preparing a Budget Proposal

Chapter Two Overview

Chapter two of the book deviates from the basic budgeting terms, phrases and devices that you learned in chapter one. In this chapter you will focus on preparing a budget. On the surface, this may seem to be an easy task. However, budgeting is not as simple as it appears. For instance, at any given time, a state or local government may be working on three separate budgets: the current year, previous year, and the up-coming fiscal year. This process requires the cooperation and efforts of a lot of individuals and agencies, including various groups and individuals that may have completely separate agendas.

The chapter begins by first examining the budget cycle and the various phases that it goes through. This section is followed with an analysis of the individuals involved in the budget process. The chapter ends with a discussion of determining agency needs and writing agency policy statements.

Budget Cycles

Repetition of events essentially drives the *budget cycle*. A budget cycle is a period of time in which the budget has to be prepared and executed. This cycle or system ensures greater accountability for decisions. It also allows decision makers to modify the budget for greater *efficiency* and *effectiveness*. The budget cycle has three phases: executive preparation, legislative approval, and budget execution. However, there is also an audit/evaluation phase that occurs after the execution phase.

Phase 1. *Executive Preparation*: The chief executive of a state or local government is the one person who sets the tone for the policy issues that are addressed during the budget preparation phase. Guidelines are generally prepared by the chief budget/fiscal officer and given to agencies laying out key issues that will be addressed for the upcoming budget year, along with the timetable for submission. These would include items such as: policy priorities and proposed new legislation affecting the budget. A good budget should be very comprehensive in describing anticipated revenues and proposed expenditures, provide accountability for spending, avoid *earmarking funds* which could hinder new priorities, and indicate the purpose for new spending and the desired result (Kittredge and Ouart 2005; Musell 2009; Mikesell 2011). Agencies in turn use this information when preparing their budget requests. In addition to preparing spending requests, agencies that have dedicated funding sources, such as federal grants, licenses and permits, and charges for services, provide estimates of revenue for the forthcoming budget year in their submission.

These requests are then forwarded to the chief executive's budget office to be reviewed and analyzed. Often, hearings will be held with the agency to clarify the budget request. The chief budget/fiscal office is responsible for the preparation of revenue estimates, particularly for the General Fund. In analyzing the requests, the revenue that will be available is a key factor during the internal budget deliberations. More often than not, the sum total of the budget requests for the General Fund exceeds the available revenue. As a result, decisions have to be made regarding the amount that will appear in the budget submission for each agency. It is not uncommon for department heads to be upset with the final recommendation. Some will try to get more money by lobbying the legislature/council, or will use special interest groups for that purpose.

Many state and local governments are legally bound to have a balanced budget pursuant to state law, local charter, or ordinance. The problem with most balanced-budget legislation is that it does not specify what "balanced" means. Usually, it is on the budget basis, which is most often cash. A cash budget can be manipulated by simply not paying bills at the end of the year. If the budget has to be balanced on the modified accrual basis, then more discipline is added to the process since liabilities cannot simply be passed on into the future. Some balanced budget laws state that revenues have to equal expenditures (without stating the basis that is to be used). This means that available balances are not able to be used to fund a deficit.

Once the requests have been received and analyzed, they are assembled into a single document. The budget is then submitted to the legislative body and also released to the public. Some governments prepare a budget-in-brief, which is intended for the citizens. It contains summaries of the requests along with an explanation as to what will be accomplished during the upcoming year.

Phase 2. *Legislative Approval*: Similar to other legislation, a legislative body has to approve the budget. The chief executive forwards the budget to the legislative body and when it approves the document, it has the force of the law. This process seems very simple, but in reality it is not. Negotiations between the executive and members of the legislature or city council are very common. In some cases, these negotiations can be very stressful given partisan differences. Party politics plays a smaller role at the local level when compared to the federal and state governments (Smith and Lynch 2004; Musell 2009).

For every state except Nebraska (which only has one house), the budget is submitted to the lower house, similar to the process used by the federal government. The Finance Committee is in charge overall. However, other committees will be involved. For example, the Transportation Committee will hear the request for the Department of Transportation. After they conclude the hearing, the recommendation will be forwarded to the Finance Committee. During the course of the hearings, many parties will comment on the request. The department head will provide an overview of the request. Public interest groups will offer their comments as well. Most states have legislative budget offices that provide projections independent of the executive, which are used by the legislature in formulating the appropriations. Once the lower house completes its hearing, they vote on the measure. It is then sent to the upper house (Senate), and the process starts all over again. Once the upper house completes its process, more often than not changes are made from the version passed by the lower house. As a result, a conference committee is formed with representatives from both houses. The responsibility of the conference committee is to come up with a single appropriation act that is acceptable to both houses. Although it is desirable to have the budget passed before the start of the next fiscal year, it often does not pass quickly because of political differences. In that case, a *continuing resolution* is passed, so that government can operate while the problems are worked out. Eventually, an appropriation act is passed and sent to the governor for signature. Many governors have the ability to use a line-item veto, by which specific appropriations can be vetoed. The legislative body has the ability to override the veto if it can muster the necessary votes.

The process is much simpler in local governments. The legislative body is the council, board, or commission. The executive branch still presents information regarding the request. The public and special interest groups still have the ability to testify and offer ideas. Eventually, an appropriation ordinance is passed and signed by the chief executive officer. Many local governments have charter or ordinance provisions that require the budget to be enacted before the start of the fiscal year.

Phase 3. *Budget Execution*: At the beginning of the fiscal year, agencies carry out or execute their approved budgets. Spending is monitored by the agencies and the executive budget office in order to ensure that appropriations are not overspent. This is usually done through the use of accounting software that is designed to ensure that spending is within the authorized amounts or allotments. This process helps to ensure that agencies do not spend all of their funds in the first month or quarter of the fiscal year (Musell 2009). Monthly, quarterly, and midyear budget reports are issued so that comparisons can be made between appropriations, actual revenue received, revenue projections, and actual expenditures (see Appendix 2A for an example). If revenue projections are off the target, modifications should be made to ensure that the budget is balanced. Budget short falls can cause serious operating and personnel problems for agency heads (Nice 2002; Smith and Lynch 2004). Many state and local governments have legislation that requires the chief executive officer to take action to reduce spending if revenue projections are not met.

Most states and large local governments use an allotment process to help control the budget. At the start of the year, each agency is required to allot the annual appropriation by quarter. This, in effect, means that agencies are managing quarterly budgets. Another budget control tool is the *encumbrance*. When an agency enters into a contract or purchase order, an encumbrance is established setting aside that amount so that when the goods and services are received, funds are available to pay the bills.

Audit/Evaluation Phase: The purpose of this phase is to determine if the budget was executed and implemented by the bureaucracy in the manner that was set forth in the legislation (Nice 2002; Musell 2009; Mikesell 2011). That is, does the approved budget and actual budget match up? An audit occurs after the fiscal year has ended and can be done internally and externally. Individuals working within the agency conduct *internal audits*, and *external audits* are done by paid professionals outside of the organization. Audits vary according to the type of budget that is used by agencies. Generally speaking, there are two types: financial and performance. A *financial audit* checks to ensure that an agency's financial statements fall within the principles of GAAP and gauge whether an agency has followed the laws and statutes regulating its spending.

A *performance audit* concentrates its efforts on efficiency and effectiveness, by examining procurement, duplication, utilization of staff, legal compliance and measuring and reporting performance (Solano 2004; Smith and Lynch 2004; Lee, Johnson and Joyce 2008). Basically, what was accomplished with the funds that were spent? There are two types of performance audits: economy and efficiency, and program audits. *Economy and efficiency audits* determine whether the governmental unit is acquiring, protecting, and using its resources economically and efficiently and whether it has complied with laws and regulations on matters of economy and efficiency. *Program audits* determine the extent to which desired results are being achieved and whether there are related compliance issues. There are also *single audits* that concentrate more closely on the expenditure of grant resources than do other types of audits. A single audit is required by the federal government for all state and local governments that have $500,000 or more in federal grant awards and requires auditors to test to see if grant provisions are being followed.

Pariser and Brooks (1997) highlight some generally accepted government auditing standards that administrators should have in place as a follow up to determine the effectiveness of the audit. That is, were the recommendations followed and did they achieve desirable results? They suggest that the following bulleted items should be included in an audit recommendation follow up system (p. 337).

- Firm policy basis for following up on audit recommendations

- Organizational commitment to implementation
- Evaluation of recommendations including budgetary and organizational impact
- Clear assignment of follow up responsibilities
- Preparation of corrective plans
- Special attention to key recommendations
- Periodic review to evaluate the adequacy of actions taken on recommendations
- Preparation and distribution of periodic status reports
- Use of status reports for oversight and management evaluations

Further, management should be fully committed to implementing the suggestions from the audit and this should be evidenced by formal policies or a procedures manual that describes the details of the audit recommendation follow up system as well as securing individuals to be responsible for implementing the recommendations.[9]

The Budget Calendar

Since state and local governments work around a fiscal year, budget approval has to occur prior to the beginning of the fiscal year. The beginning of the budget cycle differs for most states and cities. For 46 states, the fiscal year begins on July 1st and ends on June 30th. Exhibit 2.1 provides a summary of the various budget periods.

Exhibit 2.1 Budget Fiscal Years

Government	Fiscal Year Beginning
U.S. Federal Government	October 1-September 30
46 States	July 1-June 30
2 States	October 1-September 30
1 State	September 1-August 31
1 State	April 1-March 31
Local Governments	Variously January, July, September, October

Source: Lee, Robert, Johnson, Ronald, and Joyce, Phillip, 2008. *Public Budgeting Systems*. 8th Edition. Jones and Bartlett Publishers Inc, Sudbury, MA. Mikesell, John L. 2011. *Fiscal Administration: Analysis and Applications for the Public Sector*. 8th Edition. Wadsworth Cengage Learning: Boston, MA.

A lot of local governments begin the fiscal year in January, July, September and October. The federal fiscal year is October 1st through September 30th.

Exhibit 2.2 shows the budget time frame for the city of Franklin. Although fiscal year (FY) 2015 begins on July 1, 2014 for the city, the process began officially on March 12, 2014. At this point, the city makes the final adjustments to close out the FY 13 budget while they are in the FY 14 budget season. So, they are in affect managing three budgets simultaneously. By establishing exact dates and times for forms and meetings, it brings a lot of order to the process. Unless something out of the ordinary occurs, agency personnel and elected officials tend to stick to the set times frames.

Exhibit 2.2 City of Franklin Budget Timetable, FY 2015

1. March 12, 2014, Audit & Finance Committee meets to finalize time table with agencies and departments on budget request.

2. March 13, 2014, Send out notices to agency heads that deadline to submit appropriation request will be Friday, March 31st.

3. March 30, 2014, Deadline for Agencies, Boards and Commissions to submit budget proposals to CAO for copying for elected officials.

4. April 9, 2014, A&F Committee Meeting. Preliminary revenue Projection and summary spreadsheets of requested expenses submitted to Mayor and Audit and Finance Committee from CAO and Financial Director.

5. April 16-20, 2014, Agency and Department Appropriation Hearings before Audit and Finance Committee.

   April 16th (Monday): Agencies-7:00 to 10:00 a.m.
   April 18th (Wednesday): Agencies-7:00 to 10:00 a.m.
   April 20th (Friday): Departments-6:00 to 10:00 p.m.
   - Public Works-6:00 to 7:00 p.m.
   - Police Dept.-7:00 to 8:00 p.m.
   - Fire Dept.-8:00 to 9:00 p.m.
   - Administration Dept.-9:00 to 10:00 p.m.

6. April 23, 2014, A & F Committee Meeting. Final revenue Projections submitted to Mayor and Audit & Finance Committee. Mayor and Committee discuss budgetary emphasis and priorities, and agree on strategy to handle revenue shortfalls, request overruns, etc.

7. May 7, 2014, MRA/LGEAF Budget Hearings held as required by state law.

8. May 21, 2014, Mayor's Budget and Budget Message presented to Council.

Mayor usually delivers his proposed budget at a special called meeting late in the month.

9. June 4, 2014, First Reading of the FY 15 Budget Ordinance.

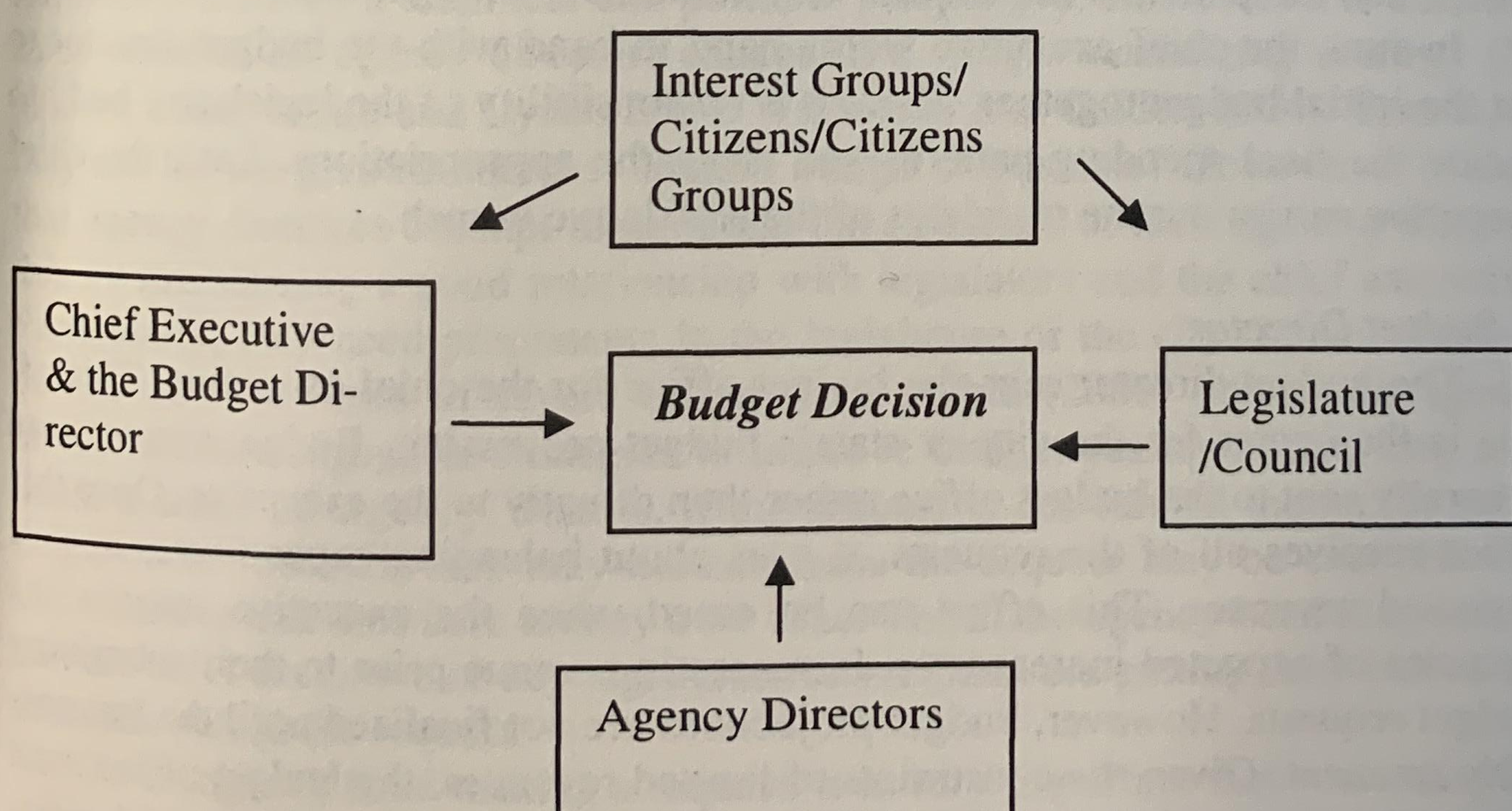
10. June 18, 2014, Second Reading of FY 15 Budget Ordinance.

11. June 20-30, 2014, Publication of FY 15 Budget Ordinance.

The Budget Game

Making budgeting decisions can be a very complicated process given the number of individuals involved and their ideas and goals. In an executive budgeting system, the chief executive plays the major role in the budgeting process. That is, he/she initiates the process. However, there are a number of others involved in the process as well, including the budget office, legislature, and agency directors. In addition, there are some non-governmental actors that can play a role in the process such as interests groups and individuals (Rubin 2006). All governments however do not use an executive budgeting system.

Figure 2.1
Actors and Budget Decisions



County governments tend to have administrators, auditors, or someone in the legislative branch prepare the budget. Some states have legislative budget offices that expend enormous amounts of energy and paperwork on the budget (Lee, Johnson and Joyce 2008). Under normal circumstances, the word game and government would not go together. These two terms tend to go hand in hand at the state level and in very large cities when it comes to devising the budget.

Budgeting is a bit more bureaucratic in smaller governments. However, when one considers the entire decision making process, it does display some of the same characteristics of a game. Players/decision makers use strategy and sometime they win and sometime they do not. Policy makers render decisions that are good and bad for certain individuals and agencies. Figure 2.1 illustrates the four main actors involved in the process as well nongovernmental actors (Bland and Rubin 1997; Smith and Lynch 2004; Rubin 2006; Mikesell 2011).

Budget Actors

1. *Chief Executive*

The chief executive is the only person responsible for the entire institution of a particular governmental entity. As a result, executives try to ensure that spending is done as harmoniously as possible in order to satisfy the greatest number of individuals and agencies. The executive, via the *budget director*, initiates the budgeting process and is responsible for sending letters to the various agencies informing them of important dates and deadlines for information.[10] Although the chief executive may appoint agency heads, this relationship may not be as friendly as it appears. The executive has the option of saying no, and does so frequently. You must also consider the role of interests groups, citizens, and citizen groups. Mayors, governors as well as legislators and councilmen are frequently bombarded with requests that may impact budget decisions. Given the nature of their position, they cannot ignore the existences of these external groups and the potential impact that they could have on their electoral fortunes.

In sum, the chief executive works hand in hand with the budget director to put the initial budget together. Then, it is responsibility of the legislative body to decide the final spending patterns and enact the appropriations. Last, the chief executive carries out the mandates of the legislative branch.

2. *Budget Director*

The budget director runs the budget office for the chief executive. This office is the center for the city or state's budget processing. Budget requests are generally sent to the budget office rather than directly to the executive. Once this office receives all of the requests, it goes about balancing expenditures against expected revenues. This effort can be eased when the executive informs the agencies of expected increases or decreases in revenue prior to their submitting budget requests. However, budget projections are not finalized until the last possible moment. Given the constraints of limited revenues, the budget office must ensure that items of high priority, as deemed by the chief executive and legislative body, be provided for. However, this process can cause a lot of friction between the budget office and the agency directors. Although there are many different reasons why an agency may be denied funding for some program, common reasons would include the following: 1.) Items were not adequately justified; 2.) The money is not available; 3.) Items do not fit the goals and objectives of the agency; and 4.) Items are not in harmony with the executive's priorities (Bland and Rubin 1997; Smith and Lynch 2004; Kittredge and Ouart 2005; Mikesell 2011).

3. *Legislator/Council Member*

This group of persons is responsible for approving the budget. They are always looking for an opportunity to bring in programs and projects that will benefit their constituents. Most legislators/councilmen do not have a good grasp of the budget process from a micro perspective. This is not necessarily a bad thing given their role in the budget process. They are often given dense information with little time to react to it. As a result, they tend to center their efforts on their individual pet projects. Legislators on powerful committees and party leaders can use their influence to secure pet projects a lot easier than less senior legislators. Unlike the chief executive, the decisions made by legislators and councilmen are more likely to be impacted by interest groups, citizens, and citizen groups.

4. *Agency Directors*

Agency directors head the various departments within the *bureaucracy*. These departments provide the services that affect the well-being of the citizens. Since their efforts gravitate towards the individuals that they serve and the agency's goals and objectives, agency directors are constantly defending their budget requests from both a technical and political perspective. However, it is not clear as to whether all agency directors engage in a *budget maximizing strategy* (Sigelman 1986; Smith and Lynch 2004; Wildavsky and Caiden 2004). That is, do they ask for the greatest increase in their budget as possible? However, it is clear that agency directors attempt to maintain the existence of their agency. They do this by maintaining a good relationship with legislators and the chief executive. Particularly, they need proponents in the legislature or the city council that will defend them in times of severe budget cuts. Rubin (2006) points out, agency directors often engage in strategies to improve budget passage. First, they may instill a sense of urgency. That is, if the request is not funded then x, y, and z might occur. Second, they may indicate how the request may be cost efficient and effective and thus save money over time. Third, the agency head may ensure that the chief executive or key legislators/councilmen are getting their individual demands met in the request.

As an agency head making a request, it is very important that you articulate the needs of the agency in a manner that is clear and understandable to those who can control your budget. Therefore, you must connect the goal and objectives of your proposal to the needs of citizens and desires of politicians. These goals and objectives must also coincide with easy to understand performance measures that you must include in your proposal.

Agency Roles Expanded

While requesting budget statements from an agency, the budget office project revenue collections for the up-coming year based on available data (previous tax collections, inflation, interest rates, population movement, etc.). This increase (or decrease) is compared with the *baseline* for agencies to continue at their current rate and the new demands brought on by new legislation and priorities that have been set by the chief executive. If there are gaps between expected revenues and expenditures, the chief executive (first line) and the legislative body (second line) have to decide where cuts should be made to compensate for the disparity.

In most cases, budget requests are denied rather than raise taxes. As a result, each agency has to essentially defend its budget in a formal hearing. In preparing for a hearing, each agency should submit to the budget office a narrative explaining the purpose, goals and objectives of the agency, a budget request, and a detailed explanation justifying new requests. This would include items such as a request for a new employee. It is much easier for an agency to defend spending new monies when they can show that it fits the goals of the agency, the mission of the chief executive, and the priorities set by new legislation. If an agency cannot elaborate in detail why it needs to expand a program or hire a new employee, it will be extremely difficult for that agency to receive new funding during a period of budget constraint. A request for spending is not limited to one occasion. An agency may request additional funding during the course of the fiscal year (Smith and Lynch 2004; Solano 2004; Mikesell 2011).

Justifying and Defending the Budget

Ideally, the best news for an agency is to find out that their entire budget was approved. Unfortunately, agencies frequently find that the chief executive and the legislative body demand more services with less money. Rarely is a budget completely funded without some changes. As a result, it is imperative that agency heads are completely prepared to justify their budgets. If they are not prepared, they may quickly find the agency on the short end of the revenue stick. Hence, agency heads must know how to sell their budget.

The phrases *political budget* and *technical budget* are two methods that characterize the process. Generally speaking, all budgets are political in nature given that government is political. However, some budget processes are more political than others. Likewise, all budgets should be technical in nature. That is, contain budgetary facts. However, the stance used to sell the budget can vary. A description of political and technical budgets is explained below.

Political Budgets

An agency director who uses a political budget strategy plays the political game. Rather than concentrate on the numbers, they use other slight-of-hand tricks in an effort to out-maneuver the politicians. Wildavsky (1979), Meyers (1999), Rogers and Brown (1999) and Wildavsky and Caiden (2004) offer sev- eral budget maximizing strategies that an agency director may employ. Using these methods are not sure fire methods to selling your budget. Policy makers are not ignorant of these "tricks".

- Cultivate a clientele in the legislative and executive branch.
- Serve a specific clientele and encourage them to contact their elected officials and sing your praises.
- Build confidence in your agency by not covering up bad deeds.
- Cut or eliminate programs that are popular with complete knowledge that they will be reinstated.
- Shift the blame of cutting the program onto the policy maker.
- Combine new programs with old programs so that they do not appear as new programs.
- Argue that new programs are modified old programs.
- Lower the budget levels for new programs with the assumption that you will get more funds later.
- Maintain your baseline and use the funds for other purposes.
- Argue that some of your expenditures are short term.
- Study the political scene and use crisis to expand or create new services.
- Show how expenditures will save money later.
- Show how a program will pay for itself in user charges.
- Use workload data to build up the budget base.

There are no guarantees that these or any other strategies will work. Agency directors should assess the political environment and proceed from there. If revenues increase, it may be easier to use the technical strategies. In some cases, legislators and executives may take it upon themselves to cut or limit agency programs despite the efforts of the agency director. In some cases, they may simply cut a program. This is particularly true when resources are limited. In fact, legislators and council members may quickly find that their pet projects will disappear. It is a lot easier to cut a program that is utilized by one district rather than the entire jurisdiction (Meyers 1999; Swain and Reed 2010; Mikesell 2011).

Technical Budgets

A technical budget concentrates on the numbers or budgetary facts. Expenditures can be split into two categories: mandatory and discretionary spending. A baseline (Base) is a technique that can be used in both categories.

Mandatory expenditures are reflected in state and local law. That is, the agency is legally required to conduct the service. These expenditures include: salaries, FICA, pensions/retirement, unemployment compensation, and any other legal obligations. While there are always questions surrounding how many employees are actually needed to provide services, eliminating an employee or cutting the personnel budget is the last thing that a politician wants to do. Under normal circumstances, elected officials honor mandatory spending.

Discretionary spending constitutes the smallest part of the overall budget. These funds often only represent increases in the budget and are sought by everyone. While not necessary for the general operation of the agency, these funds will allow the agency to expand services and operate more efficiently and effectively. Due to limited funding, agency heads should put a lot of effort into justifying spending. Data indicating population shifts, economic up swings, legal requirements are all useful in justifying new positions and an expansion in services (see also Le Loup 1977; Lee, Johnson, and Joyce 2008).

Base expenditures are expenditures that an agency needs to maintain the same level of services. This includes operating expense items such as office supplies, printing, equipment, utilities, vehicles, tools, and other related items. Agency directors can justify these items using previous year budgets, the current year's budget, ongoing projects, or projects for the upcoming year. In any case, the director should be able to justify the request given any change in the amount of the request. This would include an increase or decrease in any part of the budget. By highlighting productivity, a budget is much less likely to be cut.

Key Components of the Budget Proposal

The budget proposal has several key components and the agency staff must be prepared to defend every portion of the budget. Below is a short description of the key parts of the budget proposal.

A. *Project Title*: Believe it or not, a name does matter. One should spend a few minutes thinking about the label that captures the essence of their project. The title of the project should capture the interest of the reader as well as offer a very brief description of the project in five or fewer words. For example: Working Together to End Homelessness

B. *Description and Rationale*: This section of the budget is the beginning and the end to the success of your budget. It should describe what you are trying to accomplish and why it is needed in as few words as possible. For example, a rationale could be as simple as saying: We need a homeless shelter because the number of homeless people has increased by 50% since the electrical plant closed and the city wants to increase and expand employment opportunities.

C. *Objective Justifying the Need*: Objectives emanate from the description and the rationale. Objectives related to the homeless theme could include:

- The city wants to improve tourism in the downtown area. Therefore, we must eliminate people sleeping on benches, in alley ways and in front of businesses.
- The city can provide educational and job training and/or retraining at the homeless shelter.
- Statistics show that a fair number of homeless people are engaged in illegal activity in the downtown area. Hence, we can reduce the crime rate as well as pan handling.

D. *Budget and Budget Description*: The budget as a set of numbers is fairly straight forward, but the description, should be direct. That is, briefly describe who or what you need in order to accomplish your goals. For example, it is reasonable in the example above to expect that someone has to manage the homeless shelter, provide training and educational materials. Thus, you will need staff as well as computers, desks, printers, etc to manage the facility. So, these persons and items should be highlighted in the description.

E. *Measures of Success*: This is also a critical part of the budget proposal. The measures of success must be tied to the theme and objectives provided in the previous sections of the budget. For example, measurement for our homeless theme could be:

- We expect to lower the number of people sleeping on benches in the downtown area by 50% during the first year.
- We expect to train and find jobs for 50 people during the first year of operation.
- We will provide housing in a safe environment for 100 men and women in the first year of operation.
- We will seek external funding to enhance our budget.

Councilmen and legislators are looking for a reason to deny your budget, particularly during periods of revenue shortfalls. So, you should make sure that your budget proposal is clear, concise, and answers more questions than it raises to the reader.

Conclusion

By now the reader should have concluded that preparing a budget is an arduous task. While there are time frames established to make the process logistically more efficient and effective, any number of problems may come up. In fact, establishing the time frames may be the easiest part of the process. Unfortunately budget decisions are not always technical in nature. Budget games are real and are played throughout the fiscal year. If an agency wants to achieve the most for the organization, the wise decision is to be completely prepared to argue for the political or technical budget.

Important Terms and Phrases

Audit
Baseline/Base Expenditures
Budget Calendar
Budget Cycle
Budget Game
Budget Director
Budget Execution
Budget Maximizing Strategy
Bureaucracy
Chief Executive
Discretionary Spending
Earmarking Funds
Efficiency
Effectiveness
Economy and Efficiency Audits
Encumbrance
Executive Preparation
Evaluation
External Audit
Financial Audit
Hearings
Internal Audit
Legislative Approval
Mandatory Spending/Expenditure
Performance Audit
Political Budget
Program Audit
Stakeholders
Single Audit
Technical Budget

Chapter 2 Homework Exercise

Directions: Please read the entire assignment prior to beginning the assignment. You will need an electronic copy of the Original Agency Budget Request Form, the Revised Agency Budget Request Form, several sheets from a city or state budget, and the Evaluation in order to complete this assignment. Despite the fact that the budget request forms are one page in length, you are free to expand the individual sections to accommodate your needs up to two pages.

Step One: Outside of Class Homework

First, each student should obtain a line-item or a program budget for an agency/department, within a city, using the internet or by going to a local city and requesting a hard copy of the budget (see Appendix 1F & G in chapter 1). After you locate the budget, select an agency/department that you feel comfortable writing a proposal for a new activity or function. Make a copy of the first two pages of the agency/department budget and turn it in with the rest of your assignment.

Second, using the *Original Budget Request Form* that is provided at the end of chapter two, determine how you (the Agency Director) can improve that agency/department by adding a new activity or function to the agency. For example, you could create a new Child Care Program within the Department of Human Services for the City of Jonesboro.

After you decide whether to add a new program or function to the agency/department, you should type your responses on the *Original Budget Request Form* in the book or use a word processing program to duplicate the *original budget request form* and type in your information. Remember, your job is to convince others that you have a good idea. So, sell the idea. You are limited to a maximum of $400,000.00 in your initial request. You cannot use outside funding from other sources.

Note: The brief description (text, not the dollar amounts) of future year cost should only address substantive increases in your request. It is assumed that inflation and other factors will drive incremental changes in your budget. Only address major increases in this section. Your entire budget proposal should not exceed two pages

Provide your instructor with a copy of the pertinent sections from the city or state budget that you retrieved and a copy of your original budget request form. You will need *three or four additional copies* of your original budget request form for the second step of the assignment.

Step Two: In Class Games

As pointed out earlier, there are four main individuals/groups involved in the budget process. Hence, the class should be split into groups of four or five. If someone is left out, he or she can be assigned the role of a council member and added to any particular group. Each person in the group will defend his or her budget request from the role of agency head while the remaining group members will assume the other roles. Given what has been stated about each one of these actors in the text book, decide whether to approve each budget request.

The blank *Revised Budget Request Form* can be used to make notes of any changes requested by your group members. The original unmarked and revised budget request form should be turned in to the instructor at the close of class. Each agency director has a maximum of ten minutes to defend his or her budget request to the group and ten minutes to answer questions after the other actors have reviewed the budget request. When the time limit has expired, the three or four members will vote yea or nay to approving the budget based on the quality of the budget and the quality of the responses to the questions. Your grade is not determined by whether or not your budget is approved by your group, but by the quality of your work.[11]

Step Three: Selection the Best Proposal

Each group should choose one budget that was "the best". This budget should be briefly presented to the class.

Step Four: In Class Evaluation

When you have finished discussing each of the budgets in your group, complete the *evaluation form*. When everyone in the class has completed this process, and as time allows, individual agency directors can provide the entire class an overview of their project and its ultimate outcome.

Step Five: Completed Assignment

Give your instructor the following items:

1. Original Budget Request Form (Do not write corrections on this form).
2. Revised Budget Request Form (Only include the items that you changed).
3. Evaluation (Completed)
4. The Budget sheets that you used to create your new program.

Agency Budget Request Form (original)

Agency:

Agency Director: Date:

Requested Item/Title of Program:

Description and Rationale for Item/Program:

Objectives Justifying the Need:

First Year Cost and Brief Description:

	Cost	Description
A. Personnel:		
B. Supplies:		
C. Equipment:		
D. Capital Outlay:		
Total Cost $		

Proposed Future Year Cost:

	FY 2	FY 3	FY 4	FY 5
A. Personnel:				
B. Supplies:				
C. Equipment:				
D. Capital Outlay:				
Total Cost $				

Measures of Success:

Group Members

Mayor

Budget Director

Council Member

Approved:
Yes or No

Agency Budget Request Form (revised)

Agency:

Agency Director: Date:

Requested Item/Title of Program:

Description and Rationale for Item/Program:

Objectives Justifying the Need:

First Year Cost and Brief Description:

	Cost	Description
A. Personnel:		
B. Supplies:		
C. Equipment:		
D. Capital Outlay:		
Total Cost $		

Proposed Future Year Cost:

	FY 2	*FY 3*	*FY 4*	*FY 5*
A. Personnel:				
B. Supplies:				
C. Equipment:				
D. Capital Outlay:				
Total Cost $				

Measures of Success:

Group Members

Approved:
Yes or No

Mayor ________

Budget Director ________

Council Member ________

Evaluation of the Role Playing Assignment

Name: Date:

1. After playing the role(s) of various budgeting officials on several proposals do you feel that government priorities were maintained while approving the agency requests? Briefly explain your opinion.

2. Are you satisfied with the outcome of your proposal? Why? Why not? What could you have done to improve the success of your proposal?

3. Which of the four actors appear to play the greatest role in determining the outcome of a budget proposal in your opinion? Why?

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Appendix 2A

City of Theodore FY 2013-2014	Estimated Revenue	Year to Date Actual Revenue	Uncollected Balance	Uncollected Percent
GENERAL FUND				
Tax Revenue-City Portion	$ 1,780,000.00	$ 1,649,781.71	$ 130,218.29	7.32%
Auto Property Tax	225,000.00	161,377.07	63,622.93	28.28%
Prop. Tax Int & Penalty	10,000.00	13,171.73	<3171.73>	-31.72%
Prop. Tax Int/ Penalty Prior	90,000.00	7,831.06	82,168.94	91.30%
Auto Tax (State)	-	3,576.97	<3576.97>	
Prop Tax Delinq 96 Prior	-	36,560.21	<36560.21>	
Prop Tax Delinquency 97	-	238,490.52	<238490.52>	
Property Taxes (State)	35,000.00	35,920.50	<920.5>	-2.63%
Payment in Lieu of Taxes	68,000.00	28,589.12	39,410.88	57.96%
Bank Deposits Tax	90,000.00	100,863.58	<10863.58>	-12.07%
Tobacco Tax	-	6.02	<6.02>	
Payroll Tax	6,225,000.00	4,693,517.87	1,531,482.13	24.60%
Payroll Tax Penalty	6,000.00	11,631.66	<5631.66>	-93.86%
Business Licenses	600,000.00	43,612.99	556,387.01	92.73%
Business Lic. Penalty& Int	-	3,711.08	<3711.08>	
INS Premium License Tax	1,575,000.00	1,186,939.63	388,060.37	24.64%
Liquor and Beer Licenses	19,000.00	1,693.75	17,306.25	91.09%
Cable TV Franchise	150,000.00	95,538.35	54,461.65	36.31%
Franchise Tax	65,000.00	103.24	64,896.76	99.84%
Court Revenue	125,000.00	93,696.78	31,303.22	25.04%
Severance Tax	25,000.00	24,374.24	625.76	2.50%
Insurance Payroll DED	-	-	-	
Investment Interest	325,000.00	250,744.95	74,255.05	22.85%
Rent Income	3,000.00	2,250.00	750.00	25.00%
Misc Inc Used Veh/Equip Sale	15,000.00	17,950.66	<2950.66>	-19.67%
Misc-Income Police CT Sale	-	-	-	
Building Permit Fees	60,000.00	59,960.02	-	0.07%
FEMA Flood Reimbursement	-	12,690.00	<12690>	
Miscellaneous Income	25,000.00	20,091.96	4,908.04	19.63%
DARE Program Reimbursement	17,000.00	21,026.30	<4026.30>	-23.68%
HWY Safety Program Reimbur.	35,000.00	14,743.25	20,256.75	57.88%
Building Demo Reimbursement	10,000.00	-	10,000.00	100.00%
Housing Authority Grant	33,000.00	24,099.02	8,900.98	26.97%
Stadium Prop Sale	9,000.00	-	9,000.00	100.00%

Circuit Court Clerk Fees	4,000.00	3,890.00	110.00	2.75%
Police Department	8,000.00	5,679.20	2,320.80	29.01%
Animal Control License Fee	20,000.00	-	20,000.00	100.00%
Parking Meters	-	-	-	
SUBTOTAL General Fund Net	$ 11,652,000.00	$ 8,864,113.44	$ 3,110,445.81	
SUBTOTAL GENERAL Fund Prior YR	$ 820,179.00	$ -	$ 820,179.00	
TOTAL General Revenue Fund	$ 12,472,179.00	$ 8,864,113.44	$ 3,930,624.81	

Chapter 3

Personnel Services and Operating Budgets

Chapter Three Overview

Typically, a budget has three main components: personnel services, operating and capital outlay expenditures. The purpose of this chapter is to introduce the reader to the components of a standard personnel services and operating budget. Specifically, the chapter provides information on: writing the budget, justifying new positions, position classifications, pay ranges, and the calculating benefits for different types of employees. The chapter also discusses calculating FICA, Medicare, and pension benefits. Lastly, the chapter considers the different formats, advantages, and disadvantages of an operating budget. Capital outlays are discussed in chapter four.[12]

Writing a Personnel Services Budget

The personnel services budget is normally funded out of the general fund. Personnel services include salaries and *fringe benefits* for employees and can be managed in a step by step process.[13] A salary is simply the wages paid for services rendered over a given period of time. Salaries can be calculated very easily using a spreadsheet. However, many governments have software that automate the calculation of salaries and associated benefits. That is, it is very easy to increase or decrease salaries using a very simple formula. Fringe benefits are payments and services rendered by an agency in addition to normal wages. Fringe benefits can be based on a percentage of pay roll, such as *pensions*, *social security* (FICA) and *Medicare.* Social security and Medicare are represented as a tax on your check stub. Some argue that these two items are personnel costs rather than benefits. A second group of benefits represent a flat amount that can vary based on the employee's circumstances. These include: life and health insurance. Non-monetary benefits include: paid time off, such as holidays, vacations, sick leave and personal leave which are a component of the annual salary; take-home cars; free parking; employee incentive programs; and time off for educational purposes. Social security is required for all government employees according to federal law unless the government has its own retirement system. Medicare is required for all government employees. It is not a legal requirement that an employer provide: health, life insurance, training supplements or any non-monetary benefits to employees.

Another important factor in the personnel services budget is overtime. This is particularly true for police and firefighters, since they typically have 24/7 schedules. Overtime is normally paid at the rate of one and one-half times the hourly rate of pay. Overtime can be a significant cost for many governments. Percentage-driven benefits, such as pensions and Medicare are also a component of overtime. Many governments prefer to pay overtime rather than add employees because it keeps the headcount down. Another advantage is that new employees have to learn the job while existing employees are familiar with job requirements.

Calculating FICA and Medicare

The federal government sets agency contributions to Medicare and social security annually. Currently, agencies match the 6.2% social security rate that employees have deducted directly from their paycheck. Hence, the employee and employer contribute a total of 12.4%. In 2012, the social security tax rate applied to earnings up to $110,100.00 (www.ssa.gov). No taxes are due from the employee or employer beyond that amount. For example, if a public administration professor had a salary of $125,800.00 in 2012, she would pay $6,826.20 and the university would also contribute $6,826.20 on her behalf for a total of $13,652.40 in social security taxes for the year ($110,100 x .124 = $13,652.40). Note that the remaining $15,700.00 of her salary is not subject to social security taxes when calculating FICA during the current calendar year.

The rate for Medicare is 2.9%, and is split equally between the employer (1.45%) and the employee (1.45%). Contrary to social security, the Medicare rate applies to the full salary. Let's consider the professor used in the above example. Based on her annual salary of $125,800.00 in 2012, the Medicare tax is $3,648.20 ($125,800.00 x .029 = $3,648.20). Medicare is mandatory at the full amount for all employees regardless of age or employment status. If an employee is a part time or a contract worker, he or she may not qualify for full fringe benefits. For example, if the agency does not pay their share of social security and Medicare benefits the employee (full and part time) has to pay the full amount to the federal government. Hence, the employer's contribution of half the social security and Medicare payment is considered a fringe benefit or an additional cost. So, it is important that you remember that you should only consider the government's portion of the payment on the budget rather than the total amount. Employee contributions to social security, Medicare, pensions, etc is included in a separate budget document. [14] However, when calculating Social Security and Medicare taxes in a personnel budget, you should only include the government's contribution (see page 84 for additional comments).

Pensions

For the most part, nearly all full time government employees participate in what is commonly called a pension plan. Some government pension plans are in lieu of Social Security while others may have both. Very small governments may only have Social Security. A *pension plan* provides financial benefits to an employee after he/she retires and/or has reached a certain age. Some plans allow an employee to retire after attaining a certain number of years of service, such as 30, at any age. Others require both a particular age and a minimum number of years of service. Still others have only a strict age requirement. Both employee and the employer contribute funds to the pension plan (not necessarily at the same rate) and both receive benefits. The employee receives the monetary benefit and security of knowing that they will have funds upon retirement. The government benefits because they can serve their personnel management objectives. They want employees to make a career out of public service. The experience and training that is gained through the years contributes to a professional bureaucracy. So, in order to recruit the best people and keep them in the public sector, the government must provide a good retirement package (Hildreth and Miller 1996; Smith and Lynch 2004). Pension rates can range from a low of 2% up to a high of 30% or more of an employee's salary. There may be an equal contribution or the greater burden may be on the employee (Stalebrink, Kriz, & Guo 2010).

A pension resembles and behaves like social security. However, unlike social security, pension funds are invested in accounts that belong to the employee. Social Security is a "pay-as-you-go" system, whereby current contributions are used to pay the cost of past retirees. As history would indicate, it is possible for pension fund balances to suffer or grow as the economy changes. When the economy or the investment portfolio takes a turn for the worse for an extended period of time, it is important that fund managers ensure that enough funds are set aside and the tax base is stable enough to make up for the difference in lost investments (Smith and Lynch 2004). As a general rule, pension fund portfolio managers should ensure that they are making socially beneficial investments. This process is facilitated with a *pension board of directors*. Normally made up of member representatives along with outside appointments, they are responsible for implementing legal requirements (Hildreth and Miller 1996; Hildreth and Adams 1997).

Pension investments normally fall into two categories: fixed income securities and equity securities. *Fixed income securities* are obligations that provide a steady stream of interest payments barring any defaults, such as a corporate bond or corporate annuity. *Equity securities* (which are more risky) are investments in *stocks*, which may or may not pay *dividends* (Petersen 2004; see also Hildreth and Adams 1997).

As years have passed and budgets have tightened, public pension fund accounts have grown and have become more and more susceptible to fungibility issues. Again, it is important that the pension fund managers and the board of directors make sure that these funds are not transferred to other funds haphazardly (Nollenberger 2003; Petersen 2004).

Until the mid-1990's, virtually all government pension plans were defined benefit plans. When an employee began work, he/she was handed a book that stated exactly how much could be expected at retirement based on age, years of service, and final average salary. Pension fund managers have the liability for pensions calculated by *actuaries*. The actuaries determine how much the employer and employee have to contribute to fund the pensions. It is the responsibility of the managers to find investments that will yield the amounts necessary to cover all members in the system. When the economy has significant downturns, as happened in the late 2000s, investments are not able to keep pace with the required amounts. This means that the pension contributions should be increased. However, that is not easy to do. It requires legislation to raise contributions. Some pension plans have had to borrow to meet their obligations.[15] Others have had to supplement pension contributions with general fund subsidies.

Since the mid-1990s, a number of governments have established defined contribution plans. The government and employee each contribute a required amount for the pension. However, the employee is responsible for investing the funds. Employees are provided various investment options and select an option that is appropriate. Defined contribution plans are portable. That is, when the employee leaves government service, the pension stays with the employee. In a defined benefit plan, the employee may not get back any of the contributions or may receive a refund of his/her contribution. The advantage to the employer of a defined contribution plan is that there is no long term liability. Some governments, such as Orlando, Florida, have replaced a defined benefit plan with a defined contribution plan for all employees coming on board after October 1, 1998.

Calculating the Pension Benefit

While the years of service can vary, most state and local governments require their employees reach an age between 62-65 and work at least 5-10 years in order to receive a pension. However, there are a number of other factors that can take place to change that scenario. These would include things like disabilities.

There are two key factors involved in calculating the pension benefit—final average salary and the annual multiplier. The final average salary is based on the highest earning years of an employee and can vary from three, four or five years depending on the pension system. An annual multiplier is the percentage of final average salary that is applied to each year of service. For example, a pension plan provides for each year of service to be multiplied by two percent. An employee working 30 years would receive 60% of his/her final average salary. This comprises the total percentage value. An employee that works five years, which is usually the minimum vesting period, would receive 10% of their final average salary.

Exhibit 3.1 provides a model that can be used to calculate retirement benefits. In this example, Mrs. Deepthi Kollipara worked 30 years for the city and is 64 years of age. The last piece of data needed to calculate her retirement benefit is her five highest calendar year salaries. In order to calculate her benefit, you must first multiply her years of service times the percentage value per years of service. Second, her five highest years of service are added up and divided by five (years). Third, her average five year salary is multiplied by the total percentage value (TVPP). Based on the formula, Mrs. Kollipara would receive $37,544.07 per year and $3,128.67 per month for her 30 years of service. Note: When age and years of service are not on the same line, choose the factor that best benefits the employee.

Exhibit 3.1 Sample Calculations of Retirement Benefits

Step 1: Creditable Services and Percentage Value

	% Value Per Year of Service		Total Years of Service		Total % Value Per Plan (TVPP)
Retirement up to age 62 or 30 Years	1.60%	X		=	
Retirement at Age 63 or 31 Years	1.63%	X		=	
Retirement at Age 64 or 32 Years	1.65%	X	30	=	49.50%
Retirement at Age 65 or 33 Years or more	1.68%	X		=	

Step 2: Average Final Compensation (AFC)

Mrs. Kollipara worked for 30 years in the same system and retired at age 64. In this step, we add her five highest fiscal year salaries and divide the total by five.	$85,000.00
	87,590.00
	95,890.00
	99,569.00
	103,899.00
AFC = $471,948.00 / 5 = $94,389.60	$471,948.00

Step 3: Annual Benefit Calculation
AFC x TVPP = Annual Benefit $94,389.60 x .4950 = $46,722.85

Step 4: Monthly Benefit Calculation
Annual Benefit/12 = Monthly Benefit $46,722.85 / 12 = $3,893.57

Source: Smith, Robert W. and Thomas D. Lynch. 2004. *Public Budgeting in America*. Upper Saddle River: Pearson/Prentice Hall.

Exhibit 3.2 is an Excel spreadsheet of the same person that is calculated in Exhibit 3.1. This computer program expedites the process and provides the user an opportunity to examine various retirement scenarios.

Exhibit 3.2 Short Version for Calculating Retirement Benefits (in Excel)

% Value Per Year of Service	Total Years of Service	Total % Value PP	Average Final Compensation	Annual Benefit	Monthly Benefit
1.65%	30	49.50%	$94,389.60	$46,722.85	3,893.57

5 Highest Years
$85,000.00
87,590.00
95,890.00
99,569.00
103,899.00
$471,948.00

$94,389.60 *Ave. AFC*

There are some other issues that this model does not examine, but they are still important to the employee. This includes things such as vesting, portability systems, cost of living adjustments, early retirement, and disability/survivor protections. *Vesting* occurs when an employee works a certain number of years making them eligible to receive retirement benefits. The minimum number of years required for vesting can range from 3-5, but really depends upon the system where you work. In some cases, you can move your vested status to another government job (portability). This is simple when you stay in the same system (work for the same municipality or state), but less likely to occur if you move to a different city or state. This is one of the drawbacks of the defined benefit plan and one of the advantages of the defined contribution plan.

There is an array of issues and questions related to disability status. For example, will you be able to receive pension benefits if you become disabled prior to becoming eligible for benefits? Will your children or spouse receive your pension if you die prior to receiving benefits? Will you qualify for benefits if you permanently injure yourself outside of work? The answers to these and many other questions will vary based on where you are working. It is important that a government address all of these questions with written policies (Hildreth and Miller 1996; Smith and Lynch 2004).

Position Classifications and Salary Ranges

Exhibit 3.3 shows a simple agency budget with each of three main categories along with classification codes. The codes are for administrative purposes. They make it easier to locate a specific line in a budget. This particular budget represents a specific division within an agency. Because it is in a line item format, it essentially tells the reader the amount of funds necessary to run the division without any cost associated with a particular individual and their responsibilities. However, the budget does not tell the reader the number of persons who work in the Procurement Division, nor does it break down the fringe benefits by employee. Most budgets are typed into a computer spreadsheet. This expedites the budget process and reduces mathematical errors.

The most common employee classification is a *full time equivalent* (FTE). Full time positions are normally 35-40 hours per week. A full time employee (equivalent) is eligible to receive the full range of fringe benefits. *Part time employees* (PTE) normally work 15-35 hours per week and are not eligible for full fringe benefits. Some part time employees may receive prorated benefits. A bus driver for the city bus would be an example of a part time employee who works for the majority of the fiscal year and could be eligible for fringe benefits.

Exhibit 3.3 Simple Agency Budget

Agency: *Central Budget Office* Division: *Procurement*

Code	Item	Adopted Budget
1000	1. *Personal Services*	
1001	Salaries	$146,000.00
1002	FICA	18,104.00
1003	Insurance	6,000.00
1004	Retirement	19,578.00
		$189,682.00
2000	2. *Operating Expenses*	
2001	Contractual Services	$6,500.00
2002	Training	650.00
2003	Travel	505.00
2004	Utilities	3,000.00
2005	Printing	1,700.00
2006	Misc. Supplies	12,500.00
		$24,855.00
3000	3. *Capital Outlay*	
3001	Vehicles	$35,000.00
3002	Equipment	2,500.00
		$37,500.00
Total Agency Budget		$252,037.00

Temporary positions may also exist. These are employees who may work full time, but are not permanent, such as summer employees for a park and recreation department or a secretary or janitor hired during peak season on a temporary basis. They may also be eligible for prorated fringe benefits as well (Riley and Colby 1991).

The classification FTE is used by the government in calculating the number of hours associated with a position. For example, a full time employee who works for the entire fiscal year would be the equivalent to 1.0 FTE. Four janitors, each working six months out of the year, would equal 2.0 FTE's. By using this system, the government views personnel cost in terms of the number of positions and costs needed to complete a job rather than the number of people.

State and local governments frequently use pay plans for employees. These plans normally apply to full time employees. The plan lists each position class along with the salary range for that position. It is very difficult to justify paying a particular employee a salary out of the range without raising the bar for all other employees in that classification. The *Salary Range Plan* includes the title of the position, administrative code associated with the position, and annual salary range. Exhibit 3.4 contains an example of a salary range classification.

Exhibit 3.4 Salary Range Classification

Position Code	Class Title	Min. Salary	Max. Salary
1100	Accountant	$35,000.00	$49,000.00
1101	Administrative Assistant	25,000.00	35,250.00
1102	Budget Analyst	55,000.00	65,000.00
1103	Clerk	30,000.00	40,500.00
1104	Division Director	85,000.00	99,950.00
1105	Janitor	18,000.00	23,595.00
1106	Principal Investigator	65,000.00	79,000.00
1007	Security Guard	38,000.00	54,000.00

Like most things related to government, a salary range classification is approved by a legislative body and serves many purposes. A few of these purposes are listed below.

- Provides government officials data that may be useful in accounting, payroll and personnel processes.
- Ensures that salaries are reasonable and equitable relative to the responsibilities of the employee.
- Limits opportunities to discriminate.
- Allows the government to remain competitive in an open market and retain experienced employees.
- Acts as a control over salaries when new positions and raises are considered.

Justifying a New Position

Growth in responsibilities of an agency and personnel are fairly standard in most governments. As a result, it is necessary on occasion to request one or more new positions. There is never a guarantee that a request for a new position will occur. Nonetheless, it is important that agency heads ensure that they adequately review the old and new responsibilities of the agency in order to make sure that they can thoroughly justify new positions and maintain the previous positions. There are several items that go into a request for a new position that will facilitate the process (Riley and Colby 1991). The agency can:

- Justify the creation of the new position(s) by outlining the responsibilities of the person(s) relative to increases in workload or expanded programs.
- Describe the qualifications of the employee(s) with a notation as to whether it fits the current salary pay classification.
- Show how this position(s) will make the agency more efficient and effective.
- Show how the new position(s) will enhance new assignments or enhance current responsibilities.
- Program changes follow the same logic as a position request. Show how the program will make operations more efficient and effective.

One last item to note is that newly hired staff frequently waits one year before receiving health insurance.

Calculating a Personal Services Budget

Preparing a new budget can be difficult for the budget officer. In fact, this period causes a fair amount of trepidation for the entire staff. However, the process can be eased with several items. First and foremost is accurate information. It is very important that agency directors and the personnel office provide the budget officer with reliable data that corresponds with known facts. Second, a computer can expedite the budgeting process, but it cannot read minds. Hence, it does not notice mathematical errors in data entry for example. In most cases, budgets are inaccurate because of human error. Specific items needed by the budget office include:

- A manual to review budget requests. The manual would normally contain management policy information (the direction the agency is headed and potential areas to cut or expand).
- Budget preparation forms along with instructions.
- Salary information related to personnel (includes information on projected salary increases as well as fringe benefits).
- Operating and capital outlay instructions.

Beginning with the previous year's base, the budget officer can put the new proje... spreadsheet program for each ... are based on projected revenue, which are unknown versus what is known. Budget estimates are based on more concrete information. Assuming that no changes occurred, the computer will automatically calculate the fringe benefits associated with the salary. In some cases, the percentage or dollar amount of fringe benefits may change. Exhibit 3.5 is an example of an *Agency Salary Projection Report.*

Exhibit 3.5 Agency Salary Projection Report

FY 2013 (General Fund)
Agency: *Police Department* Division: *Homicide*

Title	Salary	FICA	MED	Pension	Health	Total
Director	$69,569	$4,313.26	$1,008.75	$6,956.90	$3,500	$85,347.91
Captain	45,230	2,804.26	655.84	4,523.00	3,500	56,713.10
Detective	38,987	2,417.19	565.31	3,898.70	3,500	49,368.20
Detective	35,789	2,218.92	518.94	3,578.90	3,500	45,605.76
Assistant	27,123	1,681.63	393.28	2,712.30	3,500	35,410.21
TOTAL	$216,698	$13,435.26	$3,142.12	$21,669.80	$17,500	$272,445.18

This report allows the viewer to determine the exact cost associated with a position or an individual. Social security, Medicare, and retirement funds are based on formulas while health care cost for the individual employee is the same for everyone that has a particular characteristic, such as single, married with one dependent, and married with multiple dependents for health care benefits. Each of the employees listed here are current employees. The total cost included in Exhibit 3.5 is the total cost to the government. The employee contribution is considered a part of the entire budget. That is, the employee contribution is not considered in the FICA and Medicare columns because their contribution is ultimately deducted from their salary. With that said, it is not necessary to show the contributions of both the employee and employer on a line item personnel budget.

If there are a number of employees who have the same salary, the budget officer may simply want to list the position by title and put the number of employees who correspond to that position/grade. This format saves time and space. However, this format only works when there are a number of employees who have the exact same salary.

A request for a new position along with salary projection follows the same format. However, there should be a justification for the new position at the bottom of the budget request (see Exhibit 3.6). The justification should indicate why the position is needed along with any supporting evidence that would substantiate the request. Data are particularly useful in a position justification. Since projected salary information (based on *budget projections*) into a computer spreadsheet program for each position classification. Budget projections are based on projected revenue, which are unknown versus what is known. *Budget estimates* are based on more concrete information. Assuming that no changes occurred, the computer will automatically calculate the fringe benefits associated with the salary. In some cases, the percentage or dollar amount of fringe benefits may change. Exhibit 3.5 is an example of an *Agency Salary Projection Report.*

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Detective	35,789	2,218.92	518.94	3,578.90	3,500	45,605.76
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A request for a new position along with salary projection follows the same format. However, there should be a justification for the new position at the bottom of the budget request (see Exhibit 3.6). The justification should indicate why the position is needed along with any supporting evidence that would substantiate the request. Data are particularly useful in a position justification. Since the agency is not making a verbal argument for the new position, the justification should be carefully prepared.

A separate form should be used for each new position request. If the administrative position code does not indicate whether the position is an FTE or PTE, then it should be included on the personnel request form. Since positions are based on class, the requested salary for the new employee should fall within the legal pay range that was set by the legislative body. These forms normally come with complete instructions dictating what should be included. Specifically, these instructions should indicate the current rates for FICA (12.4%), Medicare (2.9%), and retirement (18%). In addition, it should contain the cost of health insurance ($1,800.00) and any other pertinent information.

Exhibit 3.6 New Personnel Request Form

Agency Personnel Salaries
FY 2014 (General Fund)
Agency: Police Department Division: Homicide

Position Title	Position Code	Base Salary	FICA	Medicare	Pension	Health	Total Costs
Dispatcher	1011	$22,500.00	$2,790.00	$652.50	$4,050.00	$1,800.00	$31,792.50

Justification:

Due to an expansion in 911 services the number of incoming phone calls has proved to be a burden for one person. As a result, we had to hire a temporary employee and use patrol officers to aid in this effort. Therefore, it is economically feasible to have a full time employee to carry out these responsibilities.

Preparing an Operating Budget

As stated earlier, the personnel budget makes up the bulk of expenditures in the budget process. However, operating costs are just as important. These requests are reviewed and justified each fiscal year. Operating costs include items such as travel, telephone services and other utilities, pencils, paper, adding machines, rent or any other item that recurs. In simple terms these are items needed by an agency to conduct business. Equipment, such as vehicles, can also be included as an operating expense if the agency is not requesting a large number of new vehicles every year. Further, if vehicles were to be replaced over a number of fiscal years, this might not be the best category to include them. It would depend on the policy of the government. Other exclusions would include high cost items such as super computers and buildings. These are capital expenditure items.