

County Financial Management MACo Summer Conference August 2018

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Goals For This Session

- Expose you to and familiarize you with:
 - important terms and ideas
 - places to find valuable information
 - important questions to ask and things to think about

Two Critically Important Documents

The Budget and the Comprehensive Annual Financial Report (CAFR)

Where Do You Want To Go?

- Budgets and plans are forward looking.
- A budget is:
 - a legislative act.
 - a policy document.
 - a process.

Where Have You Been?

- The CAFR is backward looking.
- A CAFR is:
 - the result of a financial audit.
 - a statement of your fiscal position.
 - a record of recent financial activity.
 - a tool for evaluating your fiscal strengths and weaknesses.

The Budget

Where Do You Want To Go?

The Budget Process

- The process varies from county to county.
- Common elements:
 - Goals of elected officials
 - Budget requests
 - A proposed budget
 - Public input
 - An adopted budget

Not The Budget You Are Used To

- Government budgeting is different.
- Your budget is a law.
- You budget by funds.
- You are budgeting in a very public process.
- You budget for activities that you don't have authority over.

Budgets By Fund

- General (Operating)
- Capital
- Enterprise (Water and Sewer)
- Special Revenue (Hotel)
- All Funds
- All counties are not alike

It All Starts With Revenue

Revenue Projecting

- You can't build your budget or plans if you don't have an idea of how much revenue will be available.
- You should under project revenue so you aren't forced to make mid-year changes to your budget.
- But, you should get close so that you don't artificially constrain your spending choices.

The General Fund Revenue Mix

- Property and income taxes are the largest parts of your revenue.
- A number of revenues are common to most counties, but there are revenues that vary from county to county.

Property Tax

- Counties' largest source of revenue
- Tied to assessments of both existing properties and new construction
- Generally fairly stable and predictable
- Good data available
- You collect it
- Homestead Tax Credit
- Constant yield

Income Tax

- Counties' second largest revenue
- Volatile
- Notoriously difficult to project
- Little data available
- The State collects it

State Aid

- Little revenue comes from the State to counties now.
- Police Aid
- Highway User Revenue (HUR)
- Don't be misled by what the State labels Aid to Local Governments.

Taxes, Fees and Charges

- Taxes are imposed for general operations. There is no specific tie between a dollar collected and the purpose it is used for (property tax).
- Fees are tied to specific use and cannot exceed the relevant costs (permit fee).
- Charges are for volume use (water).

One-Time Versus On-Going

- Be very careful
- Whenever possible match one-time revenue to one-time expenditures.
- Using one-time revenue for on-going expenditures creates a hole in a future budget.

Expenditures

What Are You Choosing To Fund?

- Setting expenditure budgets is a policy act.
- With limited funds every choice to fund something is a choice to not fund something else.
- There are constituents for everything you do (and many things you don't do).
- You will never find agreement on the right mix of expenditures.

The Cost Of People

- By far – your biggest expenditure
- Salaries and wages
- Benefits
- Contracted services

Mandated Expenditures

- Much of what you fund is dictated by other levels of government.
 - Public schools including teacher pensions
 - Community College
 - Board of Elections
 - State's Attorney
 - ADA
 - Stormwater
 - Prevailing wages

Public Schools

- This is the largest part of your budget.
- You have limited authority.
- You approve at the category level.
- You are required to fund at or above Maintenance of Effort (MOE).

Grants

- Generally, tax dollars being distributed by another level of government.
- Grants come with strings.
 - Restrictions on use
 - Compliance
- Make sure you really want the grant.

Multi-Year Balanced Operating Plan

- Difficult to do
- Forces better decision-making
- Builds a framework for the budget process
- Sets expectations
- Creates a fiscal planning bridge across elections

Capital Budget

- Identifies and isolates large one-time expenditures.
- Reduces the volatility of the operating budget.
- Spreads costs over multiple budget years.
- Multi-year plan
- Operating impacts
- Infrastructure

The CAFR

Where Have You Been?

A Few Terms You Will Hear

- Comprehensive Annual Financial Report (CAFR) –
Your annual financial audit
- Generally Accepted Accounting Principles (GAAP)
– Some of the accounting rules we live by
- Government Accounting Standards Board (GASB)
– The people who set some of the accounting
rules we live by
- Uniform Financial Report (UFR) – A required
submission to the State

What To Look For

- The auditor's opinion – Is it unmodified?
- The auditor's management letter – Are major issues identified?
- Management's Discussion and Analysis (MD&A)
- Government wide statements – What is happening to net assets?

What To Look For

- The balance sheet – What is happening to fund balance?
- Budget statements – Are there deficits or operating losses?
- Notes – They help to explain the numbers.
- Statistical section – Context over time

Long-Term Liabilities

- Pensions
- Other Post-Employment Benefits (OPEB)
- The CAFR captures your position, which will then influence budget decisions.

Debt

- How much do you owe?
- What is the schedule for payment?
- How large a burden is it?
- The CAFR captures your position, which will then influence budget decisions.

Investments

- Counties are restricted in their investment options.
- Investment policy
- County investments must be:
 - Legal
 - Safe
 - Liquid
- Typical investments include:
 - U.S. Treasuries
 - Certificates of Deposit
 - Government Pools

Surplus

- The result of one year's operations.
- You better have a surplus.
 - Revenue is greater than budget.
 - Expenditures are lower than budget.
 - Other accounting changes.
- Be careful how you use surpluses.

Reserves

- Why keep reserves?
- How do you keep reserves?
- Balancing the need for reserves against the perception of overtaxing.

Component Units

- Your financial statements include more than just county government.
- Schools – the disconnect between debt and assets.
- Unfunded liabilities

A Few Other Thoughts

Resources

- Government Finance Officers Association (GFOA)
www.gfoa.org
 - Government Finance Review
 - Best practices
 - Elected Officials' publications
 - Conference and training
- The Association of Public Treasurers
www.apтусc.org
- Maryland Government Finance Officers Association (MDGFOA) www.mdgfoa.org

Things To Think About

- State budget
- Teacher pensions
- Kirwan Commission including Pre-K
- Federal and State tax laws
- Next Gen 911
- EPA/MDE

If You Want To Contact Me

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