

City of Florissant Finance Department

Memorandum

Date: September 21, 2007
To: Mayor Robert Lowery Sr.
From: Randal McDaniel, Director of Finance
Subject: Budgeting Practices – Deficit Spending or Budgeting

RM
09/21/07

Certain accusations have recently been made against the City of Florissant which state that the City has employed deficit spending and operated with a deficit budget over a number of years. These accusations are patently false and misleading. The City prepares an annual budget that is in compliance with all applicable city and state requirements as well as generally accepted accounting practices for budgeting. These requirements clearly prohibit the practice of deficit spending or budgeting. The City has not now, nor at any time in the past, engaged in the practice of deficit spending or budgeting. For clarification, deficit spending or budgeting would be defined as the practice of spending or budgeting in excess of anticipated revenue and reserve balances.

Section 6.6 of the City Charter states that the Mayor shall submit to the Council a budget which is to provide a complete financial plan for the budget year and shall be prepared in such form as may be provided by ordinance and in accordance with accepted privileges of municipal budgeting. Section 6.8 of the City Charter goes on to further clarify that the Council may increase, decrease, add or delete items in the budget as presented by the Mayor provided the total proposed expenditures shall not exceed the total anticipated revenues. The city has always been in compliance with these code sections.

I believe the problem with those making the accusations lies in a basic misunderstanding of the term "revenue" as it is used in the context of municipal budgeting and of that portion of Section 6.8 that states, "...shall not exceed the total anticipated revenues." Generally accepted accounting practices for governmental budgeting define total anticipated revenues to mean current revenues plus any unencumbered or unreserved balances (fund balance). The correct understanding of revenue in the context of budgeting should clear up this issue.

For additional clarification, please reference Chapter 67 of the Missouri Revised Statutes. This state statute provides budget guidelines that cities are to be in compliance with. Section 67.010 states in sub-paragraph 2 that, "*In no event shall the total proposed expenditures from any fund exceed the estimated revenues to be received plus any unencumbered balance or less any deficit estimated for the beginning of the budget year...*". Section 67.030 confirms this by stating, "*The governing body of each political subdivision may revise, alter, increase or decrease the items contained in the proposed budget, subject to such limitations as may be provided by law or charter; provided, that in no event shall the total authorized expenditures from any fund exceed the estimated revenues to be received plus any unencumbered balance or less any deficit estimated for the beginning of the budget year...*" Again, there is no question that the City is in compliance with state statutes.

Copies of the above referenced City of Florissant Charter and State Statutes are attached. For additional information supporting the inclusion of reserve balances in the operating budget I have attached a copy of Chapter 3 Estimating Available Resources, page 41, from the book "*The Operating Budget, A Guide For Smaller Governments*", by Juliet Carol Powdar and published by the Government Finance Officers Association of the United States and Canada.

THE MUNICIPAL CODE
OF THE
CITY OF FLORISSANT

Section 6.6. Budget-Preparation.

The Mayor, with the assistance of the Director of Finance, shall submit to the Council a budget, together with an explanatory message, no less than sixty (60) days prior to the beginning of the fiscal year. The budget shall provide a complete financial plan for the budget year and shall be prepared in such form as may be provided by ordinance and in accordance with accepted privileges of municipal budgeting.

Section 6.7. Same--Public hearing on budget.

Upon receipt of the budget and supporting message, the Council shall determine the time and place for a public hearing thereon and shall cause to be published a notice of such hearing, which shall be held no less than seven (7) days after publication of such notice. All interested persons shall be given an opportunity to be heard.

Section 6.8. Same--Adoption.

After the conclusion of the public hearing, the Council may increase, decrease, add or delete items in said budget, except for expenditures fixed by law, provided that the total proposed expenditures shall not exceed the total anticipated revenues.

The budget shall be adopted by the affirmative vote of a majority of the members of the Council not later than three (3) days prior to the end of each respective fiscal year.

Should the Council take no final action by this date, the budget as submitted shall be deemed to have been finally adopted.

Upon final adoption, the budget shall be certified by the Mayor and filed in the office of the Director of Finance. Copies of the budget shall be printed and distributed for use by all City officials, agencies and offices and shall be available to all citizens and interested parties.

Section 2.4. Powers and duties.

The Mayor shall have the following powers and duties and shall perform the following functions:

(1) He shall have superintending control over all of the executive affairs of the City, require the faithful performance of all administrative duties by City officers and employees, and enforce the laws, Charter and ordinances of the City.

(2) He shall appoint and remove all nonelective officers and employees, except as otherwise provided in this Charter, and except as he may authorize the head of a department to appoint and remove subordinates.

(3) He may direct the temporary transfer of equipment or personnel, exclusive of elected officers, from one department to another department, provided that no such transfer or reassignment shall vest in any official or agency, except as designated in this Charter, the right to make purchases, draw warrants or audit accounts, and he may assign a nonelected officer or employee to more than one position designated in the Charter.

Missouri Revised Statutes

Chapter 67 **Political Subdivisions, Miscellaneous Powers** **Section 67.010**

August 28, 2006

Political subdivisions to prepare annual budget--contents --expenditures not to exceed revenues.

67.010. 1. Each political subdivision of this state, as defined in section 70.120, RSMo, except those required to prepare an annual budget by chapter 50, RSMo, and section 165.191, RSMo, shall prepare an annual budget. The annual budget shall present a complete financial plan for the ensuing budget year, and shall include at least the following information:

- (1) A budget message describing the important features of the budget and major changes from the preceding year;
- (2) Estimated revenues to be received from all sources for the budget year, with a comparative statement of actual or estimated revenues for the two years next preceding, itemized by year, fund, and source;
- (3) Proposed expenditures for each department, office, commission, and other classification for the budget year, together with a comparative statement of actual or estimated expenditures for the two years next preceding, itemized by year, fund, activity, and object;
- (4) The amount required for the payment of interest, amortization, and redemption charges on the debt of the political subdivision;
- (5) A general budget summary.

2. In no event shall the total proposed expenditures from any fund exceed the estimated revenues to be received plus any unencumbered balance or less any deficit estimated for the beginning of the budget year; provided, that nothing herein shall be construed as requiring any political subdivision to use any cash balance as current revenue or to change from a cash basis of financing its expenditures.

(L. 1961 p. 282 § 1)

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Missouri General Assembly

Missouri Revised Statutes

Chapter 67 **Political Subdivisions, Miscellaneous Powers** **Section 67.030**

August 28, 2006

Governing body may revise budget, limits--approval.

67.030. The governing body of each political subdivision may revise, alter, increase or decrease the items contained in the proposed budget, subject to such limitations as may be provided by law or charter; provided, that in no event shall the total authorized expenditures from any fund exceed the estimated revenues to be received plus any unencumbered balance or less any deficit estimated for the beginning of the budget year. Except as otherwise provided by law or charter, the governing body of each political subdivision shall, before the beginning of the fiscal year, approve the budget and approve or adopt such orders, motions, resolutions, or ordinances as may be required to authorize the budgeted expenditures and produce the revenues estimated in the budget.

(L. 1961 p. 282 § 4)

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Missouri General Assembly

Missouri Constitution

Article VI LOCAL GOVERNMENT Section 24

August 28, 2006

Annual budgets and reports of local government and municipally owned utilities--audits.

Section 24. As prescribed by law all counties, cities, other legal subdivisions of the state, and public utilities owned and operated by such subdivisions shall have an annual budget, file annual reports of their financial transactions, and be audited.



Missouri General Assembly



*The Operating
Budget*

A GUIDE FOR SMALLER
GOVERNMENTS

By Juliet Carol Powdar



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Estimating Available Resources

3

One of the first steps that must be taken to prepare a budget is to make a reasonable estimate of how much money the locality will have to spend in the coming fiscal year. Such an estimate will be a summation of two factors:

- the amount of estimated fund balance (surplus or deficit) incurred in the current fiscal year that has not been designated for a specific purpose and has been carried forward into the next budget year and
- the amount of revenue expected to be collected in the budget year.

In This Chapter

- State and federal grants
- Unfunded mandates
- Calculating current year-end balances
- Estimating budget-year revenues
- Performing a revenue analysis and benchmarking

Preliminary estimates of these amounts should be developed in the very early phases of budget preparation. It is desirable to present to the legislative body and chief executive a preliminary estimate of fund availability when the overall budgetary policy guidelines are being established. (See Chapter 4.)

The initial estimates prepared early in the budget preparation process should be reviewed and refined later, as necessary. Any significant change in current revenues and expenditures (e.g., sudden decreases in sales tax revenues) or in local economic conditions (e.g., a major plant closing) could signal the need to review estimates of fund availability. Whether such events occur or not, however, these estimates should be reviewed on at least two occasions before final budget actions are taken: 1) when the budget requests and recommendations are formally presented to the legislative body and 2) immediately prior to the final opportunity for change before the legislative body adopts the budget. These subsequent reviews will help ensure that budget decisions are based on the most current information about revenue availability.

As noted, fund availability is based on current-year surplus or deficit and budget-year revenues. Both of these figures depend heavily on the amount of