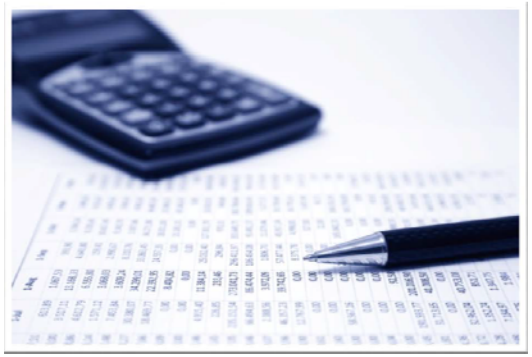
KNOW YOUR BUDGET

Controlling the numbers rather than letting the numbers control you



Kerri Nakamura

KerriNakamuraAssociates@gmail.com

KERRI NAKAMURA & ASSOCIATES

Utah Department of Heritage & Arts

UTAH LEAGUE OF CITIES AND TOWNS

SALT LAKE COUNTY

SALT LAKE CITY

SALT LAKE VALLEY

West Jordan

GUAM

SORENSON IMPACT

David Eccles School of Business, THE UNIVERSITY OF UTAH

Audience Scan

PLANNING MATTERS
and budget planning matters too

"Don't tell me what you value, show me your budget, and I'll tell you what you value."

Joe Biden

WHAT IS A BUDGET?

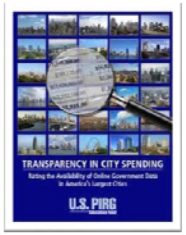
WHAT IS A BUDGET?

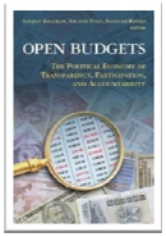
- More than a simple accounting of revenue and expenditures
- The way one demonstrates priorities – "Show Me the Money!"
- The most important responsibility of the Legislative Body
- Not scary or boring!

WHY TRANSPARENTBUDGETING MATTERS

- Taxpayers trust you with their hard earned money. They deserve to know what you've accomplished with the money they provide.
- Transparency Tips:
  - Public Budget Meetings
  - De-Mystify the Numbers
  - Narrative Description of Budget
  - Numbers and Narrative Posted on Website
  - Quarterly Budget Updates on Council Agenda
  - Honest Discussions – Cut Rhetoric
  - **FOCUS ON OUTCOMES**

TRANSPARENCY IS NOT A FAD





OUTCOME BASED BUDGET

GOAL: Shift thought from what we are spending to what we are buying

Presently: 95% of all spending decisions are based on what we did last year

Focus tends to only be on the new money

FUNDING

FOCUS

STRETCH DOLLARS

STRETCH DOLLARS – WATCH FOR NATURAL UNDER EXPEND

- Staff turn over often results in under expend and opportunity to repurpose
- Never use continuous improvement process to accomplish a layoff
- Reward program managers for creating under expend by sharing the savings with one-time wish lists
- **Begin to focus on outcomes rather than outputs – forces systems thinking**

Utah Department of Heritage & Arts

"Create **vibrant**, inclusive communities where Utahns **thrive** and have **pride** in their hometowns."

Vibrant

- Employment Rate
- Commercial Valuation

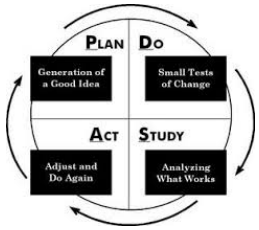
Thrive

- Graduation Rate
- Health Outcomes

Pride

- Voter Turnout
- Homeownership Rate

DO IT – DON'T JUST SAY IT



ASK YOURSELF:

- ✓ Do we have realistic short, medium and long term goals – or do we just try to get from one budget year to the next?
- ✓ Do we talk about who we are serving and how well we are doing?
- ✓ Are our dollars spent on the most effective programs? How do we know?

GOVERNMENT HISTORY OF FOCUS ON DATA

GOOD AT MEASURING OUTPUTS

OUTPUT MEASURE	INDICATOR TYPE
Number of items checked out per library patron	Efficiency
Linear feet of sidewalk replaced per year	Efficiency
Cycle time from police call for service to response	Service Quality
Cost per jail bed per day	Unit Cost
Average homeless families/individual/case worker	Service Quality

SHIFT DATA TO FOCUS ON OUTCOMES

ADVANTAGES

- Budget policy discussions focus on what is accomplished rather than how much is spent
- Creates a culture of continuous improvement throughout the organization
- Forces government to think about systems, not just programs
- Provides a higher level of public accountability

FOCUS ON OUTCOME DATA

OUTPUT MEASURE	OUTCOME GOAL
Increase in the proportion of K-12 students actively using the library	Increased graduation rate OR close gap on graduation rates
Decrease in percentage of inadequate sidewalks	Walkable Community
Decrease crime rates in key categories of crime	Increased real and perceived safety in community
Increase rate of diversion from jail for non serious offenders; decrease recidivism rate	Eliminate overcrowding in jail/need for more jail beds
Decrease rate of readmission to homeless facility within 30, 60 and 180 days	End chronic homelessness

CASE STUDIES

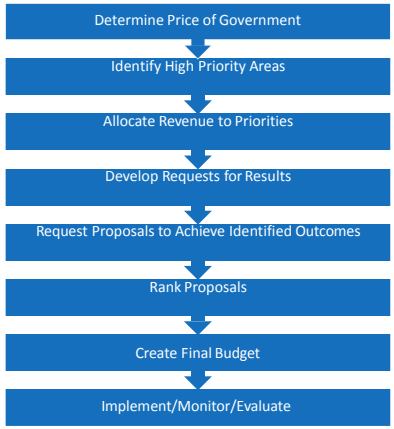
salesforce

SYSTEMS FOCUS

SYSTEMS RULE OF 5

5 Times
5 People
5 Signatures

8 STEPS FOR OUTCOME BASED BUDGET



*See process map for priority driven budget.

GFOA, 2012

BUDGETING FOR OUTCOMES

PERFORMANCE BUDGETING:

"Similar to program budgeting, this budgeting approach also uses programs or activities as budget units, and presents information on program goals and performance. This budget system places emphasis on incorporating program performance information into the budget development and appropriations process, and ***allocating resources to achieve measureable results****."*

OUTCOME MEASURE:

This is a measure of the result associated with a program or service. Outcome measures can be short- or long-term results that can be directly linked to a government program or service. Examples include the percentage of students reading at grade level, air quality, or the traffic fatality rate. **Outcome measures are often the most desirable measures but the most difficult to use and analyze, as major system outcomes are generally derived from a variety of services, products and activities, and isolating the root cause of change is often challenging.**

NASBO, 2015

GOV'T HISTORY OF PERFORMANCE-BASED BUDGETING

- **1870's:** Performance budgeting introduced in reaction to local government abuses
- **1950:** Budget Accounting and Procedures Act; agency leads to provide budget performance data
- **1950's:** President's Bureau of Budget; performance measures used for efficiency and effectiveness
- **1960-2000:** More than fifty countries follow the US lead in performance based budgeting
- **1960's:** Planning, Programming, Budget System (PPBS)
- **1970's:** Management by Objectives (MBO) and Zero-Based Budgeting (ZBB)
- **1980's:** Top Down and Fixed Ceiling Budgeting
- **1990's:** Performance data goes public; prior to that it was internal data
- **1990's:** State and Local governments start to experiment with Performance Budgeting and Total Quality Management
- **1993:** Government Performance and Results Act (GPRA); agencies to use performance managing tasks – including goal setting, measuring results, and reporting progress
- **1994:** Government Management and Results Act (GMRA); extends provisions across federal gov't
- **1994:** OMB Circular A-11 Revision; program funding justified by performance metrics and goals
- **1996-2000:** Federal agencies mandated to use outcomes-based performance metrics in budgeting
- **2002:** Performance Assessment Rating Tool (PART); OMB develops and integrates performance measurement but not performance budgeting per se
- **2010:** OMB issued 128 High Priority Performance Goals (HPPG)
- **2012:** New York City Social Impact Bond issued (first Pay for Success transaction)

PROPERTY TAXES 101

Property Tax Demonstration
Year 1

House 1		House 2		House 3		House 4		House 5	
Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818
Tax Value	100,000	Tax Value	100,000	Tax Value	100,000	Tax Value	100,000	Tax Value	100,000
Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000

House 6		House 7		House 8		House 9		House 10	
Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818	Mkt Value	181,818
Tax Value	100,000	Tax Value	100,000	Tax Value	100,000	Tax Value	100,000	Tax Value	100,000
Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000

Entity	
Total Base Mkt Value	1,818,182
Total Base Tax Value	1,000,000
Tax Revenue Base	10,000
Tax Revenue New Grow	-
Total Tax Revenue	10,000
Tax Rate	1.00%

PROPERTY TAXES 101

Year 2

House 1		House 2		House 3		House 4		House 5	
Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636
Tax Value	200,000	Tax Value	200,000	Tax Value	200,000	Tax Value	200,000	Tax Value	200,000
Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000

House 6		House 7		House 8		House 9		House 10	
Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636	Mkt Value	363,636
Tax Value	200,000	Tax Value	200,000	Tax Value	200,000	Tax Value	200,000	Tax Value	200,000
Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000	Tax Bill	1,000

Entity	
Total Base Mkt Value	3,636,364
Total Base Tax Value	2,000,000
Tax Revenue Base	10,000
Tax Revenue New Grow	-
Total Tax Revenue	10,000
Tax Rate	0.50%

PROPERTY TAXES 101

Year 3

House 1		House 2		House 3		House 4		House 5	
Mkt Value	181,818	Mkt Value	190,909	Mkt Value	200,000	Mkt Value	209,091	Mkt Value	218,182
Tax Value	100,000	Tax Value	105,000	Tax Value	110,000	Tax Value	115,000	Tax Value	120,000
Tax Bill	816	Tax Bill	857	Tax Bill	898	Tax Bill	939	Tax Bill	980

House 6		House 7		House 8		House 9		House 10	
Mkt Value	227,273	Mkt Value	236,364	Mkt Value	245,455	Mkt Value	254,545	Mkt Value	263,636
Tax Value	125,000	Tax Value	130,000	Tax Value	135,000	Tax Value	140,000	Tax Value	145,000
Tax Bill	1,020	Tax Bill	1,061	Tax Bill	1,102	Tax Bill	1,143	Tax Bill	1,184

Entity	
Total Base Mkt Value	2,227,273
Total Base Tax Value	1,225,000
Tax Revenue Base	10,000
Tax Revenue New Grow	-
Total Tax Revenue	10,000
Tax Rate	0.82%

PROPERTY TAXES 101

Year 4

House 1		House 2		House 3		House 4		House 5	
Mkt Value	181,818	Mkt Value	190,909	Mkt Value	200,000	Mkt Value	209,091	Mkt Value	218,182
Tax Value	100,000	Tax Value	105,000	Tax Value	110,000	Tax Value	115,000	Tax Value	120,000
Tax Bill	816	Tax Bill	857	Tax Bill	898	Tax Bill	939	Tax Bill	980

House 6		House 7		House 8		House 9		House 10	
Mkt Value	227,273	Mkt Value	236,364	Mkt Value	245,455	Mkt Value	254,545	Mkt Value	263,636
Tax Value	125,000	Tax Value	130,000	Tax Value	135,000	Tax Value	140,000	Tax Value	145,000
Tax Bill	1,020	Tax Bill	1,061	Tax Bill	1,102	Tax Bill	1,143	Tax Bill	1,184

House 11	
Mkt Value	272,727
Tax Value	150,000
Tax Bill	1,224

Entity	
Total Base Mkt Value	2,227,273
Total Base Tax Value	1,225,000
Total New Growth Tax V	150,000
Grand Total Tax Value	1,375,000
Tax Revenue Base	10,000
Tax Revenue New Grow	1,224
Total Tax Revenue	11,224
Tax Rate	0.82%

TRANSPARENCY

- Utah Public Finance Transparency Website
  - Quarterly Revenue and Expenses – 30 days after quarter end
  - Annual Balance Sheet Data – 180 days after year end
  - Annual Payroll Data – 180 days after year end
- Impact Fee Report – 180 days after year end
- Deposit and Investment Information – January 31 and July 31
- Chart of Accounts thoughts…

FUND BUDGETING

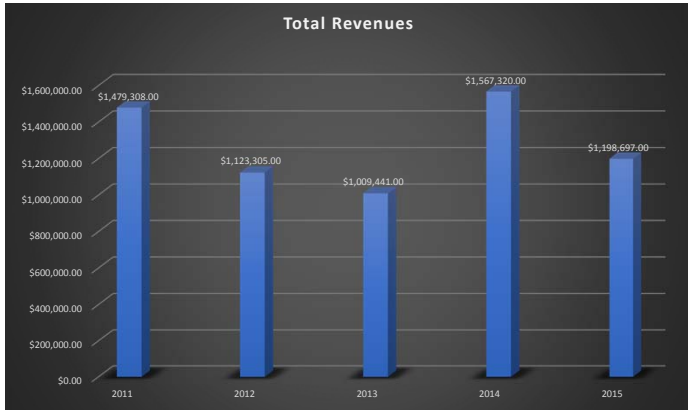
ACCOUNTABILITY VS. PROFITABILITY
&
GOVERNMENTAL VS. PROPRIETARY

- General Fund and Related
- Capital Project Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Special Revenue Funds

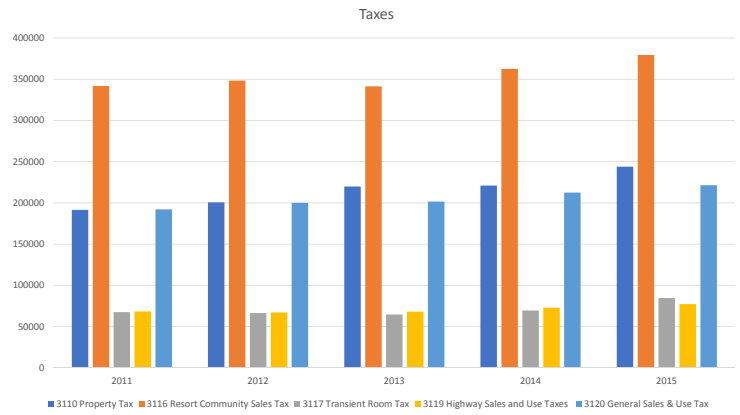
REVENUES AND EXPENSES

- Focus on **Revenue**
- Keep an Eye on **Expenses**
  - Hard to control
  - Never fund full-time employees – or for that matter other ongoing budget gifts – for Christmas!

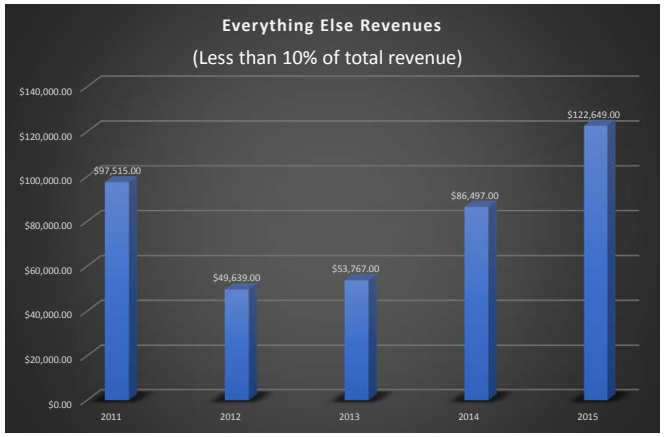
Sample Small Community



Sample Small Community

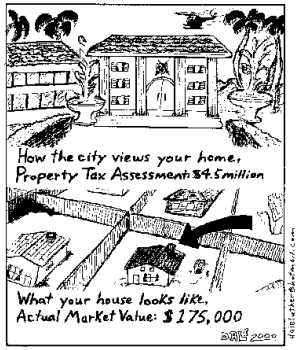


Sample Small Community



PROPERTY TAXES 101

Taxable Valuation drives rates that will produce budgeted revenue



- Taxable vs Fair Market Value
- Taxable Value fair market value – residential exemption
- Fair Market Value the amount at which the property would change hands between a willing buyer and seller.
- Taxable Value is used in the calculation.

PROPERTY TAXES 101

Property Value Types

- Real
  - Locally assessed (County Assessor) real estate (land) and improvements on the land.
- Personal
  - Locally assessed (County Assessor) property not classified as real estate or improvements and subject taxation and assessment according to value.
- Centrally Assessed
  - Tax Commission assessed real and personal property.

PROPERTY TAXES 101

What is Centrally Assessed Property?

- All property which operate as a unit across county lines.
- All public utilities.
- Airlines, air charter service, and air contract services.
- Geothermal fluids and geothermal resources.
- All mines and mining claims.
- All machinery used in mining.

PROPERTY TAXES 101

Percentage Breakdown Statewide

- Real
  72%
- Personal
  6%
- Centrally Assessed
  12%

PROPERTY TAXES 101

Tax Rate?

- The rate usually changes every year due to the calculation of revenue/value.
- Value go up, rate goes down
- Value goes down, rate goes up
- Right?

PROPERTY TAXES 101

Real Property Change

- Reappraisal value change due to market change = tax rate change
- New Growth = New Revenue

PROPERTY TAXES 101

Personal & Centrally Assessed

- Value change = Positive or negative new growth.
- Only a value drop in Personal or Centrally Assessed can cause a tax rate change, it will be an increase under the current system.
- Value increase = new revenue
- No tax rate decrease

PROPERTY TAXES 101

New Growth?

Calculation with 4 parts

- Real
- Personal
- Centrally
- Redevelopment projects expiring or decreasing tax increment commitment.

PROPERTY TAXES 101

Calculation

- Revenue (prior year budgeted revenue)

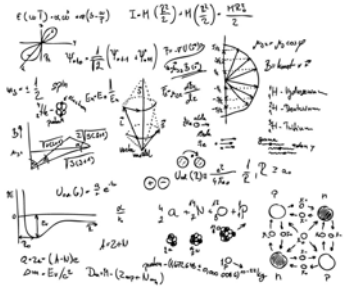
  Divided by

- Adjusted Value

  = Certified Tax Rate

PROPERTY TAXES 101

Adjusted Value = Value Forecast



Real + Personal + Centrally Assessed

- Redevelopment increment values
- BOE 3 year board of equalization average change

X Collection Rate (5 year average)

- New Growth

= Adjusted Value

Sample Small Community

Green River Property Taxes - 2016

- 29,569,402 / 14,511,243,388 = .002038
- 14,511,243,388 * .002038 = 29,573,914

The district budgeted $29,636,634?

Sample Small Community

New Growth

- 30,775,394 value was new growth
- 30,775,394 X .002038 = 62,720 revenue
- 29,573,914 + 62,720 = 29,636,634

PROPERTY TAXES 101

Want more/new Revenue

- New Growth
- Tax Rate Increase Process
- Annex in of new tax areas

BUDGET CREEP AND OTHER THOUGHTS

- BUDGET CREEP:
  - Mid-Year Reclassifications
  - Hiring Above the Entry Level
  - Accrual of Comp Time
  - Grants Awarded
  - Contracts
  - OPEB

- OTHER BUDGET FOCUSED IDEAS:
  - If you don't understand it, don't vote on it until you do
  - Become a quality-focused organization – outcome oriented and continuous improvement based top to bottom
  - Be creative and test new ideas
  - Do not be afraid to educate the public about the cost of services

Contact:

Kerri Nakamura
KerriNakamuraAssociates@gmail.com

(801) 699-4221