

FINANCIAL CAPACITY HANDOUT SERIES

- Empowering Your Water System with Financial Capacity
- Budgeting Basics
- The Budget Process
- A Sample Budget - In 5 Easy Steps



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THE BUDGET PROCESS

The budget process is more than just cataloging revenues and expenses, developing reserves, and balancing those accounts. The budget is also about meeting system goals, and stakeholder needs. This means there is a *process* involved in drafting and adopting a budget.



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— A GOOD BUDGET PROCESS —

- 1 - INCORPORATES A LONG-TERM PERSPECTIVE
- 2 - ESTABLISHES LINKS TO BROAD ORGANIZATIONAL GOALS
- 3 - FOCUSES BUDGET DECISIONS ON RESULTS AND OUTCOMES
- 4 - INVOLVES AND PROMOTES EFFECTIVE COMMUNICATION WITH STAKEHOLDERS
- 5 - PROVIDES INCENTIVES TO SYSTEM MANAGEMENT

The budget process consists of four key principles, each of which incorporates elements that represent achievable results.

PRINCIPLE 1:

ESTABLISH BROAD GOALS TO GUIDE DECISION MAKING

Assess Community Needs, Priorities, Challenges, and Opportunities

Here the goal is to engage stakeholders. This could occur through public hearings, surveys, meetings, and workshops.

Identify opportunities and challenges related to service provision, capital assets, and management

Some systems may outsource certain operational aspects, such as purchasing water from another entity, or relying upon consultants and engineers for service delivery. It is also time to think about asset management to maintain an appropriate level of service at the cost citizens expect.

Develop and disseminate broad goals

The point of the stakeholder input is to ascertain their goals for the system. These should be recorded in written form, and prioritized, then circulated typically by the publication of a report.

PRINCIPLE 2:

DEVELOP APPROACHES TO ACHIEVE GOALS

Adopt Financial Policies

Financially sustainable systems will have written policies for things such as fees and charges, reserves, debt levels, using one-time revenues, and contingency planning.

Develop operating, and capital policies and plans

The key item to address here is level of service standards. At this point, you need to begin working up an asset management plan with asset condition, schedule for replacement, and identification of funding.

Develop programs and services that are consistent with policies and plans

This is the point at which you assess whether you may be able to implement programs more effectively or efficiently. This could be monitoring, reporting, or performance evaluation programs. All programs should have an evaluation component with benchmarks.

Develop management strategies

System managers need to insure that those responsible for aspects of system operation have appropriate support, education and training. Management should also have in place mechanisms to spot and correct deviations from the budget. Monthly or quarterly spending plans and reviews represent one way to accomplish this.

PRINCIPLE 3:

DEVELOP A BUDGET CONSISTENT WITH APPROACHES TO ACHIEVE GOALS

Develop a Process for Preparing and Adopting a Budget

This includes establishing things such as an annual budget process calendar, budget guidelines and instructions.

Develop and evaluate financial options

It is also important to develop and evaluate financial options. Steps in this process include: conducting long-range financial planning; prepare revenue projections; analyze major revenues; evaluate the effect of changes to revenue source rates and bases; analyze tax and fee exemptions; achieve consensus on a revenue forecast; document revenue sources in a revenue manual; prepare expenditure projections; Evaluate revenue and expenditure options; and, develop a capital improvement plan.

Make choices necessary to adopt a budget

Finally, you'll be in a position to make choices necessary to adopt a budget. At this stage you will: Prepare and present a recommended budget, describe key policies, plans, and goals, prepare a budget summary and finally, adopt the budget.

PRINCIPLE 4:

EVALUATE PERFORMANCE AND MAKE ADJUSTMENTS

After passing the budget, there's still work to be done. Chiefly, monitoring, measuring, and evaluating performance. You will want to monitor performance of the following: the water system; stakeholder satisfaction; budget performance; financial condition; external factors; and, the capital program. It is very likely that you will have to make adjustments to one, some, or even all of these things. This is why evaluating the budget after passage is so important.

