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BUDGETING FOR REVENUES

Municipal Technical Advisory Service
INSTITUTE FOR PUBLIC SERVICE 1

TOPICS

1) Revenue or Cash Receipt Forecasting
2) Frequency of Revenues
3) The Budget Environment
4) Methods of Forecasting Revenues
5) What Revenue Forecast Method is used by the Audience?

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TOPICS (continued)

6) What Tools Are Available to Aid in Forecasting?
7) What is the Role of Fund Balance?
8) Monitor Revenue Monthly

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Revenue or Cash Receipt Forecasting

- ✓ Revenue forecasting determines the amount of cash expected in the upcoming budget year for each specific revenue source.
- ✓ Cash flow forecasting determines the timing of revenues.
- ✓ Regardless of method, forecast major sources of revenue separately.

Frequency of Revenues

- One of the things that make forecasting city revenues difficult is that there are a lot of them and they do not occur at the same time, nor come from the same source.
- Some revenues such as local sales tax comes in monthly but in varying amounts, while other revenues comes in monthly, quarterly, and once per year.

Monthly Revenues

Local option sales tax - Probably the largest revenue item in your city. Max rate of 2.75%.

Mixed drink taxes - If you legally sell mixed drinks.

Business tax - You start them and the State takes over collection. Having a city business tax may aid in analyzing your SITUS reports on sales tax payers.

Monthly Revenues

Wholesale beer tax - For municipalities with beer retail outlets within the corporate limits, the local wholesale beer tax is a 17% tax levied on the wholesale price of beer. State law requires the wholesaler to pay this tax directly to the municipality and to file monthly reports with the city and the State Department of Revenue.

Monthly Revenues

State shared taxes - State shared taxes include sales tax, the Hall Income Tax, beer tax, gasoline and motor fuel tax, streets and transportation, gross receipts from the Tennessee Valley Authority (TVA), and corporate excise tax.

Items included in State shared taxes can come in monthly, quarterly, and annually.

State Shared Taxes and Appropriations (2015-2016)

• State Sales Tax	$75.50
• Special Petroleum Products Tax	$ 2.05
• State Beer Tax	$ .50
• Gross Receipts Tax (TVA)	$11.45
Total General Fund	**$89.50**
• **State Street Aid**	$26.25

Quarterly Revenues

- TVA Gross receipts tax
- Maybe the Business tax

Annual Revenues

- Hall income tax
- Corporate excise tax (banks)
- Auto registration

Other Revenues
Property tax

An increase in property tax rates (revenue) takes political action or passage by the governing body. Property tax increases do not often occur during election years.

Property taxes usually represent a substantial percentage of the municipality's overall revenue.

Other Revenues
Property tax

In projecting property tax receipts, a municipality must project only the amount of current property taxes it anticipates collecting during the fiscal year. This will consistently be less than the gross amount of taxes due.

Other Revenues
Property tax

It is useful to calculate the value of one cent of the tax rate based on the latest assessment figures, so that the governing body can calculate the tax rate necessary to balance the budget.

The calculation is:

Total assessed property value ÷ 100 x .01 = Value of one cent (gross).

Other Revenues
Property tax

For example, if the total assessed property value for the municipality is $25,000,000, each penny of property tax will generate $2,500 of gross property tax revenue as shown below.

$25,000,000 ÷ 100 x .01 = $2,500

Other Revenues

- Personal Property tax – if you have property tax
- Payments in-lieu-of tax (PILOT)
- Building permits
- Grants
- Your city may have other minor revenues that must be budgeted

You Must Be Aware Of The Budget Environment

Cities do not operate in a vacuum.

The **economic** environment can either boost revenues or suppress them. In a strong economy, people spend more on taxable goods and services, and municipalities receive a portion of the taxes on sales. On the other hand, in an economic downturn, sales slow, and new construction starts are suppressed.

You Must Be Aware Of The Budget Environment

Are there any **political** impacts on future revenues?

Internal pressures come from department heads who want new spending to achieve their goals.

External political influences generally come from citizens, interest groups, and elected officials. Citizens want a high level of service and good service quality at a low tax cost.

You Must Be Aware Of The Budget **Environment**

Are there any **legal** impacts on future revenues?

The legal environment of budgeting begins with Tennessee Code Annotated (*TCA*) §6-56-201 et seq., otherwise known as the Municipal Budget Law of 1982.

Methods of Forecasting Revenues

- **Trend analysis -** This is the analytical approach to forecasting revenues. Analyze the cash receipts journals from the previous 3 years. Investigate any significant deviations from the trend.
- **Baseline method -** With this approach, an assumption is made that revenues of the budget year will be similar to the previous year.

Methods of Forecasting Revenues

- **Across the board or inflation method-** With this approach, an assumption is made that revenues will rise with inflation. All revenues would be projected together or at least with the same inflationary amount.

What Revenue Forecast Method is used by you in your city?

- ✓ How do you budget for utility in-lieu-of tax?
- ✓ Who used the trend approach to forecasting revenues?
- ✓ Who used the baseline method?
- ✓ Who used the inflation method?

What Tools Are Available to Aid in Forecasting?

- MTAS develops an annual publication tracking state-shared taxes.
- LGC has a revenue forecasting model with 3 years of monthly revenues.
- The Department of Revenue has information you can use.

What is the Role of Fund Balance?

- *Fund balance* is the difference between assets and deferred outflows less liabilities and deferred inflows in governmental funds. It is divided into five classifications.

Nonspendable Fund Balance

This classification of fund balance includes amounts that due to their nature cannot be spent, i.e. inventory. Amounts which legally or contractually cannot be spent are also required to be classified as nonspendable. An example might include the corpus or principal in a permanent fund which is legally required to remain intact.

Restricted Fund Balance

Amounts are classified as restricted when creditors, grantors, contributors, or laws and regulations of other governments impose external, enforceable, legal restrictions. They are also restricted when required by law through constitutional provisions or enabling legislation. Examples of restricted fund balance amounts include unspent grant funds, debt covenants and gasoline tax revenue for street purposes.

Committed Fund Balance

Amounts defined as committed arise from self-imposed constraints put on the use of the funds by the government's highest level of authority – the full governing body. The commitment must be made by the highest level of formal action (ordinance) and the action must be taken before the end of the fiscal year. An example may include the passing of an ordinance to commit $20,000 for computer upgrades.

Assigned Fund Balance

Amounts defined as assigned arise from intentions of the government to use the funds for a specific purpose. This action may be taken by a designated body (e.g., committee), or an individual (e.g., city manager or mayor). Assignment of fund balance is a less formal action than required for committed funds and the action may be taken after the end of the fiscal year.

Unassigned Fund Balance

1. The unassigned amounts represent those funds which are left for spending after funds earmarked for specified purposes have been otherwise classified.
2. Unassigned fund balance can be a budget lifesaver. It can make up for a temporary reduction in revenues. It is used for any emergency or unplanned expenditure.

Monitor Revenue Monthly

1. Regular monthly reviews of each revenue source is necessary.
2. A proper review would entail comparing the revenue received this month with the revenue received this month, last year.
3. Recommend timely budget amendments.