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The Municipal Budget From Preparation to Execution

Municipal Clerks and Treasurers Institute

January 29, 2025

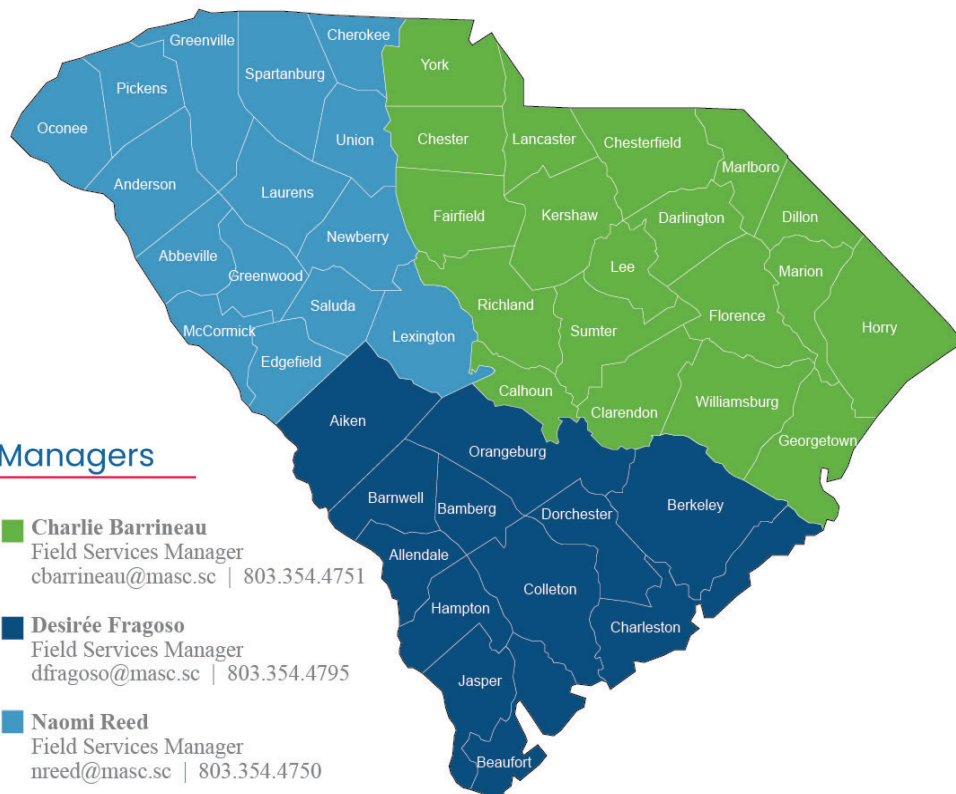
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Pillars of Civility

Civility.
Respect.
Solutions.

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Be as eager
to listen as to
speak.

Concentrate on
what you have
in common, not
what separates
you.

Act as you
would expect
someone to act
in your home.

Make your case
on merits, not
on what people
want to hear.

Your time is
valuable. So is
everyone else's.
Respect it.

Ask questions
to learn. Answer
questions with
respect.

Concentrate
on facts, not
theories.

Ask "what will
persuade people
in this room?" not
"what will make a
great tweet?"

Make your point
about the issue,
not the person.



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Agenda

- Introductions
- Why Financial Management Matters
- Budgeting Strategies and Best Practices
- Reporting Strategies and Best Practices
- Common Pitfalls
- Q&A



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Introduction



Budget Defined

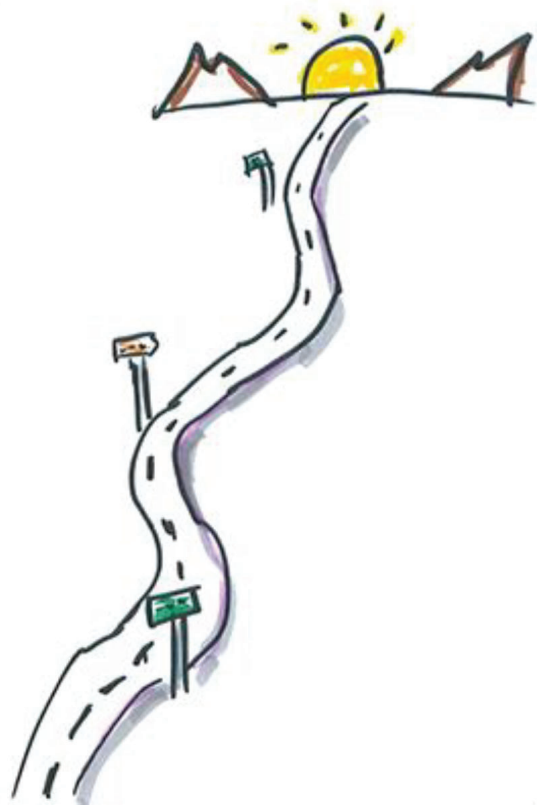
budget 1 of 3 **noun**



4 finance

- a** : a statement of the financial position of an administration (as of a nation) for a definite period of time based on estimates of **expenditures** during the period and proposals for financing them
- b** : a plan for the coordination of resources and expenditures
 - | develop a *budget* for her company
- c** : the amount of money that is available for, required for, or assigned to a particular purpose
 - | a weekly *budget* for a family of five
 - | a *budget* of less than \$3000

Budget Roadmap



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Why Financial Management Matters



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Annual Budget – Legal Requirements

- Municipalities must adopt balanced budgets.
Article X, Section 7(b) - S.C. Constitution
- No expenditures unless authorized by the budget ordinance or by Council via a subsequent resolution. *Article X, Section 8 - S.C. Constitution*
- Local code may provide discretion for shifting appropriations during fiscal year to achieve the goals of the budget



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Who Prepares The Budget?

Responsibility for **budget preparation** varies among the forms of government:

<u>Form of Government</u>	<u>Responsible Party</u>
Council-Manager	Manager
Mayor-Council	Mayor
Council	Council discretion



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Fiscal Management: Council's Responsibility

- Responsible for overall financial management of the municipality unless specifically delegated elsewhere by law. Section 5-7-160
- Must develop and maintain budget enforcement standards.
- Approves borrowing and other financing options, including financing capital improvements.



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Fiscal Management: Council's Responsibility

- Ultimately responsible for establishment and utilization of financial reporting systems and standards
- Establishes policies for the investment and management of cash assets
- Selects / approves CPA or independent public accountant to perform annual independent audit



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Fiscal Management: Council's Responsibilities

Responsible for overall financial management of the municipality unless specifically delegated elsewhere by law. *Section 5-7-160*

Must develop and maintain budget enforcement standards.



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Establishing the Budget Process

- Cities set their fiscal year by ordinance
- Fiscal years may vary
- All municipalities basically have the same budget process.
- The complexity, formality and number of people involved tends to vary based on size.



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Establishing the Budget Process

Goal Setting for the coming year / Strategic Plan Update

This is ideally done prior to the completion of the expenditure request and review process

Also, set some parameters for staff to make requests

Thought should be given to major projects, initiatives and service / service delivery changes



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Sample Budget Calendar



City of Mauldin

FY2024 Budget Calendar

August - October	Pre-Budget Items 10- year Capital Budget updated and distributed to Department Heads.
December - January	Budget request forms are prepared and distributed to Department Heads. Finance staff compiles personnel and fringe benefit numbers. Finance staff compiles Projected Revenue numbers. City Administrator develops and distributes the Budget Guidance document. Council retreat - to establish goals and budget objectives for staff.
February	Feb 6 Budget requests due to Finance Director. Feb 7-24 Budget is reviewed and refined as needed. Feb 27 Any changes are processed and entered by Finance staff.
March	March 1-15 Council budget notebooks are produced and distributed by the finance department. March 16 Budget Workshop with Council and staff. March 30 Budget Workshop with Council and staff.
April	April 3-7 Budget revisions are inputted. Budget Ad is prepared. April 24 Budget Ad is submitted to newspaper. April 27 Budget Workshop with Council and staff. April 27 Ad is circulated in the Greenville News.
May	May 15 Public Hearing and first reading on the proposed Budget Ordinance.
June	June 19 Second reading and Adoption on the proposed Budget Ordinance.
July	July 1 New fiscal year begins- adopted budget now in effect.

- Creates Transparency
- Sets Level of Responsibility
- Try to Stick to the Schedule



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The Budget Cycle

There are four stages of the budget cycle:

Preparation

Adoption

Implementation

Review



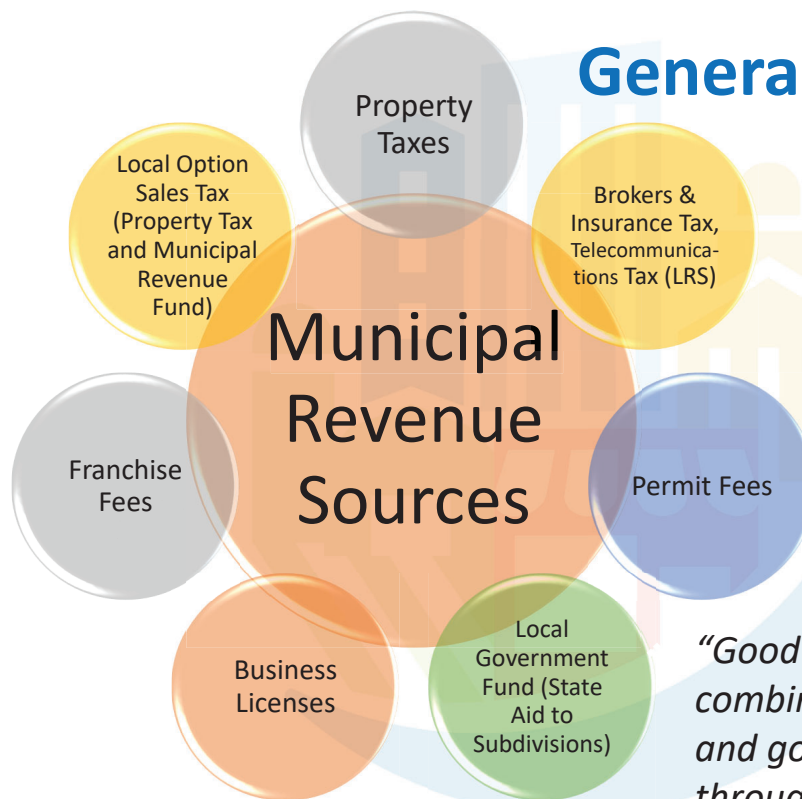
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Budget Preparation



General Fund Revenue



“Good revenue forecasting is a combination of good information and good judgment - often refined through years of experience.”



Budget Prep: Projecting Revenue

Projecting Revenue:

Historical Trends

Expected changes to revenues

New construction / Development Activity

Business openings and closings

Automobile tax base

Investment yields

Projected impact of weather on water, sewer and electric sales

Potential new revenue from tax, fee or charge increases



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Budget Prep: Projecting Revenue

Projecting Property Tax Revenue:

The initial assessment from the county will be inaccurate due to timing

Calculate expected tax revenue after adjusting the initial assessment

New construction may not make the tax rolls

Council sets property tax rate, not county auditor



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Property Tax Terms

- **Appraised value** - fair market value of property
- **Assessment ratio** - percent of fair market value property upon which the tax rate will be applied
- **Assessed value** - taxable value of property = appraised value x assessment ratio
- **Mill** - one thousandth of one dollar (1/1,000 per \$1)
- **Millage or tax rate** - tax rate applied to assessed value



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Roles in the Tax Collection Process

- **County Treasurer** – Collects county revenues, including current and delinquent property taxes
- **County Auditor** – Maintains real and personal tax records and calculates, creates and mails tax bills for real and personal property. Provides assessed value information for the calculation of the millage rate.
- **County Assessor** – Establishes the appraised or market value of properties for tax purposes.



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What is a Millage Rate?

- A tax rate set by each taxing jurisdiction
 - Municipalities
 - Counties
 - School Districts
 - Special Purpose Districts, etc.
- The mill rate is simply a tax rate that is used to assess the property tax within a jurisdiction. It utilizes a specific calculation (1 mill is equal to \$1 in property tax levied per \$1,000 of a property's assessed value) and this amount is used to pay for government expenses within the area where the property is situated.



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What is a Millage Rate?

- One mill equals 1/1000 of the assessed value of the property that is subject to property taxes
- City Council Approves 90 mills

EXAMPLE: \$200,000 x 4% Ratio = \$8,000

\$200,000 \$8,000 x .090 (Tax Rate in Mills) = \$720



\$720 in Taxes Due



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What is a Millage Rate?

- The value of a mill varies across the cities and towns in South Carolina.
- The cities with higher total assessed or taxable property values have the highest value per mill.
- City A is a Large City with a Total Assessed Property Value of \$555 Million – their tax value per mil is \$910,000
- City B is a Small Rural Town with a Total Assessed Property Value of \$550,000. They will only collect \$531 per mill.
- Once a municipality determines how much they need to generate from property taxes, jurisdictions divide that by all the assessed property in the town, which is then multiplied by \$1,000.
- That figure is the tax rate or **Millage Rate**
- Because of fluctuating real estate values, a tax assessor typically updates the taxable value of the property annually



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Budget Prep: Projecting Revenue

Property Tax Increases (*Section 6-1-320*):

Act 388 (2006) limits an increase in the operating millage of a city and county to no greater than:

The percentage increase in population of the city/county during the preceding year as estimated by S.C. Revenue and Fiscal Affairs, and

The percentage increase in the average of the 12-monthly consumer price indices (CPI) during the preceding year

If the CPI is negative and/or if the population of the city/county is estimated to have decreased, then the percentage(s) used for calculating the millage limitation is equal to zero



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Budget Prep: Projecting Revenue

Property Tax Increases (*Section 6-1-320*):

Act 57 (2011) permits an additional increase not exceeding unused portion of the percentage increase permitted by Act 388 for the three preceding years.

- Referred to as the “three year look back”
- Also known as a local government’s “millage bank”
- Maintain a spreadsheet to track your city’s “millage bank balance”
- Referencing the “look back” and the balance in your “millage bank” in an article of the budget ordinance is a recommended practice
- Always work from the earliest year in the “three year look back” to present when *debiting* your “millage bank”



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Budget Prep: Projecting Revenue

Property Tax Increases (*Section 6-1-320*):

The limitation, or “cap”, provided in Act 388 does not affect millage that is levied to pay:

- Bonded indebtedness
- Payments for real property acquisition using a lease purchase agreement
- Maintain a reserve account



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Budget Prep: Projecting Revenue

Projecting Other Revenue Sources:

- ✓ Local Option Sales Tax
- ✓ Business License
- ✓ Local Hospitality Tax
- ✓ Local Accommodations Tax
- ✓ Fines and Forfeitures
- ✓ Fees (Sanitation, Public Works, etc.)
- ✓ Charges (water, sewer, electric, etc.)



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Budget Prep: Projecting Revenue

Imposing a new fee (*Section 6-1-330*):

Must provide notice of the new fee and hold a public hearing that allows for public comment prior to adopting an ordinance enacting the fee

If fee generates 5% or more of prior year budget total, funds from fee must be segregated

Must disclose if the fee is going to fund a service that was previously funded by property taxes



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Budget Prep: Estimating Expenditures

What is an Expenditure?

The amount of cash paid for a service rendered, goods received, or an asset purchased

There are three main categories of expenditures (usually presented by department):

Personnel (Salaries, benefits)

Operating (Office supplies, utilities, contracts)

Capital (IT Hardware, rolling stock, infrastructure)



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Budget Prep: Estimating Expenditures

Estimating Expenditures:

Utilize year-to-date performance (mid-year financial statements)

Audits from previous years

Any known increases, such as

- Insurance premiums

- Utility rates

- Scheduled increases in contracts

- Forecasts such as the EIA's Short-Term Energy Outlook

New activities or programs



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Budget Prep: Estimating Expenditures

Personnel (usually the largest category):

Detailed list of staff and salaries

Any proposed cost of living adjustments or merit pay increases

Overtime, callback, training and holiday pay

Allowances for vacancies, increases for certifications, etc.

Health insurance – employer share

Retirement contributions – employer share

Workers' Compensation Premiums

Payroll Taxes (Employer share Social Security, Medicare and state)

Unemployment



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Budget Prep: Estimating Expenditures

Operating (Non-personnel):

Office supplies, printing, postage

Tools and small equipment purchases and repairs

Employee training & travel

Safety training and supplies

Gasoline and Diesel

Utilities and telecommunication

General Liability Insurance (Property, Auto, Liability)

Professional & contract services, leases, etc.

Debt service



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Budget Prep: Estimating Expenditures

Capital:

Machines, equipment and vehicles

Buildings, parking and recreation facilities

Infrastructure

Expenditures are classified as capital exp based on capitalization thresholds and the asset(s) they are replacing, enhancing or upgrading (when in doubt, ask auditor).

They may be funded with recurring or nonrecurring revenue or debt proceeds.

Forecast capital expenditures in your CIP



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Adoption



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Adopting the Budget

Annual budget must be adopted by ordinance with the necessary number of readings as required by local code. *Section 5-7-260.*

Budget ordinance sets/provides:

Property Tax (Millage) Rate

Appropriation Levels

Procedure for Amendment and Administration of the Budget

Debt Proceeds and Debt Service

Short-term Borrowing

Elected Official Compensation (or by stand-alone ordinance)



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Adopting the Budget

A public hearing must be held before adopting the budget. *Section 6-1-80.*

May be held in conjunction with first or second reading of the budget ordinance, or at an isolated date/time.

Public notice of the hearing must be published in a newspaper of general circulation.

Notice must be given at least 15 days before the public hearing.



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Adopting the Budget

The public hearing notice must contain:

- Name of the local government
- Date, time and location of the hearing
- Total operating revenues and expenditures in current fiscal year budget
- Projected operating revenues and expenditures of next year's budget
- The percentage change
- Millage for the current fiscal year
- Estimated millage in dollars as necessary for next year's budget



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- Before adoption of a budget ordinance **Sec. 5-7-260**, state law requires:
 - Advertisement *Follow exactly!* **Sec. 6-1-80**
 - Public hearing

Public Notice
hearing on municipal budget

Pursuant to Section 6-1-80 of the S.C. Code of Laws, public notice is hereby given that the council for the (Town/City) of _____ will hold a public hearing on the municipal budget for the _____ fiscal year on _____ at _____ (date) (time) _____ (place).

Current Fiscal Year Revenue	Projected Revenue 20XX -20XX	Percentage Change in Revenue	Current Fiscal Year Millage
\$ _____	\$ _____	\$ _____ %	\$ _____ Mills

Current Fiscal Year Expenditures	Projected Expenditures 20XX -20XX	Percentage Change in Expenditures	Estimated Millage for 20XX -20XX
\$ _____	\$ _____	_____ %	\$ _____ Mills*

*Estimated Millage Equals \$ _____ per \$1000 of Assessed Property Value



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Sample Public Hearing Notice

PUBLIC NOTICE

Pursuant to Section 6-1-80 of the S.C. Code of Laws, public notice is hereby given that Elgin Town Council will hold a public hearing on the municipal budget for the 2023-2024 fiscal year:

Date: June 6, 2023
Time: 6:00 p.m.
Location: Elgin Town Hall, 2469 Main Street

Current Fiscal Year Revenue	Projected Revenue 2023-2024	Percentage Change in Revenue	Current Fiscal Year Millage
\$1,359,905	\$1,612,836	18.59917%	27 mills

Current Fiscal Year Expenditures	Projected Expenditures 2023-2024	Percentage Change in Expenditures	Estimated Millage for 2023-2024
\$1,359,905	\$1,612,836	18.59917%	27 mills



Review



Financial Controls and Reporting

Key elements of cash flow management:

Be very familiar with the municipality's cash flow patterns.

Have knowledge of the legal authority that grants investment practices.

Evaluate the past, present, and future cash flow trends.

Develop good relationships with the municipality's banking institutions.

Be familiar with investment markets and invest cash timely and wisely.

Have a good, accurate accounting system.

Prepare and analyze cash flow projections regularly.



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Financial Controls and Reporting

Keys to effective financial reporting

good account structure

effective internal controls

computerized accounting system

Governmental accounting transactions should be recognized on either an accrual basis or modified accrual basis.

However, results are reported on an accrual basis.

The presentation of regular (monthly) financial reports, comparing actual to budget and current to previous year, to council is important.

Reporting by fund is required.



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Financial Controls and Reporting

Fund Accounting:

An accounting system emphasizing *accountability* rather than *profitability*, used by state and local governments.

Governments have special requirements to show, in financial statements, how money is spent, rather than how much profit was earned.

Unlike profit oriented businesses, which use a single general ledger, cities can have more than one general ledger (or fund), depending on their financial reporting requirements.



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Financial Controls and Reporting

Fund Accounting:

Fund: a self-balancing set of accounts, segregated for specific purposes in accordance with laws, regulations, special restrictions and/or limitations.

A city must be able to produce reports that:

detail the expenditures and revenues for each individual fund
(**fund statements**)

summarize financial activities across all of its funds
(**government wide statements**)

There are three broad categories of funds.



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Financial Controls and Reporting

Governmental Funds: are used to account for most typical governmental functions (public safety, streets and sanitation, parks and rec, and admin)

Proprietary Funds: are used to account for a government's business type activities. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis.

Fiduciary Funds: are used to account for assets held in trust by the government for the benefit of individuals or other entities. SC's employee pension funds, the S.C. Retirement System, are examples of fiduciary funds.



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Financial Controls and Reporting

Governmental Funds

- General
- Special Revenue
- Capital Projects
- Debt Service
- Permanent

Proprietary Funds

- Enterprise
- Internal Service



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Special Funds



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Amending The Budget

State law requires councils to amend the budget ordinance when revisions are made to the annual budget.

The ordinance must have readings at two meetings, separated by at least six days.

Council must also conduct a public hearing on the amended budget ordinance before adopting it.



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Reporting



Financial Controls and Reporting

Regular Financial Statements:

Compare actual results to budget on a regular, preferably monthly, basis

Present to and review with City Council with same frequency

Council is ultimately responsible for ensuring that monthly reports are prepared and that the information is accurate.

Monitor department expenditures by using monthly reports, general ledger and, when necessary, general ledger transaction reports



Financial Controls and Reporting

Independent Audit:

Independent annual audit is required under *Section 5-7-240*.

Council must accept and review the audit annually

Must be made available for public inspection.

Figures should be reflected on an accrual basis, but cash basis is common for smaller entities



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Financial Controls and Reporting

Independent Audit:

Must submit annual audit to State Treasurer by thirteenth month of fiscal year end (*Sec. 6-1-50*) or state funds will be withheld

Must submit annual Local Government Report to the State Treasurer's Office along with a copy of the annual audit, by March 15th.

Submit annual audit to creditors, local banking institution, and all other agencies that require continuing disclosures



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Financial Controls and Reporting

Independent Audit:

The auditor must be selected within 30 days of the beginning of the fiscal year (Section 5-7-240).

Auditors must be appointed for no more than 4 year terms and should be rotated.

The council may or may not use competitive bids to select their auditor, and there is no limit to the number of terms the council appoints the same auditor to.



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Financial Controls and Reporting

Did You Know?

Passed in 2023, Act 71 allows cities and towns with less than \$500,000 in total recurring revenues the option of providing a compilation of financial statements instead of a full audit.



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Financial Controls and Reporting

Effective for the municipal fiscal year beginning after January 1, 2024, cities and towns with total recurring revenues less than \$500,000 may provide either an audit of financial statements or a compilation of financial statements in lieu of an audit as follows:

- Annually for municipalities that have a court system*; or
- At least once every three years for municipalities that do not have a court system.



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Financial Controls and Reporting

What Auditors Do:

Engaged to render an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Provides users (the public, creditors and bond holders) with an enhanced degree of confidence in the financial statements.

Expresses an opinion on whether the financial statements are free of material misstatement, whether due to fraud or error.

Auditor gathers appropriate and sufficient evidence and observes, tests, compares and confirms until gaining reasonable assurance.



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Financial Controls and Reporting

What Auditors Don't Do:

Auditors do not take responsibility for the financial statements on which they form an opinion.

Responsibility for financial statement presentation lies squarely in the hands of the entity being audited.

Auditors are not a part of management.

Auditors are not able to report with certainty that fraud has not occurred.



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Financial Controls and Reporting

The Audit Equation:

Is the balance between auditing and bookkeeping.

Staff needs to enter basic accounting data, reconcile bank statements and prepare the financial statements.

If staff fails to do the bookkeeping, then an accountant must be engaged to prepare the financial statements for the audit.

Result: **the total cost of the annual audit increases.**

Auditors cannot prepare statements because it impairs the auditor's independence and prevents the issuance of an opinion.



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Annual Budget and Financial Reporting Requirements

- ✓ Annual budget adopted by ordinance after a public hearing
- ✓ Newspaper notice minimum 15 days in advance of public hearing
- ✓ Complete independent financial audit
- ✓ Submit annual Local Government Finance Report
- ✓ Penalties for non-compliance



South Carolina
Revenue and Fiscal Affairs Office



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Questions?



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Resources

Government Finance Officers Association (GFOA)

www.gfoa.org

International City-County Management Association (ICMA)

www.icma.org

Municipal Association of South Carolina

www.masc.sc



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